

REPORT



THE ROLE OF FREELANCERS IN THE 21ST CENTURY BRITISH ECONOMY

Professor Andrew Burke

DIRECTOR OF THE BETTANY CENTRE
FOR ENTREPRENEURSHIP AT CRANFIELD
SCHOOL OF MANAGEMENT



The voice of freelancing

About the Author



Professor Andrew Burke holds the Bettany Chair and is the founding Director of the Bettany Centre for Entrepreneurship. He is also a member of the Board of Cranfield Ventures Limited - the University's tech transfer unit. Previously, he was the Director of Graduate Programmes and a member of the Executive at Cranfield School of Management.

He is widely published in top ranked international journals including the Harvard Business Review, Journal of Management Studies, Regional Studies, International Journal of Industrial Organisation, the Oxford Bulletin of Economics and Statistics, and Small Business Economics. His work has been presented at the EU Commission, World Trade Organisation, HM Treasury, UK Houses of Commons and Lords as well as through media such as BBC Breakfast Television and the Working Lunch.

Andrew is founding editor of the International Review of Entrepreneurship and was a guest editor of the International Journal of Industrial Organisation. He is on the editorial boards of the International Journal of Business Innovation and Research and the International Journal of Research, Innovation and Commercialization.

He has acted as a consultant for organisations such as the European Commission, Businesslink UK, GESAC (EU), Forbairt (IDA), Hudson Contract, Schlumberger, Selex-Galileo, May Gurney, Bank of Ireland International Banking, the Irish Music Rights Organisation, and PCG (Professional Contractors Group). He also has a portfolio of new venture investments.

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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.



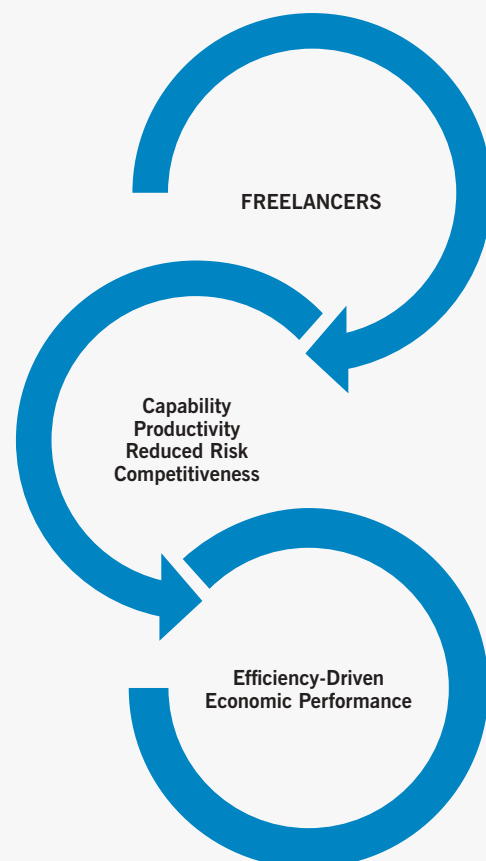
Freelancers Promoting Efficiency-Driven Economic Performance

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:

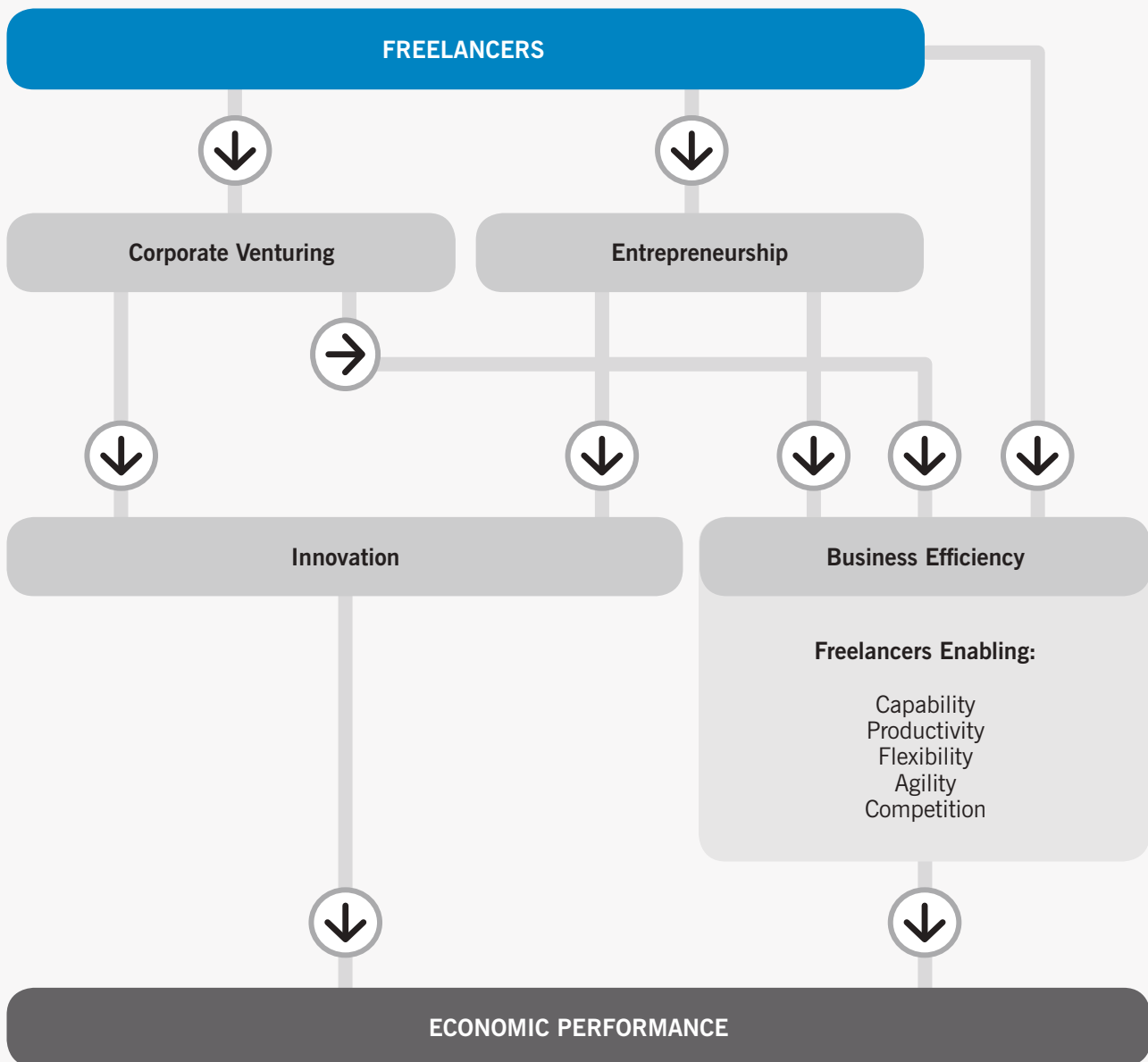
CAPABILITY	Access to a wide variety of talent / Reduced finance constraints
PRODUCTIVITY	Specialisation of labour / Reduced worker downtime / Ability to transform an organisation
REDUCED RISK	Lower sunk costs / Variable cost model
COMPETITIVENESS	Lower barriers to entry / Reduced minimum efficient scale

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:

RECOGNISED	Defined as unique economic agents providing an important and distinct economic function to employees and business owners
PROTECTED	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
NURTURED	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

1 Introduction

Some of the key attributes of developed economies have changed. The transformation has been gradual and involves new trends that can be traced back at least four decades. Self-employment and small business that had been in decline for most of the 20th century started to become more important as a share of economic activity¹. Innovation became less of a sporadic event whose incidence could be measured with reference to decades and more of an ongoing activity in business².

It also changed from the R&D/innovation of big business to more of a continuous incremental activity that gave smaller firms a role in the process. Correspondingly, innovation became a ubiquitous activity and challenge for firms of all sizes and ages. Competition also increased as minimum efficient scale declined not only enabling SMEs to challenge corporations but also enabling business start-ups to become important players in the competitive process³. These changes have led to modern developed economies being called names such as the innovation-driven economy, knowledge economy, dynamic economy and entrepreneurial economy⁴.

The impact of these changes has meant that economic efficiency – the type that dominates discussion in economics textbooks and courses – has been replaced by innovation as the main driver of economic growth in most developed countries. It is common now to classify countries by the main driver of growth. For example in the 'Global Entrepreneurship Monitor' reports; countries such as the USA and the UK are classified as innovation-driven economies, whereas countries such as Mexico, Brazil and Croatia are mainly efficiency-driven economies. Countries such as India (labour) and Egypt (oil) are factor-driven economies⁵.

There is an underlying development process embedded in these definitions where most countries tend to evolve from factor-driven to efficiency-driven and then to innovation-driven economic performance. Figure 1 illustrates this hierarchy and represents a British

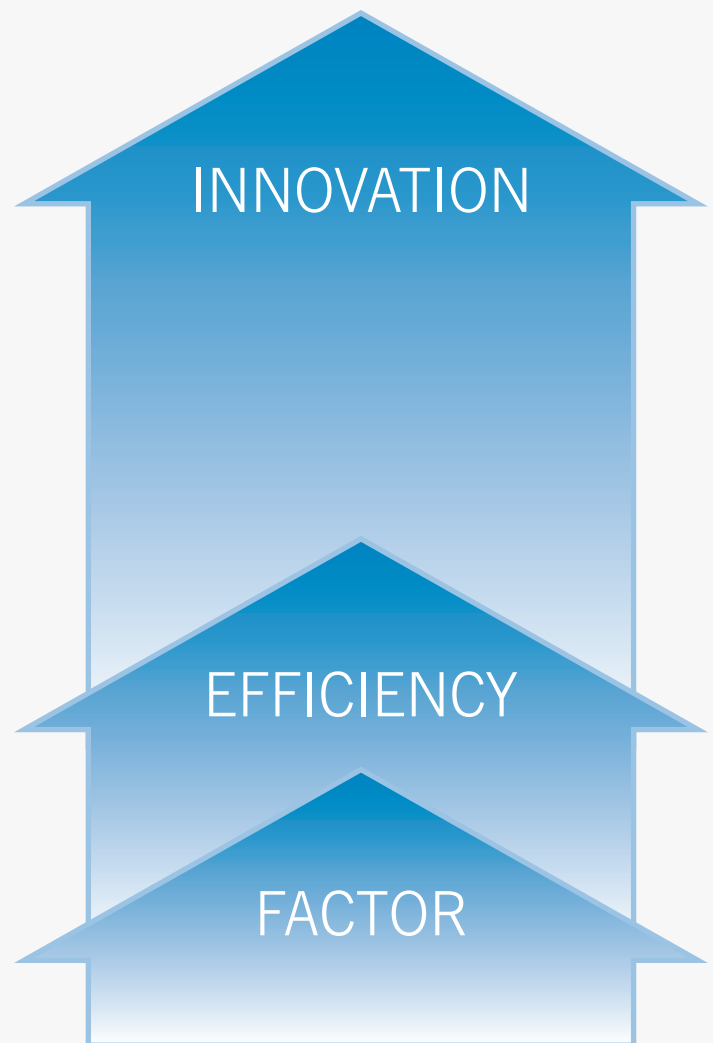


Figure 1: Drivers of UK Economic Performance

1. Storey, D.J. (1994), *Understanding the Small Business Sector*, London: Routledge.
2. Reich, R.B. (1987), *Entrepreneurship reconsidered: the team as hero*, *Harvard Business Review*, 87(3): 77-83.
3. Audretsch, D.B. (1995), *Innovation and Industry Evolution*, MA, USA: The MIT Press.
4. Audretsch, D.B., Baumol, W. J. and Burke, A.E. (2001), *Competition Policy in Dynamic Markets*, *International Journal of Industrial Organisation*, 19(5): 613-634.
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Audretsch, D.B. and Thurik, R. (2004), *A Model of the Entrepreneurial Economy*, *International Journal of Entrepreneurship Education*, 2(2): 143-166.
5. Acs, Z. and Autio, E. (2011), *The Global Entrepreneurship and Development Index: A Brief Explanation*, <http://www3.imperial.ac.uk/business-school/research/innovationandentrepreneurship/events/gedi/aboutgedi>

5. See the Global Entrepreneurship Monitor: <http://www.gemconsortium.org/>

economy where innovation is the most important driver of economic performance followed closely by efficiency. This underlines that economic performance is determined by performance across innovation, efficiency and resource factors.

In the older – predominantly efficiency and factor-driven economy - freelancers were largely viewed as substitutes for employees who competed for the same work. It was a zero-sum game relationship where one party's gain was the other's loss. Typically, freelancers were viewed as the weaker party in this competitive relationship. They were the non-unionised outsiders in the labour market - forced to compete on price as the only means of increasing their appeal to businesses.

This report is motivated by the view that the economy has changed sufficiently to warrant a re-appraisal of the roles of freelancers. The aim is to identify the roles that freelancers play in determining the performance of businesses in the British economy (which is mainly innovation-driven). We will explore the impact of freelancers on the two predominant drivers of UK economic performance; innovation and efficiency.

Methodology

We use an explorative empirical approach in order to uncover the use of freelancers in the modern innovation-driven economy. The research is based on case studies of 23 firms from key industries spanning from both corporations and large independent firms to SMEs and young business start-ups. All of the firms chosen for the study make use of freelancers and this allows us to explore the contexts in which freelancers are used by modern businesses.

There is a special focus on the use of more highly skilled freelancers given their greater role in the modern knowledge-based economy. We focus our attention on freelance managers, senior officials, professionals and high skill specialists which comprise Office of National Statistics (ONS) Standard Occupational Codes (SOC) 1, 2 and 3. We interview senior executives from 23 firms who have made use of skilled freelancers in order to ascertain to what extent they use freelancers, in which roles, the reasons they hired freelancers and the means by which freelancers generate value added for the organisation. The firms are listed in Table 1. The sample size is large for case study based research and this is motivated by a desire for explorative rigour in uncovering different uses of freelancers. However, further research is encouraged so that this trajectory of research can achieve a statistically significant representation of the functions and effects of freelancers across all sectors of the British economy. The firms covered in the case study analysis are presented in section 2.

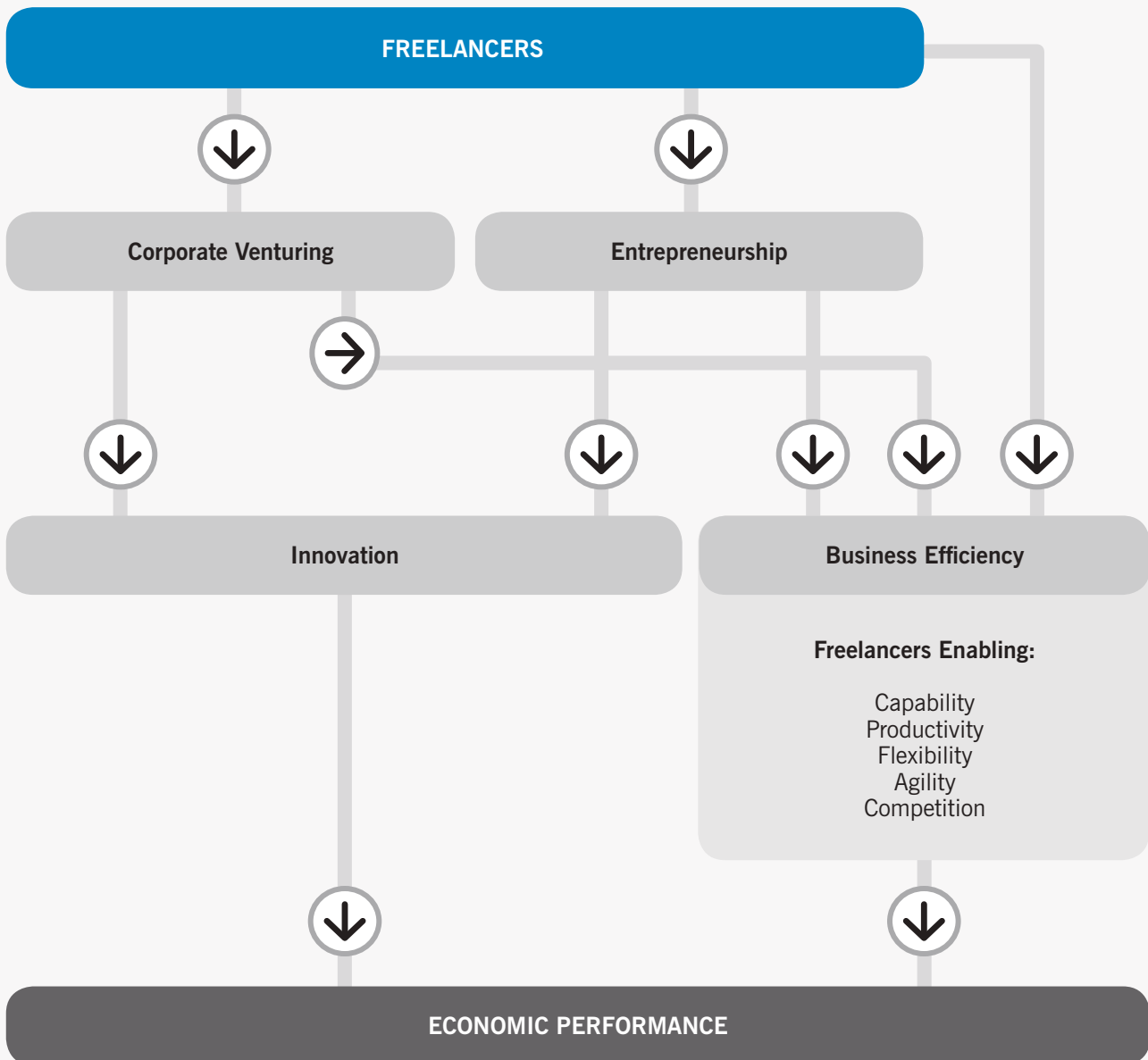
“The economy has changed sufficiently to warrant a re-appraisal of the roles of freelancers”

