The Handbook of Research on Freelancing and Self-Employment

Edited by Andrew Burke
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Acknowledgements

This book has been enabled by a significant number of leading international researchers having the foresight and passion to explore the role of freelancing and self-employment in a business context. While some of this research took place autonomously, a significant proportion has occurred as a result of the efforts of some key people and industry organisations. In fact, most of the research in this handbook is the result of close collaboration between industry and academia. This would not have occurred had a number of key practitioners and industry organisations not felt compelled to engage with academics in order to drive this research agenda forward. David Jackson of Hudson Contract and Simon McVicker of what was then the Professional Contractors Group (PCG), now the Association of Independent Professionals and the Self Employed (IPSE), have played pioneering roles in putting freelancing on academics’ research agendas. This initiative was then further developed though the organisation of Global Research Workshops on freelancing by Suneeta Johal of IPSE. These workshops then enabled the establishment of a new international think tank on freelancing: the Centre for Research on Self-Employment (CRSE) which is sponsored by IPSE and managed from London. Most of the chapters in this book were originally presented at these workshops and then later published in the International Review of Entrepreneurship. They have been through an academic peer review editorial process. The subsequent publishing process also benefited greatly from the managerial editing input of Suneeta Johal and Kayte Jenkins of IPSE as well as the team at Senate Hall Academic Publishing. A big thank you is owed to all these people and organisations. The usual disclaimer applies.

Andrew Burke, November 2015
Foreword

Across the global business landscape workforces are evolving. Freelancers and the self-employed are widely recognised as having an important impact on the performance of modern economies; helping them to be more flexible, agile, entrepreneurial and innovative. It is a trend evident across a broad range of industries. With such prevalence it is more important than ever that the self-employment sector is explored by researchers, practitioners and policymakers. However, due to the constant evolution of this sector, understanding is fragmented, research data about this valuable group is hard to find and there are always new areas to evaluate.

This publication encompasses the diverse and changing context of working across the world. It analyses what we already know about self-employment, seeks to identify areas where understanding is limited and sets out the agenda for future research.

Making this an authoritative reference on freelancing and self-employment, each chapter draws on the authors’ areas of specialisation, examining subjects such as the economic value of sub-sections within the self-employed workforce, the challenges of regulatory framework, job quality and satisfaction, constraints and opportunities for organising the self-employed and the implications of the blurring between social and legal distinctions.

IPSE, the Association of Independent Professionals and the Self Employed, is the representative body for the UK’s self-employed community. As Chairman of IPSE, I am very proud to be on the steering committee of the Centre for Research on Self-Employment (CRSE), an international think tank which is the first of its kind and at the leading edge of research into freelancing and self-employment. In supporting the creation of this Handbook, and the CRSE as a whole, IPSE is striving to deepen our understanding of the people we represent. This Handbook also plays an important role in our ability to make evidence-based policy proposals to Government.

As the CRSE oversees and develops new research, encompassing different perspectives from the world’s experts in this field, it plays a vital role in providing a comprehensive analysis into freelancers and the self-employed. This Handbook stands as a guide to better inform our understanding of freelancing and self-employment, and whilst IPSE has been a catalyst in its creation, we are just one of many organisations that can make important use of the findings detailed within.

James Collings
Chairman of IPSE, the Association of Independent Professionals and the Self Employed, UK
Introduction: A Freelancing and Self-Employment Research Agenda

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Abstract. This introduction chapter provides an overview of the content of the book and outlines a research agenda on freelancing. The Handbook of Research on Freelancing and Self-Employment is intended to provide a single source reference book of research on freelancing in order to facilitate further research as well as inform public policy and business practitioners. The need for the book has been driven by the transformation of freelancing over the last two decades from a predominantly precariat shadow workforce serving as substitutes for employees to a far more diverse workforce incorporating high earning and highly skilled workers who serve a dynamic role for businesses; mainly working as complements to employees and frequently undertaking innovation. This transformation has been paralleled with a rapid rise in the number of freelancers in the workforce and the increasing use of flexible working and outsourcing business models by firms. This book contains research which seeks to explain the causes and implications of these phenomena. It provides a comprehensive overview of research on freelancing both in terms of different types of freelancers and the varying activities they carry out.

Keywords: freelancers, freelancing, independent professionals, survey, research agenda.

1. Introduction

Most of the authors in this Handbook of Research on Freelancing and Self-Employment are drawn from academics who were invited by the Association of Independent Professionals and the Self Employed (IPSE) to attend the Global Research Workshops on Freelancing. These research workshops were motivated by a view among academics, practitioners and policymakers that freelancing warranted further research. This has been prompted by the increase in the importance of freelancers in the modern dynamic and innovation-driven economy (Burke, 2012) and the corresponding increase in the prevalence of freelance ‘own account’ self-employed workers in the labour market (Kitching and Smallbone, 2008 and Rapelli, 2012). In this new setting the traditional characterisation of freelancers as a homogenous group of workers who simply serve as cheap substitutes for employees was challenged. Other characteristics of freelancers such as being enablers of innovation, entrepreneurship and risk-management appeared more prominent (Burke, 2012). In fact, in some cases the entire business
model of an industry depended on this latter utilisation and hence the availability of freelance workers (Burke, 2011).

2. Research Agenda

The new innovation and dynamic economy has given rise to greater heterogeneity among freelancers and the activities they carry out. The traditional research focus of academics on precariat and vulnerable workers while still relevant for a significant proportion of freelancers – particularly the low skilled – does not resonate with the labour market performance of more highly skilled freelancers. This latter group are typically operating close to full capacity and earn significantly higher income than employees. For example, the IPSE Freelancer Confidence Index surveys in 2015 have revealed that freelancers across Standard Occupational Codes (SOC) 1, 2 and 3 (encompassing managers, professional and technical freelancers) on average earn 150% more than equivalent employees. The same group have very little spare capacity and are normally working on projects for roughly 85% of the weeks they have available to work. In contrast, to the precariat freelance stereotype who do mundane manual activities, these high human capital freelancers engage in stimulating activities such as innovation, change management and implementation of new technology. Therefore, with one type of freelancer appearing worse off than equivalent employees and another type better off it is clear that future research on freelancers in the labour market requires a segmentation approach. Similarly, while it is clear that businesses have moved to adopt more flexible working models and hence engage more freelancers, it is also apparent that in other circumstances businesses may cynically seek to reclassify permanent employees as freelancers in a bid to avoid paying employer taxes. Again, another reason why segmentation is such a key research priority and hence an agenda item moving forward. We need new research to be able to differentiate between vulnerable, high performance and false freelancing in order to better understand each segment and thereby enable policy and practice which promotes greater business performance and the well-being of freelance workers in the labour market. Doing so effectively is unlikely to entail a ‘one size fits all’ policy approach across all forms of freelancing.

Moving from analysis of the labour market to that of business organisation, it is also the case that this new dynamic and innovative business environment gives rise to a series of new research questions. Many are fundamental such as: How do freelancers add value to businesses? How do firms make the best use of freelancers in order to enhance business performance? What are the institutional challenges for legislation, regulation and industry organisations in order to adapt to a more freelance-intensive business model? How does public policy and practice adapt to this new environment in order to support the use of freelancers by businesses in a manner that enhances economic performance, promotes job
creation, sustains the tax system and protects the welfare of workers? This list is far from comprehensive but the reader will appreciate that as our understanding of freelancers has become better informed it has also become clear that the most common depiction of freelancers as a relatively homogenous group of relatively low price-quality substitutes for employees is not only inaccurate but misleading for public policy, people who might choose freelancing as a career and businesses who might consider using freelancers. A new research trajectory is required in order to provide a re-appraisal and generate a more in depth multi-dimensional understanding of the heterogeneity of both freelancers in the labour market and their functionality for businesses.

The answers to some of these questions have begun to emerge but more research is required. The purpose of the IPSE Global Research Workshops was to disseminate this new research on freelancing and to encourage further analysis in the academic community. The IPSE sponsored workshops were organised by Suneeta Johal, (Head of Research, Education & Training at IPSE) in co-operation with a number of academics. Invitations were sent to international scholars in the field to present new research or survey articles of existing research on freelancing. Following these presentations a sub-set of articles were invited for submission to the International Review of Entrepreneurship and these then went through a peer review process leading to a further sub-set of revised articles being eventually accepted for publication. Many of those articles have been selected as chapters for this publication. The chapters in this Handbook comprise a mix of survey/perspective research articles and also more conventional articles presenting new research addressing a specific research question. Many chapters contain a mix of both approaches and most raise issues for policy/practice consideration and/or questions for future research. All of the chapters are concerned with freelancing but some of them focus on a sub-set of freelancers such as, for example, female self-employed or independent professionals.

3. Chapter Review

The Handbook starts with a set of chapters which provide the context for much of the research on freelancing. Burke and Cowling provide an overview of theory explaining how freelancers can add value to businesses operating in a dynamic and typically innovation-driven economy. They emphasise that freelancers enhance the ability of firms to be agile, flexible, innovative and entrepreneurial as well as being able to manage risk in uncertain business environments. The theory is further explored through empirical research based on the views of senior managers and entrepreneurs who use the services of freelancers. John Kitching then documents the rise in the importance of freelancers in the labour market over the last two decades. In the chapter he outlines a number of demand and supply side hypotheses which are likely to have driven this trend. This provides a useful
insight from a labour market perspective and also raises some questions for future research. In the next chapter Jerzy Cieślik continues the theme of measuring freelancer activity by providing a critical review of relevant data sets in the public domain. In this critique he differentiates between freelancer activity across various forms such as hybrid, freelancers with only one client and more pure freelancers with multiple clients and no time in employment. To this end, he argues that labour force data is the most useful single source but highlights the benefits of a methodological approach which combines labour force data with business establishment data. Nigel Meager then moves the discussion from levels of freelancer activity onto their well-being in comparison to employees. He finds that freelancers have typically better job quality and higher job satisfaction than employees although they have to work harder, have less training and must sustain greater job insecurity. His findings lend support to the view that freelancing is not confined to the domain of ‘wannabe employees’. Dieter Bögenhold and Andrea Klinglmair’s paper explores the gender dimension of freelancing. They find that females typically earn less than males and greater proportions are part-time. However, females have higher levels of well-being and job satisfaction than men. Therefore, an emergent finding regarding the welfare of freelance versus employee workers is that studies based purely on financial measures of well-being miss and therefore underestimate some key well-being aspects of pursuing a freelance career. In the next chapter Michel Syrett then explores two of the organisation forms which business are using in order to facilitate the use of freelancers: namely, alumni and incubation schemes.

The next set of chapters then widen the scope of the analysis. The chapter by André van Stel and Nardo de Vries provides a review of the composition and causes of the rise in own account self-employment in most Western countries. Their emphasis is on the heterogeneity within the solo self-employed; particularly with respect to demographic characteristics and start-up motives. Amit Chauradia and Ruchi Galande then address the business decision of whether to use freelancers or employees. They address the pros and cons of business accessing freelance human capital with reference to the research literature on strategic human capital, a resource based view of the firm and transaction cost theory. Their chapter highlights how the traditional disadvantages of using freelancers are likely to be weaker in more dynamic and innovative business environments.

Then the next four chapters focus on institutional aspects of freelancing. Patricia Leighton provides an exploratory overview of regulatory law relevant for freelancers and the businesses who seek to hire them. The chapter explores regulatory challenges associated with legal practice related to fiscal matters, business associations, employment law and social protection. Michael Wynn then addresses the challenges that face trade unions and worker associations who seek to organise freelancers into a collective force in the labour market. His research outlines the scale of change that is required if such organisations are to survive, let alone thrive, in a more freelancer intensive labour market. Tui McKeown
unearths the problems that arise when too often researchers and policymakers do not sufficiently distinguish between freelancers and the generic usage of the terms ‘entrepreneurs’ and ‘self-employed’. As well as highlighting the problems this can cause, she provides some suggestions on how to alleviate this blurring of boundaries with reference to practice in Australia. Uwe Fachinger and Anna Frankus address then the issue of life and job security risks faced by freelancers and the extent to which freelancers use insurance to cover these risks. They find that the ability to research this important question is hampered by a paucity of information and hence highlight an agenda for future research. Nevertheless, they note that the evidence which does exist appears to indicate that very little insurance (private and public) coverage for freelancer risks is in place. The Handbook closes with a chapter by Ana Millán, José María Millán, Concepción Román and André van Stel who provide a survey of research looking at the transition of freelancers to employers. The chapter examines the macro and micro determinants of freelancers evolving to employers and find insightful tax incentive and labour market regulatory effects as well as the more expected human capital and macroeconomic cyclical effects.

4. Conclusion

There has been a transformation in freelancing over the last two decades from a predominantly precariat shadow workforce serving as substitutes for employees to a far more diverse workforce incorporating high earner and high skilled workers who serve a dynamic role for businesses; mainly working as complements to employees and frequently undertaking innovation which leads to job creation. This transformation has been paralleled with a rapid rise in the number of freelancers in the workforce and the increasing use of flexible working and outsourcing business models by businesses. The chapters in this Handbook provide a significant overview of existing and new research on freelancing in this new context. Combined, they provide a single source compendium of the current state of the art research on freelancing that will hopefully provide a platform which will enable and inspire further research. The chapters provide some new insights and a re-appraisal of freelancing in a 21st Century business context that will better inform public policy, industry practice and career choice. However, the analyses in the chapters also raise many more questions for further research and highlight many gaps in knowledge that need to be filled. These research challenges alongside the increasing importance of freelancers for business, people’s career paths and public policy all indicate the scope and need for a vibrant research trajectory in this area.
References:

The Use and Value of Freelancers: The Perspective of Managers

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Abstract. In this paper we provide an overview of the various means through which executives and entrepreneurs in Great Britain perceive freelancers as adding value to their businesses. To this end the paper reviews research on users of freelancers in large and small firms across industries in Great Britain. The evidence comprises a mix of case study and survey data. The results illustrate that managers perceive freelancers as a relatively high value added segment of the labour force which is particularly useful in dynamic and innovative business environments. In essence, freelancers are less of a cheap shadow precariat workforce and more a skilled specialised workforce that enable businesses to reduce: barriers to entry, risk and financial requirements while enhancing: business agility, flexibility and efficiency. Freelancers are viewed as important inputs that enable an innovation driven and entrepreneurial economy to perform.

Keywords: freelance, entrepreneur, value of freelancers, enabler of innovation.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

This short review paper is intended to provide a concise survey of some recent theoretical and empirical research on the role and value of freelancers as perceived by executives and owner-managers. This review also presents some new data. Combined this evidence gives an insight into the functions that freelancers serve in the modern economy and also provides a useful marketing insight for freelancers by identifying their unique selling points (USPs) - as defined by their customers. Compared with a body of earlier studies which emphasised the role of freelancers as being predominantly a non-unionised cheap substitute for employees (Sisson, 1983, Wial, 1994, Herzenberg et al 1998 and Milward et al. 2000), this newer evidence positions freelancers as differentiated to employees, and typically being complements rather than substitutes, in project-

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based, and uncertain, risky business environments associated with the innovation-driven entrepreneurial economy. This accords with the work of Van den Born and Van Witteloostuijn (2013), who identified the emergence of a new type of worker who “contracts out her or his skills to various organisations” (p.24) and is typified by the skilled independent professional. Thus the freelancer reflects a new organisational form characterised by three types of workers: core employees, professional freelancers, and routine workers. In this environment freelancers are increasingly skilled, more expensive than employees and creators of employment rather than competitors of employees. However, we explicitly allow our freelance definition to be determined by the organisations that employ them, and find that although the largest group fit the skilled professional characterisation other freelancers are widely employed who fulfil what might be termed routine tasks. In the next sections of the paper we review this research. Section 2 provides an overview of the more traditional ‘static economy’ view of freelancing while section 3 provides an account of freelancing in the modern dynamic economy. The paper closes with conclusions and implications.

2. The Orthodox View of Freelancers in Economics and Management Research

The main and orthodox focus of economics research has been in a static domain where dynamic effects such as innovation and entrepreneurship are held constant (Audretsch, Baumol and Burke, 2001). This means that the innovative and enterprising roles of freelancers are not part of the analysis. As a result, the remaining economic role of freelancers was as a competitive, temporary, workforce who compete with permanent employees for jobs. In fact, Coase’s (1937) justification for the existence of firms indicated that employees would be insiders and more likely to be more highly skilled and bearers of high worth human capital than freelancers. In this sense it is not surprising that most economics analysis of freelancers depicted them as low quality/price substitutes for employees with whom they compete for work.

Later research in the fields of industrial relations and entrepreneurship were based on a similar theoretical predisposition due to the fact these research trajectories were not focused on different research questions where freelancers only appeared in a cameo capacity. Burke (2011) illustrates these roles through Table 1 which shows that the labour force can be divided into a 2x2 matrix based on the dual distinction of whether a person is employed or self-employed, and a manager or a worker. Freelancers comprise the lower right hand box illustrating their self-employed but non managerial status. The table is instructive as it both illustrates why freelancers share some characteristics with other self-employed entrepreneurs and workers on employment contracts, but highlights that they form a unique category in the labour force. So unfortunately, these cameo roles
of freelancers in industrial relations and entrepreneurship research did not cover the full character of freelancers. The industrial relations literature categorises freelance workers as part of an unregulated secondary labour market where the majority of workers are worse off than they would be in continuous employment (e.g. Wial, 1994, Herzenberg et al 1998, Krausz, 2000 and de Jong et al 2009). The entrepreneurship literature captures freelance workers by dint of including the self-employed without employees as part of analysis of the self-employed. By consequence freelancers are depicted as low performing self-employed entrepreneurs (see Burke 2011 for an overview).

Table 1: Labour Force Functional Categories

<table>
<thead>
<tr>
<th></th>
<th>Manager</th>
<th>Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>Executive</td>
<td>Employee</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>Entrepreneur</td>
<td>Freelancer</td>
</tr>
</tbody>
</table>

Source: Burke (2011)

So in sum, the methodological confines of neoclassical economics and the scope of industrial relations and entrepreneurship research by consequence ignored the dynamic and innovative roles of freelancers; especially in research contexts where they ought to be the main economic agent under investigation.

3. A Re-Assessment of Freelancing

The gaps and oversights in the research literature are unearthed in the theory and extensive series of case studies undertaken on the construction industry in Burke (2011) and in most of the remaining industries in Burke (2012). In other words, this research derives a theoretical model that is based on empirical observation of the various ways in which businesses use and recognise the value of freelancers. The research highlights that freelancers play a valuable and pivotal role in Britain’s 21st century innovation-driven economy. Freelancers:

- enable businesses to use greater specialisation of labour while avoiding the cost of expensive downtime associated with using employees in such circumstances
• are sources of and conduits for innovation and entrepreneurship in both corporations and SMEs

• enable businesses to manage, in fact reduce, entrepreneurial risk and so promote innovation and entrepreneurship

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

• enable de-risking of some of the uncertainties of the market so that firms can reduce risk associated with business growth

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

• reduce barriers to market entry and reduce minimum efficient scale

• promote efficiency-driven economic performance

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

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

Burke (2011) highlights the benefits of using freelancers to adopt a specialised labour market model without the costs associated with downtime. For example, the research explores the specialised labour inputs used in a 224 (predominantly apartment) unit project conducted by UK nationwide builder Taylor Wimpey in Diglis Basin in Worcestershire. Burke estimates that the average percentage of downtime work days per specialised input for this typical corporate apartment build project is 82%. Weighted by cost the average downtime is 74% which indicates that the potential cost savings generated by freelance workers are very high. In the absence of freelancers, Taylor Wimpey and their contractors would be obliged to hire employees and pay them during this downtime. The worst case scenario for these firms is where they cannot find any alternative work for employees during this downtime. The data in Table 2 illustrates that these costs could potentially entail an average scale up in labour costs by a multiple of nearly 4 (3.85) given downtime unused capacity of 74%.
Analysing the perceptions of senior executive and owner-managers Burke (2011 and 2012) shows that freelancers usually generate these benefits through a working partnership with employees. In other words, a symbiotic complementary relationship where freelancers are able to add to the diversity of talent and skills in a business thereby enhancing employee productivity and job security rather than the orthodox depiction of a homogeneous low quality/price who threaten employees’ jobs.

These freelance contributions to business have 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
- Flexible and agile
- Able to manage entrepreneurial risk

**Table 2: Diglis Bason Apartment & House Project**

<table>
<thead>
<tr>
<th>Input</th>
<th>% downtime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation work, substructure, drainage</td>
<td>55.8</td>
</tr>
<tr>
<td>Piling</td>
<td>90.4</td>
</tr>
<tr>
<td>Brickwork</td>
<td>74.2</td>
</tr>
<tr>
<td>Floor Planks</td>
<td>92.3</td>
</tr>
<tr>
<td>Scaffold</td>
<td>92.3</td>
</tr>
<tr>
<td>Steelwork</td>
<td>88.5</td>
</tr>
<tr>
<td>Roofing</td>
<td>86.5</td>
</tr>
<tr>
<td>Window Installation</td>
<td>88.8</td>
</tr>
<tr>
<td>Kitchens</td>
<td>90.8</td>
</tr>
<tr>
<td>Lift Installation</td>
<td>96.2</td>
</tr>
<tr>
<td>Plastering</td>
<td>69.2</td>
</tr>
<tr>
<td>Electrical / Carpentry</td>
<td>55.4</td>
</tr>
<tr>
<td>Painting</td>
<td>82.7</td>
</tr>
<tr>
<td>Finals / Clean</td>
<td>91.2</td>
</tr>
<tr>
<td>Average</td>
<td>82.4</td>
</tr>
<tr>
<td>Max</td>
<td>96.2</td>
</tr>
<tr>
<td>Min</td>
<td>55.4</td>
</tr>
<tr>
<td>Average weighted by cost</td>
<td>74.3</td>
</tr>
</tbody>
</table>

Source: Burke (2011)
• Capable of prospering despite greater market uncertainty

Freelancers can enable, or facilitate, businesses to do all these things and hence have become a key driver for economic performance in the economy. Burke (2011 and 2012) argues that as a result there is a need to identify the defining and unique features which distinguish freelancers as unique economic agents in their own right. These studies show that freelancers tend to serve a different function to employees in the context of their role in an innovation-driven economy.

In terms of corporations and large firms Burke (2012), drawing on detailed case studies with organisations employing freelancers, finds that freelancers have been used to fulfil managerial and technical roles at each stage of the innovation development process from:

1. Innovation creation.
2. Commercialisation of innovation.
3. Integration of innovation into the core of the organisation.

Throughout all the stages of innovation development, according to these case studies, freelancers can add value by:

• Idea generation.
• 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.

These effects can increase the scale and effectiveness of innovation undertaken by business, both independently, and through a cross-fertilisation process, by working in parallel with core employees, and are summarised in the Freelance Innovation Value Chain (Burke, 2012). The bottom panel shows that the projects undertaken by freelancers can 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 effect of these roles in increasing profits and creating
jobs across all three stages enhances business performance, and were associated by the case study analysis.

Figure 1: The Freelance Innovation Value Chain

Freelancers also promote innovation-driven economic performance through entrepreneurship. Burke (2012) highlights that freelancers are frequently used at each 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 can help businesses to raise their performance by providing:

- 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 (Burke, 2012). 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.

Figure 2: The Freelance Entrepreneurship Value Chain

Burke (2011 and 2012) shows that freelancers enable businesses to be agile, flexible and to manage risk in adjusting their workforce to meet the uncertainty inherent in a dynamic business environment. This enables firms to reduce the risk to grow in order to take on business that may become sustainable but is initially at risk of being temporary. Without the use of freelancers, the option to grow entails hiring employees who form part of a business’s overheads and whose jobs would not be sustainable if the expected sales from growth are not realised. As a result, many businesses may choose not to take the risk involved in growth. By contrast freelancers enable businesses to adopt a variable cost (pay as you go) labour model which removes the risk of acquiring unsustainable labour costs. Once the decision to grow has been taken and if expected sales prove sustainable then at that point businesses usually replace freelancers by employees. Therefore, through this process freelancers can be used to accelerate growth strategies and complement core workers’ efforts to scale up the business until such time that it becomes apparent that a new higher level of sustainable business is either
achievable or not. The former is illustrated in Figure 3 where it can be seen by enabling a business to take the risk of growing, and freelancers thereby create jobs for employees. In other words, our evidence is consistent with freelancers having a symbiotic complementary relationship with employees.

