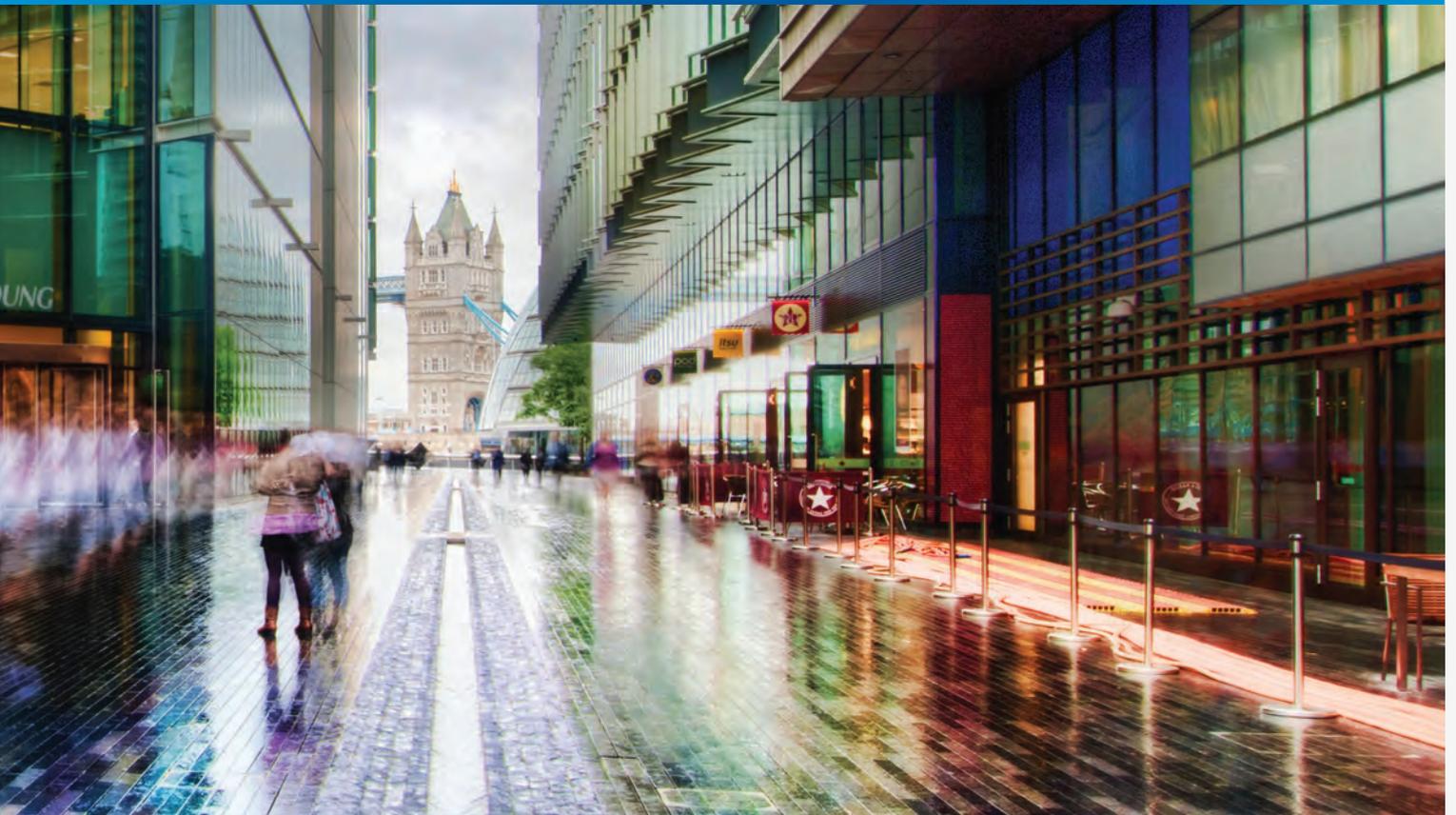


## EXECUTIVE SUMMARY



# THE ROLE OF FREELANCERS IN THE 21ST CENTURY BRITISH ECONOMY

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The voice of freelancing

# Executive Summary

Freelancers play a pivotal role in Britain's 21st century innovation-driven economy:

They are sources of and conduits for innovation in both corporations and SMEs

They enable businesses to manage, in fact reduce, entrepreneurial risk and so promote innovation and enterprise