Table 1: Businesses Researched in the Case Study Analysis

Firms	Industry: (2007 SIC 1 digit categories)		
Corporations & Large Independent:			
Argos Direct	Wholesale and retail trade		G
ARM Holdings	Manufacturing		C
BSkyB	Information and communication		J
Centrica British Gas	Electricity, gas, steam and air conditioning supply		D
Forewind (JV: Statoil, SSE, RWE, Statkraft)	Electricity, gas, steam and air conditioning supply		D
Global IT Corporation	Information and communication		J
Major International Bank	Financial and insurance activities		K
npower	Electricity, gas, steam and air conditioning supply		D
NSG Group	Manufacturing		C
Panasonic	Manufacturing		C
Vocalink	Information and communication		J
SMEs:			
Amadeus Capital	Financial and insurance activities		K
Bidwriting.com	Professional, scientific and technical activities		M
Enhancing Clarity	Professional, scientific and technical activities		M
Flexmort	Manufacturing		C
H + K Strategies	Professional, scientific and technical activities		M
Look, Touch & Feel	Professional, scientific and technical activities		M
Magic Light Pictures	Information and communication		J
Market Gravity	Professional, scientific and technical activities		M
Medsa Group:	DTR Medical: Manufacturing		C
	Shield Automotive: Manufacturing		C
	Greased Lightning: Manufacturing		C
	The Recycling Company: Water supply - sewerage, waste management and remediation activities		E
PTS Consulting	Construction – IT Infrastructure		F
Symvan	Financial and insurance activities		K
Transformation-Leaders & Top Interim	Professional, scientific and technical activities		M

The findings from the case study analysis indicate that freelancers influence economic performance through three routes as depicted in Figure 2. They drive corporate venturing and also entrepreneurship activity. Both of these have positive effects on innovation-driven economic performance. Finally, freelancers promote the efficiency and competitiveness of businesses which positively affect economic performance.

Figure 2: Freelance Drivers of Economic Performance



These contributions of freelancers to the economy are investigated in sections 3, 4 and 5 of the report. In section 6 we look at how freelancers affect job creation noting that highly skilled freelancers are increasingly complements to, rather than substitutes for, employees. In fact, the main finding is that much employee job creation and subsequent sustainability is underpinned by the prior activity of freelancers. It would be a mistake to calculate the value of freelancers to the economy as the sum of their fees. The case study analysis indicates many instances of a multiplicative job creation effect of freelancers on employment; particularly in their roles driving corporate venturing, entrepreneurship and efficiency through change management.

A central finding of the research is that freelancers serve a unique economic function in the modern economy. In section 7 we argue that they ought to be defined as a distinct economic agent for fiscal, regulatory and public policy purposes. At present financial and reputational risk created by misclassification of freelancers deters businesses from making optimal use of them. The key findings of the report are brought together in the conclusion.

2 Case Study Analysis

The aim of the case studies is to carry out an explorative analysis of the use of freelancers across a range of businesses characteristic of the modern knowledge-based, innovation-driven, dynamic and entrepreneurial economy. The aim was to investigate new and incumbent organisations as well as both large businesses and SMEs.

Each case study is based on an interview carried out between September 2011 and November 2012 with a senior executive from a business that had hired freelancers. There was an emphasis on industries that used high skilled freelance workers and that manifested some core sectors of the modern knowledge-based economy⁶. Therefore, industries such as information, communications, manufacturing and financial services feature a number of times while there is no coverage of mining and agriculture. Although we cover 23 businesses, which is a large number for case study analysis, we cannot be certain we have not overlooked some type of freelance activity not captured in these case studies. Encouragingly, we observed extensive repetition of evidence relating to the reasons why freelancers are used to create value for business and found there are some common reasons why organisations draw on freelancers to enhance the performance of their businesses.

We did not get agreement to participate in the research from every company that we approached. For example, the supermarket retailer Sainsbury's said they did not make use of freelancers and hence did not see any point in taking part in the study. Alternatively, Tata said they would have been willing to take part in the study but were undergoing some major transformation over the duration of the research and hence would not be able to participate. Each case study is based on an interview with a senior executive from a business that had hired freelancers. Therefore, the case studies mainly relate to the part of the business under the management of the executive who was interviewed. All of the case studies have been proofed and signed off for publication by the relevant executive. The research would not have been possible without the generosity and support of these people and we express our thanks in the acknowledgements.

We now present the findings of each case study which are presented in alphabetical order (as listed in Table 1b).

6. An earlier study looked at the skilled manual workers in the construction industry: Burke, A.E. (2011), The Entrepreneurship Role of Freelancers - Theory with Evidence from the Construction Industry, *International Review of Entrepreneurship*, 9: Issue 3, 2011

Table 1b: Businesses Examined in the Case Study Analysis

Firms	Industry: (2007 SIC 1 digit categories)		
Alphabetical Order:			
Amadeus Capital	Financial and insurance activities		K
Argos Direct	Wholesale and retail trade		G
ARM Holdings	Manufacturing		C
Bidwriting.com	Professional, scientific and technical activities		M
BSkyB	Information and communication		J
Centrica British Gas	Electricity, gas, steam and air conditioning supply		D
Enhancing Clarity	Professional, scientific and technical activities		M
Flexmort	Manufacturing		C
Forewind (JV: Statoil, SSE, RWE, Statkraft)	Electricity, gas, steam and air conditioning supply		D
Global IT Corporation	Information and communication		J
H + K Strategies	Professional, scientific and technical activities		M
Look, Touch & Feel	Professional, scientific and technical activities		M
Magic Light Pictures	Information and communication		J
Major International Bank	Financial and insurance activities		K
Market Gravity	Professional, scientific and technical activities		M
Medsa Group:	DTR Medical: Manufacturing		C
	Shield Automotive: Manufacturing		C
	Greased Lightning: Manufacturing		C
	The Recycling Company: Water supply - sewerage, waste management and remediation activities		E
npower	Electricity, gas, steam and air conditioning supply		D
NSG Group	Manufacturing		C
Panasonic	Manufacturing		C
PTS Consulting	Construction – IT Infrastructure		F
Symvan	Financial and insurance activities		K
Transformation-Leaders & Top Interim	Professional, scientific and technical activities		M
Vocalink	Information and communication		J

Case Studies



Amadeus Capital Partners Ltd.

Alex van Someren *Partner and Investment Manager*

Amadeus Capital is one of Europe's leading venture capital firms and focuses on high-technology ventures. It was founded in 1997 by Hermann Hauser, Anne Glover and Peter Wynn and now manages over £500 million of funds and has, since inception, backed over 80 companies. Amadeus has invested in companies in the software, hardware, telecommunications, cyber security, media, life sciences and cleantech areas of business in Europe and Israel.

Amadeus does not use freelancers for general work within the business as it wants a core team committed to the performance of the fund across its entire lifespan. Therefore, it finds that it is more effective to use employment contracts with terms that are positively related to the length of time that a person remains with the fund. However, Amadeus does draw on the use of freelancers for some specific tasks; particularly in the due diligence and post-investment stages of its activities.

Amadeus draws on freelancers to conduct both technology and market due diligence. It uses freelancers when it is capacity constrained and/or when it needs to draw on some specialised expertise that it does not have in-house. Due diligence involving an assessment of market risk and potential can typically involve a freelance industry expert with a deep knowledge of routes to market and industry adoption practices for specific types of new technology. Freelancers hired for technological due diligence are often academics or individuals with a science R&D based background in industry.

These freelance contracts are typically self-contained contingent projects. While the freelancers often justify their fee with reference to the amount of time they will need to spend on a project, they are typically paid on an output/fixed-price basis for the successful completion of the project. There is no commitment to re-hire

freelancers beyond the project. Amadeus finds most of the freelancers for its projects through its own contact base and network.

Alex van Someren notes that while it is typical for firms in the venture capital industry to make use of interim managers – particularly those focused on business turnaround – Amadeus makes very little use of interim managers: “Amadeus is mainly focused on high-growth ventures and hence it is important that the management team have a longer-term commitment to the venture”. However, he points out that freelancers are used in other roles in the post-investment stage: “Often a venture will not require a full-time Chief Financial Officer and therefore it is better to hire a freelancer with sufficient expertise to do this on an ‘as needed’ basis”. Likewise, freelancers are sometimes used for sales and marketing for the same reasons, while on the technological side, the development of a prototype or a solution to a specific technological need are sometimes contracted out to specialist freelancers.

Usually Amadeus will make appointments to the Board of Directors of the companies in which it invests. As well as appointing its own investment professionals, freelance non-executive directors (NEDs) are sometimes used for this purpose. Usually these NEDs were previously executives and/or entrepreneurs in successful high-technology businesses.

Amadeus Capital also takes on MBA students who work for a limited time period as interns. Although these posts are unpaid and hence technically not freelancer roles, they operate in the same manner as freelancers in every other sphere; particularly their project-based and contingent nature. Alex van Someren points out that as well as giving these students a great opportunity

to learn and gain experience, internships also enable Amadeus to reduce the risk associated with job creation through screening. Amadeus have occasionally hired intern MBAs who have proved their high performance capability.

Amadeus Capital Partners Ltd. uses freelancers when it is capacity constrained and/or when it needs to draw on specialised expertise that it does not have in-house.

Argos Direct

Tony Lahert *CEO, Step Solutions*

Tony Lahert spent 20 years with Argos from 1973 when it launched. In that time his executive roles included Buying Director where he managed a £1 billion budget and a print run of 22 million catalogues. He was also responsible for the creation of Argos Direct. He launched and managed the development of this new corporate venture in three stages. The first stage involved the creative process of developing the idea for Argos to offer large sized goods for direct delivery to customers and to convince the company to support this innovation. Tony Lahert managed this process with a small team. The next stage involved the implementation of the strategy and bringing it to market. This stage required a product development team and Tony Lahert opted to hire freelancers rather than employees. His view was that he “did not want to hire people on a project that might not work and who he might have to sack”. He also wanted to set up a structure to enable the supply of a fully outsourced entrepreneurial function i.e. creativity and start-up. He describes freelancers in this role as “light of foot” where they can “act fast and innovate in order to make a value-added impact in less time”.

After the successful launch of Argos Direct, the company needed a senior executive to drive the vision and strategy for growth; particularly the financial model underpinning Argos Direct. An independent and project-focused interim manager was seen as the best means of managing this stage of the project. An in-house executive would be more prone to succumb to ‘cash cow’ management pressures associated with the core of the business. Tony Lahert points out that this is usually associated with the short-termism of an operations management mind-set dominated by a sales and accountancy culture. In order to make the innovation work, a longer term perspective was needed and the project needed to be ring-fenced from the dominant culture and pressures within the parent organisation. A freelance interim manager would be better able to focus on project delivery without fear of internal politics. He or she would “not be afraid of the boss – since they are not employed or reviewed by the boss – and will speak up to say when something is wrong”.

Having a penchant and aptitude for innovation, as well as having observed freelancers at work in stage two of the project, Tony Lahert decided that he wanted to undertake the freelance interim manager post to roll out Argos Direct. He resigned from the company in order to take up the role of interim manager for the next stage of the Argos Direct project. The company accepted this proposal and Tony Lahert grew Argos Direct to a £100 million business in its second year.

On completion of the successful Argos Direct project Tony Lahert then decided to pursue a freelance career in order to maximise the value potential of his creative, strategic and executive skills. He was also motivated by the desire to avoid what he perceives as “the humdrum boredom of being an executive focused on operations rather than innovation”. He surmises that “when the knob turners get a hold of a business, then I am off”. By contrast he feels that freelancing offers diversity and fresh challenges.

For these reasons he believes that most freelancers prefer to work part-time on any project. He argues that “innovators want freedom” and freelancing is a means of achieving this objective.

In his freelance career, Tony Lahert works on major projects with roughly three organisations every two years. He believes that as a freelancer he is able to undertake roughly eight times the number of innovation projects that he was previously able to do over any five year period as an employed executive. He also argues that freelancers have an advantage over employed executives in terms of the quality of their input: “Just as travel broadens the mind, a freelancer will have a broader and more colourful experiential mind-set than

executives or owner-managers”. Thus, he argues that freelancers are an important source of innovation in the economy. In his freelance role, Tony Lahert has engaged with business through a diverse set of conduits that help differentiate his various areas of expertise. These include Step Solutions which he runs, Grant Thornton, Zolfo Cooper, the XtraMarket and Customer Heartbeat. His freelance involvement with these businesses included roles as a non-executive director and in an advisory or oversight capacity.

“Just as travel broadens the mind, a freelancer will have a broader and more colourful experiential mind-set than executives or owner-managers”

ARM Holdings

Bill Parsons *Executive VP of HR*

Advanced RISC Machines (ARM) was launched in 1990 as a spinout from Acorn computers with backing from Apple. The business grew using a licensing model of its microprocessor technology. Clients in the early 1990s included GEC Plessey, Sharp, Texas Instruments and Samsung. The firm went public in April 1998 and Apple sold its shares shortly afterwards. In 2005 ARM was named by Electronic Business as one of the top ten most significant businesses in electronics over the last 30 years. In 2011 ARM was listed as 12th in the Fast Company's 50 Most Innovative Companies. The company claims to be "the world's leading semiconductor IP company" having shipped over 20 billion ARM-based chips, with "800 processor licenses sold to more than 250 companies"⁷.

Bill Parsons, Executive VP of HR, describes the essence of the company's business model as being like an "architect's office" which produces designs which it licenses and then gets royalties on the chips that are made using the design". In 2012 ARM was named as one of Britain's Top Employers by the CRF Institute. The company also makes use of freelancers from the clerical level such as a junior administrator right up to professional technical specialists and senior interim executives.

Freelancers can play a significant role in developing innovation for ARM. At the explorative stage of an internal start-up or venture, a team could comprise a mix of employees and contractors. Their objective might be to develop a 'thought experiment' or put together a business plan for a new venture. Sometimes these projects are led by senior freelancers who were previously entrepreneurs who have owned their own business with a turnover of up to £1-2 million. Instead of developing new technology independently, these entrepreneurs often work for ARM on a freelance basis and if the new technology shows promise then ARM will buy their business with the

freelance entrepreneur becoming an employed executive at ARM. Bill Parsons describes this transition as "posh temp-to-perm".

If after the explorative stage is complete, the commercial viability of the innovation has been demonstrated, then ARM will typically staff it up with employees. The preceding freelance intensive stage serves the purpose of lowering sunk costs and managing the risk of innovation. Bill Parsons points out that ARM are "incredibly cautious about adding permanent headcount and hence use freelancers to manage risk in innovation and employment growth". With regard to the latter he describes it as "try before you buy". However, he notes that some people do not want to work as employees due to lifestyle, a desire to be their own boss and to maximise their income portfolio. In many of these cases the only option is to hire them on a freelance basis.

ARM also stimulates freelance work on innovation relating to open-source middleware. The aim here is to encourage the community of IT engineers across the globe who are committed to open source technologies

7. <http://www.arm.com/about/company-profile/index.php>

to develop software that is complementary to ARM's technology. These freelancers are paid on a win-only basis where winning occurs when the technology which they develop is actually used in the open source middleware.

ARM also use freelancers as a means of breaking into new markets across the globe. The development process involves a freelancer initially providing advice on doing business in a region, then moving on to work as a distributor and then if this works he or she will then typically move into an employee role. In China they initially hired a person on a freelance basis to establish a foothold in the market and to explore its

viability. This global growth strategy proved successful and ARM is now the market leader in China and employs around 100 people. ARM is currently using a freelancer in a similar capacity to help it break into the Brazilian market.

Bill Parsons points out that freelancers are also used as a means of managing peaks and troughs in demand and to enable ARM to be expedient, agile and flexible. He says that ARM tries to keep around 10-15% of its workforce as freelancers. However, he notes that in the IT divisions this figure rises to around 50% because this work is so project driven.

Instead of developing new technology independently entrepreneurs often work for ARM on a freelance basis. If the new technology shows promise then ARM will buy their business.