*Figure 3: Freelancers used to Manage Risk of Business Growth and Market Volatility*

Having established why firms might choose to adopt a freelance model, and further considered what potential benefits there are for firms and freelancers, we now report new evidence on the prevalence of different types of freelancers. The data is drawn from a survey of 1028 businesses (excluding own account worker businesses) in Great Britain in 2013 which was carried out by ComRes and which we helped design. Here we separate out different types of freelancers into skill-based categorisations including: low skill-based; skilled, managerial, and director level freelancers. Figure 4 shows that the most prevalent class of freelancers is skilled workers who are employed by 68.4% of British businesses. More than 1 in 4 businesses use both low skilled and managerial level freelancers. It was also the case that nearly 1 in 8 British businesses employed freelancers at the director level. What our evidence clearly shows is that freelance adoption by British businesses covers the full spectrum of skill levels and occupational classes. This is contrary to the early theorising about freelancers being merely disenfranchised workers and also contrary to recent claims that the rise in freelancing is confined to the creative industries (Moeran, 2009). In fact, freelancing is clearly a phenomenon that is pervasive throughout the economy and covers all sectors of industry and all types of workers.
The obvious question following on from this is whether individual firms adopt a single freelance type model or whether firms engage with multiple types of freelancers simultaneously. Figure 5 shows our evidence in this respect. Here we note that use of a single type of freelancer is by far the most common freelance business model in Great Britain, one adopted by 71.9% of businesses. This suggests that firms have very specific gaps, be they physical or knowledge based, in their workforce at particular points in time and seek to fill these gaps with freelance workers. But around 1 in 6 businesses use two distinct types of freelancer simultaneously. And nearly one in ten businesses use three or four different types of freelancers. This reinforces our contention that the focus to date has been largely incorrect in focusing on individual freelancers of specific types and assumed that the host firm is relatively passive, or reactive, in their decision to hire freelancers.
There are also some important differences in terms of multiple usage of freelancers by industry sector and by size of business. Figure 6 highlights the fact that the sports industry, business management, architecture and health professions have a relatively high incidence of engaging multiple types of freelance workers. This contrasts with arts/media, health sectors, and engineering sector businesses who tend to adopt a single type of freelancer model. What we were unable to address, due to the demand-side focus of our study, is the potential for freelancers to co-operate with one another through collaborative networks and offer hiring firms (users) a co-ordinated set of complementary freelancers.

There is also a clear relationship between the size class of business and the adoption of multiple freelance models. Here, the larger a business is, the higher the adoption rate of multiple freelance use models. This suggests that smaller businesses have very specific gaps in their skills and knowledge base and engage with specialist freelance workers to add breadth to their core human capital base. Larger businesses, in contrast, tend to engage with freelance workers across the occupational and skills spectrum simultaneously which suggests a different type of business model.
Figure 6: Number of Freelance Types Used by Sector

<table>
<thead>
<tr>
<th></th>
<th>Average Freelance Types Used</th>
</tr>
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<tbody>
<tr>
<td>Sports</td>
<td>2.0</td>
</tr>
<tr>
<td>Architect</td>
<td>1.7</td>
</tr>
<tr>
<td>Management</td>
<td>1.6</td>
</tr>
<tr>
<td>Health Professionals</td>
<td>1.5</td>
</tr>
<tr>
<td>Sales</td>
<td>1.5</td>
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<tr>
<td>Design</td>
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<tr>
<td>HRM</td>
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<tr>
<td>Therapy</td>
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<tr>
<td>Finance</td>
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<tr>
<td>Business</td>
<td>1.5</td>
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<tr>
<td>Hospitality</td>
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<td>IT</td>
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<tr>
<td>Production</td>
<td>1.5</td>
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<tr>
<td>Education</td>
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<tr>
<td>Other</td>
<td>1.5</td>
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<tr>
<td>Engineering</td>
<td>1.5</td>
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<tr>
<td>Health Associates</td>
<td>1.5</td>
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<tr>
<td>Arts/Media</td>
<td>1.5</td>
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</tbody>
</table>

4. Conclusion and Implications

Freelancing is a much more widespread and diverse form of work organisation for both freelance workers themselves and for the businesses that engage them. Contrary to popular belief they are pervasive throughout all segments of the labour market, and across all occupational and skill levels. Equally, it is a form of contractual engagement that is widely adopted throughout all business sectors and across all size classes of firms.

Only a minority of businesses use low-skilled freelancers. The orthodox generalisations about freelancers being just disenfranchised workers do not appear to hold to any great extent in the modern landscape, nor do the newer unfounded assumptions that freelance work is unique to creative industries. There is a substantial presence and use of highly educated freelance workers across the boards of directors and management teams of businesses throughout the economy. Equally, there is a high prevalence of high and low skilled freelance workers and businesses often use a mix of freelance types to complement their existing workforce.
The key piece of evidence is that freelance workers in Great Britain are typically engaged in a complementary role alongside established employees, rather than as substitutes for them. Further research into the strategic use of freelancers and strategic complementarities would help us to understand at what stage of their strategic decision-making organisations elect to hire freelancers or whether it is a choice made independently of other strategic decision-making. On the supply-side, future research might help us understand more about how freelancers choose the type of engagement with particular organisations, at what level in the value chain, and the intensity of their commitment to them.
References:


Tracking UK Freelance Workforce Trends 1992-2015

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Abstract. Using data from the UK Labour Force Survey, the article describes the major trends in freelance workforce numbers during the past 20 years. Operationalising a definition of freelancing in terms of Labour Force Survey categories, the data indicate both a substantial absolute increase in freelancer numbers and growth as a proportion of all workforce jobs. Possible explanations for the increase are discussed, paying particular attention to the demand for freelancers. Although a number of studies suggest a shift towards the adoption of flexible labour strategies, the evidence base on the forces underlying the expansion of freelance working is limited and fragmented. Research questions seeking to explore the trends in greater detail are identified.

Keywords: freelance workers; regulation; organisational restructuring; flexible labour strategies; occupational structure; Labour Force Survey.

Funding: This article is based on work commissioned by the Association of Independent Professionals and the Self Employed (IPSE), UK.

1. Introduction

Most businesses are very small. More than three quarters of the UK’s 5.4 million private sector enterprises involve only their owners, working alone or with partners, without employees (Department for Business Innovation and Skills 2015). These 4.1 million ‘nano-businesses’ are important economic agents, contributing at least £237bn to the UK economy. Self-employment is now at its highest level in the 40 years official statistics have been produced, with most of the recent growth among own-account workers, those without employees (Office for National Statistics 2014a). The significance of this increase for job quality is the subject of considerable debate. Contrast Dellot’s (2014a) emphasis on the opportunity for the self-employed to enjoy higher levels of autonomy and

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2. These estimates exclude the financial intermediation services industry as turnover cannot be calculated on the same basis as for other industries (Department for Business Innovation and Skills 2015).
3. Some own-account workers are ex-employers, having reduced the scale of operations. Dellot (2014a) reports a decline in the number of 2-person businesses in recent years while own-account working has increased. A quarter of businesses without employees in 2012 had employed at least one employee in the past (Allinson et al. 2013).
meaningful work with D’Arcy and Gardiner’s (2014) account of their growing insecurity and vulnerability.

An important subset of own-account workers (businesses without employees) is freelancers, variously described as independent professionals (Bögenhold et al. 2014), contractors (Barley and Kunda 2006) or interim managers (e.g. Goss and Bridson 1998). Freelance status is not a legal concept defined either by UK statute or by common law but rather a customary term used by workers, end-users of labour services\(^4\) and others to refer to particular kinds of worker or work relationships. Official UK data sources do not define freelance work or record freelancer numbers. Neither the quarterly Labour Force Survey (LFS) nor the annual Business Population Estimates explicitly distinguish freelance workers or freelancer-owned businesses. Freelancers are therefore present but hidden within official statistics. It is possible to use LFS data, however, to estimate freelance workforce numbers on a quarterly basis.

Academic researchers typically use the term freelance to refer to own-account workers in particular occupations or sectors, particularly creative and media occupations (Storey et al. 2005; Creative Skillset 2013; Mould et al. 2014), including journalism (Baines 1999), television and radio (Dex et al. 2000; Saundry et al. 2007), film (Davenport 2006; Rowlands and Handy 2012), publishing (Stanworth and Stanworth 1995), photography and make-up artists (Moeran 2009), public relations (Tench et al. 2002), translation services (Fraser and Gold 2001; Dam and Zethsen 2011), design (Henninger and Gottschall 2007), art (Menger 1999) and music (Armstrong 2013). Arguably, there are many more freelancers in the UK than are conventionally described as such.

Much of what is known about freelance workers is confined to those occupations/sectors where the term freelance working is well-established. We know very little about own-account workers in occupations where the term freelance is not widely used but which meet the definition presented here, for instance, medical professionals such as nurses, midwives and health visitors (Drennan et al. 2007). Moreover, many studies of own-account/freelance working date back to the 1990s (e.g. Boyle 1994; Stanworth and Stanworth 1995) and need updating to take account of shifts in the economic, social and political context.

The purpose of the article is to examine trends in the size of the UK freelance workforce during the 1992-2015 period and to consider possible explanations. This article draws on, and complements, material presented in Kitching and Smallbone (2008, 2012a, 2012b). Studies of own-account working/freelancing have typically focused on the supply side - on what motivates individuals to work on this basis (Mallon 1998; Ursell 2000; Hughes 2003; Croson and Minnitti 2012), the nature of work relationships (Baines and Robson 2001; Johns 2010), how freelancers experience various aspects of their working lives in terms of

\(^4\) End-users include employers, who hire workers under contracts of service, and clients, who engage workers under contracts for services.
autonomy, uncertainty and social isolation (Ekinsmyth 2002; Storey et al. 2005; Clinton et al.; 2006; Rowlands and Handy 2012; Armstrong 2013), levels of commitment to the organisations that hire them (Süss and Kleiner 2012), and building ‘portfolio’ careers (Gold and Fraser 2002). I seek to rebalance this supply-side emphasis with a focus on the demand side of the market: who are the end-users of freelance workers? How frequently or intensively are freelancers used? And for what purposes? I present secondary data on some of these issues but emphasise the limited and fragmented character of the evidence base. Many of the arguments presented may be of wider international relevance as freelancers demonstrate a strong presence in other mature market economies (Rapelli 2012).

The article is organised in four sections. Section 2 defines freelance work and provides details of how this definition might be operationalised using the LFS. Section 3 presents LFS data to describe important trends in freelancer numbers. Section 4 outlines possible explanations for the trends and section 5 identifies gaps in knowledge.

2. Defining and Operationalising Freelance Work

A broad definition of freelance work is proposed, one intended to extend coverage to workers who are not conventionally described in freelance terms (Kitching and Smallbone 2008). Freelancers are defined as those genuinely in business on their own account, working alone or with partners or co-directors, in skilled non-manual occupations. Freelancers may be self-employed proprietors and partners in unincorporated businesses, directors of limited companies or employees in PAYE umbrella companies. While research has focused on creative occupations/sectors where the term freelance is customarily used, own-account workers in a wide range of managerial, professional, scientific and technical occupations might also be treated as part of the freelance workforce.

This definition of freelance work can be operationalised in large part using LFS data.5 The UK Standard Occupational Classification (SOC) 2010 distinguishes nine major occupational groups according to skill level and specialisation, defined in terms of the nature and duration of the qualifications, training and work experience required for competent performance (Office for National Statistics 2010). SOC major groups 1 to 3 refer to ‘managers, directors and senior officials’, ‘professional occupations’ and ‘associate professional and technical occupations’ respectively. These three groups are argued to correspond broadly with skilled non-manual occupations and might, therefore, constitute a skill/occupation criterion demarcating freelance work from other types of own-account working. This definition distinguishes freelancers from own-account workers.

5. LFS do not permit identification of umbrella company freelancers. Nor can we be certain that particular individuals classified as freelancers using the LFS would be considered genuinely in business on their own account by the UK tax authorities or by an employment tribunal.
workers in lesser-skilled non-manual occupations and from those in manual jobs. Alternative definitions of freelance work, based on different assumptions, are of course possible; Mould et al. (2014), for example, include some occupations within SOC major groups 5 to 7 as potentially including freelancers too.

The LFS provides quarterly estimates of UK workforce numbers based on interviews with approximately 100,000 adults in 50,000 households. The LFS categorises respondents’ work status in main and, if relevant, second jobs during a reference week. Working respondents may be classified as employed, self-employed, on a government scheme or as unpaid family workers; the self-employed are divided into those with and without employees. The self-employed without employees are described as own-account workers here. Results are weighted to be representative of the adult population in terms of age, sex and region. Estimates should, however, be treated with caution as they rely on data sources created for purposes other than quantifying freelancer numbers and are known to be subject to error (Machin 2008).

LFS data allow freelancers in main and second jobs to be identified and their numbers estimated. Freelancers are defined as the self-employed without employees, working alone or with partners, in an SOC major group 1-3 occupation in a main job or in a second job with some other status in main jobs (employee; employer; or self-employed without employees, working alone or with partners, in an SOC major group 4 to 9 occupation).

3. The Expansion of Freelancing

The UK freelance workforce has expanded from 1.04m workers in Q2, 1992 (the first period for which quarterly data are freely available online to subscribers to the UK Data Archive) to 1.91m in Q2, 2015 (Figure 1). This constitutes a substantial 84 per cent increase over the period. During the same period, workforce jobs, defined as all main and second jobs in the UK economy, have increased from 25.8 to 32.1 millions, an increase of approximately 24 per cent. As a proportion of all workforce jobs, therefore, freelance jobs have risen markedly from 4.0 to 6.0 per cent.

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6. LFS relies on self-report data and respondents may report incorrectly, often leading to over-reporting of self-employment. Second, approximately one quarter of responses are obtained from proxy respondents, although follow-up studies suggest this does not affect estimates of work status (Office for National Statistics 2006). Third, LFS excludes certain groups - temporary foreign workers, those with three or more jobs and those with work engagements outside the survey reference period - leading to an underestimation of self-employment.
The increase in freelancer numbers has been broadly linear across the 1992-2015 period (Figure 1). The principal exception relates to the 2000-1 period, for which data are missing. Freelance worker numbers in Q4, 2000 were estimated to be 1.26m; for Q2, 2001, the figure was 1.11m, a decline of approximately 12 per cent. The reasons for this sharp fall are unclear although it might relate to the issue of ‘IR35’, a tax measure which came into force in April 2000. The purpose of IR35 is to eliminate the avoidance of tax and National Insurance Contributions through the use of intermediaries. Freelancers operating as limited companies would be caught by IR35 where the tax authorities believed that the individual ought to be taxed as an employee of the organisation to which they were providing services. Payments to intermediaries such as limited companies are treated as employment income. It is possible that some LFS respondents redefined themselves as employees rather than as self-employed as a consequence of the introduction of IR35.

The upper line in Figure 1 represents all freelance workers in both main and second jobs; the lower line shows the trend for freelancers in main jobs only. Both trend lines have increased at broadly the same rate across the 1992-2015 period. Hence the proportion of freelancers in main jobs as a proportion of all
freelancers has remained broadly constant at approximately 84-89 per cent in every quarter throughout the period. It is important to note that the distinction between main and second jobs does not equate to the distinction between full- and part-time jobs. Both main and second jobs could be part-time with regard to hours of work. Indeed, in Q2, 2015, 41 per cent of freelancers in main jobs worked basic usual hours of 30 or fewer per week.

Finally, freelancers have grown as a proportion of all own-account workers, from 39 per cent in 1992 to 45 per cent in 2015 (Figure 2, upper line). This proportion has fluctuated considerably around the trend line during the period. The proportion reached a low-point of 38 per cent in 1993 and peaked at 47 per cent in 2000. There was a noticeable decline from 47 to 41 per cent during 2000-1, for which one quarter’s data is absent. A similar picture of fluctuation around a broad upward trend is evident for freelancers as a proportion of all self-employed too. Freelancers have increased from 28 to 38 per cent of all self-employed, with a marked dip from 35 to 31 per cent in 2000-1.

Figure 2: Freelancers as a Proportion of the Self-Employed

The focus has been on identifying the principal trends in freelancer numbers. Yet the freelance workforce is highly diverse, varying in terms of personal, household and work characteristics. The LFS permits identification of constituent subgroups with particular characteristics, for example, freelance workers in particular occupations, or disaggregated by gender, age or region, each of which might be the subject of separate analyses. For instance, the LFS distinguishes 90
minor occupation groups and 328 individual occupations; numbers for each might be tracked over time.

4. Explaining the Trends

Much has been made of the increase in own-account working in developed economies in recent decades in terms of individual choices to become, and remain, own-account/freelance workers (Knell 2000; Kunda et al. 2002; Philips 2008; Dellot 2014a). But such explanations provide a one-sided view if they focus exclusively on workers’ motivations and omit proper consideration of the broader context of choice. Individuals’ decisions to become and remain freelance workers might reflect deeper socio-cultural influences that shape preferences but these must be situated within the context of the broader economic, political and social forces that influence the demand for freelancers’ labour services.

Political/regulatory, market and technological developments have arguably all contributed to the growth of UK freelancing in recent decades as well as socio-cultural influences. Public policy has played a major role in creating opportunities for self-employment and small business, and in influencing public attitudes to taking up such opportunities (Armstrong 2005; Bennett 2014). Such enterprise policies, in their original incarnation in the 1980s, have at least two distinct dimensions: the remodeling of organisations along the lines of the commercial enterprise, including the transfer of publicly owned organisations to the private sector; and the acquisition and exercise of particular ‘enterprising’ qualities (Keat 1991). The privatisation programme of the 1980s led to a shift of jobs from the public to the private sector. Reforms in the regulation of public service broadcasting, for instance, generated changes in industrial structure and contractual arrangements, leading to a proliferation of small production and service companies, many of them single-person, freelance operators supplying production, camera, sound, lighting, and editing services (Dex et al. 2000; Baumann 2002: Antcliff 2005). Changes in public sector employment practices might also exert an indirect influence on freelancing by encouraging professionals to quit their jobs and take up freelancing (Drennan et al. 2007). Recent cuts in public expenditure to reduce the national debt have also coincided with the significant expansion of own-account working.

As in developed economies throughout the world, the UK occupational structure has continued the shift towards non-manual occupations in recent decades. In 1992, those in SOC major groups 1 to 3 constituted 33 per cent of all employees and 38 per cent of all own-account workers in main jobs. These figures compare with 43 per cent of employees and 44 per cent of own-account workers in 2015. Such compositional changes in the aggregate workforce would tend to increase the proportion of freelancers independently of any changes in individual preferences to work on a freelance basis.
The UK regulatory framework is permissive. There are few legal limits on employer/end-users’ capacity to design contractual arrangements with workers as they wish. National regulatory frameworks vary in the restrictions they impose on end-users regarding types of work contract and employment rights. The UK ranks high in OECD national listings with regard to the flexibility employment protection regulation permits to employers, as measured by legislative restrictions on the use and dismissal of permanent and temporary workers (OECD 2013). UK-based organisations are able to contract with workers in a variety of ways to suit their particular requirements - as permanent employees (full- or part-time) or as various forms of temporary worker, whether as employees, agency workers or as self-employed subcontractors, including freelancers.

Several studies demonstrate that organisations have sought to restructure their operations in order to match labour inputs more closely to commercial requirements with a view to achieving numerical flexibility and cost savings; studies include survey (Purcell and Purcell 1998; Houseman 2001; Kalleberg et al. 2003; van Wanrooy et al. 2013) and case study work (Stanworth and Stanworth 1997; Burke 2012; Watson 2013). Using freelancers is one means of achieving flexibility, alongside a range of flexible working practices, including part-time, temporary, fixed-term, agency, annual hours, zero hours, shift and home-based working. The UK Workplace Employment Relations Study found that use of freelancers increased from 11 per cent of private sector workplaces (with five or more employees) in 2004 to 15 per cent in 2011 (van Wanrooy et al. 2013).\textsuperscript{9} External labour strategies are not the exclusive preserve of large organisations; small employers use flexible labour practices too (Burke 2011). A recent survey suggests that 55 per cent of the self-employed would prefer to work with freelancers rather than employ someone on payroll (Dellot 2014b). Commercial contracts have replaced employment contracts in many cases, as organisations have made employees redundant and then re-engaged them as freelancers (Boyle 1994; Baines 1999).

Freelance working has become deeply institutionalised in particular occupations/sectors. Work organised on a project or commission basis in creative occupations/sectors, for instance, in publishing, film and television, art, music and translation services has been the historical home of freelance workers (Fraser and Gold 2001; Ekinsmyth 2002; Storey et al. 2005; Mould et al. 2014). Organisations operating in these sectors expect to be able to draw on a pool of external freelancers in order to meet their labour requirements; individuals knowing such opportunities exist are willing to supply their labour on freelance terms. In sectors where freelance work is less well-established, or where the term

\textsuperscript{8} For those in second jobs, the figures were 27 per cent of employees and 49 per cent of own-account workers in 1992, and 34 per cent of employees and 64 per cent of own-account workers in 2015.

\textsuperscript{9} No definition of ‘freelancers’ is provided so it is impossible to say whether it corresponds to the one presented here.
is not conventionally used to describe independent, skilled non-manual contractors, there is less evidence on the demand for, and use of, such workers.

Technological changes have made it possible for freelance workers and other small business operators to deliver services efficiently at low levels of scale. Freelancers can serve clients effectively working at or from home (Bögenhold et al. 2014), armed only with a portable computer and a broadband connection. In the UK, there are an estimated 4.2 million homeworkers, including both self-employed and employees, an increase of 1.3 million since 1998 (Office for National Statistics 2014b). One and half million people work at home or in the same grounds or building; a further 2.7 millions work in different places using home as a base. More than two thirds of homeworkers are self-employed and almost three quarters work in high-skilled (SOC major groups 1 to 3) occupations. Freelancers can perform much of their work at home, remotely from the end-users of their services (Baines 2002). LFS data suggest that in 2015, 1.15m freelancers in main jobs (69 per cent of all such freelancers) work mainly at or from their own home.

5. Unanswered Questions

While such data are useful for explaining change in particular occupations/sectors, we still lack a comprehensive analysis of the forces underlying freelance workforce trends. Research on end-users’ flexible labour practices often does not distinguish the use of freelancers from the use of own-account workers, agency workers, or even from temporary workers in general. This section briefly outlines a research agenda of unanswered questions, paying particular attention to the demand for freelance workers. Where end-users are asked questions about the use of freelancers, there is a need to clarify to whom they refer. Respondents may confine the term to those conventionally defined as such and thereby possibly under-state use.

Survey data exploring whether organisations use freelancers or not provide quite limited insights into the demand for freelancers. It tells us nothing of who the end-users are, the frequency or intensity of use, what jobs freelancers do and the functions they perform, or how the use of freelancers relates to users’ strategic aims. End-users might be organisational or personal clients; we do not know, for instance, how many freelancers work for each client type, or both. While it is tempting to focus on organisational end-users, as these are perhaps more visible, and assumed to be dominant numerically, it might be easy to overlook the important economic contribution made by freelancers serving a predominantly personal client base. Organisational end-users likely operate in the private, public and voluntary sectors, in particular industries, and are of different sizes – but, again, we lack precise data on the distribution of freelance workers across types of end-user.
Second, we lack extensive data on end-user motivations for engaging freelance workers and the broader circumstances of use. Answers to such questions move us towards developing explanations of freelancing rather than simply describing patterns of use. For instance, are freelancers used to provide *quantitative* flexibility, that is, to match labour demand to variations in customer demand and thereby to reduce labour costs? Or are they used to provide *qualitative* flexibility, to provide different kinds of knowledge and skills, or to perform quite different functions to the existing workforce? To answer these questions, empirical data is needed on the scale, intensity and purpose of use of freelancers by particular end-users in particular contexts. Organisations operate in a wide variety of industry settings, face different product market and cost pressures and have different labour requirements. Burke’s (2012) case studies of 23 organisations found use of freelancers to vary with the requirements of specific projects. Many organisations were intensive users of freelancers, hiring them to produce innovations themselves or to enable the innovative activities of others. Mould et al. (2014) also emphasise the contribution of freelance workers to the creative industries as a whole and not just to individual end-users. But beyond these studies little is known of freelancers’ qualitative contributions to end-users’ products and business processes.