They liberate businesses from the limits of their internal resource base and enable the use of exceptional talent that would otherwise not be economically feasible to hire on employee contracts

They enable de-risking of some of the uncertainties of the market so that firms can reduce the risk of growing

They reduce the amount of finance required for innovation and business start-ups

They reduce barriers to market entry and reduce minimum efficient scale

They promote efficiency-driven economic performance

They enable businesses to maximise performance across peaks and troughs in demand

They create jobs by increasing the level of innovation and efficiency in the economy and helping new projects succeed

Freelancers usually generate these benefits through a working partnership with employees. This symbiotic relationship between employees and freelancers has unfortunately been overshadowed by perceptions of their competitive interaction.

Despite these important economic functions, freelancers are still largely under-analysed and unheralded economic agents in the modern British economy. The main reason for this is that their new pivotal role has only really come to the fore with the emergence of the innovation-driven economy over the last three decades.

**In this setting businesses benefit from being:**

Innovative

Able to manage entrepreneurial risk

Flexible and agile

Capable of prospering despite greater market uncertainty

Freelancers enable businesses to do all these things and hence have become a key driver for economic performance in the economy. There is a need to identify the defining and unique features which distinguish them as unique economic agents in their own right.

# The Freelance Innovation Value Chain

This report is motivated by the view that the economy has changed sufficiently to warrant a re-appraisal of the roles of freelancers. In this report we analyse the use of freelancers in 23 firms comprising a mix of corporations and SMEs of varying ages from recent start-ups to more mature organisations. These businesses are drawn from some of the major industries driving the British economy including manufacturing, information and communications, financial services, and professional, scientific and technical activities. We examine the roles and functions that freelancers serve in these industries and assess how effective they are in adding value.

We find that freelancers serve a different function to employees in terms of their role in the innovation-driven economy.

**In terms of corporations and large firms we find that freelancers fulfil managerial and technical roles at every stage of the innovation development process from:**

Innovation creation

Commercialisation of innovation

Integration of innovation into the core of the organisation

Throughout all the stages of innovation development freelancers add value by:

Lowering the cost and risk of innovation

Providing entrepreneurial management expertise not available in-house and without distracting executives from core business

Enabling the use of specialised human capital not available in-house and without distracting employees from core business

Enhancing the flexibility and agility of businesses

Making large organisations more capable of transformation

These effects increase the scale and effectiveness of innovation undertaken by British business. They are summarised in the Freelance Innovation Value Chain below. The bottom panel shows that the projects undertaken by freelancers involve three stages of innovation development. The top panel shows the value-added provided by the various roles of freelancers across each of these three stages. The front arrow of the diagram illustrates that the combined impact of these roles across all three stages enhances business performance – increasing profits and creating jobs.



# The Freelance Entrepreneurship Value Chain

Freelancers also promote innovation-driven economic performance through entrepreneurship. We observe freelancers being used at every stage of a new venture's development from start-up, to early stage survival and through to business growth. These freelancers fulfil managerial, technical and professional tasks.

**Across all stages of new venture development freelancers help businesses to perform by allowing:**

Access to external specialised and entrepreneurial talent on a 'pay as you grow' basis

Reduced finance constraints

Reduced sunk costs and risk

Greater flexibility and agility

Increased ability to compete against large firms by reducing minimum efficient scale

The value created in new ventures by freelancers is summarised in the Freelance Entrepreneurship Value Chain below. The lower panel illustrates that freelancers are involved in projects in the start-up, early stage survival and business growth phases of new venture development. The upper panel illustrates the roles in which freelancers add value. The combined effect of these roles across all three phases is illustrated at the front arrow in terms of enhanced profits and job creation in new ventures.