Bidwriting.com

Martyn Curley *Director*

Bidwriting.com offers a bid writing service for organisations bidding for work in a range of areas including R&D, tax relief, social housing, construction and the Public Finance Initiative (PFI). The business has an 85% success rate based on a formulaic and systemised means of preparing the quality element of tenders. At start-up the business used freelancers intensively in order to reduce finance needs by operating a variable cost model. It also needed to be able to be expedient as a means of competing. Bids generally have to be written in the range of one to eight weeks from the time of the call for tenders. Martyn Curley, co-founder and Director, states that a key objective at start-up was to be able to “turn bid writing teams on and off quickly to match short tender turnaround times”. He says that they were also adopting a minimum overhead and maximum profit model. So for these reasons it made sense to launch the business using a freelancer intensive model.

As the business developed it moved to a more employee plus freelancer model. Martyn Curley explains that it is necessary to have core expertise in-house in order to ensure that the company’s unique approach to writing is maintained. He believes that it takes up to five years for the company to fully train a person up to a level where they can handle a tender on their own. The founders had many years of tender writing experience prior to start-up. He says that the company will always make use of freelancers in order to gain access to their specialist skills, maintain an element of a variable cost financial model and also to ensure that the company remains agile and flexible. However, he points out that freelancers can suffer from “the loneliness of the long distance bid writer”. He explains that writing the bids in a central office has the benefits of motivation coupled with the ability to spot and solve problems early. Therefore, their combined employee plus freelancer model enables the business to capture the benefits of both modes of working.

In addition to writing bids the company also offers a number of services to housing associations and businesses in areas such as the environment, health and safety, HR, and community service. These services sometimes involve supplying interim managers to these organisations in order to solve a problem requiring hands-on management. Bidwriting.com uses freelancers for these contracts given the contingent project-based nature of the work. Martyn Curley also emphasises that the use of freelancers means that Bidwriting.com and their clients do not have to take core staff off front line activities to write the bids. He says that these freelancers then acquire new knowledge which can become very useful as an input into new tender bid documents.

CASE STUDY

BSkyB

Martin Leach *Head of Transformation*

BSkyB is a corporate television broadcaster and communications provider for both home entertainment and business users. In the 12 months to June 2012 the company had a turnover of £6.8 billion with a customer base exceeding 10.6 million. In the same period the company had 22,800 employees⁸. The company estimates that its business underpins over 56,000 jobs in its supply chain⁹ which involves many freelance intensive sectors such as media and entertainment, IT and telecommunications.

It makes direct use of freelancers in order to manage peaks and troughs in its business activity; particularly in IT related projects. Freelancers have also been used to resource short-term intensive activity such as customer retention. Freelancers enable the company to draw on specialised skills on a short-term project basis necessary to maximise the impact of these campaigns.

Freelancers have been used to provide other fixed-term needs such as maternity cover and this can involve appointments that operate at a relatively senior level. For example, in the company's Transformation team, a freelancer with a background in TV/media was hired as an interim senior manager to support the business to adopt innovative ideas. This involves building and testing hypotheses with senior business stakeholders as well as interfacing with the team involved in data analysis and insight on these projects.

In the same Transformation team a freelance senior manager has been hired to support projects that use customer's viewing information. Martin Leach, Head of Transformation, points out that this freelancer has been charged with the responsibility of providing answers to the business opportunity created by the availability of TV viewing information. Therefore, it involves innovating in areas where this information can be applied.

Martin Leach explains that freelancers can be hired on a contingent programme basis and that the contract terminates once the programme is complete or once the full-time employee returns from maternity leave, or the demand for the work goes away. The specialist expertise required, alongside the contingent project-based nature of this programme, weighs the appointment in favour of a freelancer. This is especially the case when the team may be reassigned to a totally different business problem where different expertise is required.

However, in terms of achieving the business objectives of gaining access to quick short-term specialised talent, as well as ring-fencing the cost and risk of a transformation project, Martin Leach points out that objectives can in certain circumstances be equally supplied by consultants as well as freelancers. The key for BSkyB is to be able to contract out the project to an able individual. He explains that consultancies can save the hiring manager the time and hassle involved in hiring contractors. This transfers the risk from BSkyB and the recruiting manager to the consultancy firm who is responsible for the delivery of the outcome. He also points out that contracting to a consultancy can be less risky for long-term assignments as they handle all training and holiday issues associated with a contractor.

8. http://corporate.sky.com/about_sky/key_facts_and_figures

9. The Economic Impact of Sky on the UK, Oxford Economics, 2012

Centrica British Gas

Dan Taylor *Director of New Ventures*

British Gas ring-fence some of their more revolutionary innovation initiatives from the core of the company with a view to integrating them later if successful. This serves the purpose of having a dedicated innovation team who do not disrupt the focus of the core organisation as well as enabling financial risk management. Dan Taylor is Director of New Ventures for many of these innovations across Smart Homes; smart meters, electric vehicle services, home energy management and home automation. In this role he outsourced much of these innovation projects and it did not matter to him whether these sub-contractors used employees or freelancers. However, given the short-term and specialised nature of these projects requiring diverse areas of expertise, many contractors made use of freelancers. For instance, Dan Taylor used a consultancy firm to develop the electrical vehicles innovation and this firm delivered the project using a 50:50 ratio of employees to freelancers.

Dan Taylor points out that the innovation projects usually involved two stages. The first stage comprised of exploring and developing strategies for new opportunities and the second stage entailed strategy implementation. The first stage involved areas such as idea generation, business analysis, market analysis, strategy creation and business case development. Dan Taylor contracted much of this work to consultancies. Dan Taylor explains “outsourcing allowed us to ring-fence the risk of the innovation but consultants are expensive so it is important to ascertain viability as soon as possible. If the innovation is not going to work we need to know quickly so that we can terminate the project”. Correspondingly, if the innovation is looking increasingly positive then they may want to scale up the team working on the project at short notice, which is when the consultancies often made use of freelancers. Part of the appeal of using freelancers at this stage is the fact that these projects required “short sharp bursts of activity: short-term availability is important so consultancies with a sizeable portfolio of freelancers are better able to supply this level of service”.

Therefore, having an available supply of freelancers and contractors who are willing to work on this high risk basis is a key support mechanism for this outsourced approach to corporate innovation.

If the innovation shows sufficient promise in the first stage then it can be progressed onto the next stage which involves execution of the strategy. In this stage, project management is required, and British Gas often made use of freelance interim managers. The firm also made use of freelancers in short-term specialist roles which were required on the project. Dan Taylor emphasises that this is an evolutionary stage where the workforce involved in the project evolves from freelancers/consultants to employees. He explains that in the first two months of this stage that it is not unusual to have a workforce which is entirely comprised of consultants. However, as the project progresses these contractors increasingly work with employees as the task is to integrate the innovation back into the parent organisation. Eventually the team evolves to be comprised entirely of employees and hence

the jobs created by the innovation process are to a large extent underpinned by the ability to use contractors/freelancers.

In terms of the lessons he has learned from hiring freelancers, Dan Taylor emphasises the importance of having a network of freelancers. He prefers to hire freelancers he has hired before and who have performed well. In general, he has found freelancers to be very productive, due in part to their professional and external expertise, but also due to their high motivation and dedication as a result of knowing that they can be let go at any time. He argues that “since they have a lack of history with the organisation, they tend to be more objective and have a balanced perspective.

They also tend to be experienced people who are more mature and have a high level of emotional intelligence so able to deal with internal politics”.

Dan Taylor notes that company law and regulation can make it difficult for corporations to make optimal use of freelancers. He argues that “the need to have approved suppliers causes additional administration costs and delays if a corporation wants to make use of freelancers quickly”.

Elsewhere in British Gas he notes that freelancers are used to manage peaks and troughs in business activity.

“Outsourcing allowed us to ring-fence the risk of the innovation but consultants are expensive so it is important to ascertain viability as soon as possible. If the innovation is not going to work we need to know quickly so that we can terminate the project”

Enhancing Clarity

Philip de Lisle *CEO*

Enhancing Clarity is an executive mentoring and 'thinking services' business which focuses on strategic development and business planning. The business was founded by Philip de Lisle who is a former serial entrepreneur. He previously ran a software business which ran on a 'lean and mean' plus adaptable business model using a 65:35 employee to freelancer ratio. The business evolved into an internet dot.com venture (Business Online Group plc) with external investors and involvement from MCI WorldCom. Philip de Lisle's main "buzz and enjoyment" from the business was on the creative and strategic side. He says he is not a "completer-finisher" type of person and has only got on well in business when he has an operations person on board. The gradual formalisation of the business prompted Philip de Lisle to resign from the Board in 2001.

Philip de Lisle did not want to form another company but rather focus on exploiting his talent for creativity and strategy. He therefore became a freelancer with no employees trading under the name 'Enhancing Clarity'. He provides mentoring, advisory and non-executive chair roles mainly for SMEs with a turnover of between £1 million and £10 million and who have growth potential. He mainly gets involved in projects on strategy, innovation and corporate governance. He does not take on interim manager roles and will hire other freelancers to take on these tasks on an as needed basis. He says that the freelancer role allows him "to be independent and to think in a less pressurised environment". In this freelancer role Philip de Lisle is able to 'stand back' from the business and map out a way forward. By contrast, he says that owner-managers find this task difficult as they are too close to the business.

Philip de Lisle sees himself as an entrepreneur in terms of wanting to maximise the impact of his innovative and creative talent. He says that this is where his passion lies and enacting it in a freelancer rather than owner-manager capacity makes it most enjoyable: "I get to play in other people's sand boxes and I get paid for it. How good is that?" He points out that as an owner-manager his creative output was limited by the scope of the business and the demands that it placed on his time. As a freelancer he works with roughly nine businesses per year. Therefore, in terms of his creative output and impact on the economy, he argues that it has increased by around a factor of nine as a freelancer over what it was previously as an owner-manager. He argues that he has "affected more change as a freelancer than as an entrepreneur and with greater ease can see the wood from the trees".

Flexmort: (Roftek Ltd trading as Flexmort)

Simon Rothwell *CEO*

Flexmort is a Birmingham based company specialising in flexible mortuary solutions. It produces mobile cooling systems in order to preserve recently deceased people in hospitals, hospices and funeral directors. The firm is a recent start-up and was founded by Simon Rothwell in 2010. The company supplies products to 40% of NHS hospitals and a wide range of funeral homes in the UK. It has recently begun to export to customers in Holland and Australia and also expanded to the design and development of medical products. The company operates a 'lean and mean' approach to management in order to carefully manage cash flow and to keep its products cost-competitive. Although the plan is to take on more permanent staff, it currently has three employees (CEO, sales manager and administrator) and makes extensive use of contractors and freelancers. The company hires a freelancer to undertake product design for its innovation. The company aims to transfer this person to an employment contract once the volume of business grows sufficiently to warrant a full-time designer. It also uses freelancers for invoicing and project-based work such as packaging envelopes for a marketing campaign.

The company outsources manufacturing, the servicing equipment supplied to clients, and some marketing. It also sources machine parts from a wide number of suppliers and then does assembly in-house. In terms of the firm's objectives, Simon Rothwell CEO, points out that it does not matter whether the outsourcing goes to a contracting company or a freelancer as both enable his business to adopt a lower risk variable cost model. The combination of freelancers and businesses used in an outsourcing intensive model allows Flexmort to innovate without having to carry a high overhead, and hence the need for a substantial up-front capital requirement. This facilitates this lean start-up to do its own product design, development and manufacturing as well as sales and marketing, while minimising the need to raise money from investors and banks. This variable cost approach to innovation manifests a modern model adopted by new ventures where the use of freelancers and contractors enable them to lower barriers to entry and compete with more financially resourced incumbents.

Simon Rothwell also points out that "outsourcing means that the firm can draw on fresh ideas and expertise from a range of different suppliers. The company tends to use a large number of suppliers to reduce the risk of trade secrets being learnt by suppliers as well as reduce the risk of over reliance on any one supplier".

The freelance/outsourcing virtual model employed by Flexmort enables it to have greater flexibility in servicing clients in dispersed geographic regions. The agility of the company is also increased as freelancers and outsourcing reduce the regulatory/administrative burden and risks normally associated with hiring employees. Simon Rothwell notes that this model has freed up his time so that he can specialise on directing the company – particularly focusing on sales and innovation - rather than being drawn into every activity as a 'jack of all trades'.

Forewind – Joint Venture: Statoil, SSE, RWE, Statkraft

Lee Clarke *General Manager*

Forewind is a joint venture between four major European energy companies cooperating in order to manage the creation of a substantial UK offshore wind farm in the Dogger Bank zone. The site is located in the North Sea roughly 150km off the Yorkshire coast. The wind farm is nearly 9,000km², equivalent to the size of Yorkshire. It has potential for up to nine wind farm projects of about 1GW, each requiring an investment of around £3 billion per project. The planning process takes roughly two years of data collection and preparation, followed by 18 months for each 'permission' to be determined. Forewind is responsible for the consenting phase to get the planning permission - after which it is planned to hand the projects to the shareholder organisations - each of which will take a lead in the construction and operation phase of each wind farm. The projects within the Dogger Bank zone are expected to seek finance from banks or pension funds once each is complete. This will enable the recycling of financial capital from one wind farm project to the next.

Forewind has 40 core staff working on the current project comprised of 30 employees (most seconded from the JV partners on 2+ year contracts) plus around ten contractors (involving a mixture of freelancers and contractors). In addition, they have up to 200 people involved in contracting/freelancing work on vessels doing engineering and survey work on site. The company faces restrictions on hiring employees from the parent organisations and hence often uses freelancers to do short-term work which is required quickly. They also have a number of small sub-projects (e.g. meteorological equipment being installed in Dogger Bank) and use several freelance engineers on these projects. Similarly they make use of freelance engineers in fabrication yards for health and safety and other specialist skills which are not required in the company on a longer term basis. Lee Clarke notes that he has had a good experience of using freelancers, especially in terms of getting new perspectives and fresh ideas. He also observes that it has not caused a 'them and us' culture between employees and freelancers. He has always treated employees and

freelancers as equal partners and hence generated an integrated team culture.

Forewind will probably wind-down its activities after the nine permissions have been secured. Lee Clarke, having pursued a corporate entrepreneur career previously with npower, notes that the management team on this project have similar risk taking attributes in terms of being willing to take on the job despite knowing that it entails an uncertain future once the project ends.

Global IT Corporation

Senior Executive *Consulting Division*

This company is a global information technology corporation with a presence in the UK that kindly supported the research by providing an interview from a senior executive. The executive and the company prefer to remain anonymous. The following relates to the pan European, Asian and African consulting part of the organisation. The firm has always made use of freelancers. Typically, around 30% of a 4,000 person workforce in the consulting part of the business is comprised of freelancers. Managing the opportunities, costs and risks of peaks and troughs in demand is one of the main reasons why the organisation hires freelancers. In boom periods the use of freelancers has risen to as high as 60% of the workforce while in downturns it can fall to as low as 10%. In the part of the business based in Great Britain, roughly half of freelancers are UK domiciled while the rest are sourced from overseas.

The company has a long-running target level of 30% freelancers in the workforce in order to have a significant variable cost base to mitigate risk. This target was prompted by prior difficulties with using a more employee-intensive model where the ability to downsize proved time consuming and costly. As a result, a greater use of freelancers was sought in order to increase the agility and flexibility of the organisation as well as to avoid the risk of bearing costly employee downtime. To this end, the firm uses freelancers in generalist roles so that they can be replaced easily; ensuring that the core of the business does not become reliant on unique skills of non-employees. The workforce target of 30% is also a long-term upper limit on freelancers because the company believes that it is essential that customers feel they are buying corporate consulting services and hence it is necessary to have this predominantly delivered by employees.

While freelancers can be used to manage opportunities and risks across the business cycle, the company finds that this can be challenging as the supply of freelancers tends to be pro-cyclical. The senior executive notes: "In

boom periods employees want to work as freelancers but then in downturns the same people want to return to employment contracts". The senior executive pointed out that in the recent downturn "we ended-up re-employing many of our former employees who had become freelancers". In order to balance this countercyclical supply, the company has adopted tactics in boom periods such as offering freelance style higher risk performance-related pay to employees in order to maintain the desired ratio of employees to freelancers. For example, an employee on a fixed annual income of £60,000 could be offered £10,000 fixed plus a percentage of revenue generation.

Freelancers are hired on a project basis and mainly for a technical input. Roughly a third of the company's demand for freelancers is due to a skills mismatch between employees' capability and the variable technical needs of the organisation. The corporation also uses freelancing as a test-bed for screening and hiring employees. Freelancing reduces some of the risk associated with job creation.

H+K Strategies

Czarina Charles *Talent Acquisition Manager*

H+K Strategies are a PR and communications consultancy based in London which predominantly serves major global corporations and public sector clients. The business makes use of a mix of employees and freelancers. The freelancers are mainly hired to serve one or more of three functions. The first is as a short-term workforce for contingent contracts with a finite life span such as one contract H+K had for the London Olympics. Freelancers are also used for interim positions varying from junior posts through to more senior managerial posts such as an Associate Director. H+K Strategies also use freelancers as an integral part of the firm's entrepreneurial business model. Czarina Charles, Talent Acquisition Manager at H+K Strategies highlights that the agility of freelancers is a key means of being able to offer fast start dates for new contracts. "Freelancers can be deployed quickly and can hit the ground running which enables us to win business by being able to offer swift and effective delivery".