One important issue is whether organisations use freelance workers as an element of a novel strategy for resourcing labour requirements or as a reactive, pragmatic response to particular circumstances, one likely to be reversed if and when environmental conditions change. End-users might face contradictory pressures with regard to meeting their labour needs, partly as a response to changing product and labour market opportunities and constraints. How organisations respond to these conflicting pressures increases or reduces opportunities for freelance working. Case study evidence suggests that organisations, large and small, are using freelance labour more strategically to drive product and process innovation (Burke 2011 and 2012). But how typical such findings are is unknown.

6. Conclusions

The UK freelance workforce has increased markedly over the past 20 years but we lack a comprehensive understanding of the forces underlying this increase. No doubt political/regulatory, market, technological and socio-cultural forces impact different occupations/sectors variably, so the interaction of end-user demand for freelancers with the supply of individuals willing to work on a freelance basis generates diverse effects. Explanation of overall trends needs to be sensitive to the heterogeneity of freelance work and the variable historical trajectories of specific occupations/sectors. Indeed, freelancer numbers may decline in some occupations/sectors; these changes require explanation too.
Collectively, these forces give rise to an overall trend in freelance working. At present, we can only sketch out the broadest outlines of how these forces have produced the trends observed. Further research is required to explore the role and significance of this important, expanding business and labour market group.

Acknowledgements: I am grateful to the UK Data Archive for access to unpublished Labour Force Survey data.
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Capturing Statistically the “Intermediate Zone” Between the Employee and Employer Firm Owner

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Abstract. The number of solo self-employed is increasing in many Western economies yet available government statistical data sources are not always well designed to assess the magnitude of this phenomenon and its modalities. This paper provides an overview of the most relevant public data sources, and discusses the pros and cons of each data source regarding the available data on solo self-employment and its various segments (e.g., freelancers, hybrid entrepreneurs, dependent entrepreneurs). We conclude that, at present, labour force surveys are superior to business establishments registers when it comes to researching solo self-employment. However, using data from the Polish statistical office, we also demonstrate the value added of combining both types of data sources.

Keywords: solo self-employed, freelancers, business ownership statistics, labour force surveys.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

The significant and growing share of solo entrepreneurs, broadly defined as those conducting business activity without employees, among the economically active population attracts increasing attention from policy makers and the research community. According to Rapelli (2012), in the European Union in 2011, solo self-employed accounted for 71% of all self-employed (i.e. those with and without personnel). In such countries like the United States, Canada or Germany the latter share increased by 10% points between 1992 and 2008 (Van Stel et al., 2014). However, the lack of government statistical data makes it difficult to assess the magnitude of such phenomenon and its modalities.

To address this issue we have looked into publicly available statistical data compiled at the international level in the European Union and OECD countries. For more detailed analysis we have investigated Polish government statistics. The main objective was to assess whether it is possible to estimate the size of the

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“intermediate zone” between the employee and employer firm owner and to make a further breakdown into various sub-categories of such an “intermediate zone”. As a first step, we have looked into the possibility to distinguish between employers and those conducting business activity without employees (solo self-employed). Next, we have looked into whether it is possible to find data allowing to identify specific segments of the “intermediate zone”, like those in specific professional occupations (freelancers), hybrid and dependent entrepreneurs. We conclude with recommendations on further use of the official statistical data for research on solo self-employed.

2. Separating Solo Self-Employed from Other Forms of Economic Activity

For separating and assessing the size of the solo self-employed group one may look into two sources of official statistical data available in developed OECD countries: business statistics and labour force surveys. In the business statistics the unit of analysis is the business establishment. The second source of data is the labour force survey (LFS) where the unit of analysis is the household/individual. Although in both sources significant efforts have been made by OECD and European Commission (Eurostat) to ensure comparability, differences still exist among countries as to the methodologies used and the data collection process.

2.1. Business Statistics

Two approaches in capturing solo self-employed by government statistical authorities can be distinguished (Table 1). The U.S. tradition was to define as business owners only those who employ personnel. In addition, while counting the number of persons engaged only those with employment contracts were included and not the business owners. The concept of a ‘job’ in the classic question ‘Who creates jobs?’ raised by David Birch in the 1970s clearly related to those engaged on the basis of employment contracts. The incidences of non-employer firms were viewed as forms of contingent or flexible work arrangements (Polivka and Nardone, 1989).

Only recently, by merging various databases it was possible to include non-employer establishments in the U.S. statistics (Davis et al., 2009). This reflected a growing consensus among U.S. researchers that “......we need to understand why fewer and fewer American entrepreneurs are starting businesses with employees. Without knowing the answer to that question, just interpreting the data on small business will be difficult” (Shane, 2012).

On the other hand, within the national statistical systems in European countries there was a tradition of covering both employer and non-employer entities and counting both employees and business owners defined jointly as
persons employed\(^2\). There are significant differences among countries as to the coverage of company data in the business registers. Over the years Eurostat - the statistical arm of the European Union - introduced a set of uniform standards with the aim to ensure international comparability of statistics provided by the national authorities.

A significant step in the harmonization of business statistics in the European Union has been taken in 2008, reflected in the recast of existing legislation (European Parliament, 2008). Data coverage has been broadened as part of the Entrepreneurship Indicators Programme (EIP) - a joint initiative of OECD and Eurostat aimed at evaluation of entrepreneurial activity across nations with the use of a uniform range of indicators (OECD, 2009). This also resulted in the broader geographic coverage, by adding non-European developed countries and few developing ones (Mexico, Turkey).

Initially the SMEs statistics produced by Eurostat did not allow one to separate solo self-employed from employers as both were covered within the broader microenterprise category. Later on, a new statistical subsystem was added – the Business Demography Statistics, which facilitated breakdown of microenterprises into three sub-categories: so called zero class (solo), those with 1-4 employees, and 5-9 employees. The latter data became available for many EU countries since 2008.

However, the inclusion of solo self-employed was not possible in all EIP indicators. Intermediate solutions had to be adopted in relation to certain entrepreneurship indicators introduced by OECD/Eurostat. With respect to measuring the impact of high-growth firms (gazelles) the traditional American approach prevailed (only employer firms and employees covered) whereas in the case of indicators measuring the survival, creation and destruction of employment, only employer firms were taken into account. This was justified with the fact that the motives for registering a business without hiring employees did not necessarily reflect the desire to start a business, which could distort the observed trends.

Table 1 demonstrates that researching the solo self-employment phenomenon on the basis of business establishment statistics is often difficult, since only the data sources mentioned in the bottom right quadrant facilitate proper investigation of one-person businesses.

\(^2\) Although employees and persons employed are clearly two distinct statistical categories, in public debates, media and unfortunately also in scientific literature and official documents of government agencies, these terms are being used interchangeably which causes confusion and misinterpretation of data.
2.2. Labour Force Statistics

In the labour force surveys (LFS), regularly administered by the national statistical authorities, the unit of analysis is the household/individual. Here the work on uniform methods of compiling international statistics in developed OECD countries dates back to the 1960s with broader geographic coverage dated from 1995. It is worth mentioning that within the EU, new member states have started submitting relevant data since 2000, before formal EU accession in 2004. Data on self-employed subdivided into employers and so called own account workers (alternative term of solo self-employed) are available for some countries since 1983 with broader country coverage starting from the late 1990s.

Although great effort has been made by OECD and Eurostat to achieve uniformity of LFS data, there are still methodological differences among countries which make comparative analysis difficult. For instance, owner-managers of incorporated businesses (OMIBs) are counted as self-employed in some countries but as employees in others (OECD, 2000). This and other issues have been addressed by the EIM/Panteia research team while developing the so-called COMPENDIA database. Specific measures and techniques have been used to ensure comparability of LFS self-employment data (Van Stel, 2005). These experiences could be used as a basis for similar steps relating to the subset of solo entrepreneurs. In this respect, a first attempt has been made in Van Stel et al. (2014).

### Table 1: Categories of business entities and forms of employment included in the statistics and research on employment in the enterprise sector

<table>
<thead>
<tr>
<th>Categories of persons engaged</th>
<th>Categories of business establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer firms only</td>
</tr>
<tr>
<td>Employees only</td>
<td>A.1. Statistics and research carried out in the U.S.</td>
</tr>
<tr>
<td></td>
<td>A.2. Entrepreneurship Indicators Programme (EIP) – measuring impact of high-growth firms and gazelles (OECD/Eurostat)</td>
</tr>
<tr>
<td></td>
<td>Employer and solo entities</td>
</tr>
<tr>
<td>Employees and business owners</td>
<td>C.1. EIP – survival rates</td>
</tr>
<tr>
<td></td>
<td>C.2. EIP – job creation and destruction</td>
</tr>
<tr>
<td></td>
<td>D.1. New U.S. data combining employer and non-employer entities</td>
</tr>
<tr>
<td></td>
<td>D.2. Eurostat – SMEs statistics by size classes</td>
</tr>
</tbody>
</table>

Source: Own presentation.
A clear advantage of using LFS data as compared to business sector statistics lies in the access to microdata, granted to researchers under specific conditions. The microdata offer much greater opportunities for carrying in-depth analysis as compared to aggregated figures. In LFS there are well defined procedures for assessing such data at the country but also at Eurostat levels (EU 2014). No such procedures exist so far for Eurostat business establishment statistics and only few countries introduced relevant procedures allowing access by researchers to such data.

3. Segmenting Solo Self-Employed

Existing research points to the diversified characteristics of the solo self-employed category. We have looked at the availability of data allowing further segmentation of (solo) self-employed by industry, occupation and other characteristics, like self-employment combined with employment (hybrid entrepreneurship), and dependent character of solo activity.

3.1. Industry (Sector of the Economy)

This is an important criterion, since the prevalence and characteristics of solo self-employed vary significantly across various sectors of the economy. Basically both Eurostat datasets on business establishments and LFS offer breakdowns by major sectors of the economy (NACE 1-digit classification).

3.2. Occupation

One important subset of solo self-employed, namely “freelancers” is typically defined on the basis of their specific occupations and skills (Kitching and Smallbone, 2012; Burke, 2012). Data on occupations is not available in business statistics whereas in LFS major categories of occupations are provided. In this case Eurostat relies on the ILO International Standard Classification of Occupations (ISCO-08) (ILO 2012). At the country level, statistical authorities use national classifications of occupations. Further investigation is needed for evaluating the conformity of the national systems with ISCO-08.3

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3. The Polish Statistical Office claims such conformity.
3.3. Hybrid Self-Employed

Here we have in mind those individuals who combine employment positions with additional business activity. In principle, business establishment statistics do not allow separation of hybrid entrepreneurs from other self-employed. Such categorization is possible in LFS statistics. This is because LFS data is collected not only for primary but also for secondary activity (second job).

3.4. Dependent Entrepreneurship

Here we refer to the incidences of solo self-employed who work (provide services) with one client (contracting party) only. At present both LFS and business international statistics databases do not provide such information. We have established, however, that Polish statistical authorities do collect such information from entities participating in both (LFS and business statistics) surveys. This implies that at least in some countries relevant data, although not published, can be provided upon individual request.

One has to bear in mind that the population of dependent entrepreneurs is largely diversified. So far, the focus of researchers and policy makers is on involuntary cases introduced in order to evade labour protection legislation and lower tax and social security contributions (Kautonen, et al., 2010; Román et al., 2011). Limited attention is paid so far to the incidences of dependent self-employment which are demanded by the employees or reflect mutual interest of employee and employer. Referring to the data collection procedures by the Polish statistical office, the self-employed are requested to state if they provide services to one contracting party only. This implies limited use of national statistics for studying internal segmentation of the dependent self-employment category.

4. The Value of Combining Business Establishments Data and LFS Data

Our preliminary findings suggest superiority of LFS data for researching the “intermediate zone” phenomenon as compared to business establishment data. This is true for aggregated statistics but also taking into account easier access to LFS microdata. However substantial arguments can be raised for parallel and comparative use of both sources of data. From the methodological perspective, labour force data naturally drive the analysis towards labour economics and more specifically occupational choice theory. However, those labour force participants in the “intermediate zone” shall also be seen as entrepreneurs, which calls for a different methodological perspective.

Parallel use of both business establishments and labour force data also facilitates triangulation of research results. However researchers should be aware
of the essential differences in the way data is collected and aggregated. For example:

- Aggregated business establishment statistics typically exclude agriculture, whereas LFS includes agriculture;

- LFS data report incidences of solo self-employment irrespective of the legal form, whereas in business statistics only registered businesses are included;

- LFS aggregated data typically present own account work restricted to primary activity, while business statistics cover both and do not distinguish between primary and secondary activity.

As discussed earlier, the negative effect of said differences in comparative research can be mitigated by specific adjustments in the way data is aggregated. This is possible particularly once access to microdata is granted.

The parallel use of LFS and business statistical data, which is not popular within the academic community yet, is particularly relevant for policy-oriented research. To illustrate this argument we have broken down the Polish microenterprise sector (up to 9 persons employed) into microemployers and solo self-employed. The latter segment has been further sub-divided into “classic” solo, hybrid and dependent entrepreneurs. For that purpose we have requested additional, unpublished data from the Polish statistical authorities. The aggregated data on business establishments was used as a base, whereas LFS data helped to estimate the composition of solo self-employed. The results are given in Table 2. They clearly demonstrate that the microenterprise segment which includes over 90% of all business establishments in most EU countries and therefore is very important in the EU entrepreneurship policy, is in fact an obsolete category. This is because it artificially aggregates two sub-groups, i.e., micro-employers and solo self-employed, which are principally different in size, operational characteristics and macro-economic impact. Furthermore the research exercise demonstrates a diversified picture of solo self-employed, calling for subtle policies addressing specific sub-segments.
Table 2: Composition of microenterprises in Polish non-agricultural sector in 2012
(number of business establishments and persons employed, x 1000)

<table>
<thead>
<tr>
<th>Categories of microenterprises</th>
<th>Number of establishments</th>
<th>Persons employed</th>
<th>of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Business owners</td>
</tr>
<tr>
<td>Total</td>
<td>1 773.4</td>
<td>3 522.2</td>
<td>2 023.5</td>
</tr>
<tr>
<td>Micro-employers</td>
<td>535.1</td>
<td>2 159.2</td>
<td>660.5</td>
</tr>
<tr>
<td>Solo self-employed</td>
<td>1 238.3*</td>
<td>1 363.0*</td>
<td>1 363.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solo (excl. hybrid and dependent)</td>
<td>801.6</td>
<td>890.5</td>
<td>890.5</td>
</tr>
<tr>
<td>Hybrid</td>
<td>355.1</td>
<td>390.8</td>
<td>390.8</td>
</tr>
<tr>
<td>Dependent</td>
<td>81.6</td>
<td>81.6</td>
<td>81.6</td>
</tr>
</tbody>
</table>

*Some of solo business establishments are organized as partnerships which results in 10% higher number of solo business owners compared to the number of establishments.

Source: Own calculation based on data provided by the Central Statistical Office of Poland.

5. Concluding Comments

The present analysis of available statistical data pertaining to solo self-employed shall be seen as preliminary. Further investigation is needed, inter alia, on the scope of information on solo self-employed collected by national and international statistical authorities. Clearly, only part of the data is published or available in electronic format and hopefully more data can be made available for scientific research, upon individual inquiries to the statistical offices. There is also a need to analyse in greater depth the comparability of data provided by individual countries in order to assess the need for necessary adjustments and harmonization. We also demonstrated the value added by combining business establishments data and labour force survey data. Finally, our exercise called for a distinction in the former type of data between micro-employers and the solo self-employed (i.e., one-person businesses).
References:


Capturing Statistically the "Intermediate Zone"
Job Quality and Self-Employment: Is it (Still) Better to Work for Yourself?

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Institute for Employment Studies, Brighton, UK

Abstract. There has been a longstanding debate about whether self-employment represents ‘good work’, but little direct evidence on intrinsic job quality in any detail. This essay reports research using data from the UK Skills and Employment Surveys to compare intrinsic job quality and job satisfaction among employees and the self-employed. It finds that self-employment involves higher intrinsic job quality and job satisfaction than working as an employee, although self-employed people work harder, with less training, and with less satisfaction about their job security. More recently, over the 2006-2012 period, the quality of self-employment has deteriorated. However, the intrinsic quality of self-employment generally improved over the past two decades (compared with those working as employees), even if the relative advantages have fallen since 2006.

Keywords: self-employment, job quality, job satisfaction.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

Since 2000, both before and after the 2008 onset of recession, the UK experienced strong growth in self-employment. Although some more excitable commentators suggested that this growth was unprecedented, it wasn’t; we experienced even faster self-employment growth in the post-1979 Thatcher era, and expansion at that time turned out to be short-lived. Nevertheless, since 2000 self-employment has grown from 3.2m to 4.5m (as at summer 2014), or from 11.8% to 14.8% of the employed workforce, apparently independently of the economic cycle (the growth started well before the financial crisis of 2007-8, and continued at a similar rate thereafter).

1. This essay, prepared for an IPSE Workshop on 14 November 2014 (and a special issue of the International Review of Entrepreneurship), is largely based on work undertaken by the author jointly with Ben Baumberg of Kent University, which will be published in an OUP edited volume in 2015 (Baumberg and Meager, 2015). While the current author is responsible for the views expressed in this essay, and any errors therein, the original analysis relied heavily on the expertise and quantitative skills of Dr Baumberg

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This growth has generated interest and debate about the nature and quality of the jobs undertaken by the ‘new self-employed’\(^4\). Are they as some would argue and the UK government would dearly wish, dynamic entrepreneurs creating satisfying work for themselves (and others) in growing high value-added sectors? Or are they, as others have claimed\(^5\), an army of ‘odd jobbers’ struggling for a toehold in a slack labour market via precarious low-skilled, poorly-remunerated work\(^6\)? Or, as seems possible, do they contain important components of both? It is notable from the literature dating back to the 1990s (see Meager and Bates, 2004), for example, that the distribution of income of the self-employed has long been highly polarised (with high concentrations at both ends of the earned income distribution), and as previous work by the author shows:

“In practice, the self-employed tend to have much more polarised incomes than do employees, and once other characteristics are controlled for, the impact of being self-employed is to increase an individual’s likelihood of falling into the lower deciles of the overall income distribution while not increasing the likelihood of moving up into the higher deciles (Meager and Bates, 2001). More generally, it seems from the UK data that there is a ‘scarring’ effect from self-employment, in the sense that even when individuals leave self-employment, having self-employment experience can have a significant negative impact on employment and income prospects later in life” (Baumberg and Meager, 2015)

While conclusive data are not available for the post-2008 period, there is, nevertheless, some preliminary evidence that the balance may further have shifted in recent years towards low income self-employment, with Levy (2013) noting, on the basis of Family Resources Survey data, a dramatic fall in the median real incomes of the self-employed, which dropped by 16% in the three year period from 2007/08 to 2010/11 (much faster than the recessionary fall in real incomes of employees).

The answers to these questions about the nature and composition of the recent growth in self-employment (as the Bank of England\(^7\) and others have noted) have important implications for the UK’s economic future, and the rate of growth of productivity.

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4. Although even this is a bit of a misnomer since, as D’Arcy and Gardiner (2014) show, a significant part of the recent growth is due not so much to new people entering self-employment, but to existing self-employed people remaining self-employed for longer, particularly older self-employed people (perhaps because they are postponing retirement in the face of dwindling pension pots?)


6. As Baumberg and Meager (2015) note, part-time self-employment which has been growing faster than overall self-employment since 2000, recorded a rapid acceleration in the post-2007 period, both in absolute terms and as a share of total self-employment. For the first time, a higher proportion of self-employed than employees now work part-time.

2. Self-Employed and Employee Job Quality

In this essay, we consider one aspect of this interesting debate, namely what is known about the ‘quality’ of the jobs undertaken by the self-employed. In doing this we build on a raft of previous literature which reports greater levels of happiness and job satisfaction among the self-employed than among employees, and examine whether these differences are also reflected in more objective measures of intrinsic job quality. Our analysis makes use of a consistent survey data series going back to the 1980s (we refer to these as the Skills and Employment Surveys: SES). We present selected findings here, and a fuller analysis can be found in Baumberg and Meager (2015).

Our analysis looks at various measures of intrinsic (self-reported) job quality focusing on four particular aspects covered in the survey:

- Task quality (including discretion, variety and skill match).
- Skill requirements (training and learning).
- Generic skills.
- Work effort (both intensity and hours).

An additional aspect we look at (which, as noted above, has received more attention in the literature) is job satisfaction (or satisfaction with a range of elements of the job). While this is related to intrinsic job quality, it should be stressed that it reflects the individual’s satisfaction with the quality of their job, which may be influenced by a range of external factors as well as the quality of the job itself. A person’s expressed job satisfaction may for example change with the economic cycle, not because the quality of the job has actually changed but simply because, depending on economic circumstances, she or he may be more or less grateful to have a job at all.

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8. This literature has both academic (Benz and Frey, 2008; Binder and Coad, 2013; Millán et al., 2013, Sutherland, 2013), and policy-oriented strands (D’Arcy and Gardiner, 2014; Dellot, 2014).


10. Note that, while it would be particularly interesting to examine how some of these measures of intrinsic job quality (especially task quality) evolve for individuals over time, such analysis is not possible with the repeated cross-section surveys used here, and would require a panel data set.
The survey data enable us to look first at how these aspects of job quality (and individuals’ satisfaction with them) vary between the self-employed and employees\textsuperscript{11}. So we are, for example, able to re-examine some of the inferences emerging from earlier literature, such as that the self-employed may have better job quality in some aspects (e.g. higher levels of task discretion) but lower job quality in others (e.g. being more likely to suffer from overwork or exhaustion). Similarly we are able to explore some aspects of job quality which have not previously been considered in research on self-employment (e.g. the use of generic job skills).

Table 1, using pooled data from the 2006 and 2012 surveys, compares the self-employed with employees on a variety of standardised indicators of job quality, by running multivariate statistical models (of various types depending on the nature of the indicator) controlling for a set of personal and job-related characteristics (i.e. we attempt to take account of the possibility that any observed differences may partly reflect the fact that the self-employed are different kinds of people doing different kinds of jobs from employees). In practice, the results shown here with controls are (with few minor exceptions) largely the same as those emerging from a simple comparison between the self-employed and employees.

In simple terms the results show that, compared with employees, the self-employed have greater task discretion and variety, better skills match and longer learning time to do their jobs (albeit with less training). Compared with employees, they make greater use of some generic skills (physical skills, self-planning skills and client communication skills), but less use of others (computer, literacy and influencing skills); they work noticeably harder and longer hours\textsuperscript{12} than employees, but slightly slower.

\textsuperscript{11} Note that the research reported in Baumberg and Meager (2015) also looks at differences in job quality between sole traders and the self-employed with employees, showing important differences between the two groups (with the-employed-with-staff working harder than sole traders, but having more satisfaction with various aspects of their job). However, the analysis is complicated by selection effects, since some self-employed-with-staff are a subset of people who set out as sole traders, who over time became more successful and were also motivated to expand.