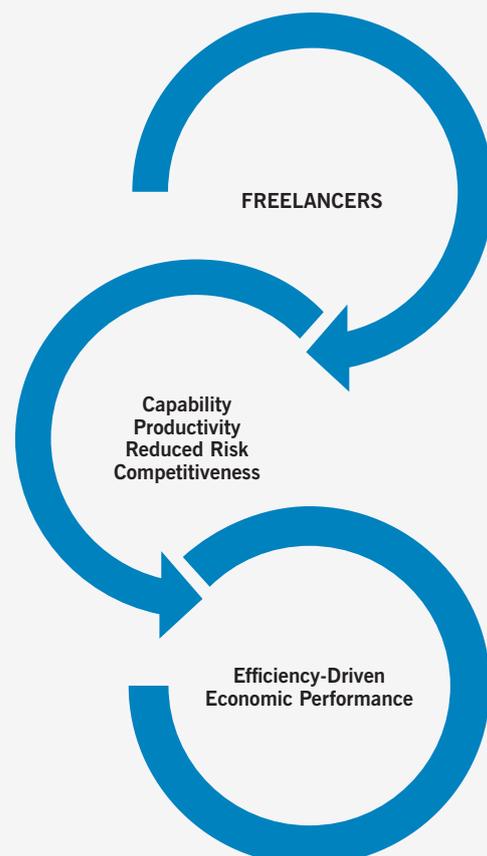
# Freelancers Promoting Efficiency-Driven Economic Performance

In the research we also observe that freelancers play a key role in promoting efficiency-driven economic performance which of course is both important in its own right but also key to ensuring that the maximum economic value-added is generated from innovation.

**The ability of businesses to draw on freelance talent enables:**

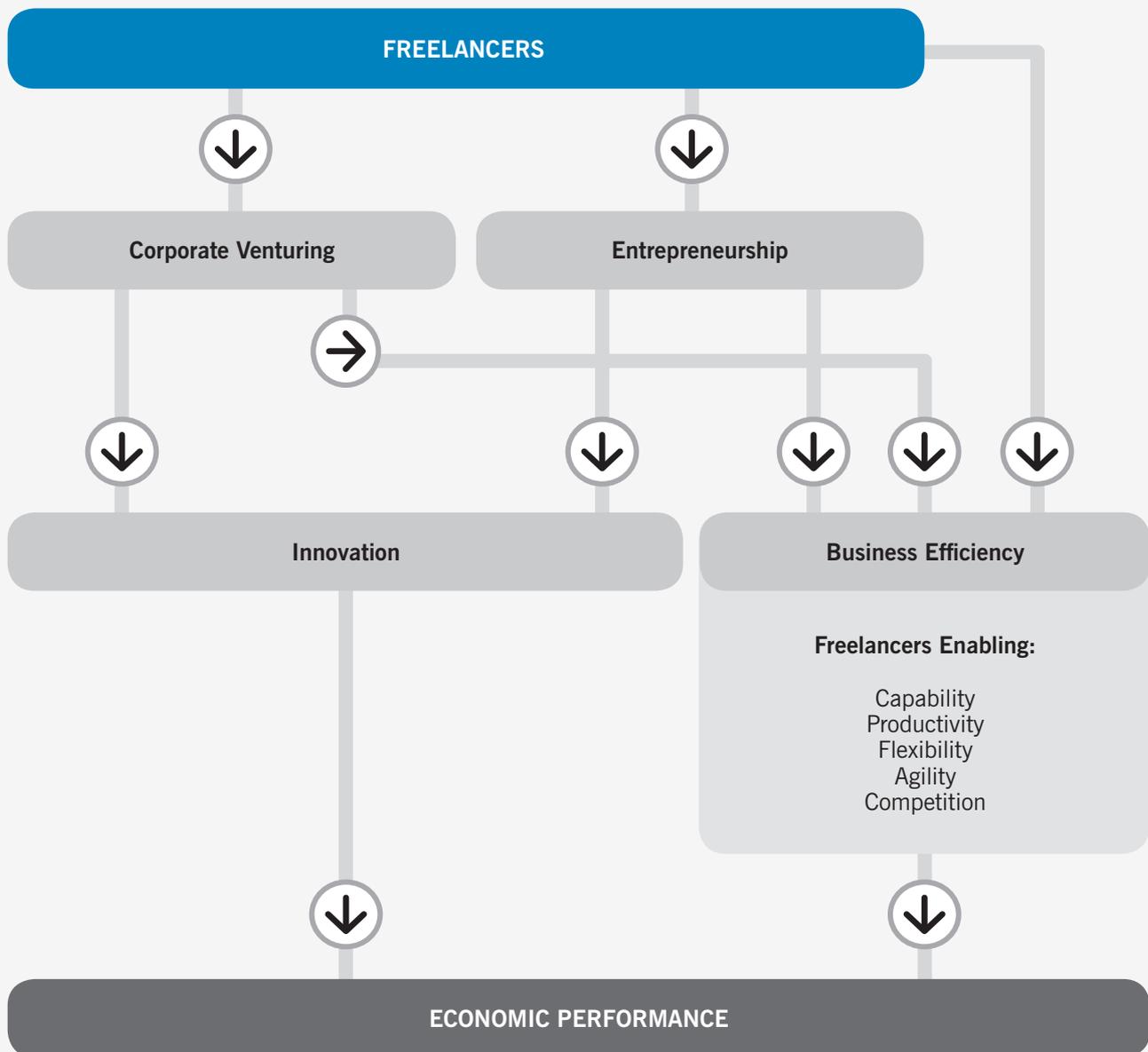
<b>CAPABILITY</b>	Access to a wide variety of talent / Reduced finance constraints
<b>PRODUCTIVITY</b>	Specialisation of labour / Reduced worker downtime / Ability to transform an organisation
<b>REDUCED RISK</b>	Lower sunk costs / Variable cost model
<b>COMPETITIVENESS</b>	Lower barriers to entry / Reduced minimum efficient scale