Czarina Charles says that the company encounters two types of freelancers in the market. She describes one type as "career freelancers" and the other as "lifestyle freelancers". "We find that career freelancers tend to be specialists best at the tactical side of our campaigns. So these types of freelancers are good to hire for specific and focused projects. By contrast "lifestyle freelancers" are usually those who have worked their way up the PR career ladder, but then opt for the freelance route as they want to work part-time, to be closer to their families or pursue a passion which may not necessarily generate the money needed to work on it full-time.

Others prefer the flexibility of freelancing as they can choose their own holidays. Others like the variety of working across a range of projects and companies and the fact they are not embroiled in the company politics. Lifestyle freelancers tend to have a broad skillset and therefore are more able to manage bigger projects which have a wider remit".

"Essentially, the ability to have the freedom to choose a work-life balance appears to be a major factor and sometimes this is manifested by a desire to do a personal project like writing a book".



Image for illustrative purposes only

“Freelancers can be deployed quickly and can hit the ground running which enables us to win business by being able to offer swift and effective delivery”

Look, Touch & Feel (looktouchfeel.com)

Rick O'Neill *CEO and Creative Director*

Rick O'Neill started as a freelance product designer in 1999 after graduating from university and as his client base grew he evolved to set up a successful business which he sold in 2008. After this exit, Rick O'Neill returned to freelancing in the areas of branding and website development and as his customer demand increased, his business evolved from a freelancer to a limited company trading under the name of Look, Touch & Feel in 2009. He says that "there was no eureka moment, I just noticed that demand was increasing and so I needed to create a business". The company was set up on a 'skinny/lean' variable cost model which involved the use of freelancers. He points out that "you have more of a hunger and an instinct for cost-effective entrepreneurship if you have been self-employed before than if you start with a lot of money in the bank". He began with Simon McFarlane who he has known since he was three years old. Simon was hired on a freelance basis and looked after the technology aspects of the business while Rick took care of design. Rick would win business and then contract with Simon on a project by project basis. The business grew and Rick took on a graduate designer on a full-time employee basis with some share options.

The company continued to grow causing Rick to move it out of his home and into a barn down the road which he had secured on an economical rent and which he felt provided a creative work environment. The company continued to grow, winning more prestigious contracts with clients such as the Open University, Aspire and the Jelly Bean Factory. As a result, they then hired another designer and a developer on a freelance basis in order to test these people out. Neither of these people proved to be a good fit with the company and Rick was able to terminate these freelance contracts. Freelancing was used as a means of managing the risk of hiring the wrong people.

Rick O'Neill notes that it is important to be able to manage the conflict of interest that can sometimes arise for young and small businesses when hiring freelancers who sell the same services as the hiring business. He points out that "freelancers are normally good at project

management but at times can have a conflict of interest as they sometimes can try to cut the business out of the contract and work directly with the client". He now only tends to use freelancers who he knows and also limits their direct contact with clients until he knows he can fully trust them not to run off with the business. He says that it takes about a year to build up trust with a new freelancer in order to be confident that they can represent the business. In addition, the company's contracts with freelancers have been changed in order to protect IP and to include non-compete clauses.

Look, Touch & Feel also secure work through agencies and hence must respect their clients in exactly the same manner that they demand from freelancers. In other words, they often find themselves acting as a representative of an agency and hence must not pitch for business for Look, Touch & Feel. He notes that this type of industry business model leads to people having

multiple email accounts and business cards. It involves assembling a team around a project with everyone then working under a single badge/brand even though it may involve many different companies and freelancers.

He notes that about 10% of Look, Touch & Feel's business involves working under different brands/labels. In terms of adding these clients to their portfolio of testimonials for marketing purposes, Rick notes that these are normally agreed in advance with the agencies e.g. a recent contract involving the National Farmers' Union involved such a permission.

The core team of Look, Touch & Feel are four employees who have shares in the business. In addition, the business uses four freelancers. The freelancers' work adds up to around 130% of a full-time employee.

Freelancers are mainly hired to access specialised skills and maintain a variable cost base in order to manage the risk and cost of what Rick describes as the "feast and famine" in customer demand. He also highlights that freelancers increase the agility of the company by enabling it to put together a team to deliver a project at very short notice. However, he notes that sometimes

they have no option but to use freelancers as a lot of people in this business sector like the freelance lifestyle and are only willing to offer their services on this basis.

Different types of freelancers are paid on a different basis. Developers are paid on a project fee on a contingent contract while graphic design freelancers are hired on an hourly or daily rate. Look, Touch & Feel often bundle a number of jobs together and hire designers to work on them all simultaneously. Ultimately designers also work on a contingent contract basis with a defined end point (purchase orders) to place a ceiling on the number of hours. The company also contract out the accounts of the company to a freelancer for half a day per week.

Rick O'Neill points out that while it is important to have a balanced team of employees and freelancers, ultimately the core of the business relies on the employees: "With employees you have commitment and know that you can draw on them when you need them".

Magic Light Pictures

Martin Pope *Co-founder and Producer*

Magic Light Pictures produces independent films and manage the rights for the children's story and film character, the Gruffalo. The company is based in London and produces both live action film such as Sparkle and Wild Target, and animation films such as The Gruffalo, The Gruffalo's Child and Chico and Rita. The company was founded in 2003 by BAFTA Award winners Michael Rose and Martin Pope. Martin Pope's previous career includes producing films such as A Touch of Pink, The Heart of Me, The Cottage and The Turn of the Screw. Michael Rose's credits include Chicken Run, Wallace and Gromit: Curse of the Were-Rabbit, and A Close Shave.

At the outset, Martin Pope is quick to point out that in choosing crew film makers, they do not make a particular distinction between freelancers and employees working for contractors. A key necessary option for film producers is to be able to contract out significant parts of the production process to highly skilled professionals at an affordable price. Martin Pope explains that the objective is to "find the right skills for the relevant task. People who have the skills for one film typically don't have the skills required for the next film that the producer wants to make. But they will find that their skills are required by a film made by another producer". Therefore, whether the legal entity contracted to do the work is a freelancer or contractor with employees makes little difference to a film producer. The motivation for outsourcing in both cases is based on the same objectives including: finding the right expertise to fulfil a particular specialist task, avoiding excessive overheads associated with downtime when using specialised labour across the film production life cycle, reducing the uncertainty and risk associated with trying to accurately budget the cost of a film, and also to ring-fence the finance of each film in order to enable access to external funding.

Martin Pope explains that there is also a supply-side constraint that causes film producers to use freelancers/contractors. He says "a lot of people in the industry are motivated by the desire to use their talent in ways that

fulfil them personally. Freelancing enables them to choose work that achieves this objective and so it is often only possible to hire people on a freelance basis".

He explains that the film production process is different between animation and live film. The former is typically a longer process and can involve a smaller team than the latter. The use of freelancers varies over the pre, actual and post production phases of film making. In the case of animation, the pre-production phase might involve four or five people of which roughly half are freelancers; most usually involved in the script and story development. In the production phase it is common to outsource a significant amount of the work to an animation company. In the case of The Gruffalo, Magic Light Pictures used a German company who deployed a core staff of eight employees plus approximately 30 freelancers to the project. In the post-production phase the activity then downsized to around two or three people comprising Magic Light employees plus contracting work out to a PR consultant.

While a live film may begin with a similar pattern with four or five people developing the pre-production phase, it gradually scales up to around 60% of the size of the production phase before filming begins. In the production phase a typical crew and cast size could be around 80-100 people of which around 93% are freelancers and

contractors¹⁰. In the post-production phase the team size falls back to around ten people of which roughly 60% are freelancers or contractors .

Martin Pope points out that the transformation of the film business from the highly concentrated studio controlled industry in the 1950s to the more segmented and entrepreneurial market of today has increased the importance of freelancers. While the old industry was more monopolistic, the vertically-integrated studios faced less uncertainty and hence were able to budget on a lower risk basis. In the new environment, freelancers enable smaller companies to access diverse and exceptional talent on a variable cost basis which reduces risk. Combined, these effects lower barriers to entry and concentration in the industry, thereby promoting competition and greater diversity. However, Martin Pope highlights that this new business environment requires film producers to be more innovative and to manage more risk: “Innovation becomes very risky in this environment and consumers have developed a thirst for continuous innovation”. In this dynamic and risky environment the ability to be innovative and manage risk by outsourcing to freelancers/contractors becomes pivotal for the performance of the industry.

Martin Pope emphasises that a sufficient supply of freelance/contractor talent needs to be available in order to promote this dynamic industry model in the UK. To this end, he points out that public policy initiatives to support the film industry such as film tax credits play a very important role in this high risk business: “It is a known fact that there are really good crews in the UK which attract foreign production companies to make their films here. But this advantage can be undermined if Government policy to support film declines. If Government policy remains consistent then it will help create a more stable basis for the industry to grow with consequent employment possibilities for freelancers”.

10. Martin Pope notes that “crew sizes vary according to budget or size of film. Hollywood films shooting in UK can employ many more (150); while a micro-budget film could have 20 (or fewer) crew”.

Major International Bank

Executive Programme Assurance Office

The programme assurance team is responsible for all central programme functions including:

- Resource management, recruitment, on-boarding, contract management
- Financial control - including business case preparation, forecasting, reporting and control, benefit tracking and modelling
- Risk and issue management
- Change control
- Programme governance – running all programme level governance forums

The executive (who wanted to remain anonymous) was hired in a role within the programme assurance office which was the central point of coordination for a number of work-streams under the banner of the 'Transformation Programme'.

Within this programme, freelancers were used on a number of these work-streams in order to be able to mobilise a team to progress the work-stream development, tap into expertise not available from employees in the company, as well as to bring in an independent mind-set with a fresh perspective and enthusiasm for each project. The executive points out that building up a new team with employees would involve long pre-employment checks and other administrative burdens that would slow the process down to an unacceptable level. The executive also highlights that "freelancers are part of a different budget line which has less external scrutiny on it and therefore are more flexible in terms of deployment". The executive believes the main reason for this is that freelancers pose less of a financial risk for organisations because they are easy to move on if they are underperforming, whereas permanent employees have a number of HR steps that need to be implemented before dismissal can be considered.

Therefore, when faced with the task of mobilising the Transformation Programme the executive was able to quickly expand from a team of 20 people and rapidly scale it up to 200 people in six months through the use of freelancers – accounting for 75-80% of the workforce throughout this phase of the project. The programme involved a full scale transformation of all the client channels the company uses to provide services to its customers such as telephony, branch and online. As a result, the team required a diverse set of skills, some of which were not necessarily available within the organisation. The executive explains that the use of freelancers involved "a full spectrum from senior interim managers right down to junior analysts". When the programme rolled into its second phase of build and implementation, a plan to redress the balance of freelancers to employees reduced the freelancer share of the workforce down to a target of 30%.

The executive observes that few of the freelancers in the integration programme took up the resulting employment positions because the remuneration packages on offer translated into substantial cuts to the current rates being paid on the programme.



Image for illustrative purposes only.

Market Gravity

Gideon Hyde *Partner*

Market Gravity is a consultancy business specialising in corporate venturing. It also hosts the Corporate Entrepreneur of the Year Awards. The company's service offering allows corporations to outsource innovation. This involves a number of stages of the innovation process from idea development, market testing, launch and through to re-integration with the core business of the corporate client. The company delivers this service using a core team of full-time consultants alongside associate freelancers. Freelancers are used in order to be able to draw on expert knowledge on a short-term project basis. This can entail work in both interim management and to supplement professional/specialist consultant roles. Sometimes the company is obliged to hire freelancers who it would prefer to employ only because some freelancers prefer to work on a freelance basis serving multiple clients and ultimately being their own boss.

Gideon Hyde, co-founder of Market Gravity points out that their core business is much more entrepreneurial than change management. He describes their remit as "bringing a start-up mentality to a corporate environment where venturing is more than technological change. It also involves changing both people and culture as well the creation of another business". He argues that this "inevitably challenges the way a company works and cuts across structures and silos". In addition, he highlights that "corporate venturing involves greater uncertainty than change management as it involves a lot more trial and error. It also involves more learning by doing, evolution of innovation and self-direction [so] leadership and strategic vision are very important". He argues that trying to operate in this manner within a corporation is difficult due to governance structures and cultures created to support the 'status quo'. Therefore, businesses often seek to outsource this innovation process so that it can be progressed in a supportive environment. The duration of one of Market Gravity's contracts can extend three to five years if successful.

Market Gravity can be tasked to take the innovation from creation through to re-integration and freelancers are typically involved to some degree at every stage of this process.

But the value-added provided by Market Gravity's outsourcing of innovation extends further enabling a corporation to ring-fence the cost and risk of innovation. This ensures that the corporation is not stuck with "idle or misfit" employees if the business venture fails. He also points out that this form of outsourcing of innovation limits the political and financial downsides of failure by providing a "fail quick and fail cheap" option for corporations. He says: "Market Gravity turbo charge the entrepreneurial process so that corporations can assess the worthiness of an innovation before it has to commit long-term resources to it". Gideon highlights that Market Gravity enables senior executives to "externalise responsibility as well as blame if the venture is unsuccessful".

In order to achieve this risk-embracing and flexible service offering for corporate clients, Market Gravity make use of freelancers who can take on some of this risk as well as work on a project basis in a swift and flexible manner. Some of the freelancers who they use on projects are entrepreneurs who are between ventures. Gideon points out that even if one desired, it would be very difficult to hire these entrepreneurs on an employment basis because this style of work is alien to them. Therefore, engaging them instead on a freelance basis means that Market Gravity can access and hence supply some unique and high calibre entrepreneurial talent to corporations.

Market Gravity also needs to be able to draw on high calibre freelance interim managers. Gideon argues that this is particularly important at the re-integration stage which requires great expertise due to its challenging and tricky nature: "Bringing the new venture back into the business too early can kill it as it faces too many constraints, while leaving it too long can mean that the cultural divide with the parent organisation is too great".

The Medsa Group

Richard Salvage *Group Director*

The Medsa Group comprises four companies: DTR Medical, Greased Lightning, Shield Automotive and The Recycling Company. The first three of these are manufacturing based. DTR Medical produces sterile medical instruments, Greased Lighting makes wax polish for cars and Shield Automotive makes car maintenance products. The Recycling Company is a waste management service provider. The Group defines its values and approach to business as “listening to the customer, being innovative and changing quickly all through harnessing the capabilities and potential of its key asset - its people”¹¹. Richard Salvage, Group Director, explains that for this modern innovation driven company “its people” is not restricted to employees but also extends to freelancers and customers. Harnessing the insights and talent of these people in an agile and flexible manner has been the driving force behind the company’s innovation-led rapid growth.

Freelancers are central to the Group’s R&D strategy which is strongly customer led. Richard Salvage places a strong emphasis on asking customers what they need and what problems they have with a view to using innovation to provide a solution. The company has its own laboratories and uses freelance scientists to deal with the diverse and specialist skills required to solve the varied customer needs and problems identified through their market research. He points out that the use of freelancers in this role not only enables the business to match the capability of a much larger firm’s R&D unit but also reduces the financial risk involved in innovation: “If the innovation does not work then what does it cost? It’s all variable cost”.

Freelancers are used extensively across the Group’s activities. They are used for diverse roles, which enables the business to avail itself of the benefits of specialisation of labour while still being a medium-sized enterprise. For instance, Greased Lightning makes use of a freelance

television presenter to sell its products on Ideal World TV. Greased Lightning also hired a team of freelancers with experience in automotive retail to sell its products in 125 garden centres across the UK. This became a platform that enabled Greased Lightning to get its products into over 500 retail outlets in just 18 months. DTR Medical uses highly skilled freelancers to deal with peaks and troughs in demand. Richard Salvage describes the performance enhancing effects of freelancers as being like “putting a turbo charger on an engine. You can either enjoy the increased power or travel at the same speed at a lower cost. But how often have you heard people say that they used a turbo charger but reduced the size of their engine?”. Translated into economics terminology, freelancers increase productivity and reduce minimum efficient scale.

Richard Salvage also uses freelancers in senior executive roles at the start-up phase of some of the Group’s activities. He says that instead of hiring a high skill/cost

11. <http://www.medsagroup.com/>

executive to set up and run a new business activity, he hires a high skill/cost freelancer to do the difficult front-end part and then hands it over to a lower cost/skill employee-manager to do the easier task of running the operation afterwards: "I will always expect a good freelancer to build a function or process that is good enough to work well without them". He describes this

approach as separating short from long-term needs. He points out that it optimises executive cost and skills in start-up activities as well as helps to de-risk the probability of being stuck with an expensive employee executive overhead if any particular venture does not succeed.

Freelancers are used extensively across the Group's activities. They are used for diverse roles which enables the business to avail of the benefits of specialisation of labour while still being a medium sized enterprise.

npower: Home Energy Services

Lee Clarke *Former Head of Home Energy Services*

Lee Clarke led the creation of Hometeam, npower's home energy services corporate venture. He initially used the services of a consultancy firm (Edengene) to develop the business plan and sell the concept of the venture to the business. Once approved, npower decided to set the operation up as a ring-fenced entity which required Lee Clarke to in effect create a start-up. The venture was part of the retail division of npower but was based in a serviced office in Solihull separate from the main organisation. There was a shortage of suitable office space within npower for the start-up, but in fact Lee Clarke also wanted an independent location. He felt that this would allow the start-up to be different, fresh and to have a new culture - at least during the launch and growth phase. This approach allowed the venture to develop fast as it could do activities such as its own marketing without having to seek services from central marketing (whose main focus was on the 'cash cow' of the business). The separate location also helped to de-risk the venture because if it failed its closure would have a less disruptive effect on the core operations of npower.