\textsuperscript{12} Note that the working hours variable is one which is affected when the various controls are applied; the difference between self-employed and employees (while still apparent and statistically significant) is reduced considerably once the controls are applied. This suggests that part of the reason that the self-employed work longer hours than employees is due to the type of people they are and the types of job involved, rather than something related to self-employment per se. It should also be noted that the notion of ‘working time’ and the distinction between that and ‘leisure time’ may be less clear cut for the self-employed than for employees.
Table 1: Job quality: self-employed and employees compared (net of controls)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Construction of variable</th>
<th>Self-employed vs. employees: coefficient &amp; significance</th>
<th>Type of model estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Task quality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretion index</td>
<td>Aggregation of separate 4-pt scales on respondents’ assessments of personal influence over: work intensity, tasks, how they do their job, quality standards (from no influence to great deal)</td>
<td>0.437**</td>
<td>OLS regression</td>
</tr>
<tr>
<td>Job variety</td>
<td>How much variety in job? (3-pt scale from none to great deal)</td>
<td>0.592**</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Use of past skills/experience</td>
<td>How much opportunity to use past skills, experience &amp; abilities in present job? (4-pt scale from very little to almost all)</td>
<td>0.504**</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td><strong>Skill requirements</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job training</td>
<td>How much training received since leaving ft-education? (3 pt scale: none, &lt; 2yrs, 2+ yrs)</td>
<td>-0.418**</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Time taken to learn job</td>
<td>More than two years or not</td>
<td>0.669**</td>
<td>Binary logit</td>
</tr>
<tr>
<td><strong>Generic skills</strong></td>
<td></td>
<td></td>
<td>OLS regression</td>
</tr>
<tr>
<td>Computers – importance</td>
<td>These variables are indices derived by the Skills Survey team, based on over 40 questions on the importance of a type of skill in a respondent’s job</td>
<td>-0.383**</td>
<td></td>
</tr>
<tr>
<td>Computers – complexity</td>
<td></td>
<td>-0.106*</td>
<td></td>
</tr>
<tr>
<td>Literacy</td>
<td></td>
<td>-0.183**</td>
<td></td>
</tr>
<tr>
<td>Numeracy</td>
<td></td>
<td>-0.015</td>
<td></td>
</tr>
<tr>
<td>Physical</td>
<td></td>
<td>0.351**</td>
<td></td>
</tr>
<tr>
<td>Influence</td>
<td></td>
<td>-0.264**</td>
<td></td>
</tr>
<tr>
<td>Self-planning</td>
<td></td>
<td>0.329**</td>
<td></td>
</tr>
<tr>
<td>Client communication</td>
<td></td>
<td>0.331**</td>
<td></td>
</tr>
<tr>
<td>Problem-solving</td>
<td></td>
<td>0.043</td>
<td></td>
</tr>
<tr>
<td>Emotional</td>
<td></td>
<td>0.063</td>
<td></td>
</tr>
<tr>
<td>Aesthetic</td>
<td></td>
<td>0.143**</td>
<td></td>
</tr>
<tr>
<td><strong>Work effort</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work at high speed</td>
<td>How often does job require working at very high speed? (7-pt scale from never to always)</td>
<td>-0.192**</td>
<td>OLS regression</td>
</tr>
<tr>
<td>Work to deadlines</td>
<td>How often does job require working to tight deadlines? (7-pt scale from never to always)</td>
<td>-0.137+</td>
<td>OLS regression</td>
</tr>
<tr>
<td>Work hard</td>
<td>Job requires working very hard? (4-pt scale from strongly disagree to strongly agree)</td>
<td>0.367**</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Work beyond what’s required</td>
<td>How much effort put into job beyond what’s required (4-pt scale from none to a lot)</td>
<td>0.437**</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Work under tension</td>
<td>Work under a great deal of tension? (4-pt scale from strongly disagree to strongly agree)</td>
<td>-0.172*</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Exhausted at end of day</td>
<td>How often come home exhausted? (5-pt scale from never to always)</td>
<td>-0.046</td>
<td>Ordinal logit</td>
</tr>
<tr>
<td>Negative job carry-over scale</td>
<td>Scale from Warr (1990), based on impact of work on feelings at home</td>
<td>0.014+</td>
<td>OLS regression</td>
</tr>
<tr>
<td>Usual working hours</td>
<td>Continuous variable</td>
<td>1.583*</td>
<td>OLS regression</td>
</tr>
</tbody>
</table>

**=p<0.01, *=p<0.05 += p<0.10
Source: Baumberg and Meager (2015); data pooled from 2006 and 2012 Skills Surveys
Control variables: gender, age, region, ethnicity, household composition, qualifications, prior work experience, sector and occupation (for details see Baumberg and Meager, 2015).
3. The Relationship with Job Satisfaction

Turning to job satisfaction (Table 2), the results are even clearer. Compared with employees, the self-employed are significantly more satisfied with their job overall, and with all aspects of it, with the sole exception of job security (with which they are slightly less satisfied than their employee counterparts). While some of these differences are expected, others (e.g. the significantly greater satisfaction of the self-employed with pay levels) might be regarded as surprising. It should, however, be noted that that there may be unobserved differences between the two groups other than differences in intrinsic job quality which contribute to these differences in satisfaction. It is possible, for example, that self-employed people have different expectations about job quality; and/or that they have less appealing alternative jobs with which to compare.

Table 2: Job satisfaction: self-employed and employees compared (net of controls)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Construction of variable</th>
<th>Self-employed vs. employees: coefficient &amp; significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay</td>
<td>7-pt scales from completely dissatisfied to completely satisfied</td>
<td>0.216**</td>
</tr>
<tr>
<td>Job security</td>
<td></td>
<td>-0.116*</td>
</tr>
<tr>
<td>Use of abilities</td>
<td></td>
<td>0.389**</td>
</tr>
<tr>
<td>Use of initiative</td>
<td></td>
<td>0.547**</td>
</tr>
<tr>
<td>Hours of work</td>
<td></td>
<td>0.167**</td>
</tr>
<tr>
<td>The work itself</td>
<td></td>
<td>0.391**</td>
</tr>
<tr>
<td>Amount of work</td>
<td></td>
<td>0.185**</td>
</tr>
<tr>
<td>Variety in the job</td>
<td></td>
<td>0.290**</td>
</tr>
<tr>
<td>Overall satisfaction</td>
<td></td>
<td>0.399**</td>
</tr>
</tbody>
</table>

**=p<0.01, *=p<0.05 +P<0.10

Source: Baumberg and Meager (2015); data pooled from 2006 and 2012 Skills Surveys
Control variables: gender, age, region, ethnicity, household composition, qualifications, prior work experience, sector and occupation (for details see Baumberg and Meager, 2015).
All models are OLS regressions

4. Job Quality and Job Satisfaction During and After the Financial Crisis

As well as these cross-section comparisons between the self-employed and employees, the time-series nature of the data set enables us to look at trends in the job quality of the self-employed, and at whether observed differences in job quality between the two groups (self-employed and employees) have been widening or narrowing over time. In Baumberg and Meager (2015) we consider longer-term trends going back to 1992; for the purposes of this present essay, however, we focus on the 2006-2012 comparison, partly because this period gives the most clear-cut evidence of changes in job quality (in that nearly all the
changes observed were in the same direction), but also because this period is of particular interest in the debate about what has been happening to self-employment during the period during and following the 2007-8 financial crisis.

As reported in Baumberg and Meager (2015), the period up to 2006 showed a mixed pattern of changes in the job quality of the self-employed, with some indicators improving over time, and some deteriorating. As Table 3 shows, however, the trends in the 2006-2012 period are more unequivocal, with nearly all the measures where statistically significant change was recorded, showing a fall. In particular, job quality fell as measured by the key indicators of task discretion, skills match, time taken to learn the job and the use of problem-solving skills, while there was little or no significant change on most of the other indicators such as job variety, or most of the measures of work intensity (the main exception being the small fall in the proportion working “beyond what’s required” for the job). Consistent with the patterns recorded in the national Labour Force Survey, there was also a dramatic fall in average working hours (associated with an increase in the incidence of part-time working among the self-employed).
Job Quality and Self-Employment: Is it (Still) Better to Work for Yourself?

Table 3: Recent trends in quality of self-employed jobs (net of controls)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2006</th>
<th>2012</th>
<th>Stat. signif of difference 2006-12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Task quality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretion index (0-3 scale)</td>
<td>2.65</td>
<td>2.53</td>
<td>**</td>
</tr>
<tr>
<td>Job variety (a great deal)</td>
<td>44.6%</td>
<td>38.6%</td>
<td>+</td>
</tr>
<tr>
<td>Use of past skills/experience (can use ‘almost all’ skills)</td>
<td>53.8%</td>
<td>43.7%</td>
<td>**</td>
</tr>
<tr>
<td><strong>Skill requirements</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job training after f.t. education</td>
<td>50.4%</td>
<td>52.2%</td>
<td>*</td>
</tr>
<tr>
<td>Time taken to learn job (&lt; 1 month)</td>
<td>11.4%</td>
<td>17.7%</td>
<td>**</td>
</tr>
<tr>
<td><strong>Generic skills (1-4 scale)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computers – importance</td>
<td>2.23</td>
<td>2.34</td>
<td></td>
</tr>
<tr>
<td>Computers – complexity</td>
<td>1.53</td>
<td>1.65</td>
<td>+</td>
</tr>
<tr>
<td>Literacy</td>
<td>2.47</td>
<td>2.32</td>
<td>+</td>
</tr>
<tr>
<td>Numeracy</td>
<td>1.97</td>
<td>1.88</td>
<td></td>
</tr>
<tr>
<td>Physical</td>
<td>2.27</td>
<td>2.25</td>
<td></td>
</tr>
<tr>
<td>Influence</td>
<td>2.03</td>
<td>2.01</td>
<td></td>
</tr>
<tr>
<td>Self-planning</td>
<td>3.36</td>
<td>3.28</td>
<td></td>
</tr>
<tr>
<td>Client communication</td>
<td>2.98</td>
<td>2.91</td>
<td></td>
</tr>
<tr>
<td>Problem-solving</td>
<td>2.96</td>
<td>2.68</td>
<td>**</td>
</tr>
<tr>
<td><strong>Work effort</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work at high speed (1-7 scale)</td>
<td>3.91</td>
<td>3.83</td>
<td></td>
</tr>
<tr>
<td>Work to deadlines (1-7 scale)</td>
<td>4.53</td>
<td>4.60</td>
<td></td>
</tr>
<tr>
<td>Work hard (‘strongly agree’)</td>
<td>52.2%</td>
<td>48.0%</td>
<td></td>
</tr>
<tr>
<td>Work beyond what’s required (‘strongly agree’)</td>
<td>79.8%</td>
<td>73.7%</td>
<td>+</td>
</tr>
<tr>
<td>Work under tension (‘strongly agree’)</td>
<td>18.7%</td>
<td>17.1%</td>
<td></td>
</tr>
<tr>
<td>Exhausted at end of day (‘aways’)</td>
<td>17.3</td>
<td>15.1</td>
<td></td>
</tr>
<tr>
<td>Negative job carry-over scale (0-1 scale)</td>
<td>0.441</td>
<td>0.431</td>
<td></td>
</tr>
<tr>
<td>Usual working hours</td>
<td>39.9</td>
<td>36.0</td>
<td>**</td>
</tr>
<tr>
<td>Full-time (vs part-time)</td>
<td>75.2%</td>
<td>62.3%</td>
<td>**</td>
</tr>
</tbody>
</table>

**=p<0.01, *=p<0.05 +=p<0.10

Source: Baumberg and Meager (2015); 2006 and 2012 Skills Surveys

Note that estimates refer to average marginal effects: that is, estimating the outcome for each person in the combined sample, varying only their self-employment status and the survey year, and then averaging these predicted outcomes.

Control variables: gender, age, region, ethnicity, household composition, qualifications, prior work experience, sector and occupation (for details see Baumberg and Meager, 2015).

Job satisfaction indicators tended to follow these trends in job quality: overall job satisfaction of the self-employed fell during this period, as did each separate measure of job satisfaction, and nearly all of these changes were statistically significant (Table 4)\(^{13}\).

13. The fuller analysis in Baumberg and Meager (2015) also shows that, while the patterns are complex, for most of the period the position of self-employment relative to that of employees has improved (in terms of both job quality and job satisfaction). However in the most recent (2006-12) period, the relative advantage of self-employment in both respects has fallen back in comparison with employees.
Table 4: Recent trends in job satisfaction of the self-employed (net of controls)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2006</th>
<th>2012</th>
<th>Stat. signif of difference 2006-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with…</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1-7 scales)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay</td>
<td>4.91</td>
<td>4.63</td>
<td>**</td>
</tr>
<tr>
<td>Job security</td>
<td>5.33</td>
<td>4.97</td>
<td>**</td>
</tr>
<tr>
<td>Use of abilities</td>
<td>5.90</td>
<td>5.61</td>
<td>**</td>
</tr>
<tr>
<td>Use of initiative</td>
<td>6.19</td>
<td>5.90</td>
<td>**</td>
</tr>
<tr>
<td>Hours of work</td>
<td>5.37</td>
<td>5.36</td>
<td></td>
</tr>
<tr>
<td>The work itself</td>
<td>5.87</td>
<td>5.63</td>
<td>**</td>
</tr>
<tr>
<td>Amount of work</td>
<td>5.26</td>
<td>5.09</td>
<td>+</td>
</tr>
<tr>
<td>Variety in the job</td>
<td>5.76</td>
<td>5.42</td>
<td>**</td>
</tr>
<tr>
<td>Overall satisfaction</td>
<td>5.80</td>
<td>5.56</td>
<td>**</td>
</tr>
</tbody>
</table>

**=p<0.01, *=p<0.05 +=p<0.10
Source: Baumberg and Meager (2015); 2006 and 2012 Skills Surveys
Note that estimates refer to average marginal effects: that is, estimating the outcome for each person in the combined sample, varying only their self-employment status and the survey year, and then averaging these predicted outcomes.
Control variables: gender, age, region, ethnicity, household composition, qualifications, prior work experience, sector and occupation (for details see Baumberg and Meager, 2015).

5. Some Preliminary Conclusions

This research leads to several tentative conclusions about the job quality of the self-employed14:

- First, self-employment appears to embody a higher job quality on most of the indicators we measure than does working as an employee (even taking into account the differences in the type of person who becomes self-employed and the type of work they do). There are also important differences between the types of generic skills emphasised in self-employment compared with those used by employees (although these differences cannot be claimed to embody ‘higher’ or ‘lower’ job quality).

- Second, in line with this, and consistent with much of the earlier literature, the self-employed are more satisfied with their jobs as a whole, and with nearly all aspects of their jobs (the major exception being that they are less satisfied with job security than are employees).

14. It should be stressed that this simple picture hides considerable heterogeneity within the self-employed (e.g. between sole traders, and the self-employed who employ others), which is further explored in Baumberg and Meager (2015).
Third, over 2006-12 it seems that the quality of self-employment has deteriorated on several key indicators, as has the satisfaction of the self-employed with their jobs, which gives some support to concerns that at least some of the recent surge in self-employment is a response to the scarcity of work in an economic downturn and that recently created self-employment may involve work which is “less good” than that which preceded the recession. It is important not to overstate this, however: first, it is still the case that compared with employee work, the intrinsic quality of self-employed work generally improved over the last two decades, and it still rates higher than that of employees on many indicators, even if its relative advantage has diminished in the last few years; second, it is possible that falling job quality and satisfaction among the self-employed may partly reflect the impact of greater competition among the self-employed at a time when their numbers have increased rapidly (a hypothesis that can be further tested with future data on the relationship between self-employment trends and job quality).
References:


Women’s Self-Employment and Freelancers: Observations on Female Entrepreneurship

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Alpen-Adria-University Klagenfurt

Abstract. This paper focusses on the features of female entrepreneurship. Based on a brief review of the existing literature we identify some major lines of argumentation which treat female self-employment in context with its determinants. The further discussion turns to the investigation of data from official statistics. In particular, cross-country comparisons of the development of female self-employment within the global framework of the labour market highlight major aspects and divergencies of female self-employment ratios. In the next step, the argumentation introduces results of an own empirical survey on micro-entrepreneurs in the federal country of Carinthia (Austria) where we discuss findings based on the gender aspect. The results indicate that women have smaller companies, are intensively part-time self-employed, represent the vast majority in solo self-employment, earn less and have shorter times of involvement. In contrast, well-being and happiness are likely to be higher in firms and economic activities run by women.

1. Female Self-employment: What Do We Know?

The complex interaction of technological development and socio-demographic change accelerated a structural change in the economy resulting in a changing working environment and new forms of employment. In the field of self-employment, a growing trend towards part-time self-employment and one-person enterprises can be observed. These newly emerging firms are increasingly regarded as an alternative to wage- or salary-dependent working. Especially female self-employment plays an important role and exhibits disproportional growth rates. Female-owned businesses are one of the fastest growing entrepreneurial populations in a world of growth rates (Brush et al., 2009, Kelley et al., 2012). Do we find specific “gender patterns” within recent developments of an increasing expansion of self-employment, or will the new chances and risks lead to a greater equality of opportunities? Is the increase of solo self-employment of females driven by the need to earn a living, or is it the result of females taking the risk e.g. to become more economically independent, or do women as a labour market category differ concerning their attitudes towards entrepreneurship (Dabic...
et al., 2012), towards growth (Dautzenberg, 2012; Costin, 2012) or regarding their social capital (Sappleton, 2009)?

When analysing social structures and patterns of inequality, gender is one of the items which highlights social disparities. Disparities are sometimes interpreted as indicators of discrimination practices and the existing literature reports four puzzles of sex segregation (Charles and Grusky, 2004). This refers to the discussion

a. why there is resistance to egalitarian pressures,

b. whether men dominate the best occupations,

c. if a worldwide segregation regime exists, and

d. why segregation in more gender-egalitarian countries is in some part extreme.

Regarding the fact that divisions of social structure show significant differences in gender participation and in gender distribution, discussion has to evaluate carefully the reasons which are responsible for those gender gaps (Verheul et al., 2012; Charles and Bradley, 2009; for cross-country evaluations see Estrin and Mickiewicz, 2011).

Recent developments raise the question whether self-employment can be seen as a strategy for women to achieve work-life balance (Kirkwood and Tootel, 2008; Wellington, 2006) and whether these changes in the organisation of work are leading to an improvement of the quality of (working) life. One of the most consistent findings in studies on women’s labour force participation is the negative effect of the presence of young children on the probability of participation. It could be argued that difficulties in combining work and family enhance the transition or entry into self-employment. However, it is not necessarily clear as Noseleit (2014) raises the question whether self-employment is more attractive to women because they have children or whether the occupation-specific characteristics of self-employed women impact their fertility. Noseleit (2014) confirms by his data that the first hypothesis is of higher validity.

We have to ask whether the division of occupations is primarily the result of free choice by individual actors rather than of pressure through contextual variables to which factors like unemployment or missing alternatives also belong. While previous gender-related research on entrepreneurship concentrated almost entirely on the “3Ms”, i.e. market, money, and management, recent research also discusses the two further “Ms” of motherhood and macro environments (Brush et al., 2009), which contribute to a broader integrated perspective towards the subject.

Especially solo self-employment may deliver possibilities for women to use their strength to overcome weaknesses and it may open up opportunities that help
to counter threats. In particular, solo self-employment may deliver options that could lessen the constraints, which family care places on women’s employment. It may be the case that women value nonwage aspects more than men do (Heller Clain, 2000), and women with greater family responsibilities may trade earnings for the family-friendly aspects of self-employment. Therefore, self-employment may reflect the development of more or less successful strategies for coping with the conflicts arising from the difficult balance of self-employment and family life (Duberley and Carrigan, 2013).

Overall, all that belongs to the terrain we have learned to know but we don’t really know about different female dispositions to cope with self-employment challenges and to see the concrete interplay between push and pull factors to decide one way or another which may be further explored by sociological and psychological research.

2. The Importance of Female Self-employment: Evidence from Official Statistics

In the following two chapters the phenomenon of female self-employment is examined from two sides. First, we consider the role of female self-employment in a cross-country comparison based on data from official statistics (Eurostat-Database). In a second step, we go deeper exploring the features and characteristics of female entrepreneurs based on generated data from an own empirical survey in Carinthia, one of the federal states in Austria (Figure 1).

Figure 1: Two-sided consideration of female self-employment

(Source: Own depiction)
Currently (2014) the number self-employed people in the European Union (EU-28) amounts to approximately 30.62 million. About 31.8 % of them are females; this corresponds to a number of 9.73 million. In Austria, the share of self-employed females in percent of total self-employment is significantly higher and amounts to 35.8 % (157,600 self-employed females). A similar share can be observed in Germany with 33.1 % of all self-employed persons being women. In Italy and Sweden, by contrast, only 30.4 % (1.47 million) and 28.7 % (119,600) of all self-employed individuals are female. In the UK the share of female self-employment lies close to the EU-28 level and amounts to 31.9 %. This value corresponds to 1.31 million self-employed women (see Table 1).

Table 1: Cross-country comparison of the number of self-employed persons and female shares, 2014 (in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of self-employed</th>
<th>Females</th>
<th>Female share</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>30.62 million</td>
<td>9.73 million</td>
<td>31.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.83 million</td>
<td>1.27 million</td>
<td>33.1%</td>
</tr>
<tr>
<td>Austria</td>
<td>0.44 million</td>
<td>0.16 million</td>
<td>35.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>4.83 million</td>
<td>1.47 million</td>
<td>30.4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.42 million</td>
<td>0.12 million</td>
<td>28.7%</td>
</tr>
<tr>
<td>UK</td>
<td>4.12 million</td>
<td>1.31 million</td>
<td>31.9%</td>
</tr>
</tbody>
</table>

(Source: Eurostat-Database (2015a); own calculations)

If we put overall self-employment in relation to total employment we obtain the rate of self-employment. Accordingly, 14.4 % of the total working population in the EU-28 is self-employed. In Austria the rate of self-employment is 10.9 % significantly lower as compared to the EU-28. The same applies to Germany where the self-employment rate is even below the Austrian level (9.8 %). Italy represents a special case among the selected countries with 22.2 % of the total working population being self-employed. In Sweden the situation regarding self-employment is very similar to Germany and Austria. Thus, 9.1 % of the total workforce is self-employed. In the UK the rate of self-employment (14.0 %) approximately corresponds to the EU-value. In each of the considered countries the subgroup of males exhibits a considerably higher rate of self-employment compared to females. In the EU-28, Italy as well as the UK this gender-gap is especially pronounced (see Table 2).
Table 2: Cross-country comparison of the rate of self-employment, 2014 (in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>In total</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>14.4 %</td>
<td>18.2 %</td>
<td>9.9 %</td>
</tr>
<tr>
<td>Germany</td>
<td>9.8 %</td>
<td>12.4 %</td>
<td>6.9 %</td>
</tr>
<tr>
<td>Austria</td>
<td>10.9 %</td>
<td>13.3 %</td>
<td>8.3 %</td>
</tr>
<tr>
<td>Italy</td>
<td>22.2 %</td>
<td>26.7 %</td>
<td>16.0 %</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.1 %</td>
<td>12.4 %</td>
<td>5.4 %</td>
</tr>
<tr>
<td>UK</td>
<td>14.0 %</td>
<td>17.9 %</td>
<td>9.5 %</td>
</tr>
</tbody>
</table>

(Source: Eurostat-Database (2015a); (2015b); own calculations)

Considering the development over time, it can be concluded that in the EU-28 the overall rate of self-employment has remained relatively constant since 2006 (-0.2 percentage points). A similar outcome can be observed in Austria where the rate of self-employment has decreased only by 0.4 percentage points since 2006. During the same time period the UK was marked by a slightly upward trend (+1.6 percentage points) while in Italy the self-employment rate went down by 1.5 percentage points. A slight downward trend can also be observed in Germany and Sweden where self-employment relative to total employment has declined by 0.8 and 0.7 percentage points respectively (see Figure 2).