Through these routes businesses can enhance their efficiency and hence performance. The availability of freelancers reduces barriers to entry and minimum efficient scale thereby increasing competition and hence economic efficiency. We provide a visual summary of the effects in the diagram opposite.



# Freelance Drivers of Economic Performance

The total effect of freelancers on economic performance is then a combination of the corporate venturing and entrepreneurship effects, working to promote innovation-driven economic performance, combined with enhanced efficiency-driven economic performance promoted by the input of freelancers. The total effect of freelancers on economic performance is depicted in the figure below. It underscores the importance of freelancers to the British economy.



This analysis highlights that the common view that freelancers are just a shadow workforce for employees is a misconception. The research finds that freelancers mainly serve a different economic function – particularly in driving innovation and helping firms overcome the challenges faced by risk and uncertainty – and in doing so they help create and sustain employment.

It is clear that the businesses in this study would create less economic value without freelancers and that a significant proportion of their employee base rely on the prior activity of freelancers to create their jobs. In carrying out this role freelancers serve a unique business function which distinguishes them as distinct economic agents in their own right.

Based on this analysis we offer a new definition which can help identify freelancers so that public policy – particularly in relation to fiscal matters, industry, enterprise and the labour market – can recognise this important resource to ensure that Britain has a sufficient supply of high quality freelancers to promote economic prosperity.

*Freelancers are workers who supply their services on a contingent project or limited duration basis for remuneration which is output focused. Freelancers take on all or most of the cost and risk of their own labour downtime and below expectations productivity within projects. They take on all the cost and risk of economic inactivity between projects.*

The lack of an up-to-date definition of freelancers which recognises them as a distinct economic agent in their own right limits the optimisation of their use in the economy and by consequence stunts economic performance. Choosing to become a freelancer should not involve unnecessary risk (particularly in relation to fiscal matters) as well as barriers to trade for people just because this unique activity is not properly recognised.

The same holds true for businesses that want to use freelancers; they can be deterred from doing so as a result of the financial and reputational risk stemming from regulation that solely justifies the legitimacy of freelancers using older economy classifications associated with employees and business owners. For instance, it is clear from the definition above based on the distinct and important function of freelancers in the modern British economy, that being a business owner is neither a necessary nor sufficient condition to qualify as a freelancer. Yet, fiscal guidelines such as IR35, incentivise freelancers to mimic a business owner in order to establish their legitimacy.

Likewise, industry associations and unions frequently put pressure on businesses to use employees instead of freelancers hence completely missing the key finding in this study that in the modern economy these workers are typically complements rather than substitutes for employees – indeed, the jobs of many employees have been created by the prior work of freelancers. We need a fresh perspective across industry and public policy.

**The important and distinct economic role of freelancers in the modern economy needs to be:**

<b>RECOGNISED</b>	Defined as unique economic agents providing an important and distinct economic function to employees and business owners
<b>PROTECTED</b>	The unique economic value-added provided by freelancers is part of the core of the modern British economy and hence needs to be allowed to thrive
<b>NURTURED</b>	It is good policy to ensure that British business always has access to a sufficient supply of high quality freelancers in order to optimise the potential of these businesses



## ABOUT PCG

PCG, the voice of freelancing, is the cross sector association for freelancers, contractors and consultants in the UK, providing its members with knowledge, representation, community and insurance. With around 21,000 members, PCG is the largest association of independent professionals in the EU. It is PCG's fundamental belief that flexibility in the labour market is the key to ensuring Britain's future economic success.

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