Lee Clarke used a start-up team comprising roughly of an even split between employees and freelancers. The freelancers held the more senior roles as he used them to bring in experienced and higher level management that would not have been possible to secure from among npower's employee base. For example, the lack of sales turnover at the time of start-up would have meant that it would have been very hard for him to justify employing a senior sales manager using internal grading structures based on size of the turnover and number of employees reporting to the manager. Therefore, it was necessary to turn to freelancers to get the high level of expertise required to successfully set up a new sales team. The use of freelancers also enabled the de-risking of the corporate start-up as these people could be laid-off quickly at minimal financial cost. Freelancers also minimised reputational risk of failure for the business as the corporate venture could be quickly closed with minimal disruption to the workforce of the main organisation.

The start-up proved to be successful and it became necessary for a tenfold increase in the size of the workforce from 20 to 200 people. The flexibility of freelancers was important for the evolution of the management team in this process as it was possible to easily transition from one head of sales to another - ensuring that the right type of managerial expertise was always in place. In this growth phase of development, the ratio of employees to freelancers started to increase dramatically. This process entailed the number of freelancers staying roughly fixed at ten people but with the total number of staff gradually growing to over 250. The scale-up of the corporate venture in this phase also included a number of business acquisitions and the company used some freelance interim managers to run these firms after the original management had departed. By the end of the scaling up of the corporate venture, most freelance roles including those at executive level, had either left the business or transitioned into permanent employee roles. This evolutionary process was enabled by the contingent project nature of the freelance contracts.

Lee Clarke observes that “freelancers don’t come cheap and so you must throw a lot of work at them to make sure you get value for money”. Although the freelancers were paid on a day rate, the number of days were justified on the basis of achieving key performance

milestones which effectively broke the work into projects. This then meant that each project could have a ceiling placed on its cost, based on the time it takes for completion.

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NSG Group

David Bullimore *Specialist Applications Systems Manager*

NSG Group is a global manufacturer of glass serving the global building, automotive and speciality glass markets. In 2011 the company had approximately 32,000 employees across the globe and a turnover of just under five billion euros. The top three markets for its products are Europe (41%), Japan (29%) and the USA (14%). The company was originally founded in 1918 and growth entailed an acquisition of Britain's Pilkington plc in 2006.

The study focuses on the Specialist Applications Systems development team unit - with team members based in the UK, Poland, Brazil and Japan - which serves all parts of the business. The Specialist Applications Systems team operates under the management of David Bullimore who is the Specialist Application Systems Manager. This unit has roughly 30 full-time members and operates with an average of ten UK-based freelancers at any one time.

Freelancers are typically used on creative and innovation projects. David Bullimore describes it as "semi-outsourcing projects while retaining full management responsibility for delivery and quality". Freelancers are tasked with taking an innovation from concept through to completion. They are not just alternatives to employee R&D but also a substitute for buying applications in the market place; 'off the shelf'. David Bullimore highlights that the key advantage of using freelancers in this realm is in better managing entrepreneurial risk and also the quality of innovation. Packaging R&D objectives into freelance projects enables NSG Group to accurately cost the innovation as the freelancer takes the risk and responsibility being paid on an output basis.

This risk management process is helped by the high quality supply of freelancers available in the UK. David Bullimore points out that they can get freelance developers with a first class honours degree from a top ten university with five years of work experience and

a track record of successful projects. He points out that there is an incentive to use the same freelancers across different projects because this avoids losing key knowledge which they have previously acquired with NSG Group through learning by doing.

He points out that freelancing is more effective than outsourcing as it allows him to choose appropriate developers directly. He also points out that outsourced projects usually involve the use of the supplier selected employees who, in some cases, have not been as dedicated and output focused as hand-picked freelancers. These employees have often competing tasks within their organisation and are less output focused.

NSG Group also use freelancers to manage the cost and risks associated with peaks and troughs in demand across the globe. For instance, David Bullimore says that "a workload peak in Brazil can be satisfied by using high quality freelancers in the UK". He says the quality of the British freelancers is one of the key reasons why they can engage in this type of international trade.

He argues that if the exceptional freelance talent was not available in the UK then NSG Group would consider moving more of its activities to overseas outsourcing companies where workers can be cheaper. The availability of a sufficient supply of high quality freelancers in the UK helps support British-based

NSG Group employees as it helps make them more internationally competitive. David Bullimore emphasises that although freelancers can be perceived as being expensive, overall project timescale and cost can be reduced by using the right talent at the right time. In his experience, the best project results are achieved using the smallest possible number of highly skilled, highly focused and highly flexible resources. Time and cost is reduced by getting things right first time and eliminating the cycle of requirements gaps, quality shortfall and re-testing that often plagues projects with a larger team size. Freelancers can play an important part in achieving these goals.

David Bullimore concludes that he is very satisfied by the freelancer-employee partnership model used for innovation in NSG Group. He notes that the NSG Group Specialist Applications Systems team have increased the proportion of freelancers used in its projects over the last five years. This change has been triggered by the successes achieved using the approach and by its observed cost-effectiveness.

Freelancers are tasked with taking an innovation from concept through to completion. They are not just alternatives to employee R&D but also a substitute for buying applications in the marketplace 'off the shelf'.

Panasonic

Nigel Cowmeadow *Director of Logistics*

The company was founded by Konosuke Matsushita in 1918 trading under the name Matsushita Electric Housewares Manufacturing. The company began with a strong innovation ethos. Konosuke Matsushita set out the company's mission as "... the mission of a manufacturer is to make products to enhance one's life - and benefit society"¹². The company began when he left the Osako Electric Light Company because they had no interest in an electric light socket that he had invented. He could not find any buyers for his product but picked up an order for fan insulation plates and then used the profits from this contract to refine his innovation to produce a two-way socket and attachment plug which had a cost advantage over rivals¹³. The company gradually evolved from basic electric components to consumer products such as irons and radios. The company grew by widening its product portfolio of electronic goods through relentless innovation and expanding internationally. The company had a turnover of approximately 78 billion US dollars in 2010¹⁴.

Panasonic tend to use freelancers in three areas: to deal with seasonal peaks in manufacturing, to fill short-term demand for unique IT expertise, and for business projects; particularly those involving change management and innovation. In terms of the use of freelancer involvement in senior management roles, this is usually confined to project management. Nigel Cowmeadow, European Logistics Director has observed that the need to use freelancers in these roles has increased as a result of the increasing adoption of lean management structures: "Lean management has meant that there is less spare capacity in senior executive teams and also less movement of executives across functional and business areas. As a result, there is limited scope to put an internal manager on secondment in order to manage a project as they are unlikely to have the time and broad management expertise to manage it effectively. This is where freelancer interim managers can be very useful".

But Nigel Cowmeadow goes on to point out that the benefit of freelancers extends beyond their expertise. He points out that they can bring fresh ideas from other industries. By contrast internal management are often so involved in the detail of their work that they can often "miss the wood for the trees" or be overly pessimistic; "we tried that before and it didn't work". Freelancers can often overcome this type of internal scepticism or opposition to innovation if they can provide first-hand examples and evidence of an innovation working in another business. He also observes that because freelancers are independent agents it enables them to be objective when dealing with internal politics and even-handed in managing vested interest groups.

Nigel Cowmeadow makes reference to a major technology change management programme at Panasonic UK as a good example of how freelancers can add value to a

12. Ibid.

13. <http://panasonic.net/history/corporate/chronicle/1918-01.html>

14. Annual Report 2010, Panasonic Corporation, for the year ended March 31, 2010.

business. The company decided to adopt a uniform SAP information system across all of its European operations and in the UK this involved replacing an existing system which had been developed by an independent provider. Nigel Cowmeadow likened that change to an organisation undergoing a heart transplant as “one essential life organ of the company is lifted out and replaced by a new one”. The change management project involved the most complex and important KPIs. The risks were considerable as Panasonic UK had an annual turnover of £700 million and accounted for roughly 35% of Panasonic’s European sales.

In order to overcome these challenges Nigel Cowmeadow hired Val Cross, a senior freelance manager from TopInterim, who previously had worked in the IT company that had supplied Panasonic’s existing information systems. This enabled the company to put in place a high level technical expert at a senior executive level who could be fully focused on this specialist and highly risky technical operation.

Apart from the technical and business risks, the project necessitated winning over the hearts and minds of staff that had grown used to the existing information system. Nigel Cowmeadow decided to use a freelancer to manage the project. The decision was prompted by a number of factors. There was nobody internally who had the technical depth and breadth of knowledge of this particular information system to be able to provide direction to ensure that the new system would work effectively when implemented. This was going to be important because successful implementation was going to involve blending the expertise of Panasonic’s business area managers (e.g. accounts, marketing, logistics etc.) with IBM consultants who were hired to implement the SAP system, alongside an internal

Panasonic team from Germany who had knowledge of the system working there. Each of these teams involved a rough 50:50 ratio of employees to freelancers.

As the IBM consultants were being paid on a day rate, it was key to have a project manager who would not be at a knowledge disadvantage in terms of ascertaining how long their part of the work ought to take. At its height, the IBM consultants were costing £250,000 per week, so it was important to get this aspect of cost management right without hampering their progress.

The new system was given a successful trial run over an Easter bank holiday weekend and then finally implemented over a May bank holiday weekend. The integration was delivered on time and on budget. Panasonic then hired Val Cross on a further two month contract to deal with any glitches that may arise in the new system.

Nigel Cowmeadow points out that that corporate executive careers tend to create narrow areas of expertise as people work in silos. By contrast freelancers tend to experience a greater variety of business situations and challenges in their work and so have a broader skill set. He argues that since freelancers are more independent, unbiased and lack conflicts of interests, they can be in a great position to cut through political and cultural obstacles which can stand in the way of a project’s success. In summation, he notes that on finite business projects which require broad and impartial programme management and budgetary expertise, it usually makes more sense to use a freelancer rather than an employee executive.

Freelancers tend to experience a greater variety of business situations and challenges in their work and so have a broader skill set. Since freelancers are more independent, unbiased and lack conflicts of interests they can be in a great position to cut through political and cultural obstacles which can stand in the way of a project’s success.

PTS Consulting Group PLC

Kevin Perrett *CEO*

PTS is a real estate IT infrastructure project management and associated services company. It mainly serves organisations in banking and finance, insurance, law, Government, education, healthcare, and media and entertainment sectors. PTS was initially founded as a subsidiary of the Construction Group in 1983. It became an independent firm when CEO Kevin Perrett led a management buyout in 1990. He has continued in the role of CEO to the present day. Initially, the newly independent company focused mainly on UK market penetration. In 2000 it started to focus on exports and by 2010 it had offices in ten countries. The current phase of the company's evolution is to turn an organisation with a global footprint into a truly global organisation. In its financial year ending March 31st 2012, the company had a profit of £2.33 million against a turnover of £38 million.

Kevin Perrett believes in building a team around him made up of individuals who have complementary skills and greater experience than him in certain areas. He wants his team to challenge him and does not employ "yes men". However, these people need to fit in with the cultural ethos of PTS Consulting. He has a strong belief that PTS must have a core of highly skilled employees. To this end, recruitment is done carefully and over time the company has evolved to a situation where very often working as a freelancer for PTS turns out to be the means by which ability, motivation and fit can be assessed for suitability of a full-time employment job offer. In effect, utilisation of freelancers can serve as a means of lowering the risk of hiring the wrong people.

Prior to 2008 Kevin Perrett never used to hire freelancers and all of the firm's business was carried out by employees. The differentiation of the company was built around being a specialist IT infrastructure provider that used an employee-only delivery model. To achieve this policy objective, the company would often turn down business that would require PTS to employ more people who they might have difficulty to sustain on a permanent basis. Kevin Perrett remembers how he once turned down

a contract requiring 20 new members of staff because he could not find work for these prospective employees when the contract was due to finish.

He says the employee-only model was forced to change after the 2008 crash. "The crash caused a big fall in demand and over £1.5 million in bad debts. We were left with a large amount of employee downtime and had no option but to lay off 9% of our workforce. When growth started again we mitigated the risk of over-hiring employees by using contractors". Kevin Perrett says that in the new model freelancers work in partnership with employees on a project basis. Most of these projects have a duration of two to three years. He says this new model is necessary because "times have changed and become much more uncertain and risky so using contractors is an important means of managing this risk". He argues that if you have a "variable cost freelance fringe then you can avoid firing core staff". He believes that this new model engenders core employee loyalty and allows the company to grow as well as meet variable demand. Freelancers used to manage perceived peaks in demand that turn out to be a trend are often then hired as employees.

This new 'core employees with freelancers' model is also important because the company is now more diverse than before, serving more countries with a greater range of services across more varied sectors. This is in contrast to the earlier days of the firm when most of its business was concentrated in the banking

sector in the City of London. The ability to be able to draw on diverse freelance talent on a short-term basis and often at short notice was an important extra dimension required for the capability of the company's workforce.

“Times have changed and become much more uncertain and risky so using contractors is an important means of managing this risk”

Symvan Securities

Kealan Doyle *CEO*

Symvan Securities is a corporate finance house which is based in London and focuses on serving the needs of SMEs with a market value of between £20 million to £200 million. Symvan specialises in the oil and gas, mining, real estate and technology sectors. The firm's service offering includes fundraising (private equity, pre-IPO placements and IPOs), research, investor relations and broking between corporations and their institutional investors. The firm was founded in 2010 and has five employees and two freelancers.

One freelancer works on investor relations to promote the company and boost secondary trading i.e. to make existing stock attractive and hence promote its value. This freelancer is hired because of her specialist skills; particularly her network of key personal contacts in terms of private clients who have an interest in the sectors targeted by Symvan. She is hired on a deal by deal basis and this avoids idle downtime between deals, but CEO Kealan Doyle explains that there is also the element of supply-side fit: "If the freelancer does not like the deal or it does not fit her clients then she will pass on it". Overall, this freelancer is hired in order to increase cost-base flexibility (replacing fixed by variable costs), reduce idle downtime and also to promote performance. Kealan Doyle observes that "this freelancer likes working on this flexible and project-based basis which also allows her to work on other exciting deals with other companies, so that overall she is highly motivated, which increases her productivity".

Symvan also outsource some sales and marketing projects to another freelancer who is hired on a deal by deal basis. The motivation is the same as above.

Kealan Doyle, points out that "we definitely pay freelancers more than employees but feel it is worth it as they are very productive and we only pay them on an 'as needed basis' so there is no wasted spare capacity that you would have shelling out a monthly salary".

The company also outsource accountancy, legal, and IT support as the firm is currently not large enough to justify having a full-time person in house. Kealan Doyle notes that "in terms of the benefits of outsourcing, the distinction between freelancers and employed contractors is not that important as both serve the objectives of managing risk, minimising idle capacity, and lowering costs". In sum, the ability to outsource reduces barriers to entry and promotes market entry by new business such as Symvan.

In terms of the vision for the future, Kealan Doyle expects that "as the company grows we would of course envisage using more freelancers but likewise as the risk of idle downtime declines we would also envisage some freelancer roles evolving into employee posts".



Image for illustrative purposes only.

Transformation-Leaders and TopInterim

David Pinchard *CEO*

TopInterim provides freelance interim managers to organisations at senior executive and board level. The company was founded in 2000 and for market segmentation purposes has evolved to trade both under its own name and as Transformation-Leaders. The business has a select network of freelance senior executives to provide organisations with interim directors and manager in areas such as general management, finance, IT, international HR, sales and production. Reputation is key to the success of the business where recommendations, referrals and trust are core drivers of the hiring process.

David Pinchard, founder and CEO of TopInterim explains the optimality of using an employee or freelance manager is determined by the organisational needs of the business. A firm requiring stability, continuity and evolutionary change will usually opt for an employee-manager while a firm operating in a turbulent environment requiring transformation will often draw on the services of senior interim managers. The typical projects that these freelancers will manage include innovation, adoption of internally disruptive technologies, business turnaround and downsizing.

They all hinge on adding value to a business and the basis for freelancers' remuneration is usually performance/output based rather than a temporal/ input basis. David Pinchard describes the process as businesses outsourcing entrepreneurial management where the interim managers are entrepreneurs themselves. He says they "serve an entrepreneurial function in that they manage economic disequilibrium". He argues that these freelance executives are visionaries and at an individual level "must be financially independent in order to be willing to risk losing the project if their vision is not going to be implemented". He also describes them as "portfolio managers" who tap into their unique talents and apply them across diverse organisations.

David Pinchard argues that "interim managers add unique value by bringing an objective and independent managerial approach to business". They can remain aloof from internal politics which can be daunting when a business is faced with major transformations such as downsizing a Government department or transforming a business which faces much internal opposition. David Pinchard contrasts this with employee executives "who are too tied-up with internal politics and have a vested interest in the outcome". He also believes that employee-managers are too risk averse to be effective in this entrepreneurial context: "Full-time employee-managers are afraid that it will all blow up in their faces and cause them to lose their job".