Figure 2: Cross-country comparison of the development of the rate of self-employment, 2006-2014 (in %)

(Source: Eurostat-Database (2015a); (2015b); own calculations)
Regarding the development of total self-employment over time, no clear trend can be identified. In Austria and the UK the number of self-employed persons has followed an upward trend since 2006, whereas the increase was significantly higher in the UK (+17.1 %) as compared to Austria (+3.1 %). In the EU-28, Germany, Italy and Sweden, by contrast, self-employment went down with rates of decline lying between -8.9 % and -1.0 %. Considering the growth rates by gender, it can be seen that female self-employment has developed more dynamically over the considered time period than male and even total self-employment. Hence, in the EU-28 the number of self-employed females increased by 4.9 % from 2006 to 2014 while male self-employment decreased by 3.5 %. In Austria, female self-employment was also marked by a significantly stronger upward trend. Accordingly, the percentage change from 2006 to 2014 is 9.7 % in the subgroup of female self-employed, while male self-employment remained relatively constant (-0.2 %). The German development corresponds, in principle, to the EU-28. While the number of self-employed males decreased by 5.0 % from 2006 to 2014, female self-employment experienced an upward trend of +4.3 %. Italy again represents an exceptional case. Accordingly, in Italy even the number of female self-employed went down by 5.0 %, although this decline was less pronounced as compared to the group of males (-10.6 %). Sweden stands out for the strong growth of female self-employment (+11.5 %) compared to males where the number of self-employed persons has decreased by 6.6 % since 2006. In the UK, the gender gap is even more distinct. Thus, female self-employment has risen substantially by 35.5 % since 2006. The growth rate for males is, by contrast, considerably lower and amounts to 10.1 % (see Table 3).

Table 3: Cross-country comparison of the development of total self-employment, 2006-2014 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>In total</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>-1.0 %</td>
<td>-3.5 %</td>
<td>4.9 %</td>
</tr>
<tr>
<td>Germany</td>
<td>-2.1 %</td>
<td>-5.0 %</td>
<td>4.3 %</td>
</tr>
<tr>
<td>Austria</td>
<td>3.1 %</td>
<td>-0.2 %</td>
<td>9.7 %</td>
</tr>
<tr>
<td>Italy</td>
<td>-8.9 %</td>
<td>-10.6 %</td>
<td>-5.0 %</td>
</tr>
<tr>
<td>Sweden</td>
<td>-2.0 %</td>
<td>-6.6 %</td>
<td>11.5 %</td>
</tr>
<tr>
<td>UK</td>
<td>17.1 %</td>
<td>10.1 %</td>
<td>35.5 %</td>
</tr>
</tbody>
</table>

(Source: Eurostat-Database (2015a); own calculations)

A subgroup of total self-employment is represented by solo self-employment. In particular, these are self-employed individuals working on their own without any employees. As shown in Figure 3, the share of solo self-employment in percent of the total number of self-employed is 71.5 % in the EU-28 (data 2014). A very similar rate of solo self-employment is given in Italy (72.1 %). The UK exhibits an even higher share of solo self-employment amounting to 83.0 %. In
Austria and Germany the rates of solo self-employment are comparatively low; in 2014 58.0 % (Austria) respectively 55.4 % (Germany) of all self-employed individuals belonged to the category of solo self-employed. Sweden is somewhat closer to the EU-average with 61.3 % of all self-employed individuals working as sole entrepreneurs without any employees. What all considered countries have in common is that the share of solo self-employment is significantly higher for females than for males. In Austria and Germany these gender discrepancies are particularly strong (Austria: 50.5 % versus 71.4 %, Germany: 50.4 % versus 65.5 %). The UK exhibits, by contrast, the less pronounced gender gap (81.7 % versus 85.7 %).

Figure 3: Cross-country shares of solo self-employment in % of total self-employment, 2014 (in %)

Moreover, solo self-employment is marked by a very dynamic development, especially in the subgroup of females. Thus, in each of the considered countries – except for Germany – solo self-employment developed more dynamically as compared to the trend in total self-employment. According to this, positive growth rates tend to be larger when looking at solo self-employment compared to total self-employment. Conversely, decline rates are less significant in the case of solo self-employment. In Germany, however, solo self-employment has decreased marginally stronger than total self-employment since 2006. For female solo self-employment a clear trend can be observed. On the one hand, in each of the considered countries the number of solo self-employed females has risen more sharply or decreased considerably less compared to their male counterparts.
On the other hand, this increase was even higher than the rise of total female self-employment (see Table 3 and Table 4).

**Table 4: Cross-country comparison of the development of solo self-employment, 2006-2014 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>In total</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>2.3 %</td>
<td>0.0 %</td>
<td>6.8 %</td>
</tr>
<tr>
<td>Germany</td>
<td>-3.4 %</td>
<td>-7.9 %</td>
<td>4.6 %</td>
</tr>
<tr>
<td>Austria</td>
<td>2.3 %</td>
<td>-4.5 %</td>
<td>12.6 %</td>
</tr>
<tr>
<td>Italy</td>
<td>-7.9 %</td>
<td>-9.0 %</td>
<td>-5.3 %</td>
</tr>
<tr>
<td>Sweden</td>
<td>-1.6 %</td>
<td>-7.2 %</td>
<td>12.0 %</td>
</tr>
<tr>
<td>UK</td>
<td>25.6 %</td>
<td>17.9 %</td>
<td>45.0 %</td>
</tr>
</tbody>
</table>

(Source: Eurostat-Database (2015a); own calculations)

### 3. Going Deeper: Features of Female Entrepreneurs

As already mentioned at the beginning of section 2, the features of female self-employment are further examined on the basis of data from an own empirical survey in Carinthia, the southern federal state of Austria. The implemented survey focuses on solo entrepreneurs – so-called one-person enterprises – in the industrial sector, i.e. registered in the Chamber of Commerce. The survey is based on a comprehensive questionnaire containing 52 questions. In February 2014 about 9,000 one-person enterprises were contacted by the Carinthian Chamber of Commerce and invited to participate in the online survey. The response rate was 7.0 % resulting in a sample size of 626 one-person enterprises. The economic and social rationalities of one-person enterprises, motives for being self-employed, job satisfaction, the financial situation and the future prospects of solo entrepreneurs were among the main research questions of the empirical study. In the following, we focus on selected aspects of female self-employment. The regarded dimensions include working hours, the financial situation, job satisfaction, future prospects and motives for self-employment.

The considered gender differences are shown in Table 5. As can be seen from the empirical analysis, we found evidence that females are intensively part-time self-employed. In total, 27.5 % of the asked female one-person enterprises are working not more than 20 hours per week. For males this share amounts to 19.8 %. Moreover, about one third (33.6 %) of the females are working between 20 and 40 hours a week, while this applies to only 22.5 % of the male one-person enterprises. By contrast, the category “more than 40 hours” is male dominated. The gender differences are statistically significant at the 1 %-level. The main reasons for female part-time self-employment were found to be childcare

2. New self-employed (e.g. freelance journalists) are not considered due to missing data.
obligations and the associated unavailability to realize a higher time scope, i.e. more working hours.

Table 5: Gender differences for selected aspects of self-employment

<table>
<thead>
<tr>
<th>Variable</th>
<th>Attribute levels</th>
<th>In total (n=626)</th>
<th>Males (n=364)</th>
<th>Females (n=262)</th>
<th>Statistical relationship: Cramers V</th>
<th>Pearson-$\chi^2$ (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly working hours</td>
<td>till 20 hours</td>
<td>23.0 %</td>
<td>19.8 %</td>
<td>27.5 %</td>
<td>0.281</td>
<td>49.280*** (0.000)</td>
</tr>
<tr>
<td></td>
<td>more than 20 to 40 hours</td>
<td>27.2 %</td>
<td>22.5 %</td>
<td>33.6 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>more than 40 hours</td>
<td>49.8 %</td>
<td>57.7 %</td>
<td>38.9 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly net income</td>
<td>€ 1,000</td>
<td>48.6 %</td>
<td>38.5 %</td>
<td>62.6 %</td>
<td>0.281</td>
<td>49.445*** (0.000)</td>
</tr>
<tr>
<td></td>
<td>&gt; € 1,000-2,000</td>
<td>33.1 %</td>
<td>36.0 %</td>
<td>29.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; € 2,000-3,000</td>
<td>12.9 %</td>
<td>17.3 %</td>
<td>6.9 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; € 3,000</td>
<td>5.4 %</td>
<td>8.2 %</td>
<td>1.5 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job satisfaction</td>
<td>Very satisfied</td>
<td>32.1 %</td>
<td>27.2 %</td>
<td>38.9 %</td>
<td>0.130</td>
<td>10.498** (0.015)</td>
</tr>
<tr>
<td></td>
<td>Rather satisfied</td>
<td>50.2 %</td>
<td>53.6 %</td>
<td>45.4 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rather dissatisfied</td>
<td>15.0 %</td>
<td>16.8 %</td>
<td>12.6 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Very dissatisfied</td>
<td>2.7 %</td>
<td>2.5 %</td>
<td>3.1 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future prospects</td>
<td>Very optimistic</td>
<td>27.5 %</td>
<td>22.0 %</td>
<td>35.1 %</td>
<td>0.151</td>
<td>14.284*** (0.003)</td>
</tr>
<tr>
<td></td>
<td>Rather optimistic</td>
<td>58.6 %</td>
<td>62.9 %</td>
<td>52.7 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rather pessimistic</td>
<td>12.9 %</td>
<td>13.7 %</td>
<td>11.8 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Very pessimistic</td>
<td>1.0 %</td>
<td>1.4 %</td>
<td>0.4 %</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: own calculations)

Looking at the monthly net income of the asked one-person enterprises it can be seen that the financial situation of females is worse than for males, contingent on the higher share of part-time self-employment in the group of females. Nearly two thirds (62.6 %) of the female one-person enterprises earn not more than €1,000 per month from their business activity. In the higher income categories, by contrast, males are dominant. Statistical significance of the gender differences is given at the 1 %-level.

Although female entrepreneurs are intensively part-time self-employed and earn less, their job satisfaction is significantly higher than for men. As can be seen from Table 5, 84.3 % of the female one-person enterprises are very or rather satisfied with their professional situation. Among the male entrepreneurs this share is substantially lower and amounts to 80.8 %. A similar situation is given when looking at the future prospects of the one-person enterprises. Hence, females are more optimistic regarding their entrepreneurial future (very/rather optimistic: 87.8 %) than males, where “only” 84.9 % exhibit very or rather optimistic future prospects. In each case the gender differences are statistically significant at least at the 5%-level.

Finally, there exist gender-related differences regarding the motives for being self-employed. Generally, non-monetary factors like self-controlled working,
more responsibility, personal fulfilment or more flexible working hours and the associated improved work-life-balance rank among the main motives for working as a one-person enterprise. However, based on a Chi-squared test we found out that the monetary aspect (higher earnings) represents a significantly more important factor for males than for females. Conversely, females assess the improved work-life-balance – mainly due to childcare obligations – significantly more than male one-person enterprises.

4. Conclusion: What Did We Learn?

In the general discourse on sex segregation, different explanations can be found why gender imbalances exist, which factors can be held responsible, and if we are witnessing a declining significance of gender (Blau et al., 2006; Hesse-Biber, 2014). With respect to self-employment, our empirical inspection has found that the gap between men and women tends to become closer with respect to ratios of representation in self-employment. However, women have smaller companies, they are the majority in solo self-employment, they earn less and they have shorter times of involvement. In addition the majority of part-time entrepreneurs is female. On the other side, well-being and happiness is likely to be higher in firms and economic activities run by women (Bögenhold and Klinglmair, 2015).

One can interpret the landscape of social and occupational (asymmetrical) distribution not only as a result of societal discrimination practices or divergent individual decisions by genders but also, perhaps primarily, as a mirror of complex household decisions rather than individual actors’ decisions. In the end, the household as the entity and composition of different interests, motivations, needs, and obstacles proves to be the real acting subject of our analysis (Bögenhold and Fachinger, 2013). Individual actors seem to be embedded in wider logics of life-world sense including all factual restrictions, wants, and necessities. In so far, above average participation of women in solo self-employment may reflect growing needs for flexibility in terms of time sovereignty despite lower incomes. Understanding the variability in sex segregation (Charles and Grusky, 2004) also needs to go down to the grips of household rationalities to understand that different divisions of gender participation are not only a reflection of discrimination but also the mirror of different social constraints in a context of the organization of business and society (Charles and Bradley, 2009).

Designing effective labour market participation for women as self-employed has to take the differences of women’s life-worlds into account as firm partnership, marital status, the existence of children and age of children or elder relatives are parameters of relevance for engagement in the labour market (Kay et al., 2014). Providing an environment with regard to those parameters would be conducive to enhancing women’s participation in the labour market as self-
employed. Overall, women face specific obstacles such as family responsibilities that have to be managed in order to give them access to the same opportunities as men (Delmar and Holmquist, 2004; Kelley et al., 2011, Brush et al. 2013).

To conclude, the article tackled just a sample of questions and the literature survey was restricted to a few aspects. Of course, several further question remain on the agenda for additional research. Some female freelancers become employers during their maternity leave because they are afraid of losing momentum, i.e., contact with clients. Another research question is concerned with the question how do female entrepreneurs deal with the continuation of their business during their maternity leave? A research question in a different direction has to deal with cross-country differences within female self-employment ratios. How and why do institutions and culture matter to explain those variations.
References:


Entrepreneurs, IPromoters and the Talent Eco-System

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Roffey Park Institute, UK

Abstract. With independent professionals and budding entrepreneurs now forming the fastest growing proportion of the workforce, large corporations are losing out on the best talent. This article, based on research conducted for The Economist book Managing Talent, highlights the efforts talent managers are making to access and retain the skills of professional workers who are no longer motivated by the idea of life-long corporate careers. Two approaches are highlighted in depth. The first is business incubation schemes, where corporates buy stakes in business start-ups founded by young entrepreneurs, using selection methods that are far removed from the assessment centres and graduate induction campaigns of old. The second is ‘alumni’ schemes operated by large management consultancies, where staff wishing to pursue independent careers are encouraged to draw on the resources of the parent company and share their expertise in collaborative ventures. In the process, corporations are extending the boundaries of who is, or is not, a part of the organisation, turning on its head outdated notions of ‘core-periphery’ manpower planning. Indeed, in the case of ‘freelance entrepreneurs’, there are early indications that forward-looking employers are choosing them in favour of ‘insular’ internal high fliers.

Keywords: IPromoters, freelance entrepreneurs, intrapreneurs, talent management, business incubation schemes, business alumni schemes.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

“If you join McKinsey, you join for life even though you are not necessarily still employed here.” - Emily Lawson, head of global human capital practice, McKinsey & Company

1. Introduction

Changing career aspirations and ambitions among people with leadership and strategic management potential are causing problems to large employing organisations offering traditional life-long corporate development - a trend identified in research undertaken by the author for a book on talent management published by The Economist, based on interviews with 50 talent managers, recruitment consultants, chief executives and participants in corporate fast-track

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development schemes (Devine and Syrett, 2014). With growing numbers of graduates and MBA students opting for entrepreneurial careers and independent self-employed professionals (IPros) proving the fastest growing proportion of the international workforce (Leighton 2013), the talent managers of large corporations are finding that they are missing out on the people they most want to attract into the organisation.

Even when the entrepreneurially minded do sign up to the company’s fast track development schemes, they are often doing so as a stepping stone towards acquiring the skills, capital and industry knowledge they need to launch their own enterprise in mid-career (Pew Research Centre, 2010).

The cause of failure in traditional high flyer schemes lies in the assumptions made by an outdated model of strategic workforce planning that emerged in the 1980s.

This divides the organisation into a ‘core’ of ‘firm-specific’ workers and managers who are the focus for promotion and development. As the growing ‘periphery’ of the organisation are part-time, contract and associate staff who are recruited because they are cheaper to employ and whose careers and aspirations are largely ignored (Atkinson, 1984)

Aggravating this failure is a concept of retention that equates with continued permanent employment inside the organisation, at a time when the idea of committing themselves to a lifetime career in a single organisation is neither realistic nor desirable to talented people.

In the circumstances, a few forward looking corporations are seeking ways to leverage the talent of the best talent that they know they have little chance of retaining in the long term – and, in doing so, extending the boundaries of who is ‘in’ and ‘out’ of the organisational ‘core’.

2. Career Planning and Intrapreneurs

In the mid-1980s, Marsha Sinetar, a researcher at the Massachusetts Institute of Technology, undertook a survey of intrapreneurs – people with entrepreneurial spirit and aspirations who choose to work inside large corporations (Sinetar, 1985). Her study of hundreds of managers with a track record of successful entrepreneurial thinking and activity revealed that they had the following things in common:

- They are easily bored, and would rather move into untried areas.
- They are comfortable with ambiguous situations.
- They are happy to take risks – and indeed enjoy doing so.
• They are intellectually curious, needing to use their minds to solve difficult, personally fulfilling problems.

• They often see their work as a calling or vocation.

Intrapreneurs, Sinetar argued, possess personalities that thrive on freedom in three important areas: freedom in the general area of their work and the way in which work gets done; freedom to come up with novel or disturbing questions; and freedom to come up with unusual solutions to the things they are currently thinking about, sometimes in the form of what seem, to others, to be impractical ideas. At the same time, she found that this singular thinking often undermined their ability to work in teams, supervise other staff or lead the organisation.

This creates a dilemma for the conventional career planning that is often a feature of talent management strategies. Unless organisations can meet the need presented by these freedoms, they are liable to lose the individual to ones that can.

The warning is amplified by Tim Levine, who gave up a traditional corporate career to pursue a life as an entrepreneur in his 20s and is now a managing partner and founder of a venture capital firm, Augmentum Capital. As he explains (this and all subsequent quotations are from interviews conducted by the author for The Economist book Managing Talent (2014)):

If a company’s entrepreneurial talent is not being challenged, they are going to get frustrated and bored and look elsewhere. This has always been the case, but the options for corporations are more limited in the current climate of expectation and aspirations than they were.

Some of these options might involve moving these talented people across the organisation or giving them new roles and opportunities that make them feel they are growing.

A company might well have subsidiaries in other companies where they can put their talent into senior positions, which gives them that learning opportunity and the opportunity to act independently.

On the other hand, you could do something drastic, which some corporations are doing, which is to create spin-off enterprises which offer more entrepreneurial people the chance to play with a fully capitalised new business.

For me, the time when I am learning is when I am enjoying the greatest levels of satisfaction. This might involve making mistakes or learning from people more experienced than myself.

You might argue today that in the economic environment people are going to be hard pressed to find good jobs elsewhere – but the crème will always find the best jobs. Many will take the risk of leaving their employer if they have a strong belief in themselves. So you cannot be complacent.
Stephen Dury, managing director of strategy and market development at Santander UK, is a good example of what Levine is talking about. He moved on from a career at Royal Bank of Scotland to join Santander.

He was attracted to the Spanish bank because he believed it had an entrepreneurial culture and was willing to be innovative, targeting in particular small and medium-sized enterprise (SME) and start-up customers.

I am a marketer by background and education. I have a keen interest and passion for new market development, innovation, disruptive technology and learning from the way SMEs and entrepreneurs behave. Lots of innovation comes from SMEs.

I knew of Santander because I knew some of the people that had moved there – very good people – and you would hear that people were creating great opportunities in a creative, structured and entrepreneurial environment. Going into a business where there are very clear lines of accountability, space for innovation and sponsorship from the senior executive team makes any business more attractive – this is a culture that fosters creativity and delivery in equal measure.

The work Dury undertakes at Santander – including developing new ideas and services for start-ups and SMEs – puts him into contact with a wide variety of entrepreneurs, something that provides him with significant job satisfaction.

I love working with entrepreneurs. I’m fortunate to work on and be responsible for a lot of entrepreneurial projects. I’ve thought a lot about the way I try to approach challenges and it is similar to the way some entrepreneurs approach running their own businesses. I try to think of them as role models in the way in which they make decisions – their creative thinking, passion and dedication is inspiring.

Entrepreneurs think they are part of the solution and no matter what gets thrown at them they find a way of doing things differently or overcoming the challenge they face. They are confident and unwavering in their focus to make things happen and it’s this drive that makes them successful. This entrepreneurial spirit and tenacity is not something I believe everybody has.

3. Business Incubation

However some intrapreneurs will never be happy with the opportunities offered by a traditional corporate career.

Ross Hall is a good example. He was headhunted by Pearson, a multinational publishing and education company with headquarters in London, on the basis of his background in setting up new businesses. He says:
They particularly wanted someone who could come in and take a fresh perspective on this particular business unit and to see if it could be turned around.

However, his restless mind and social conscience led him to explore other avenues for his talent. With Pearson, a company that has a strong commitment and business in developing new education materials, he looked at developing a new form of schooling in rural Zimbabwe and Tanzania.

This involved extending the traditional curriculum beyond normal subjects to develop qualities of mind that are most influential in creating and maintaining quality of life, with topics such as empathy, assertiveness and self-esteem.

Hall realised that this was a step too far for Pearson and that his senior management colleagues did not have the appetite for the project, which led him to consider pursuing the idea on his own.

He was appreciative of Pearson allowing him to explore the idea using its resources, but the impasse caused him to consider a deeper philosophical question about intrapreneurialism:

I have a very live question, which is: “Do companies really want people like me?” I think there is a lot of recognition that companies could benefit from having people like me. But the reality is that entrepreneurial people are difficult to manage and the value that they bring is not always immediate – these things take a long time to develop. They can also cause friction with the main business when they try to do things differently. Does the company really have the appetite and ability to execute their new ideas?

Hall is not the only person asking this question. At a talent summit in 2012, Khurshed Dehnugara, author of The Challenger Spirit: Organisations that Disturb the Status Quo, pointed out the contradiction between what organisations say and do when attempting to meet the aspirations of intrapreneurs (Dehnugara, 2012).

He argues that companies send out messages that encourage staff to be creative, disruptive and risk-taking while at the same time punishing people who “mess up and fail to keep everything nice and stable”. As he concludes:

Faced with this contradiction, people take up the default position of staying safe so that nothing can go wrong. My concern is that future talent is desperate for something more groundbreaking.

Some telecoms and digital companies have accommodated the entrepreneurial aspirations of their most talented intrapreneurs and those of people they would not normally attract by setting up business incubation schemes, offering start-up funding to help them create their own enterprises.

This offer of help is in return for a stake in the business or access to the new technology or thinking of the start-up. This is an effective way of extending the
organisation’s reach to young entrepreneurs who have opted out of corporate employment.

As Tim Levine observes:

I started having a conventional corporate career – but it all felt very bureaucratic and restrictive.

What I started to see were new technologies coming on board and what I hoped would happen was that the next generation of entrepreneurs would be empowered by new platforms such as the internet, which it certainly has been. That has changed the whole dynamic of young graduates with aspirations to be an entrepreneur.

It is a hell of a lot easier now than 10–15 years ago. You are empowered.

In the 1980s if you were talented and entrepreneurial, you needed capital and you needed large office space. Today you can create a website if you have a good idea and your requirement of capital is minimal.

There has been a huge shift of ambition among young people of school leaving age. If I told my father when I left university that I was not going into conventional business but I was going to be an entrepreneur, he would have thought I was going to be unemployed for the next three or four years.

It is now a much more acceptable path for people leaving university or even school to have this ambition. They are no longer regarded as mavericks.

There are probably lots of people in their early 20s building really successful businesses. The barriers to entry are nowhere near as considerable as they were. I think that is a real challenge for corporations. The ambition is there and these people do not want to be pigeon-holed.

There is a greater level of impatience among talented young people and if they are not getting what they want, they are going to leave. It doesn’t mean that they will be successful and won’t come back, but the question for corporations is what they do with these ambitious young people. Do you encourage them? Do you try to incubate them? There are a lot of options.

The most well-developed incubation initiative is the Wayra Academy, the brainchild of José María Alvarez-Pallete, chairman and chief executive of Telefónica Europe. This provides start-ups with €50,000 in funding in return for a 10% stake, and Telefónica gets the right of first refusal on buying the company.