David Pinchard points out that at first sight some organisations may view senior interim managers as expensive and he admits that "it is true that these are high calibre executives with 'must-see CVs' who are paid well". However, he says that they are highly productive, focused and driven executives who deliver results for organisations. In these terms they are very good value for money. He also argues that they are less risky than employee executives as they are paid on results.

Since his first assignment as an interim manager, David Pinchard has observed a trend where it is becoming increasingly accepted as normal for organisations to hire an interim executive when change management is required. As this trend continued, this growing market segmented into senior interim managers and what David Pinchard terms more “top-end” senior “Transformation-Leaders” – the latter particularly important in highly uncertain business

contexts which accelerated after 2008. These developments necessitated the dual trading names for his business in order to more clearly differentiate the service offering and hence better target these different market segments. The business is currently expanding internationally with entry into China.

Vocalink

Philip McCarthy-Clarke *Innovation Director*

Vocalink is a company owned by banks and building societies which run much of the UK's payment infrastructure – include BACS, Faster Payments and the LINK ATM network. It connects over 60,000 ATMs, processes roughly £3.5 billion transactions each year, has approximately 700 employees and is owned by the UK's largest banks and building societies. Philip McCarthy-Clarke was the Director of the Innovation Department from 2006-2009 with a brief to manage corporate venturing. The division investigated and developed innovative ideas through a filtering process that would often see just five ideas commercialised from a starting point of 200. He points out that due to industry short-termism there was a leaning towards incremental technical innovation rather than longer-term game-changing innovation.

Initially, Philip McCarthy-Clarke tried to build his innovation team by hiring employees but could not find people with the required talent for innovation despite being able to offer top rates of pay. He attributes part of the problem to the fact that the company was located outside of London and that it was a lesser known brand. He remembers losing one employee to a lower paid job in RBS based in London. However, he also believes that it is generally hard to find talented employees for an innovation role as people with the right profile are few and far between. He says that “delivering innovation requires people with both creative and entrepreneurial capabilities - gifted generalists with both left and right brain capability”. Having worked previously in growth consultancy, he had to turn to freelancers and consultants to find these attributes. This approach facilitated project-based innovation as these contractors enjoyed fresh challenges, were confident and motivated to embrace the uncertainty associated with innovation. They thrived on a sense of project ownership and delivering change, even against political opposition.

Freelancers were typically engaged after a stage when the broad strategic objectives behind innovative ideas were complete. This left them with the remaining tasks of refining the innovations and converting them into commercial opportunities.

Once commercial potential had been established, the next challenge was to re-integrate projects back into the parent organisation. The organisational and cultural divide between the Innovation Department and the core of the company made this transition difficult. The parent organisation had an employee mind-set and was an operations focused organisation. There was often no real interest or commitment to make any of the innovations work. Philip McCarthy-Clarke noted that “95% of Vocalink's income for the next five years was assured from existing service offerings and hence there was no pressure to innovate”.

In order to facilitate the re-integration process Philip McCarthy-Clarke decided to hire employees to work alongside freelancers in the Innovation Department.

However, this approach was not successful as these employees were not as talented and motivated as the freelancers. Philip McCarthy-Clarke explained that the employees did not have the same sense of ownership of the innovation project as freelancers. He argues that “freelancers are more independent and retain their own mind-set. They are motivated by seeing a project through to completion. They are more resilient when a project requires ‘pushing it through’”.

The parent organisation was keen for Philip McCarthy-Clarke to use a preferred list of suppliers for recruitment and to make greater use of employees. He tried to

convert freelancers to employment contracts but they preferred to be hired for specific projects rather than on a continuous employment basis with a car, pension etc. However, the parent organisation forced the issue leaving the freelancers with no option but to disengage from their activity with the organisation or take up employment. Some took up employment but ultimately this change led to a decline in the performance of the Innovation Department. Ultimately, it prompted Philip McCarthy-Clarke to leave the organisation – and he is now back in a consulting role as a Partner in a leading growth advisory business.

3 Corporate Venturing: Providing and Enabling Innovation

3.1 Innovation in the Knowledge-based Dynamic Economy

The relentlessness of innovation is one of the hallmarks of the modern economy. Innovation not only leads to the creation of new markets but is also one of the main factors determining competitive advantage and hence the allocation of market shares across businesses. It plays a role in determining the size of the market and its distribution across firms. As a result, innovation is a key driver of economic performance and employment.

However, being innovative can also present a challenge for corporations especially when it diverts focus and attention away from the core areas of activity which are generating value – the ‘cash cows’. Innovation can also be costly to finance and with an uncertain outcome entails a risk for a business. Innovation has to clear many hurdles before it creates value for a firm. It can fail at any stage across its development from conceptualisation, to commercialisation and through to integration with the core business. Innovation which fails to achieve its objectives can also pose reputational risks for senior executives and corporations who operate in financial markets renowned for myopia and a susceptibility to media sensationalism.

The challenge for executives is therefore to be able to unleash the potential of innovation to create economic value-added while keeping its negative effects under control. In order to achieve these dual objectives executives are turning to freelancers at every stage of the innovation development process (from innovation creation, to commercialisation and through to integration with the parent organisation). We now examine the role of freelancers at each of these steps in this process.

3.2 Freelancers Creating Innovation

In the case studies we observe that in a diverse and rapidly changing economic environment it is difficult for any corporation to have all the creative talent it needs in-house, and even where it has depth of talent, it is often productive to get a fresh and independent external perspective. The ability to tap into freelance talent is a key resource for businesses operating in this type of business environment. It is common for corporations to outsource innovation projects to specialists who can invent and develop new technology. We observed ARM Holdings using freelancers for the proof of concept stage of innovation and also to test out the viability of new markets on a low risk basis. The same was also true for BSKyB, Centrica British Gas, npower and the client bases of Market Gravity and Transformation-Leaders as they both use freelancers to manage innovation for corporate clients. We also found that corporations such as the NSG Group semi-outsource key parts of innovation to freelancers for projects in their automotive, construction and speciality glass businesses. This is facilitated by an exceptionally high quality supply of freelancers in the information systems sector. They prefer freelancers to contractor firms using employees because they believe that freelancers are higher quality and more motivated.

Vocalink indicated that it often found it hard to find a “creative entrepreneurial mind-set” within the organisation and so turned to freelancers where these talents can be found. Often these freelancers were previously entrepreneurs who have made an exit from their original business. The transformation of their economic status from owner-manager to independent freelancer liberates their creative talent from the boundaries of a single firm.

They are no longer restricted to innovation which is core to the strategic focus of their own firm and likewise, are not restrained by the ability of an SME to only commercialise a small number of opportunities at a time. As a freelancer, they can supply their talent to many different firms and in the process increase the impact of this (scarce) talent on the economy.

The contingent project-based nature of these freelancers' contracts with businesses distinguishes their creative input from that of employees, executives and owner-managers. Likewise, this form of contract enables their ability to serve many different organisations. It also enables these organisations to hire creative talent on a low risk basis without having to make an unnecessary commitment to longer term employment or business partnerships – a common theme in the case studies.

3.3 Freelancers Commercialising Innovation

This stage of the process entails testing an innovation in the market and undertaking any necessary adaptations to improve its commercial worth. It can also involve changing strategic direction as a result of learning of an unforeseen profit opportunity. Typically, businesses do not want innovation to distract employees from core 'cash cow' activities. Therefore, they often choose to ring-fence the organisation and financial risk of the commercialisation of an innovation until its viability can be determined. Frequently, freelancers take on managerial, technical and professional roles in this process. They usually work in partnership with some key employees/executives who are already involved in the innovation process and who will play key roles in the integration phase of the innovation if the pilot commercialisation project proves successful. In the case studies we observe organisations such as Argos, ARM Holdings, Centrica British Gas and npower using freelancers to set up a corporate venture separate from the main organisation in order to limit disruption with the core 'cash cow' of the organisation.

The prime objective is to test the market potential and refine the innovation sufficiently in order to ascertain its commercial worth. We observed BSKyB using freelancers in this role in a process they termed as "hypothesis testing". The Vocalink case study indicated the extent of the risk of failure associated with innovation, where only about 3% of ideas would make it successfully through from conceptualisation to integration. The use of freelancers at the commercialisation stage of the innovation enables corporations to terminate an unsuccessful project with limited financial and political cost. In developing Argos Direct, Tony Lahert involved freelancers in the commercialisation stage because he did not want to risk hiring employees who he might later have to lay off. Freelancers also fitted his requirement for being creative and agile which are helpful attributes given the uncertainty and hence adaptability required for early stage innovation projects.

If the commercialisation of the innovation proves successful then it can be integrated with the core business. The availability of freelancers who will work on contingent project-based contracts reduces these risks and so increases the incentive for businesses to innovate. As a result, freelancers help create jobs that result from successful innovation.

3.4 Freelancers Integrating Innovation into the Corporation

This is a stage that requires handover and change management. Here it is common for freelancers to be hired as interim managers to complete a project. Freelancers are also hired to complete the handover process to employees, which can involve training, support and further innovation required for integration. It is also a stage where some freelancers are offered permanent employment as the entrepreneurial risk involved in the innovation has been realised and worker contracts move to resemble the more continuous non-contingent employee-type. Tony Lahert resigned in order to be hired back as a freelance interim manager to roll out Argos Direct once the pilot launch had proved successful. He felt that this was necessary to avoid being drawn in to deal with short-term 'cash cow' issues of the parent organisation and also to have the ability to stand up to internal pressures and stay focused on the core innovation project. Once the project was complete, having achieved a turnover of £100 million, Tony Lahert was replaced by an employed executive.

Tony Lahert points out that the generalist skills of freelancers make them very effective interim managers for innovation and change management. He believes these skills emanate from their varied career background: “Just as travel broadens the mind, a freelancer will have a broader and more colourful experiential mind-set than executives or owner-managers”.

We find similar evidence with other companies such as Panasonic who indicated that they often draw on freelance interim managers because modern executives tend to work in silos and therefore it is useful to draw on freelancers who typically have a more varied career experience. They also note the advantage in change management to have a freelancer who is independent and so can be objective and impartial when tackling internal politics seeking to derail innovation. David Pinchard of Transformation-Leaders and TopInterim describes this process as “businesses outsourcing entrepreneurial management” where the interim managers are entrepreneurs themselves. He says they “serve an entrepreneurial function in that they manage economic disequilibrium”. He argues that these freelance executives are visionaries and at an individual level “must be financially independent in order to be willing to risk losing the project if their vision is not going to be implemented”. He also describes them as “portfolio managers” who tap into their unique talents and apply them across diverse organisations.

This ability for businesses to ring-fence the cost and risk of the innovation process by using freelancers enables the creation of employment. Without this prior freelance state, innovation and the jobs that it creates would be diminished. Therefore, in the innovation-driven economy many employees depend on freelancers to create employment. Freelancers precede employees in the innovation process and the existence of the process itself is very much reliant on the availability of skilled (SOC 1-3) freelancers.

3.5 Summary: The Freelance Innovation Value Chain

We summarise the evidence and analysis in Figure 3 which illustrates how freelancers create value throughout the innovation supply chain. The lower part of the diagram depicts the three stages associated with the development of an innovative concept through to commercialisation and then integration of the final innovation with the parent organisation. Innovation which can successfully make this journey enhances the performance of the organisation and creates value manifested in profit and job generation. These are represented as the arrowhead of the diagram which denotes the prime objective of innovation. We note that freelancers are involved in projects comprising each stage of the innovation development process.

The upper panel of the diagram illustrates the roles freelancers play in increasing innovation performance. They drive innovation value creation through a combination of their skills and talent and the contingent basis upon which corporations can draw on this expertise. This enables corporations to hire the right type of person to drive innovation at each stage of its development. They can make use of specialised freelance labour without the cost of carrying spare capacity. This has a virtuous dual value creation effect of increasing the likelihood of success (reward) while simultaneously reducing risk. The availability of freelancers enhances the organisations flexibility to tackle varied innovation projects as it is not constrained by the limits of its employee talent base. Freelancers also enable the agility of the organisation as it can create and disband innovation teams faster than it could through employees. By allowing the ability to ring-fence innovation while it is under development or by being able to work remotely, freelancers facilitate the transformation capability of corporations to accommodate innovation in an organisation currently focused on exploiting ‘cash cows’. The upper panel of the diagram shows how these six freelance value creation drivers permeate through all three stages of the innovation development process. In sum, the diagram illustrates the important role that freelancers play in driving corporate venturing in an innovation-driven economy.

Figure 3: The Freelance Innovation Value Chain

4 Entrepreneurship: New Venture Creation, Survival and Growth

New ventures play a central role in the modern dynamic economy. They are not only major conduits of innovation but also increase competition. Through these routes they increase innovation-driven and efficiency-driven economic performance respectively. Freelancers have played a role in the success of new ventures in terms of making it easier for new business to enter markets, survive and grow.

4.1 Market Entry: Freelancers Reducing Barriers to Entry

The availability of freelancers has a profound effect on business start-up activity and performance. New business start-ups face barriers to entry such as a lack of finance and the risk associated with sunk costs. The ability to use freelancers instead of hiring employees reduces both of these impediments to business start-up. The amount of finance required for a start-up is reduced when entrepreneurs can use freelancers on a 'pay as you grow' model. By contrast, an employee model involves a longer term financial commitment and entails a cost regardless of whether the employee is fully utilised or not. This greater financial requirement for employees is also entirely a sunk cost thereby raising the financial risk involved. Therefore, the ability to draw on freelancers makes it easier and less risky for people to start up new businesses. This was evident in the case of branding and web design venture Look, Touch & Feel which was able to offer a full portfolio of service offerings to clients from start-up by being able to draw on diverse freelance talent. The same is also true for the consultancy business Enhancing Clarity which has been able to draw on freelancers on an 'as needed basis'.

The Medsa Group's approach to innovation illustrates the importance of freelancers in promoting innovation among new ventures and SMEs. The company engage with their customers to explore unfulfilled consumer needs and then refer these potential opportunities to their laboratory to develop products. Since consumer requirements and needs vary, the Group's R&D laboratory needs to be able to have diverse scientific and technical expertise. It fulfils these needs by using freelancers who thereby enable an SME to have R&D capabilities comparable with corporations. Moreover, it only has to pay for this on a variable cost basis which reduces the risk involved in researching speculative market gaps. This has enabled the Group to spawn a diverse range of companies covering medical care, automotive products and recycling.

4.2 Freelancers Enhancing New Venture Survival

The availability of freelancers not only promotes entry, it also assists the survival of new ventures by reducing minimum efficient scale. The ability to outsource diverse labour requirements on a swift basis promotes small firm flexibility and agility. This not only means that firms do not have to be large to have a diverse capability, but also means that small firms' ability to be more agile can be mixed with access to diverse freelance talent to make them capable and flexible competitors for incumbents. Among our case studies we were able to observe small new entrants such as Flexmort, entering an R&D and hi-tech manufacturing intensive industry with minimal fixed cost requirements, mainly because it could outsource freelance talent as well as other key inputs to its operations. The same also applied to Symvan who were able to use freelancers (as well outsourcing of other inputs to their business activities) in order to overcome barriers to entry to the finance industry. Similarly a company such as Transformation-Leaders is able to enter and compete in the high calibre interim manager market with established incumbents as a result of assembling an exclusive portfolio of senior freelance executives to offer to its clients. Likewise, a relatively new entrant, Market Gravity is able to offer corporations the option to outsource large corporate venturing projects by making extensive use of high calibre freelance talent in this specialist area of executive expertise.

It is hard to conceive how businesses such as Transformation-Leaders and Market Gravity could supply their clients exclusively drawing on an employee base as it would involve a huge cost increase which would be associated with a decline in its capability to deliver. Thus, we observe multiple routes through which freelancers promote new venture survival.

4.3 Freelancers Driving New Venture Growth

As new ventures grow they typically need to draw on more talent than the founders can provide. This can be both at a strategic and technical level. Freelancers are used extensively in entrepreneurs programmes such as Cranfield School of Management's Business Growth Programme. In this programme freelancers coach and impart expertise to owner-managers of other businesses in order to help them formulate a growth strategy. SMEs that have engaged in the Business Growth Programme include businesses such as Go Ape, Hotel Chocolat, Hudson Contract and Pacific Direct.

Freelancers who serve the entrepreneurial market are usually former entrepreneurs who have cashed out of their business. Tony Lahert, the freelancer behind Argos Direct, points out that the creative motivation and mind-set for entrepreneurs are very similar to freelancers. They both like the creativity and freedom associated with innovation and being your own boss. As he puts it: "When the knob turners get a hold of a business, then I am off". Tony Lahert believes that he can do many more innovation projects as a freelancer than he could have done as an employed executive. This point is backed up by Philip de Lisle who once ran the dot.com Business Online Group plc and is now CEO of Enhancing Clarity who says he works with roughly nine businesses per year. In terms of his creative output and impact on the economy, he argues that it has increased by around a factor of nine as a freelancer over what it was previously as an owner-manager. He argues that he has "affected more change as a freelancer than as an entrepreneur and with greater ease can see the wood from the trees".

The conclusion here is that the growth potential of SMEs is enhanced through access to freelance entrepreneurial talent. Correspondingly, the impact of entrepreneurial talent working through a freelance conduit rather than through an owner-manager whose talent can be constrained by the boundaries of the scope of the firm, raises an interesting question on how best to get the most economic value-added out of any country's entrepreneurial talent base. What is clear is that after exit, an entrepreneur who moves into freelancing can continue to make a positive impact on innovation-driven economic performance.

4.4 Summary: Freelance Driven Entrepreneurship

We summarise the discussion with reference to Figure 4 which depicts the Freelance Entrepreneurship Value Chain. The lower panel represents the start-up, early stage survival and growth phases of development. As we have discussed above, freelancers play a key role in driving innovation in new ventures at each of these three stages. The functions they serve across all three phases are represented in the upper panels. They involve lower financial requirements by enabling a contingent cost 'pay as you grow' model. This contingent variable cost model enabled by freelancers who are willing to work on a project basis means that these new ventures face lower sunk costs thereby reducing barriers to entry and promoting innovation and growth. Freelancers allow SMEs to have a capability beyond the constraints of their relatively small size by allowing them access to a wide range of freelance talent to use on an 'as needed' basis, thereby enhancing the flexibility and agility of these firms.

In combination, all of these features reduce minimum efficient scale which enhances the viability of relatively smaller new ventures across all stages of development. Put differently, without freelancers, starting a new venture would involve more uncertainty (and risk), require more finance and have a lower prospect of survival when competing with larger incumbents. In short, there would be less entrepreneurship and innovation. Freelancers are significant drivers of the profits and jobs created by the entrepreneurial economy.

Figure 4: Freelance Entrepreneurship Value Chain



5 Efficiency: Pushing Performance to its Limits

5.1 Introduction

Economists use the term efficiency to represent the outer limit of business performance. This form of efficiency defines the state of best-practice from a performance point of view. Sometimes firms do not adopt best-practice when there is effective opposition to change within the organisation. It can also be constrained from adopting best practice as a result of being unwilling to take the risks involved in change and/or being financially constrained so that it cannot afford to invest in change. In addition, the incentive to be efficient is itself positively affected by the level of competition in the industry. The need to compete to survive tends to promote efficiency. Combined, these factors play a key role in determining the performance of industries and hence economies. It is noteworthy that the availability of freelancers promotes all of these factors which encourage efficiency and economic performance.

5.2 Capability: Accessing Expertise Plus Enabling Flexibility and Agility

Virtually all of the executives interviewed in the case studies identified enhanced firm capability as one of the reasons they make use of freelancers. Access to freelancers on a swift variable cost basis enabled these firms to respond quickly and effectively to changing market opportunities. The freelance variable cost model meant that they faced lower finance constraints. The decision to hire an employee requires a greater financial commitment than a freelancer. Freelancers offer businesses the flexibility to draw on an immense range of skills and expertise which means that their capability is not limited to that of their employee base. In the case of Panasonic we observed an organisation where adoption of a 'lean and mean' managerial style meant that they had no spare executive talent to draw on in order to manage the integration of a new technology. Furthermore, many business such as NSG Group, ARM Holdings, Look, Touch & Feel, Magic Light Pictures and Symvan to name a few pointed out that certain types of expertise are hard to find except on a freelance basis; presumably as that is the preferred mode of working for many people.

The freelance model also allows businesses to make productivity gains through increased specialisation of labour as the risk of idle downtime diminishes. The ability to apply the right expertise to each job without fear of building up unsustainable overhead costs was a reason cited by executives or if not, was "taken as a given" when prompted in the interview. Closely related to this benefit is the importance of agility and many businesses mentioned this as a key reason why they use freelancers. Businesses such as npower, the major international bank, TopInterim, H+K Strategies, BSKyB, Flexmort, Forewind and Centrica British Gas all emphasised the importance of being able to use freelancers to increase the agility of the organisation; especially without building up a huge fixed cost base.

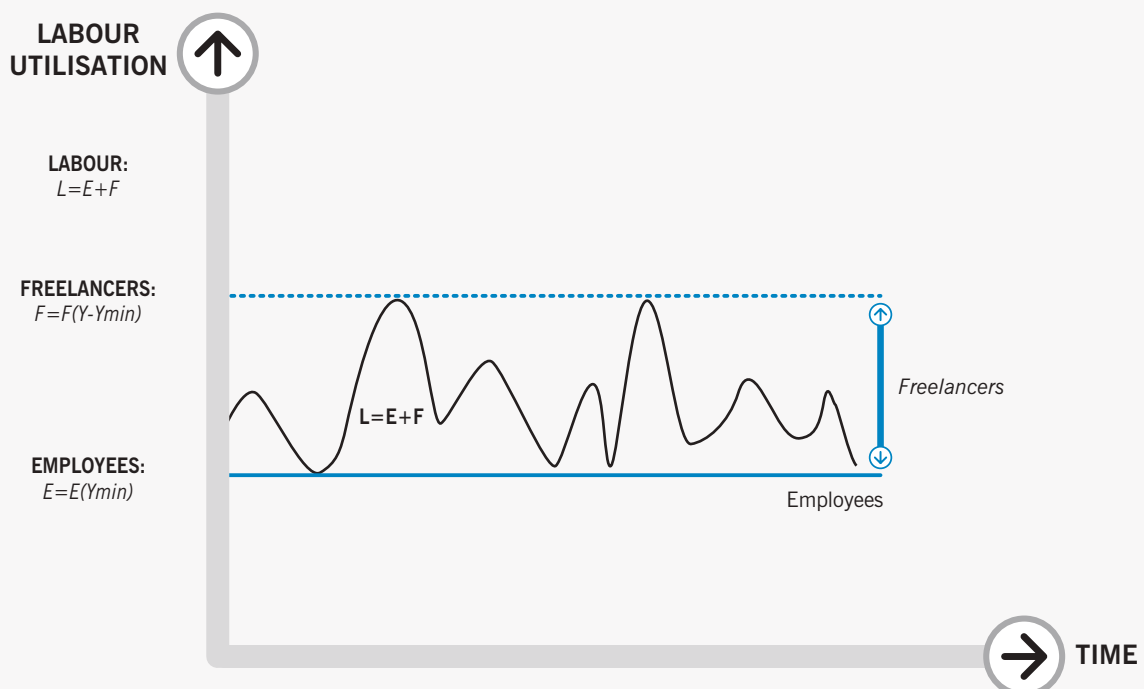
5.3 Productivity: Adopting Best Practice and Technology Plus Enabling Change

The impact of freelancers on this element of efficiency is similar to our discussion of the integration of innovation in section 3 except that it is more about imitation of innovation. Here the organisation is changing to accommodate best practices and/or new technology from the market. Examples include introducing new information systems, adopting new managerial techniques or adapting the business to new technologies, regulation or consumer preferences. In this realm, freelancers are often used to supply specific outputs on a project basis. Interim managers are often used to undertake change management; especially when unique expertise is required. The use of freelancers for these functions manifests the contingent project-based nature of freelancer engagement with business. They play a key role in enabling efficiency improvements in firms. This is achieved by minimising distraction of employees from the core business while allowing short-term access to specialist expertise, as well as general worker capacity that would become superfluous if hired on longer term employee contracts. Businesses such as the major international bank, Forewind, Transformation-Leaders and Panasonic have used freelancers to undertake the transformation required in order to adopt new technologies.

5.4 Maximise Performance Across Peaks and Troughs in Demand

Dealing with peaks and troughs in demand and business activity poses a big problem for businesses. If they scale up their employee base to meet peaks in demand they face the costs of greater idle downtime in troughs. If they turn down extra business in peaks then they lose revenue opportunities. Freelancers offer a way out of this dilemma by providing a variable cost workforce capable of delivering the cyclical dimension of demand. Figure 5 illustrates the case where a firm attempts to avoid the cost of all employee downtime due to troughs in demand. It hires employees to produce products/services for the non-cyclical risk-free component of demand (revenue) and then supplements this workforce with freelancers who supply the risky variable component of the demand. In the diagram, the firm's utilisation of labour (L) required to produce output is positively related to the firm's revenue (Y) which is comprised of guaranteed (Ymin) and uncertain consumer demand (Y-Ymin). Employees (E) are used to produce the output to supply the fixed component of revenue $E(Y_{min})$ and freelancers (F) are used to serve output associated with variable revenue $F(Y-Y_{min})$. Therefore, $L = E(Y_{min}) + F(Y-Y_{min})$. This approach allows a business to manage the risk in variable demand and maximise its output/profit performance as well as the amount of work undertaken by labour (employees plus freelancers) across cycles.

Figure 5: Managing Performance Across Peaks and Troughs in Business Activity



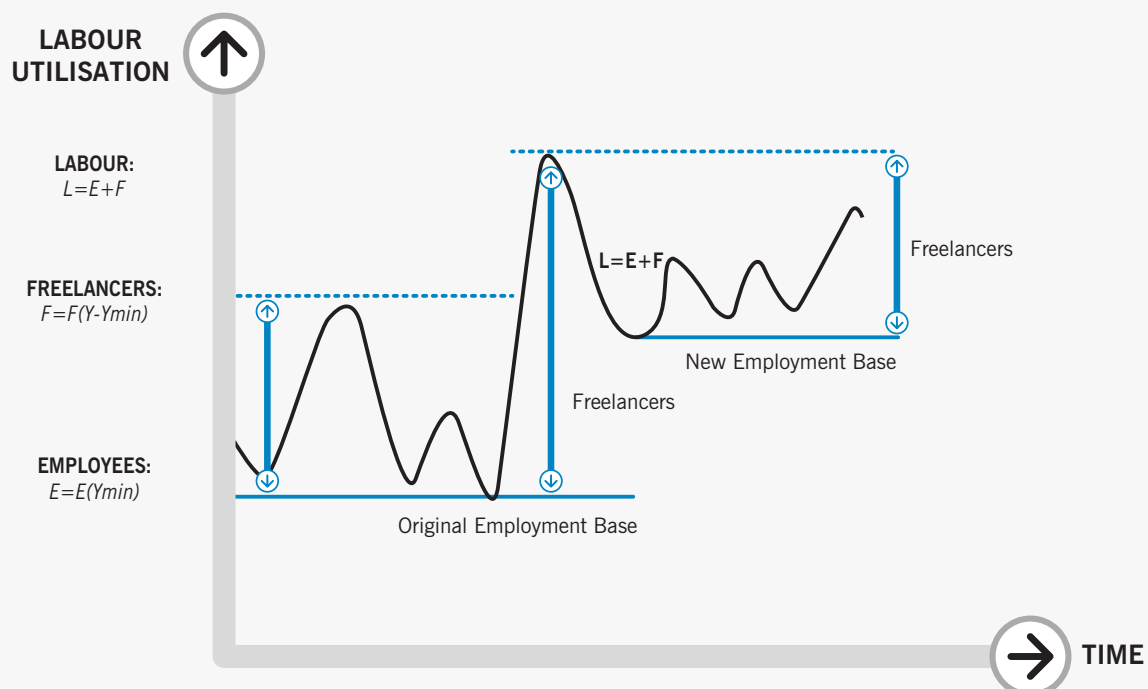
Over half of the businesses in the case studies said they used freelancers to manage peaks and troughs in demand. NSG Group's British operations serve a global market and it uses freelancers to manage peaks and troughs in international demand. The global IT corporation (who preferred to remain anonymous) indicated that due to cyclical demand it had adopted a policy of having 30% of its workforce accounted for by freelancers in order to maintain a significant variable cost element of its labour costs. It also pointed out that the supply of freelancers is pro-cyclical and that more people want to be a freelancer in a boom period. So in boom periods they often have to offer more performance-related pay to employees in order to retain them. ARM Holdings indicated that it seeks to have around 10% of its workforce accounted for by freelancers in part to manage peaks and troughs in demand (other simultaneous objectives include agility and flexibility).

5.5 Reducing the Risk of Growing a Business

There is usually uncertainty and risk involved in expanding a business in order to exploit new profit opportunities. Freelancers enable businesses to reduce the risk and uncertainty in adopting these growth strategies. There are sunk costs involved in a business taking on employees in order to grow. If the target opportunity does not materialise then these sunk costs are borne by the business. Freelancers provide a solution to this problem by offering to work on a contingent project basis which eliminates the risk of costly downtime. If the profit opportunity is realised then the contingent nature of the contract disappears and the business can then evolve to hiring employees instead of freelancers. In this manner freelancers create jobs by reducing the risk of employment growth.

We illustrate this in Figure 6 which is similar to Figure 5 except that the business faces an unexpected upsurge in demand. This indicates the possibility of a new profit opportunity and if realised, then scope to grow the business. Figure 6 illustrates the case where the business uses freelancers to de-risk the exploration of the profit opportunity. Freelancers are used to serve these new consumers and once the firm is confident that this custom is sustainable it then grows the business – hiring employees to replace the short-term rise in the use of freelancers. By contrast, if firms are unwilling to take the risk involved in serving and exploring this new market space, they can get stuck on the lower employment panel with cyclical demand remaining at its original mean. In other words, other firms capture the new market space and/or as a result of their absence in the new market space they simply remain unaware of its potential. Freelancers make this latter scenario less likely by reducing the risk of growing to serve speculative market space.

Figure 6: Freelancers Reducing the Risk of Revenue and Employment Growth

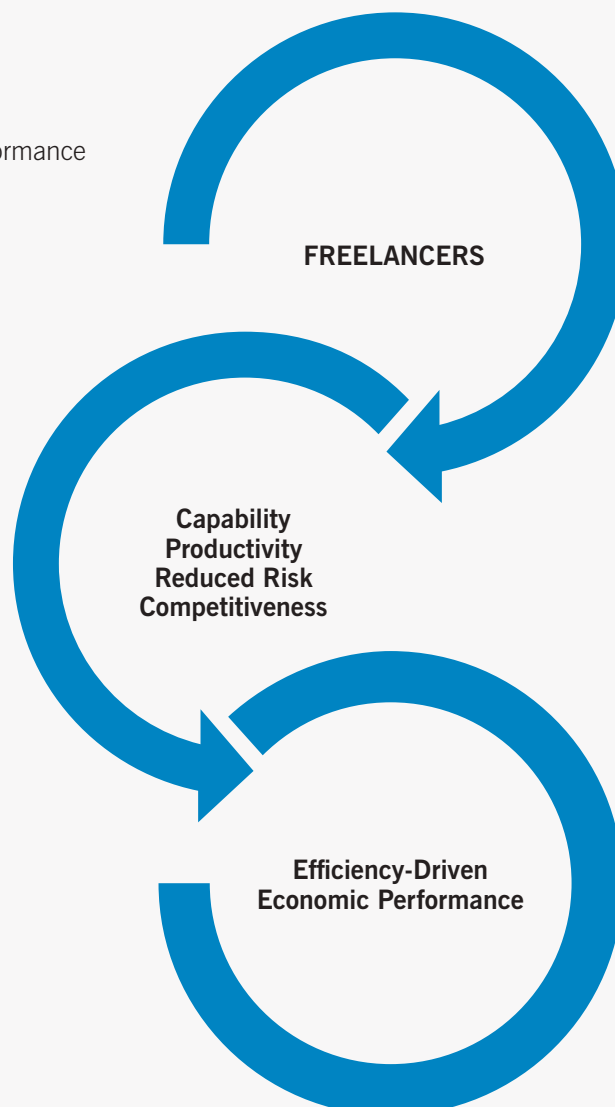


In the case study analysis we observe that this freelance driven growth means that freelancers are used as a means of creating employment. The de-risking of growth approach is used in both corporations such as the major international bank, Centrica, ARM Holdings and the global IT corporation as well as SMEs such as H+K Strategies, Symvan and Look, Touch & Feel. We also observe that PTS Consulting used to operate an employee-only model and as a result sometimes had to turn down new business when it was not confident that it would be able to find follow-on work for employees hired to service the new account. The company finally decided to adopt a model where freelancers are used to service new business growth and in cases where this business proves more permanent they then move to an employee model – where some of these freelancers are offered employment contracts.

5.6 Summary: Freelance Driven Efficiency

We observe freelancers promoting efficiency-driven economic performance by increasing capability (access to freelance expertise, flexibility and agility), productivity (gained through specialisation of labour and adoption of new technology) and the ability to reduce decision-making under uncertainty by better management of risk. In section 4 of the report we observed how freelancers lower barriers to entry for new ventures and reduce minimum efficient scale which have the effect of increasing competition and hence further enhancing efficiency. The combined effects of freelancers on efficiency-driven economic performance are depicted in Figure 7. It is clear that a popular view that freelancers only serve the purpose of competing with employees does not have much resonance in the analysis of the case studies. Instead, we find that in the efficiency-driven economy, much employment depends on freelancers and the executives interviewed use freelancers mainly as complements rather than substitutes for employees. This leads us onto the next section of the study.