It was originally launched in Latin America and Spain, where there are nine business incubation schemes, and has been more widely extended in Europe. At its London offices, for example, Wayra accommodates about 20 start-ups for six months, after which it will help them pitch for follow-on funding from other sources of venture capital. If a start-up does not find other sources of funding in
six months, it may be granted another six months. If after that things are still not working out, Wayra will sell its stake for €1.

Simon Devonshire, manager of Wayra’s London offices, took the unusual step of selling the idea in bars, clubs and coffee houses. As he explains:

Entrepreneurs are quite a difficult bunch to identify. I can’t think of a conventional advertising medium you could use. I have always been passionately obsessed about networking and informal means of connectivity. If you send the right message out and you have the right touch points, the first respondents become ambassadors for the project.

The first night we tried it, our people at Telefónica went nuts, saying we would only get 12 people. It netted us 30 people. The next time we got 50 people. By the fourth time out we had 300 people. The word soon spread and the numbers grew in leaps and bounds. The bars were really an instrument of that strategy rather than being the strategy itself.

Telefónica Europe plans to open other Wayra Academies in Berlin, Dublin and Prague. Ultimately it plans to fund around 350 start-ups. As Devonshire argues, Wayra is as much a part of its talent management strategy as its high-potential schemes for senior managers, extending its reach far further than most of its competitors:

It is not just about the ideas. It is about attracting talented people. We are using Wayra as a way of acquiring great talent for the benefit of Telefónica. And like many talent management schemes, we bring mentors into the academy to help and support and realise their best potential.

4. Linked-in Internships

Both Santander UK and Telefónica recruit interns for their start-up schemes from Enternships, an online company that finds places in SMEs for university graduates with entrepreneurial ambitions. For example, Enternships has a partnership with Santander to supply interns for the bank’s SME customers, linked to the Santander Universities Programme, which embraces 60 universities and funds 500 internships.

As Rajeeb Dey, the founder and CEO of Enternships, explains, the enterprise enables companies to contact and build relationships with young talent who would otherwise not think of working in a conventional employee relationship:

Companies, big and small, need people who are entrepreneurial or think like an entrepreneur – that is the ability to spot opportunities, to take risks and to hit the ground running.
Entrepreneurs, IPros and the Talent Eco-System

The world is moving fast, and companies need people who are able to adapt quickly, who are agile and can operate in a time of flux and help the business grow. In a start-up, these qualities are obvious because you are part of a small team, everybody needs to pull their weight and there is no space for dead wood.

You will be spotted quickly if you are not adding value. At the same time, large corporations are spotting that they need entrepreneurial talent within their organisation. But the challenge is that corporate structures may not be right to enable the talent to flourish because in order to have truly entrepreneurial talent, you need to enable risk-taking and give a level of autonomy and freedom. Because of the way many reporting systems and appraisals work, a large company is not conducive to a truly entrepreneurial and maverick individual.

Having said that, the spectrum of entrepreneurial skill is broad. There is the through-and-through entrepreneur who you would struggle to get into a corporate environment (like myself). Then you have people who have entrepreneurial aspirations or tendencies yet crave the comfort of security and structure around them – and therefore would be more of an intrapreneur.

Companies, big and small, need to identify the individuals who will keep the business one step ahead, spawn new opportunities and help the company to grow.

Schemes like Enternships are important because the proportion of young people with entrepreneurial ambitions is increasing. In the United States, a nationwide cell-phone and landline survey, conducted by the Young Invincibles in 2011 in conjunction with Lake Research Partners and Bellwether Research and funded by the Ewing Marion Kauffman Foundation, polled 872 “millennials” (young people aged between 18 and 25) on their thoughts about the economy and entrepreneurship.

Carl Schramm, president and chief executive of the Kauffman Foundation, says:

This poll reveals a generation that is enthusiastic about entrepreneurship, and that is good news for the US; 54% of the nation’s millennials either want to start a business or already have started one. They recognise that entrepreneurship is the key to reviving the economy.

An even higher percentage of young people from ethnic minorities – 64% of Latinos and 63% of African-Americans – expressed a desire to start their own companies.

However, despite young people’s strong entrepreneurial drive, just 8% of the people polled owned businesses at the time of the survey, and only 11% intended to start businesses within the next year; 38% of the potential young entrepreneurs said they had delayed starting a business because of the economy.

Aaron Smith, co-founder and executive director of Young Invincibles, says:
An astounding number of young people want to start a business one day. And they overwhelmingly support action on the part of their leaders to remove barriers to these dreams.

The poll highlights specific barriers to entrepreneurship, including the inability to access the capital needed to get a business going, a lack of knowledge needed to run a small business, concerns with overcoming current debt burdens and a lack of mentors from whom young people can learn.

Some 65% of the people polled think that making it easier to start a business should be a priority for Congress, with 41% saying it should be a top priority; 83% believe that Congress should, at a minimum, increase the availability of start-up loans. Even more respondents – 92% – support increased access to the education and training needed to run a small business as a way to encourage people to become entrepreneurs, and 81% support student loan relief for young people who start companies.

5. Alumni and Associates

An equal priority for organisations is retaining relationships with talented people who leave organisations in midcareer and do not aspire to corporate leadership roles.

Large management consultancies such as Accenture, McKinsey and the Boston Consulting Group are champions of the idea that former employees should be seen as and encouraged to see themselves as “alumni” of the organisation.

They take the pragmatic and realistic view that at least 50% of the consultants they recruit will leave the organisation within their first decade of employment, either to pursue a corporate career or to set up their own enterprise.

Far from attempting to handcuff their staff, many consultancies actively encourage their corporate or entrepreneurial ambitions on the grounds that they will wind up being future clients or collaborators, bringing in new business to their former “alma mater”.

As Emily Lawson of McKinsey explains:

We constantly challenge and review our processes to try to ensure that we are bringing in the best, managing them well and offering them fantastic opportunities and ensuring that they feel good about the firm, whether or not they decide to stay or go. We manage our alumni network very actively.

So if you join McKinsey, you join for life even though you are not necessarily still employed here. We manage much less through systems and much more through values. Our risk management systems are about embedding a common set of values and holding that very visibly. There is a set of norms about how you
behave that are well understood and are inculcated early on within your first year.

Tim Levine found this was also true of Bain & Company, a global management consulting firm, for which he worked before pursuing an entrepreneurial career. As he explains:

They certainly don’t hold you back. They take the attitude that if you are going to leave, you are going to leave. They take pride in the success of their alumni and in my case, they allowed me to continue to work in the office and use it as a resource centre – and keep my desk for a period of six months. This was critical for me when I was setting something up and short of capital.

It is also hard to work on your own and you have plenty of smart people around you. It really helps the transition. And they were keen for me to know that if the enterprise didn’t work out, my old job with them was still there. They stated frequently that they would love to have me back but at the same time they wished me every success in my endeavours to be an entrepreneur. That is a very nice position to be in.

6. Conclusion: First Choice, Not Second Best

Every organisation should consider how it can widen its access to talent. The proportion of employees who will do what it currently takes to climb the corporate ladder is shrinking and what used to be termed ‘the periphery’ is growing.

People at the periphery consist of those who have opted for part-time, self-employed or contract work from choice and not necessity and who possess skills that previously would have been confined to the core.

There are also growing numbers of young people who are opting out of corporate employment and whose skills and entrepreneurial flair are needed by the companies they are forsaking.

Within large corporations, there are mavericks, intrapreneurs and specialists who are not catered for by traditional talent management programmes but who, again, have skills that are increasingly relevant to an uncertain commercial environment.

Professor Andrew Burke of Cranfield School of Management, for example, has tracked the enthusiasm of forward-looking employers to leverage the skills of freelance entrepreneurs (Burke, 2012): employers like Tony Lahert spent who 20 years with international retailer 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.

Tony was 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 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.

Equally illustrative, in Burke’s study, is the career of Philip de Lisle, who 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.”

From these examples, we can see that the growth of IPPros and freelance entrepreneurs, and their newly dominant place in international labour markets requires fresh thinking from traditional talent managers and a new, more flexible approach to their task. Caroline Curtis, head of talent, succession and leadership development at Santander UK, observes that this means opening up the talent management programme and focusing more on enabling the business units to assess and evaluate their own talented individuals in terms of their strengths, aspirations and future potential.

Stephen Dury of Santander UK concludes:
When I am given an innovative, challenging project, which is about developing a new proposition, changing the business or shaping the organisation, often what I am looking for within the business are intrapreneurs and talented people from all backgrounds that feel an individual responsibility for doing things better and want to help make a difference.

The challenge is identifying those people who might not appear on our talent map but you know from working with them that they fit the talent profile that is needed within Santander. It is also about finding the talent that might not be available to you in your own organisation – and finding it at the right time and collaborating effectively for the benefit of everyone concerned. That can catapult talented people into a place where they want to stay.
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The Economic Value of Different Types of Solo Self-Employed: A Review

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Abstract. We review the literature on solo self-employment focusing on prevalence, characteristics and economic contributions. Besides providing explanations for the upward trend in solo self-employment observed in many Western economies, we shed light on the heterogeneity within the population of solo self-employed with respect to demographic characteristics and start-up motives. Moreover, we review the literature on the contributions of the solo self-employed to economic value creation, including income, innovativeness, and ambitions.

Keywords: solo self-employed, value creation, review.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

From the 19th Century onwards, an increased importance of capital intensity and scale economies in the production process led to ever decreasing rates of business ownership in Western economies (Wennekers et al., 2010). However, from the 1970s onwards, the trend toward lower business ownership rates reversed due to technological developments and globalization. In particular, the production factor knowledge became more important relative to capital, providing more room for small and new firms. In many countries, the increase of the number of business owners was accompanied by a disproportionate increase in the number of solo self-employed. For example, between 1992 and 2008, the share of solo self-employed in the total number of self-employed (i.e., including those holding employees) increased by more than 10 percentage points in the United States, Canada and Germany. In 2008, for a selection of 26 OECD countries, the share of solo self-employed in total self-employment was highest in the United Kingdom (78%; see Van Stel et al., 2014).

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The solo self-employed comprise a very heterogeneous category of labour force participants with varying productivity levels. On one side of the spectrum, there are the highly skilled freelancers who provide professional services to existing businesses, enabling the latter to be: innovative, flexible and agile, able to manage entrepreneurial risk, and capable of prospering despite greater market uncertainty (Burke, 2012, p. 6). On the other side of the spectrum, there are relatively less productive solo self-employed who turned to self-employment for a lack of alternative employment options. Although in modern economies, the latter group is likely to be smaller in size (De Vries et al. 2013b), official statistics often disguise this heterogeneity in the population of solo self-employed.

Two drivers of the general trend towards higher levels of solo self-employment in modern economies may be distinguished (Van Stel et al., 2014; Wennekers et al., 2010). First, in many Western countries there is a trend of increased outsourcing to freelancers by established firms, enabling the latter to be more flexible and agile (Burke, 2011, 2012). Second, for higher levels of economic development, different human motivations may have become important. In particular, rather than basic material and social needs which already tend to be fulfilled in developed societies, a need for autonomy and self-realization emerges (Maslow, 1970). Solo self-employment is a way of working which allows for a lot of freedom and autonomy, thereby fulfilling these higher needs from the Maslow pyramid. These two explanations primarily relate to the group of highly skilled freelancers mentioned above.

On the contrary, we can also identify a socio-economic trend implying fewer solo self-employed. This is the larger supply of paid jobs and more stable wages which is associated with higher levels of economic development (Lucas, 1978). These increased possibilities to find wage-employment reduce the need to enter solo self-employment out of a necessity motive, i.e., the inability to find a paid job. The increased numbers of solo self-employed observed in many Western economies suggest that the former two (positive) drivers dominate the last (negative) one.

The current paper reviews the literature as regards the heterogeneity of the solo self-employed as well as the contributions of the solo self-employed to the economy.

2. Prevalence and Characteristics of the Solo Self-Employed

2.1. Broad and Narrow Definitions of Solo Self-Employment

When talking about solo self-employment, by and large two statistical definitions prevail. The broad definition includes all self-employed working on their own account. In 2011 there were over 23 million own-account workers in the EU-27
which corresponds to 71 percent of all self-employed (i.e., with and without personnel), see Rapelli (2012). Besides this broad definition, several narrower definitions prevail, based on additional criteria such as the entrepreneurs’ offering of only their own labour (knowledge and skills) instead of selling goods (De Vries et al., 2013b), or the entrepreneurs’ engagement “… in a service activity and/or intellectual service not in the farming, craft or retail sectors” (Rapelli, 2012, p. 11). Rapelli labels this latter group ‘I-pros’ (independent professionals) and he estimates that this group comprises 37% of all solo self-employed. This comes down to 8.6 million I-pros in the EU-27 in 2011.

2.2. Exploring the Heterogeneity among the Solo Self-Employed

In the literature on (solo) self-employment, it is generally acknowledged that there is much heterogeneity within this group of entrepreneurs (Blanchflower, 2000; Bosch and Van Vuuren, 2010). The solo self-employed consist of a diverse group of individuals varying from shopkeepers, craftsmen, ICT specialists, artists and entertainers to doctors and nurses. They are active in almost all economic sectors, to a high or lesser extent. Due to the observed heterogeneity, it is difficult to clearly demarcate the group. However, two important dimensions along which the solo self-employed may be characterized are their demographic characteristics and their start-up motivations.

Demographic characteristics

Rapelli (2012) reports that 46 percent of I-pros (his narrow definition of solo self-employed, see above) in Europe in 2011 are women. However, there are considerable country differences with the share estimated in the range of 40 to 58 percent. For the Netherlands, for instance, the share of female I-pros is estimated to lie between 50 and 58 percent. Note that the definition of I-pros excludes the construction sector, a sector dominated by male solo self-employed.

Regarding age, Rapelli reports that 62 percent of European I-pros are between 25 and 49 years of age, while female I-pros are slightly younger than male ones. Regarding education, Rapelli reports that 53 percent of European I-pros are highly educated. There are considerable sector differences though, ranging from over 70 percent in the human health and social work sector to below 30 percent for administrative and support service activities. Also note that some sectors where education levels are lower, such as construction, are excluded from the I-pros definition.

Start-up motives

A distinction can be made between solo self-employment out of necessity and out of opportunity. In the latter case, the individual started a business because he or she saw a profitable business opportunity. In the former case, the person became
self-employed because of a lack of alternative employment options. De Vries et al. (2013b) estimate the share of solo self-employment with a necessity motive to lie around 25 percent in the Netherlands. Turnover of these entrepreneurs is significantly lower than for opportunity-based solo self-employed, yet on average annual turnover of necessity entrepreneurs is still found to be sufficient to make a living, thereby contributing to subsistence.

A specific group of necessity solo self-employed are the so-called dependent self-employed, defined as self-employed workers who carry out the same tasks for their client firm as they did before when they worked for the same firm as an employee. Their job has not essentially changed but their employment protection is lower than before when they were employees. An additional advantage for the client firms (former employers) is that they do not pay social security contributions. The size of the group of dependent self-employed is likely to be small though (Román et al., 2011).

3. The Economic Contributions of the Solo Self-Employed

3.1. Contributions at the Macro Level

The main contribution of solo self-employed to the economy is their provision of flexibility to the labour market, facilitating job dynamics (SEO, 2010). They also provide flexibility to large firms, enabling the latter to reduce the risk of worker downtime for (specialist) workers whose skills are required only during parts of the year (Burke, 2011). On average, the productivity of solo self-employed is not lower than that of employees (SEO, 2010). The solo self-employed also contribute to innovations, not only by themselves, but also innovations in the firms that hire their services (De Vries, 2011). Quantitative macro-level research on solo self-employed is limited. One exception is Van Stel et al. (2014) who provide harmonized data on rates of solo self-employment across OECD countries over a considerable period of time.

3.2. Contributions at the Micro Level

When it comes to quantifying the economic contributions of the solo self-employed at the level of individuals, the literature focuses on incomes, innovativeness, ambitions, and job creation. Regarding the contribution of solo self-employed to job creation (i.e., the transition from solo self-employed to employer), we refer to the overview study of Millán et al. (2015). The literature on incomes, innovativeness and ambitions is summarized below.
Income
Solo self-employed can be driven by pecuniary and non-pecuniary motives. Using data for paid employees, solo self-employed and employers in Germany in 2009, Sorgner et al. (2014) show that, controlling for education level and other individual characteristics, solo self-employment is associated with higher incomes than paid employees for individuals with a university entrance degree (similar to a high school diploma) but no further professional qualification, but with lower incomes for individuals with a vocational or tertiary degree (i.e., higher education). Individuals with higher education can exploit their education better in a position of paid employee or self-employed with employees (employer). So, in general, highly educated solo self-employed will not be driven by pecuniary motivations. Instead, non-pecuniary motivations such as autonomy in the job are likely to play a role. Individuals with a university entrance degree but no further education are likely to be relatively intelligent but the lack of formal higher education makes it difficult for them to earn a high income as a paid employee. Solo self-employment is then a better option for this group. Sorgner et al. (2014) also show that for individuals with lower education, there are no significant income differences between paid employees and solo self-employed.

So, for higher educated solo self-employed, incomes are lower than what they could earn as an employee while for lower educated individuals, incomes from solo self-employment are similar to those from wage-work. For both these groups solo self-employment thus contributes to subsistence, i.e., a way to make a living. Only for the medium educated group (university entrance degree), solo self-employment actually pays off in pecuniary terms, i.e., a higher income compared to wage-work.

Of course, for some (lower educated) solo self-employed, working as an employee may not be a realistic labour market alternative as they miss the required human capital. However, Sorgner et al. (2014) also show that it is mainly the higher qualified labor market participants (those who were in the higher parts of the wage distribution prior to becoming self-employed) who select into (solo) entrepreneurship. These findings are in line with De Vries et al. (2013b) who show that even for solo self-employed who started out of a necessity motive, earnings are still high enough to make a living. They are also in line with De Vries and Dekker (2015) who show that only a small fraction of the group of solo self-employed in the Netherlands is subject to a precarious financial position.

Innovativeness
As the innovation process of solo self-employed is different from that of bigger firms, not much empirical measurement has taken place yet regarding the innovativeness of solo self-employed. The study by De Vries and Koster (2013) forms an exception. They have held a survey among solo self-employed and small and medium-sized enterprises (SMEs) in the Netherlands in 2013, and compare their levels of innovativeness. They show that, by and large, solo self-employed
are as innovative as SMEs. In particular, they find that one out of four solo self-employed (SMEs) had engaged in some form of product innovation over the last three years while one out of two solo self-employed had engaged in some form of process innovation. The latter score was even slightly higher than for SMEs. De Vries and Koster (2013) also find that the level of innovativeness is higher among solo self-employed with a higher level of education.

**Ambitions**

De Vries et al. (2013a) investigate ambitions of solo self-employed individuals in the Netherlands in 2012. They find that personal ambitions such as personal development and making the contents of their work more challenging, are important ambitions of solo self-employed. However, the growth ambitions of the solo self-employed are found to be considerably smaller than their personal ambitions, particularly when it comes to employing personnel (job creation) and engaging in export. Many solo self-employed do have an ambition to grow their level of turnover and their number of clients though.

**4. Summary and Policy Implications**

The number of solo self-employed has increased considerably in many (but not all) Western countries over the last two decades. Explanations are the trend of increased outsourcing and a higher need for autonomy and self-realisation, for which solo self-employment may be a vehicle. Broad and narrow definitions of solo self-employment prevail in the literature, where the narrow definitions tend to be limited to service and knowledge activities. The population of solo self-employed is characterized by a high degree of heterogeneity, in terms of gender, age, education and start-up motives. Regarding these motives, about one quarter of solo self-employed may be characterized as necessity entrepreneurs (at least in the Netherlands) in the sense that they started their business for lack of alternative employment options.

Economic contributions of the solo self-employed include their provision of flexibility to larger firms and to the labour market in general. They also contribute to innovation, both for themselves and for their client firms. Regarding incomes, an inverse U-shaped relation between solo self-employment and incomes has been found, where solo self-employment is an appropriate vehicle to earn higher incomes (than paid employees) for medium educated individuals, but less so for higher and lower educated individuals. For these latter groups solo self-employment does contribute to subsistence though. Regarding innovativeness, it is found that the solo self-employed are found to be as innovative as small and medium-sized enterprises (SMEs). Regarding ambitions, solo self-employed seem to have high personal ambitions but lower growth ambitions for their businesses.
Policy implications

Although our review shows that in general, solo self-employed contribute positively to the economy, policy makers will also be interested to know to what extent these labour force participants have the potential to (directly) create jobs for others, i.e., whether they could make the step towards employer (Millán et al., 2015). In this respect, the earlier-mentioned study by Sorgner et al. (2014) suggests that employership may be particularly beneficial (at least in a pecuniary sense) for higher educated individuals, as they could earn more as an employer than as a solo self-employed. Higher educated entrepreneurs may also create more jobs (Unger et al., 2011). Finally, research by Burke et al. (2011) shows that employers who initially started out as solo self-employed perform particularly well as an employer, as they have been able to test the performance potential of their venture before committing resources.

Another implication of our review is that, although there is considerable heterogeneity among the group of solo self-employed, most of them start up from a relatively high wage income (Sorgner et al., 2014). Furthermore, even among the necessity solo self-employed, the majority are still able to make a living (De Vries et al. 2013b; De Vries and Dekker, 2015). Hence, there does not seem to be much empirical evidence for the sometimes heard notion that solo self-employment is a form of hidden unemployment.
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Freelance Human Capital: A Firm-Level Perspective

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Abstract. Firms have been increasingly hiring “freelance” human capital to perform contracted work for them. We define freelance human capital as highly skilled individuals who provide contractural services to firms on a short-term basis. In this chapter, we analyze the challenges and opportunities for firms when using freelance human capital. We address questions such as how firms can utilize freelance human capital to develop and improve their performance, how firms can limit the mobility of freelance human capital in order to sustain a competitive advantage, and how firms can manage a workforce that includes both permanent human capital and freelance human capital. We draw on the theories of strategic human capital, resource-based view, and transaction cost economics to understand the firm’s perspective on hiring and managing freelance human capital.

Keywords: freelancers, independent contractors, strategic human capital, employee mobility.

1. Introduction

Freelance human capital is a type of nonstandard work arrangement that comprises a large percentage of the workforce (Ashford, George, & Blatt, 2007; Barley & Kunda, 2006; Belous, 1989; Cappelli & Keller, 2013a,b; Connelly & Gallagher, 2004; George & Chattopadhyay, 2005; Kalleberg, 2000; Lepak & Snell, 1999; Mangum, Mayall, & Nelson, 1985; Marler, Barringer, & Milkovich, 2002; Osterman, 2000; Pfeffer & Baron, 1988). According to a 2014 survey by the Freelancers Union and Elance-oDesk, 34% of the American workforce or 53 million individuals are freelancers³ (Fox, 2014). While the majority of freelance human capital is classified as independent contractors, freelance human capital may also include temporary, part-time, seasonal, and other nonstandard workers, depending on the contractual arrangements between the freelancer and the firm. We draw on the vast research on freelance human capital, and focus on the firm-level perspectives in this chapter.

Freelance human capital differ from permanent human capital in several aspects of the work environment. First, freelance human capital have more

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autonomy and independence that allow them to simultaneously work on multiple projects for multiple firms (Storey, Salamn, & Platman, 2005). They have less loyalty to a particular firm, and therefore can reject certain assignments that they are not comfortable working on. The freelancer’s independence comes at the cost of having to generate more social capital and networks in order to attract new clients. Successful freelancers possess strong social capital that enables them to get more business (Born & Witteloostuijn, 2013). In order to manage their autonomy and multiple clients, freelancers tend to have more flexibility with which to manage their work-life balance (Born & Witteloostuijn, 2013). Even though freelance human capital possess flexibility in work hours, research shows that they tend to work long hours and maintain a tight schedule (Evans, Kunda, & Barley, 2004). One possible reason that freelance human capital do so is to deal with environmental risks, such as fluctuations in the business cycle that changes the economic environment in ways that either suddenly increase or decrease the demand for freelancers (Evans et al., 2004; Storey et al., 2005). By overbooking their schedule, freelance human capital can buffer themselves in times of less business.

In the next section, we analyze the motivations of firms to hire freelance human capital, and begin to explain the challenges of using them. Then, we bring in three theories from strategy—strategic human capital, resource-based view, and transaction cost economics—to shed light on how a firm can generate value from hiring freelance human capital. Subsequently, we analyze how firms are managing the blended workforce, which includes the management of freelance human capital with the firm’s permanent human capital. Finally, we conclude with emerging trends and future opportunities of research.

2. Literature Review

Freelance human capital are often comprised of ex-employees, who left their prior firm to become independent contractors (Belous, 1989). As a freelancer, the individual has several immediate options in terms of finding firms to work for, starting with their former employer, but also the clients, suppliers, and competitors of their former employer. Freelancers no longer need to maintain as much loyalty to the firm as when the individual was once part of the firm as an employee. In addition, they may not need to invest in additional firm-specific human capital, and instead can focus on using and developing their general human capital on the firm’s project (Becker, 1964). However, the freelance human capital working for a prior firm may already possess some loyalty to the firm and may have developed some firm-specific human capital that can be redeployed inside the firm. Therefore, both the firm and ex-employee turned freelancer may benefit from forming a contractual relationship.
While both startups and established firms can benefit from the strong experience that freelance human capital possess, startups may benefit more. Startups typically need assistance in the management and learning of the best practices for their operations and business development. These firms are less likely to possess such experience, and often cannot spend much time investing in the training and development of such talent, let alone know what to train this talent in. Freelance human capital can fill this role by using their experience to help the entrepreneur. In this regard, freelance human capital are considered enablers and facilitators in the market for startups and thus are contributing to an innovation-driven economy (Burke, 2011, 2015). For the startup, hiring freelance human capital for a short-period of time to help get their business up and running is more beneficial than hiring and investing in long-term permanent human capital. In other instances, startups may have to use freelance human capital since they cannot find permanent human capital. For example, the Indian School of Business began with a majority of its faculty comprised of visiting professors.

Established firms typically choose freelance human capital because paying them to work on a particular short-term project is also cheaper than hiring long-term permanent human capital for such work. However, at the completion of the project, the freelance human capital is mobile in the marketplace. Even if freelancers have fewer options in the labor market, they may not be able to stay at their prior firm beyond the length of their contract. Firms can terminate the freelancer at the completion of their term or project and need not renew their contract. This enables the established firm to maintain accurate forecasts of their freelance human capital and also have flexibility in their use of them, for example in times of economic contractions.

In the end, both firms and freelancers, and in some cases the firm’s clients, have to work together to make the relationship successful (Gable, 1996; George & Chattopadhyay, 2005; Von Hippel, Mangum, Greenberger, Heneman, & Skoglund, 1997). Clarifying project expectations of both the firm and freelancer in the written contract are important to have a successful relationship. While freelance human capital are often characterized by flexibility and lower costs to the firm (Barker & Christensen, 1998; Von Hippel et al., 1997), are firms actually better off bringing in freelance human capital compared to permanent human capital? In addition, it is important to investigate what firms may be required to do, more than simply hiring freelancers, in order to generate a competitive advantage (Davis-Blake & Uzzi, 1993; Uzzi & Barsness, 1998). In the next section, we draw on the theories of human capital, resource-based view, and transaction costs to understand the decision to bring in freelance human capital.
3. Theories from Strategy

Firms often seek to hire freelance human capital, who are specialized and highly-skilled individuals from the labor market. Firms desire to use the freelancer’s knowledge, skills, and abilities to improve the firm’s performance (Burke & Cowling, 2015). However, by definition, freelance human capital are short-term and mobile to other firms, sometimes even working for multiple firms simultaneously. The source of the problem emerges at this junction because after helping the firm, freelance human capital can take the firm’s core knowledge with them elsewhere. To avoid this problem, the firm may either (1) assign the freelance human capital to the firm’s non-core projects (Bidwell, 2009) (which may not be the best use of such highly skilled talent, not to mention that it may not even be necessary for the firm to hire freelance human capital for such peripheral tasks) or (2) try to limit the freelance human capital’s mobility (which may be difficult given the contractual relationship). Considering this problem, we analyze when firms hire freelancers and how firms can generate value from them, from three perspectives—strategic human capital, resource-based view, and transaction costs theory.

Strategic Human Capital

One of the difficulties in managing permanent human capital is that an employee can quit at any time (Coff, 1997). In the case of freelance human capital, termination is an intrinsic element of the contract, in that firms hire freelancers specifically for a fixed period and then they are contractually obligated to leave. If freelance human capital are going to depart anyway, it may be better that such workers do not walk away with the core knowledge of the firm, since the firm risks losing this knowledge to potential competitors. However, if the freelance human capital is being under-utilized by assigning such highly skilled talent to non-essential or peripheral aspects of the firm, this may not necessarily lead to economic rents. There are several nuances to this logic that are explored in strategic human capital theory.

First, since freelance human capital is likely to leave the firm after a fixed period of time, firms can anticipate and determine the appropriate nature of the work. For example, the firm’s technical knowledge regarding the development of a new device that must be shared with freelance human capital in order to ensure the proper development of the product is proprietary knowledge. During the project, the freelance human capital can sign an enforceable nondisclosure agreement till the completion of the project. After the new product is revealed in the market, there is less information asymmetry and risk to the firm. While freelance human capital can still reveal the tacit aspects of development to competitors, the focal firm has lead time, which is considered a major advantage when launching innovative products.
Since a freelancer’s knowledge is largely portable across firms, including competitors, a firm may not be able to sustain a competitive advantage. However, freelance human capital may or may not join a competitor. They may move vertically on the value chain to cooperators, such as suppliers or clients of the firm, in which case the sharing of the firm’s knowledge may actually increase business for the focal firm (Somaya, Williamson, & Lorinkova, 2008). When the firm is losing a former freelancer, they may want to help them go to a cooperator, since there is the alumni effect, in that the freelance human capital may persuade their cooperators to increase the relationship with the freelancer’s prior firm (Carnahan & Somaya, 2012). This suggests that the mobility of freelance human capital may be advantageous to the hiring firm.

One of the key factors of gaining a competitive advantage is the development of firm-specific human capital (Barney & Wright, 1998). Freelance human capital, by definition, may not have enough time to develop firm-specific human capital since they are working for a short period in the firm, and therefore firms looking for human capital to develop firm-specific knowledge may opt to not seek freelancers (Davis-Blake & Uzzi, 1993). While recent literature has called into question the relative importance of firm-specific human capital (Kryscynski & Ulrich, 2015), it is still important to understand how, and if, firm-specific human capital may be developed among freelance human capital.

Huckman and Pisano (2006) investigated the mobility of surgeons across different hospitals and their subsequent performance at these hospitals. This study can be mapped on to the mobility of freelance human capital across different firms and their subsequent performance at these firms. Huckman and Pisano (2006) show that freelancer’s knowledge may be imperfectly portable, in that, some aspects of their knowledge are firm-specific. Surgeons that have recent experience at a particular hospital show a performance decrease when they move to a different hospital. Part of this recent firm-specific knowledge lies in the familiarity with the assets that the freelancer may have become accustomed to at the prior firm (Huckman & Pisano, 2006). This suggests that when a freelancer works for a firm, there is some element of learning that can potentially lead to the development of firm-specific knowledge even in short-term projects. Also, the longer the freelance human capital works on these projects, the greater the firm-specific human capital developed at the firm. Research shows that workers who are well-advanced in their careers and who do contracting are also likely to remain and seek long-term contracts (Bidwell & Briscoe, 2009), however as their skills increase, they are likely to find more contracting opportunities outside the firm.

While freelance human capital may find it convenient to work on multiple projects for fewer firms, thereby not having to utilize as much of its social capital to get new clients, this may hinder the freelancer in the long run. Inadvertently, freelancers may develop firm-specific knowledge, which hinders mobility to other firms, especially if the freelancer’s performance drops (Huckman & Pisano,
Additionally, freelance human capital may not be able to bargain and appropriate greater returns. Therefore, while firms can gain a competitive advantage from freelance human capital if they are able to stay and work on multiple projects, which may enable them to develop firm-specific human capital, freelancers may be wary of doing so. One way to overcome this problem would be to incentivize the freelance human capital to invest in firm-specific knowledge, e.g., stock options (Wang, He, & Mahoney, 2009). However, stock options may be considered part of employee benefits, which are typically not given to freelancers and could create internal conflicts among the firm’s permanent human capital. It is important for firms to explore additional ways that freelance human capital will invest in firm-specific knowledge.

As mentioned earlier, one source for freelance human capital is an ex-employee choosing to leave the firm, and then becoming a freelancer for the firm. One way to prevent the departure of employees to become freelancers in the first place is possibly to make the human resource (HR) system more “flexible” to the employee, e.g., by allowing different assignments and tying wages to performance (Belous, 1989). These may be characteristics that employees prefer, and may be one way to keep employees from becoming freelance human capital.

In summary, the firm may be able to sustain a competitive advantage from freelance human capital by anticipating the nature of their short-term work, ensure their mobility to cooperators instead of competitors, entice them to stay longer in the firm by working on multiple projects, incentivize them to invest in firm-specific knowledge, or try to prevent their transition from permanent human capital in the first place. Further, it is possible for the firm to hire freelance human capital as its permanent human capital, and this may be an opportunity for future research, investigating whether and how often this happens.

Resource-based View

According to the resource-based view, in order for firms to sustain a competitive advantage, their freelance human capital must be valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). From the outset, the notion that firms can use freelance human capital to provide critical services that are important to the firm’s competitive advantage seems at odds with the resource-based view of the firm (Huckman & Pisano, 2006; Lepak & Snell, 1999). While Lepak and Snell (1999) designate contract workers as low skilled labor that are neither valuable nor rare, highly skilled freelance human capital may indeed be both valuable and rare. However, freelance human capital may not necessarily be inimitable since the freelancer can leave and provide comparable services to competitors, thereby imitating the knowledge created at the firm (Huckman & Pisano, 2006).

In order for freelance human capital to be more valuable, they may need to develop unique knowledge, which may require path dependency (Lepak & Snell, 1999). This is less likely with freelance human capital, unless the firm can keep its human capital for a long duration. Even after such a long duration the
freelancer may choose to leave, in which case the firm loses the knowledge anyway. Therefore, it may be best to utilize freelance human capital for non-core elements of the firm (Bidwell, 2009), so as not to risk losing the valuable knowledge and resources to a competitor. Lepak and Snell (1999, 2002) further recommend a compliance-based HR system. This will ensure that the freelance human capital focus not only on the economic aspects of the contractual relationship, but also comply with the firm’s rules and regulations.

If freelance human capital work on the non-core competencies in the firm, then they may be generic and substitutable, and therefore firms are less likely to achieve a competitive advantage from their freelance human capital. In practice, highly skilled freelance human capital are not generally utilized in this manner, but rather are frequently assigned to the firm’s core competencies. Therefore, freelance human capital may be valuable, rare, and non-substitutable resources, however, unless the firm can prevent their mobility to competitor firms, they may not be inimitable. This finding is similar to one of the findings drawn above from strategic human capital theory, and therefore similar strategies discussed in that section to limit freelance human capital mobility may be applied here as well. In the next section, we investigate how firms can reduce their employment costs along with increasing flexibility through contracting with freelance human capital.

Transaction Costs Theory
Transaction costs theory can help inform the decision to pursue freelance or permanent human capital. There are several key differences in the transaction costs of managing freelance versus permanent human capital. The relationship with freelance human capital is often an arm’s length contract with the firm, where the firm pays a fixed price for the project and clarifies the requirements in a written contract. Compared to freelance human capital, firms provide permanent human capital time and attention for training and career development, a salary plus bonuses, vacation days, pension and benefits, and supervision along with an annual performance review (Bidwell, 2009; Bidwell & Briscoe, 2009; Chadwick & Flinchbaugh, 2013). There may be some additional differences among the hiring of permanent human capital, depending on whether the firm is hiring novice or experienced employees (Chauradia, 2015). Experienced human capital may be closer to independent contractors than novice employees, since experienced human capital also do not need much training and supervision. One of the sources for independent contractors is such experienced employees who choose to leave the firm and become freelancers.

Freelance human capital is appropriate when firms do not need to monitor worker performance, since worker performance can still be correctly and efficiently deployed (Mahoney, 2005; Williamson, 1975). One of the reasons the firm exists is to monitor and gather information on its employees’ performance and contribution to the firm (Alchian & Demsetz, 1972). Firms that can easily
gather information on worker efforts are more likely to use freelance human capital effectively. In the contract between the firm and freelance human capital, if the outcomes can be explicitly and clearly stated, then the firm is better off using a “nexus of contracts” with its freelance human capital (Jensen & Meckling, 1976). In reality, firms are often hybrid organizations that use both freelance and permanent human capital depending on the nature of the work.

Projects and assignments that are less firm-specific and that have lower risk for information asymmetry may also be better candidates for working with freelance human capital (Williamson, 1975); these projects do not require loyalty, commitment, or extended continuity with the firm (Rousseau & Parks, 1993). Firms are also more likely to use freelance human capital when the project is not repetitive (Masters & Miles, 2002). Changes to the project may require consultation with regards to the contractual agreements between the firm and freelancers (Williamson, 1975). The costs of renegotiating such contracts are high, and therefore the firm may consider internalizing freelance human capital. The two options—freelance or permanent human capital—lie on a spectrum and transaction costs can help determine when a particular option is more cost effective for the firm.

4. Managing Freelance Human Capital and Permanent Human Capital

Firms are often comprised of a blended workforce that has a mix of permanent human capital and freelance human capital. Research shows that a blended workforce may have different perceptions of satisfaction and other issues that may lead to internal conflicts in the firm (Broschak, Davis-Blake, & Block, 2008; Davis-Blake, Broschak, & George, 2003; Wilkin, 2013). First, freelancers, on average, earn more wages than permanent employees (Kunda, Barley, & Evans, 2002), and this fact can create conflict among permanent employees. Essentially, firms are requiring permanent human capital to work with freelance human capital (Davis-Blake et al., 2003), to get them up to speed on the work that needs to be done. While permanent human capital may perceive that freelancers are not needed in the firm, they may still be forced to work with them and may be given additional tasks from this new work relationship even though permanent human capital may not be getting paid more from the relationship.

Firms often want to give projects to the highly skilled freelance human capital, possibly at the expense of giving it to the permanent human capital in the firm (Pfeffer & Baron, 1988). However, while permanent employees may perceive that the firm thinks of freelancers as replacements, another possibility is the firm is thinking of supplementing or complementing their permanent human capital (Burke & Cowling, 2015; Lautsch, 2002). For example, bringing in freelance human capital may help permanent human capital benchmark themselves against the labor market, and it may be used by the firm to motivate
their existing human capital to learn from the freelancers and improve their work in the firm. Conveying such information to permanent employees may be important to manage the mix and reduce the tension permanent human capital may be feeling.

As the hiring of freelance human capital increases, the trust of permanent human capital inside the firm may decrease (George, 2003). Permanent human capital may feel the firm is less committed to them, and as a result, permanent human capital may show less commitment to the firm. This is especially likely if resources are given to freelance human capital, and therefore, fewer resources may be going to permanent human capital. This is quite problematic since the nature of the employment relationship between permanent human capital and the firm is built more on trust than is the relationship between freelance human capital and the firm.

Since freelance human capital are frequently ex-employees, permanent human capital may learn from freelance human capital of outside job opportunities (Matusik & Hill, 1998), and may become freelance as well, thereby benefitting individually from the blended workforce (Davis-Blake et al., 2003). This may be problematic since the firm is losing permanent human capital to the market, and the firm may end up paying the former permanent human capital more wages as a freelancer for the same work they previously did as permanent human capital. In sum, there are several challenges for firms trying to manage the mix of permanent and freelance human capital, and firms need to take an active approach to managing this complex relationship.

5. Emerging Trends and Future Opportunities for Research

The roles and responsibilities of freelance human capital have evolved with time. The growing economy has necessitated that firms seek new ways of finding the right talent, developing the desired skills, and sharing expertise. According to Forbes, firms’ growing reliance on consultants, intermittent employees, and contingent labor is a strategically chosen approach to meet the needs of this growing economy (Ettling, 2014). The emergence of terminology such as the “independent professional teams,” “online outsourcers,” “permatemp,” or “super temp,” are related concepts associated with freelance human capital. As more individuals seek autonomy, control, flexibility, potentially high rewards, and freedom, the supply of freelance human capital is growing. Firms will have to move away from merely treating freelancers as a stop gap solution to including them in the processes that are traditionally reserved for the permanent workforce:

4. Independent professional teams are a team of self-employed experts with high levels of entrepreneurial orientation. These teams are regularly self-managed and rely on the sharing of leadership responsibilities (Muethel & Hoegl, 2013).
onboarding, corporate learning, expertise sharing, performance reviews, and succession planning.

Based on the above literature review, research supports the existence of freelance human capital, and theoretically compares and contrasts freelance human capital with permanent and other types of human capital. However, an area of research lacking conclusive findings centers on the appropriate mix of freelance and permanent human capital that can enable firms to generate a competitive advantage. The rise of freelance human capital is creating conflicts and tension among existing permanent human capital and the management of these two groups of human capital in the firm for firms to seek competitive advantages. Firms may need to communicate the need for freelance human capital to permanent human capital, so there is a clear understanding as to the reason the firm has brought them in. This increased communication can alleviate any concerns of permanent human capital, such as the assumption that freelancers earn more; indeed freelance human capital earn more wages, but they do not receive benefits that permanent human capital do. Communicating the value of the benefits could be one way to convince permanent human capital that the overall earnings of both sets of human capital in the firm may be on par with one another.

With the rise of freelance human capital, the U.S. Department of Labor is creating new laws that classify more freelancers as employees, in an attempt to collect more tax revenue (Idalski, 2005). For example, according to the Department of Labor and Workforce Development, New Jersey adopted a new test that needs to be met in order for an individual to be considered an independent contractor and not an employee: 1) the employer does not exercise control over the employee, 2) services performed are “outside” the usual course of business, and 3) the individual’s profession persists after termination. It is important to understand how the different categorizations of human capital and the implications of these new state laws can impact the firm’s hiring of freelance human capital and subsequently its performance.

In this chapter, we reviewed the current research in freelance human capital in order to provide some guidance to scholars. There remain many opportunities to explore the relationship between firms, freelance human capital, and permanent human capital. We analyze freelance human capital from the theories of strategic human capital, resource-based view, and transaction cost economics, however there are other theories from which freelance human capital can be studied from that we do not explore in this chapter, such as HR management and labor economics. As freelance human capital continues to grow and become a huge part of the global economy, it is important to continue to research and understand the nuances of freelance human capital and their interaction with the firm.
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Freelance Human Capital: A Firm-Level Perspective


Independent Professionals: Legal Issues and Challenges

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Abstract. Although Independent Professionals (IPros) have until recently been generally neglected by the academic community, including by specialists in both management and entrepreneurism, IPros cannot avoid being subject to key areas of regulation. This sometimes impacts upon them in a complex, controversial and unfair way. The regulatory framework contains key areas of fiscal policy, especially personal taxation, unfortunately often dominated by allegations of ‘sham’ relationships, the law relating to business associations, employment law and social protections. Some IPros are also subject to regulation by professional bodies. Virtually all of these areas of regulation present challenges, not least as IPros are hard to define and are not unambiguously a part of the business community or the labour market.

Keywords: Independent Professionals (IPros), definition, regulation.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Independent Professionals: Legal Issues and Challenges

This contribution deals with an often neglected topic in literature, that of the regulatory framework within which Independent Professionals (IPros) work. IPros are self-employed knowledge professionals ranging from engineers, consultants, writers and IT specialists through to members of liberal professions, such as lawyers and accountants. They are also variously referred to as freelancers, sole traders and contractors. Data on this group is necessarily limited as they are only rarely disaggregated from data on self-employment generally (Rapelli, 2012). More usually they are combined with groups such as those in retail, agriculture and construction (Hatfield, 2015).

In the entrepreneurship literature, where IPros are seen by some as nano/micro businesses, the emphasis has traditionally been on start-ups, survival, growth and job creation, although there is an important literature on the characteristics of this group and their contribution to innovative developments in client organizations (Kitching and Smallbone, 2011; Morgan, 2009; PCG, 2010; Cowling, 2003). Some doubt whether IPros are properly part of the

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entrepreneurship discourse at all. (Compare Kitching and Smallbone, 2012 with Heinonen et al, 2013). But this neglect pales into insignificance if IPros are seen as a specialized part of labour markets, where literature, both academic and practitioner, that does deal with employment, its management and regulatory issues, focuses exclusively on employees (Leighton et al, 2007). The self-employed, it appears, including the typically highly skilled IPros, are simply a default category or totally ignored (Leighton, 2014; Burke, 2012; GEM National Reports; ComRes, 2012). However, the one person/sole-trader business (the IPro), who does not want to grow through employing others, has attracted little attention as regards regulatory matters.

The aim of this article is primarily to reflect on the regulatory framework for IPros, in the context of contemporary controversies around the nature and impact of regulation itself. Some key features of IPro working is noted, not least the problem of defining them, but also the limitations in our understanding of the relationship between regulation and practice.

The article explores in outline some of these issues surrounding regulation and then considers the application of aspects of regulation to IPros themselves. This includes the highly contentious issue of alleged ‘sham’, ‘false’, ‘bogus’ relationships that have not only generated confusions and tensions but have also diverted attention from efforts to find an appropriate and supportive regulatory framework for IPros. This also includes the extent which IPros, though self-employment, should have access to a ‘floor of protective rights’ in terms of matters such as sickness or injury, maternity and family benefits and provision for pensions. The article draws on a number of research projects covering the UK and the EU more generally and it notes research from other jurisdictions (Leighton, 2013).

2. Regulatory Frameworks

Attitudes to regulation have tended recently to become very negative, including within the EU, with constant calls for the removal of ‘red tape’ and the lifting of ‘burdens on business’, especially in order to emerge from the recent recession (EC, 2010; EC, 2013). Calls for deregulation have also intensified so as to support free competition, including for service provision, often re-enforced by notions of responding to consumer interests. These have particular relevance for many IPros, who work in knowledge-based service sectors, especially those in liberal professions. For this group, the various attempts to ‘liberalize’ professions, whether in France, Italy or other states have met with stiff resistance (for example, see Macron, 2014). At the same time, some commentators express concerns that without regulation professional and other standards fall and there are risks of corruption, abuse and market distortion. Thus, today, the issues around regulation are not only topical but also highly contested, which makes the
analysis of the regulatory framework within which IPros work especially complex.

3. Some Preliminary Issues

Before exploring the nature and role of the regulatory framework a number of points need to be made. The first concerns the emerging evidence on the changes in the composition of the workforce in many developed economies, along with changes in the ways that people are working (Mandl, 2014; Dellot, 2014; Phillips, 2008). Traditional analyses, seeing people who work other than as full-time employees on permanent contracts as ‘non-standard’, ‘atypical’, ‘marginal’, ‘peripheral’, or increasingly as ‘vulnerable’, appears to be subject to some revision. Workforces which are more diverse and susceptible to different forms of classification and motivations for working in particular ways are undergoing significant change. Many people are opting for ways of working that provide greater choice and autonomy. IPros are clearly a part of this change (D’Arcy and Gardiner, 2014).