Figure 7: Freelancers Promoting Efficiency-driven Economic Performance



6 Freelancers Creating and Sustaining Employment

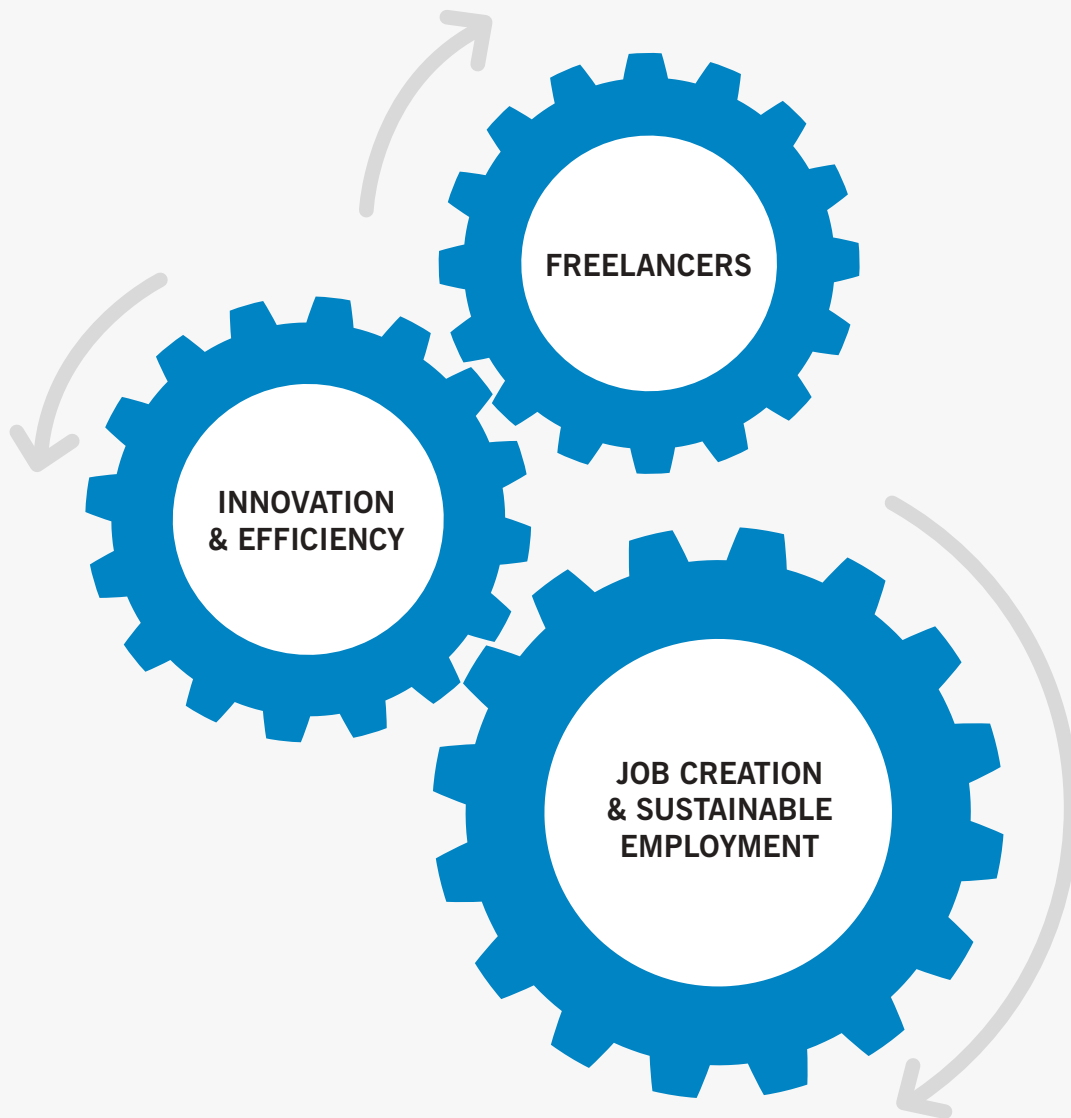
We noted at the outset of the report that the traditional view of freelancers is one where they are competitors of employees and represent a shadow workforce. In a factor-driven economy, this view would be true as long as the skills of both groups are rather similar. We have noted that in many of the case studies such as ARM Holdings, npower, Vocalink, Panasonic, Symvan and Look, Touch & Feel that certain skills and expertise are difficult to find among employees as some segments of the labour force appear to have a preference for freelance work. NSG Group indicated that they base a significant amount of their innovation related employment in the UK because they can find highly skilled freelancers to do R&D projects. Their British-based operations are underpinned by the availability of high quality freelancers e.g. engineers specialising in information systems with a first class degree from Cambridge. They point out that if a sufficient supply of high quality freelancers were not available in the UK, NSG Group would consider moving its innovation activities overseas. This scenario challenges the simple competitor or substitute orthodoxy between freelancers and employees.

However, this study was mainly focused on the innovation-driven economy and to a lesser extent the efficiency-driven economy. We found that in both cases freelancers are used to serve different functions to employees. They play a major role in enabling businesses to manage the risks of developing new innovation and growing a business to exploit new business opportunities. They also play a major role in supplying innovation to businesses as well as encouraging innovation through new business ventures. By using freelancers for these distinct roles businesses are able to create sustainable value-added which underpins employment. Simply put, in the modern economy much employment would not be created and some would be unsustainable without the availability of freelancers. Far from competing with freelancers, many employees actually depend on them for their jobs.

Furthermore, freelancers help organisations to undertake transformation sufficient to adopt new innovation and the latest technologies with the least disruption to the core employee base of the organisation.

Of course these findings do not rule out the existence of a competitive relationship between freelancers and employees as no doubt this exists. However, research has found that this is not the only relationship between freelancers and employees, and in fact, there are others which are more significant. The executives who were interviewed mainly saw freelancers as serving a different function to employees. These executives also pointed out that freelancers typically cost more per day than employees but it makes sense for businesses to pay these higher rates of pay given the value created. Once the freelancer-specific function is complete these organisations usually look to replace freelancers with employees. The sustainable price differential between freelancers and employees is a clear indication that freelancers provide something different to employees. Our research finds much evidence to support this view. A significant difference in function is that freelancers play a major role in the employment creation and sustainability in innovation-driven and efficiency-driven growth. Far from competing for work with freelancers, employees depend on freelancers to create sufficient sustainable revenues to create employment. Figure 8 symbolises the relationship for innovation and efficiency-driven economic performance respectively. However, it will require future statistical analysis to quantify the relationship between different types of freelancer use and job creation and sustainability. For the present we aim to highlight the importance of uncovering this important causal relationship.

Figure 8: Freelancer-driven Employment Creation and Sustainability



7 Defining Freelancers as Unique Economic Agents

A central finding of the research is that freelancers serve a role as a distinct economic agent which serves to create value in innovation and efficiency-driven economies. If Britain, or indeed any innovative economy, wants to optimise its performance then nurturing the supply and competitiveness of its freelance talent base is key. Public policy will need to factor in this distinct role of freelancers; particularly in relation to fiscal, enterprise, industrial and labour market policies. This requires freelancers to be recognised in their own right as a unique economic agent. In Table 2 we show that while freelancers are self-employed, their unique function is not as a business owner: they are primarily serving an 'own account' worker function. They offer their services on a project by project basis. The validity of their contract with a business is contingent on the project going ahead. Remuneration is usually based on output (paid for the completion of a specified project) rather than input (paid in return for labour time). Of course, freelancers will sometimes justify or quote for a project lasting an agreed duration of time with reference to day rates (an input price) but this limited duration defines the project-based nature of the contract and effectively converts this to an output price i.e. a cumulative price to complete a project. There is no legal obligation for the business to continue to hire the freelancer once the project is complete.

Table 2: Labour Market Economic Agents by Function

Status	Manager	Worker
Employed	Executive	Employee
Self-Employed	Entrepreneur	Freelancer

Source: Burke (2011)

It is clear in this depiction that while freelancers may have some areas of commonality with, and indeed often are business owners, their unique function is independent of owning a business. The essence of freelancing simply involves workers taking on risk and supplying their services on a contingent project or limited duration basis.

It is evident from these features that people who voluntarily opt to become freelancers manifest entrepreneurial characteristics in terms of being risk takers and being paid on a performance basis – primarily to win a contract and then usually on the basis that the remuneration in the contract is output based. Freelancers do not necessarily have to function as a business to offer their services and make an impact on the economy. They do not have to contract via an intermediary such as a limited company, have business premises separate from their home or supply materials or equipment. Yet despite this, existing taxation rules which determine their eligibility to be classed as self-employed such as those relating to IR35, usually require freelancers to mimic the features of self-employed business owners. This emphasis creates a risk for freelancers and businesses alike as it raises the probability that the genuine use of freelancers will be categorised as false self-employment with both negative financial and reputational consequences. This can result in a simultaneous fall in the supply and demand for freelancers resulting in negative economic consequences.

Of course any solution to this issue should also seek to avoid the problem of false self-employment, where in an attempt to avoid taxation, businesses can lay off employees only to re-hire them as 'freelancers' but tacitly on more or less the same effective terms. We need to capture the defining and unique features of freelancers which

differentiate them from other economic agents. From a fiscal perspective, the challenge is to separate freelancers from employees. One option is to use a definition of freelancers based on some of their unique characteristics in the modern economy such as the following:

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 dividing lines between freelancers and employees which are implied by this definition are depicted in Table 3. It is true that elements of existing fiscal guidelines pick up some of these distinguishing features. For example in HMRC (2012) a contractual incentive for 'efficiency' which can entail reducing within project downtime, is used as an indication that a worker is validly self-employed¹⁵. However, the lack of a freelance 'entrepreneurial worker' category will inevitably leave many short of meeting the 'business owner' requirements. Correspondingly, the lack of a clear freelancer definition can incentivise false self-employment as employee contracts can be changed to mimic business owners (e.g. having a business premises or address, using an intermediary, supplying some equipment or materials, invoicing) in order to avoid tax. Employees who transfer from employment to a continuous sequence of self-employment contracts which are not contingent on specific projects should not qualify as legitimate self-employment. They do not serve a different economic function to employees in the economy and hence would fall into the employee category using the definition in Table 3.

Table 3: Distinctions Between Freelancers and Employees

Status	Freelancer	Employee
Term of contract	Project based, limited duration	Continuous
Intra-project downtime and below expectations productivity: costs & risks	Entirely or mainly borne by the worker	Entirely or mainly borne by the business
Inter-project downtime: costs & risks	Borne by the worker	Borne by the business
Remuneration	Output based or if input based is of limited project duration	Usually input based

So an improvement would be to create a new specifically freelance self-employment category, which is identified by the definition above and the distinguishing features in Table 3. In practice the dividing line between employee and freelancer will often be blurred and require the scrutiny and discretion of the authorities. However, this is already the norm as HMRC engage extensively in this activity to provide advice on legitimate and false self-employment. Furthermore, the greater accuracy that this new freelancer category will provide ought to make this job easier and more efficient in terms of its economic outcome. To this end, the type of business scenarios which this definition seeks to support can also be used as illustrations where valid freelance self-employment applies. Not surprisingly, these constitute some of the main areas identified in this report where freelancers add value in the economy.

15. HMRC (2012), Intermediaries Legislation (IR35): Business Entity Tests. Example Scenarios, Version 1, May 2012, HM Revenues & Customs. <http://www.hmrc.gov.uk/ir35/guidance.pdf>

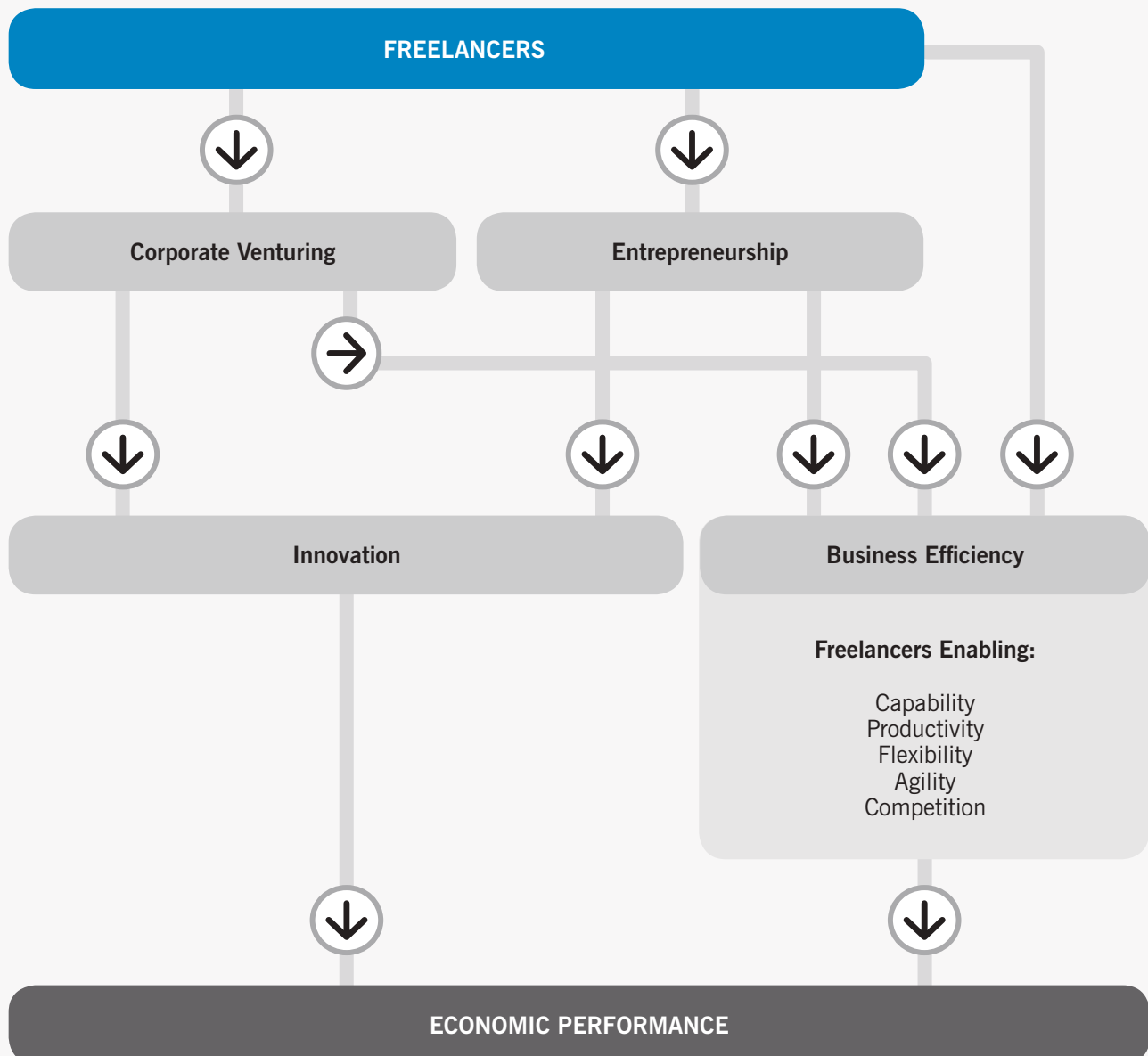
The lack of an up-to-date definition of freelancers which recognises them as a distinct economic agent in their own right limits the optimisation of their use in the economy and by consequence stunts economic performance. Choosing to become a freelancer should not involve financial risk (particularly 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; they can be deterred from using freelancers as a result of the financial and reputational risk stemming from regulation justifying 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, as we have already noted fiscal guidelines such as IR35 incentivise freelancers to mimic a business owner in order to establish their legitimacy.

Likewise, some unions only consider freelancers in a competitive shadow workforce role and so frequently put pressure on businesses to use employees instead of freelancers - hence missing the key finding in this study that in the modern economy these workers are typically complements rather than substitutes - many employees rely on the work of freelancers to create and sustain their jobs. We need a fresh perspective across industry and public policy.

8 Conclusion

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 also 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.



Freelancers also help de-risk the uncertainties of the market so that firms can scale up to meet variable demand, rather than operating at a smaller scale, where demand is more assured and sufficient to fully utilise employee capacity. These contributions also promote efficiency-driven economic performance. They do much of this in partnership with employees; playing a key role in both creating jobs and underpinning the economic sustainability of employment contracts. The total effect of freelancers on economic performance is depicted on page 79.

Despite these important economic functions, freelancers are still largely under-analysed and unheralded economic agents in the modern British entrepreneurial economy. The main reason for this is that their new pivotal role has only really come to the fore with the dominance of the innovation-driven economy over the last three decades. In this setting businesses need to be innovative, flexible and agile as well as able to manage entrepreneurial risk and greater market uncertainty. Freelancers enable businesses to do all these things and hence have become a key driver for economic performance in the modern economy. Their important and distinct economic role needs to be:

Their important and unique economic role needs to be:

RECOGNISED	Defined as unique economic agents providing an important and distinct economic function to employees and business owners
PROTECTED	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
NURTURED	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

This research highlights that a key priority for leaders of industry and Government must be to ensure that Britain has a sufficient supply of highly skilled and expert freelancers to maximise the performance of its modern innovation-driven economy.



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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.

CONTACT PCG

Heathrow Boulevard
280 Bath Road
West Drayton
UB7 0DQ

T +44 (0)208 897 9970

W www.pcg.org.uk



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