The implications are that policy and law-makers need to respond to labour market changes other than by measures that aim simply to address ‘vulnerability’. Vulnerability is clearly an issue for some, such as fixed term, casual and zero-hours workers, but it is only one aspect of change and virtually no IPros self-define as vulnerable (Leighton, 2013). There needs to be more recognition that ‘standard employees’ are only part of labour markets and economies. Indeed, some predict that the non-standard workers will form the majority in the next few decades (Callehan, 2011). These major changes generate important practical, societal questions about, say, skills recruitment, rewards systems, financial and other risks, people management, the balance between different working groups in economies and responses to the rise of ‘individualism’ (Brown et al, 1998; Gratton, 2011).

The second is the lack of an agreed definition of this group (IPros) in the workforce, re-enforced by a number of anomalies and tensions (Leighton, 2011 and 2012). IPros are by no means a homogeneous group and they range from those whose primary self-identification is as a member of a liberal profession, such as lawyers, health care professionals (Sommerlad, 2007) through to the so-called ‘new’ professionals (Pedeserini and Coletto, 2009), who are typically more business focused, such as designers, IT contractors and consultants/advisors with a variety of specialisms. Although it appears that few self-define as ‘entrepreneurs’ (Leighton, 2013), they do recognize the need for both business skills and sustaining their core skills and knowledge.

Regulatory traditions in most jurisdictions make both the variety but also the tension as to whether IPros are, indeed, ‘in business’ important and problematic. Governments tend to have separate ministries for, say, trade and business and for
employment and social protections. This complexity applies equally to the EU with the key policy and law-makers having relevance for IPros in the DG Single Market, Industry, Entrepreneurship, SMEs, DG Employment, Equality and Human Rights, each having a distinctive culture and working methods.

The third preliminary issue is that despite the debates and policy development around regulation, the reality is that relatively little is known about the actual impact of specific regulations, especially on matters of choice and decision-making (McCann, 2008; Deakin, 2011; Biffle and Isaac, 2005). The evidence for the assertion is, for example, that regulation makes businesses reluctant to recruit staff; that high taxation leads to a ‘hidden economy’, or that providing protective rights for part-timers leads to fewer part-timers, is limited or countervailing. Indeed, the numbers working part-time across the EU have remained stable, despite the rights and additional labour costs involved (Eurofound, 2011). Let us take a specific example: IPros often use agencies to access clients and work. A recent report on agencies working generally from within the EU is instructive on the impact of regulation. The 2008 Temporary Agency Work Directive provides protective rights for ‘temps’, not only so as to improve their working conditions but so as to prevent ‘temps’ being employed to drive down wages or generally destabilize workplaces. Many commentators at the time predicted a decline or even the demise of agency working. The report shows that, in reality, little has changed. Agency working continues to grow, albeit with variable use across the EU and varying use by IPros (EC, 2013a).

Similarly, does providing grants and other financial support ensure increased numbers of, say, entrepreneurs/business start-ups? Evidence is again, at best weak. Indeed, research sometimes indicates that responses to a particular policy agenda can be counter-intuitive, with little or no correlation between, say, a supportive government framework for, say, self-employed workers and their growth, and vice versa (Rapelli, 2012; Leighton, 2013). For example, Finland has seen a 56% growth in IPro working between 2004 and 2014 with relatively little state encouragement. It appears that people, and maybe, especially IPros, can respond to regulation in individualized and often unexpected ways. Nonetheless, it will often be argued that if IPros are provided with a more protective regulatory framework this will inevitably make costs higher and make clients increasingly reluctant to use them. We shall have to see, but experience from other regulations providing increased protections clearly indicate that the case is not going to be clear-cut.

4. How Are IPros Regulated?

It is important to differentiate between ‘hard’ and ‘soft law’. ‘Hard law’, is where breaches of regulation can be enforced through courts and remedies be sought by either an enforcement body or the IPros themselves or their clients. The law of
contract is an obvious example, but in most jurisdictions there are also regulations that can impose criminal penalties on individuals, such as health and safety and tax law. ‘Hard law’ is drawn from national legislation and, for people working within the EU, also from EU legislation and the case-law of the EU’s Court of Justice.

‘Soft law’ cannot be enforced in this way, as its role is to set standards through codes, guidance, recommendations etc. The content of ‘soft law’, for example, from the International Labour Organisation (ILO) and the Organisation for Economic Co-operation and Development (OECD), that have developed codes on, say, corporate social responsibility, can sometimes be cited in ‘hard law’ litigation, but generally the consequences for breaking ‘soft law’ are very limited (Weiss, 2013).

Regulation is also drawn from professional bodies, which is sometimes re-enforced by national legislation and especially those IPros who are liberal professionals. Regulations cover matters such as qualification, level of fees, ethical issues, whether or not professionals can advertise and compete for clients and in most cases provides some sort of monopoly for these IPros (Koumenta et al, 2014). These protections have given rise to concerns, especially in the EU, regarding the extent to which such protections counteract the notion of both a single market for services and free competition (EC, DG Single Market Industry, Entrepreneurship and SMEs).

Clearly such regulation does not apply to all IPros, especially those in the newer knowledge-based areas of work. Indeed, it is possible to classify IPros into four groups for regulatory purposes;

• Those, such as lawyers, doctors, engineers, architects who are typically covered by both legislation and professional rules and regulations.

• Those that are covered by legislation that impacts on at least some of their work, such as interpreters in law courts who are subject to, for example, security screening and bans on providing a substitute.

• Those that are subject to ‘soft law’ provisions by a professional body.

• Those who are not subject to any mandatory provisions and who can work freely, such as designers, IT specialists, and consultants of various sorts.

Of course, IPros may choose to join regulatory bodies for a range of reasons, such as their provision of training, the value of a network and for marketing or credibility purposes.
5. What Are the Key Regulatory Provisions?

Clearly, it is not possible to cover all areas of regulation, and some regulatory topics have relevance only to some types of IPro working. For example, designers, journalists, and writers of other sorts are covered by regulation relating to intellectual property rights, especially copyright and design copyright. Brokers and financial advisors have specific legislation applying to them, including, say, to combat market distortion and money laundering.

Many IPros are also covered by regulations covering business associations, such as limited companies, partnerships and co-operatives that sometime carry with them significant bureaucratic demands. The topic of business associations and business relationships can become very controversial. This is especially so in complex supply chain arrangements. For example, a hypothetical IPro, Robert, sets up a limited company (Rob Ltd) in the UK whereby he is the sole shareholder and director. Technically, he is an employee of the company. He is approached to undertake work for X plc that has set up a separate company (Y Ltd) to undertake a particular project for which they want to use Robert. A contract is made between Y Ltd and Rob Ltd that sends Robert to do the work. There may even be other parties, for example, Robert may use an agency and Y Ltd use a separate company to organize payment to Robert.

In the UK this type of arrangement with four or more parties is common, but it does make the application of regulations regarding responsibilities, protections and liabilities when things go wrong especially difficult to unravel (perhaps Robert accesses highly confidential data at Y Ltd and passes it to a rival of Y Ltd or Robert feels he has suffered unlawful discrimination, or simply that the quality of Robert’s work is poor). In reality, it is a simple arrangement whereby Robert is working on a self-employed basis to undertake a project for X plc. But for tactical reasons, possibly fiscal or headcount reasons, a complex structure was created (See Halawi v. WDF, 2014).

However, it is fiscal and employment regulatory matters that have caused most controversy and for a number of reasons. These range from allegations that the self-employed status of an IPro is a ‘sham’, through to whether IPros should be able to access, any, some or even all social protective rights that are available to employees, given that IPros, typically, pay significant social costs to governments. Both of these issues are topical and global ones, and the former has tended to obscure or even dominate the whole IPro discourse.

6. ‘Sham’ Relationships

If evidence is limited for many of the issues considered here, especially the impact, if any, of regulation on practice, there is a considerable literature on ‘sham’ employment. Other ‘labels’ are used to convey the same issue, such as
'disguised', 'bogus' and 'false' (Casale, 2012). One concern is that people are forced into self-employment by employers who wish to reduce labour costs, especially as a consequence of the worker then having few if any legal protections. This approach to the employment relationship could be called the 'exploitation model'.

However, where IPros are concerned the issue is more likely to be whether the self-employed relationship was set up so as to reduce fiscal liabilities for both the employer/client and the IPro. There are particular concerns where a contract is long, regularly renewed or the IPro is so strongly integrated into the client organization that it is hard or impossible to differentiate them in practical terms from an employee. This can be called the 'collusion model'. Where an IPro works for only one client, does not use substitutes and works on a series of, say, one year contracts, the argument that they are truly self-employed can be hard to sustain. Some commentators refer to this (along with the 'exploitation model') as 'dependent self-employment' (Muehlberger, 2007). The concerns are not just because the arrangement can easily create vulnerable employment in the first situation and losses for fiscal authorities in the second, but because self-employment can often carry with it other disadvantages, such as problems in accessing loans, insurances and pensions (D’Arcy and Gardiner, 2014; Leighton, 2013).

But at the heart of this topic is the long-running and apparently unsolved question of ‘how do you differentiate the genuine IPro from an employee’? If the key defining features of genuine self-employment are opportunity, investment and risk many employees are also exposed to opportunity and risk and are largely paid through commission or bonuses. Indeed, many now speak of the importance of the ‘entrepreneurial employee’ (GEM, 2013). At the same time, job security is increasingly an illusion for many employees.

So, what are the agreed key features of IPro working which makes it clear that an individual is truly self-employed? Is it having a website, an accountant, a limited company, paying VAT and other economic and business indicators, such as time limited work or having a number of clients contemporaneously? Or, is it more psycho-social? Do genuine IPros exhibit a set of attitudes and behaviors, perhaps in terms of attitudes to risk, or notions of ‘professionalism’ or a rejection of working in hierarchies and subject to HRM? There is, indeed, a literature that would suggest the strength of the psych-social approach (McKeown, 2000 and 2003; Lange, 2012; Frazer and Gold, 2001). But would this satisfy fiscal authorities and law courts? One suspects not.

The legal consequences of being an employee or being self-employed are considerable and by no means limited to fiscal matters and the so-called ‘wage-work bargain’ (D’Arcy and Gardiner, 2014). The contractual obligations, especially those on the employee have become more burdensome in the last few decades, with HRM increasingly seeing the employee relationship as one of inter-dependency, through notions of, for example, engagement and the mutuality of
obligations derived from the psychological contract, all set within hierarchical structures.

7. The Legal Tests

Most legal systems differentiate between the employee and the self-employed by applying legal tests. The most commonly used is that of ‘subordination’, which asks whether an individual is subject to the instructions and control of the employer/client. This, in turn requires exploration of the extent to which the IPro can be flexible, send a substitute and whether they bear some of the risk of a project (Razzolini, 2011), or whether they simply obey the instructions of their employer. The UK has no fewer than four tests it variously applies to the problem, each focusing on very different aspects of the relationship between an IPro and their client/employer. The first explores notions of control and supervision (Yewens v. Noakes, 1880), the second, the extent to which the individual is integrated into the organization (Stevenson and others v. MacDonald and Evans, 1952), the third, whether people are ‘in business on their own account’ (Ready Mixed Concrete v. MPNI 1968) and the last whether there is sufficient ‘mutuality of obligation’ to offer and then undertake work between the parties (O’Kelly v. THF, 1983), so as to indicate employee status. Unfortunately, the complexity and inconsistency in the application of the UK tests can mean many IPs might be wrongly classified as employees. Put succinctly, applying one test might lead to the conclusion that an IPro was correctly classified as self-employed but using another test might lead to the opposite conclusion!

Another way to look at the tests is locate the tests within different academic disciplines. So, the first is linked to HRM, the second to organizational behavior, the third to economics and the fourth to psychology! Whatever the discipline, the approaches are clearly very different, and depending on which test is applied, likely, as suggested above, to achieve different outcomes.

Recently, the UK’s Supreme Court in an effort to bring some sort of order to the topic, has simply asked tribunals to state the ‘employment realities’ of the relationship, but, unfortunately, with no guidance as to how they should do it (Autoclenz v. Belcher, 2011). Clearly, in the context of notions of entrepreneurism, it is only the economic test that resonates, by focusing on investment, risk and business practices. It is also the case in the UK that if there is a suspicion of a ‘sham’ the courts are often unwilling to expose it or to intervene, preferring to maintain support for the integrity of the rules of freedom to contract. For example, in Kalwak v. Consistent Group 2007, a Polish worker with limited English was required to sign a document declaring her to be self-employed, despite her working long and regular hours, being provided with accommodation and forbidden from working for anyone else. By contrast, in most other EU states the
definition of employee and self-employed is enshrined in legislation or social agreement, leaving the courts with less discretion.

Despite this, in most developed economies the question of differentiating the employee from the self-employed has proved both controversial and unsatisfactory (Leighton and Wynn, 2011). As referred to above, this is especially so in common law states such as USA and Australia, where rules are taken predominately from case-law, therefore leaving much to the discretion (or whim) of judges. The issue of alleged ‘sham’ relationships remains in the forefront of debate, though data confirming or denying the incidence and scale of such ‘sham’ relationships remains scanty. The best that can be said is that the topic is crying out for rigorous, objective and comprehensive research to clarify the nature and extent of any problem and, further, whether there can be any consensus on what, precisely, is the defining feature of being an employee or being self-employed.

8. IPros and Fiscal Regulation

It is tempting, especially in the UK to see the fiscal regime as a key driver of IPro development. The Finance Act, 2000 in the UK, with its transparent strategy of challenging shams and other assumed ways of IPros’ minimizing tax liability was, indeed, a key motivator for IPros to organize and challenge. The legislation also spawned the ‘umbrella’ company which has counterparts in other EU states which provides fixed term contracts of employment for IPros while they are on specific projects. ‘Umbrellas’ still retain some fiscal advantages for IPros, which again has prompted the UK authorities, at least, to seek ways to question them (HM Treasury, 2010; HM Treasury and Revenue and Customs, 2014; OTS, 2014). Although, there has been something of a campaign waged by these authorities to challenge employment relationships, in reality they have a poor record of success.

Research involving IPros themselves seems to suggest that resentment is not so much fuelled by the level of taxation and contribution but that IPros often contribute similarly as employees do, but do not have access to the equivalent benefits or support (Leighton, 2013 Chap. 3). The picture is variable across EU states and other states, but within the EU in states that subscribe to the co-ordinated market economy model, IPros do tend to receive some benefits, whereas in states that subscribe to the liberal market economy model, benefits tend to be very limited. Where there is provision, benefits such as relating to disability and illness, maternity, and family rights are the most likely to be available (Leighton, 2013 Annex 1).

The picture generally as regards accessing social and protective rights is therefore varied across the EU, sometimes with difficulties in qualifying for them. For example, the self-employed in the UK can generally only access rights such as equality rights, rights to paid holidays, and security of earnings if they have
‘worker’ status (Employment Rights Act, 1996, S.230 [3]). To have this, the IPro needs to be ‘personally executing work’, i.e. must do it themselves and generally not send a substitute. Through this formula, many IPros have been able to claim some of these basic protections. However, recently, the courts have been applying strictly the wording of legislation, in that it excludes IPros who work personally but on a ‘business to business/client’ basis. Currently, the UK government is seeking evidence on the whole question of ‘worker’ rights (BIS, 2014), but the whole issue highlights what this article raised at the outset. This is the question of whom, precisely, IPros are and where do they fit into policy-making and regulation? Do they want or need employment rights? Do they want to join and enjoy protective trade union rights? If they do want rights, what are the priorities and what is the policy basis upon which rights are made available?

9. Concluding Thoughts

There can be no doubt that the issues raised here will be of increasing prominence, if only through the seemingly relentless growth in IPro working. There is a sense in which policy makers are recognizing change but, currently, seem unable or unwilling to engage sufficiently with it. They do appreciate the tensions around reconciling supporting or enhancing the quality of a working life with the need to retain or enhance competitiveness. This is the backdrop to the EU’s Green Paper, Modernising Labour Law, 2006 (EC. 2006) which raised the issue of a ‘floor of rights’ for all at work but has made little progress (De Stefano, V, 2014). Having noted the continuing tensions and anomalies that IPros present, it has to be admitted that they are indeed a challenging group to respond to and not just in terms of regulation.
References:

GEM (Various dates) Reports of the Global Entrepreneurship Monitor, Global Entrepreneurship Monitor.
Macron (2014) See attempts by the Minster for the Economy in the French Government (Macron) to remove or weaken the professional privileges of lawyers in France. It led to strike action by
lawyers and protest marches in Paris and other major cities. It was reported on 2nd February 2015 that his reform attempts had led to death threats.


Case-law:


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Organising Freelancers: A Hard Case or a New Opportunity?

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Abstract. Freelance workers present a special challenge in terms of collective labour organisation. As an individualistic and highly dispersed workforce, they are both difficult to recruit and represent. This paper explores the operational and legal difficulties that freelancers pose for trade unions in terms of collective representation. It is argued that freelancers have a range of distinctive needs and interests, that are accessible to trade union intermediation and that unions must adapt their traditional strategies if these needs are to be met. We conclude with an outline of particular methods and structures used by freelance unions in the UK and Europe. The paper indicates some of the constraints and opportunities for trade unions in organising the self-employed.

Keywords: freelance, self-employed, unions, strategy, organisation.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

Recent increases in the number of self-employed in the UK (Kitching, 2015) have prompted renewed debates as to the status of such workers and whether their interests are being adequately represented. The diverse nature of this group means that interest representation has taken different forms. For example, liberal professionals are represented by their own professional associations; skilled craft-workers may be represented by trade and employer organisations, whereas workers in media and the performing arts have maintained a tradition of strong unionisation. A relatively new group of self-employed workers that has developed with the “knowledge” economy remains substantially unorganised and the issue of representation of such workers becomes more poignant as the decline in union membership in old traditional sectors has increased.

This paper, which is largely exploratory, attempts to examine the issue of representation of a distinctive category of the self-employed, the freelance

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2. Business secretary Vince Cable launched an Employment Review to improve the clarity and status of British workers, October 6, 2014, Press Release, Department of Business Innovation and Skills.
worker, and determine how far their interests are capable of being represented by trade unions in the UK. It is recognised that this group is heterogeneous and that particular sectors may be more amenable to representation by trade unions. The paper is primarily based on a review of the literature on trade representation of non-standard workers. There is much research on the emergence of non-standard work in the modern economy but the issue of interest representation of such workers has received less attention in the UK.

The paper is structured in three sections: (1) the changing employment and industrial context (2) the organisation and service needs of freelancers (3) determinants of trade union organisation strategy towards the self-employed and freelancers.

2. The Employment and Industrial Context

A number of commentators have described the fragmentation of the labour market that has arisen with the breakdown of ‘Fordist’ systems of production and structural shifts in the economy from manufacturing to services resulting in more individualised employment relationships (Clarke, 1990; Boyer and Durand, 1997). The attendant increase in contracts for services where individuals provide work through multiple engagements is a characteristic of freelance work. Project work often involves short term transactional contracts as opposed to long term relational contracts.

Organisational fragmentation as a result of vertical disintegration of the firm (Collins, 1990) has also been accompanied by the erosion of national collective bargaining structures. This is particularly the case in some areas where freelancers now predominate, such as journalism and television. The dismantling of collective bargaining that took place in the UK in the 1980s and 1990s under successive Conservative governments was targeted against particular forms of restrictive practices, for example, the pre-entry closed shop in the newspaper and television industries. The effect of the abolition of the closed shop in television on trade union bargaining power has been documented by Saundry (2001) who notes the abolition of multi-level bargaining in large corporations such as ITV and replacement by individual company agreements. A further effect noted by Heery (2009) is that trade unions have been unable to maintain standard employment relationships, resulting in a de-stabilisation of their traditional stance towards contingent labour.

3. The word freelance is defined in the Oxford English dictionary as ‘self-employed and hired to work for different companies on particular assignments’.
5. Collins provides examples of managers of large firms arranging aspects of production through subcontracting, franchises, concessions and outsourcing.
Historical and structural factors influencing trade union organisation of contingent workers must be set alongside demand-side factors such as business need for flexibility and supply-side factors such as worker preference for short term or temporary contracts (Gallagher and Sverke, 2005). The perception of the contingent worker as an agent with distinct but legitimate interests that require representation rather than a victim of structural forces is reflected in recent literature on atypical workers (Heery, 2009; McCann, 2008). This theme will be examined in the next section of the paper, where the particular interests of freelancers will be examined.

3. The Service and Organisational Needs of Freelancers

The individualisation of the employment relationship has certain consequences for collective organisation and representation. Some consonance must be found between individual and collective interests in order to initiate and maintain collective organisation. The relationship between individual and collective interests has become more complex and ambiguous in the case of highly skilled and more autonomous workers where interactions with clients and customers bring competitive pressure to bear on individual workers (Dolvik and Waddington, 2004). If freelance labour markets are driven by individual aspiration, collective institutions may be perceived to be irrelevant.

This latter point raises an important issue which needs addressing at this juncture. There are business and individual arguments which might militate against the unionisation of freelancers. The individual argument is simply stated: if freelancers identify as entrepreneurial agents rather than as simply workers, they may see the trade union qua collective as unnecessary to their needs. The business argument is based on flexibility i.e. the growth of freelancers and the benefits they bring to businesses is contingent on flexible hire practices; innovation and entrepreneurship combined with new technology and business techniques to promote a flexible competitive economy (Burke, 2012, Burke and Cowling, 2015). These are valid arguments. However, the stance taken in this paper is slightly different. The argument is rather that the self-employed of which freelancers are an important group, whether they comprise of highly skilled or vulnerable workers,6 may still benefit from organisation by trade unions. The trade union may need to adapt its strategies and indeed may be replaced by (or interlinked with) other types of organisation, but it is suggested that the type of services that freelancers require may be appropriately provided by independent trade union organisation.7 The question of alternative forms of representation for the self-employed is an important one and worthy of further empirical analysis,

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6. Vulnerable workers may benefit more than others, however, trade union functions are not limited to providing a voice for this category alone; the modern trade union is designed as a partner in business – see, for example, Fairness at Work (1998), para 4.3.

7. The question of alternative forms of representation for the self-employed is an important one and worthy of further empirical analysis,
however, this topic is largely outside the scope of this initial paper, where the focus is narrowed to the range and viability of trade union forms of representation for freelancers.  

The history of trade unionism provides many examples of trade unions organising in areas of casual or insecure employment, for example, transport and construction as well as the film industry (Saundry and Antcliff, 2006; Turnbull et al, 1992). In this case, the question is how far trade unions may find and build a common identity from a heterogeneous interest base.

This paper argues that freelancers as a group have a range of distinct interests that can be served by both trade unions and other means of representation. Heery (2004) identifies three distinct types of labour market interest that are provided by freelance unions to their members. The security interests of freelancers as a mobile group are much wider than other workers, including matters ranging from pensions advice and provision of public liability insurance to access to mortgages. Secondly, human capital interests are very prominent for freelancers as they do not have access to the training and vocational education that standard workers have access to at enterprise level. Thirdly, labour market information on job vacancies and career opportunities can be provided by freelance unions. The service needs of freelancers impose extra costs on trade unions, as freelancers require ‘industrially relevant’ services and support in the external labour market requiring full time officers. However, by the same token, employers may be more willing to accept freelance unions as they ‘mitigate market failures’ by providing the labour market facilities that employers have shelved (Heery, 2004, 32).

The organisation needs of freelancers are also different from those of standard workers. As Heery (2009) notes, regarding the bargaining limitations of contingent workers:

‘The fact of their contingency may make forming bargaining relationships difficult and prevents contingent workers developing levels of membership and organisation that confer bargaining power.’

The problem of organisation of the freelance worker is deep-seated: at the heart of this lies the contractual position of this category of worker as self-employed independent contractors or semi-dependent workers. Unlike standard employees, the self-employed may have contractual relationships with multiple clients at any point in time, thus the number of clients and job commitments involve complex commercial arrangements (Leighton and Wynn, 2010; Gallagher and Sverke, 2005). The resulting dispersion of contracts over time and

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7. Some trade unions in the UK particularly in the media sector, for example BECTU, the NUJ and Equity, have traditionally catered for the specific needs of freelancers (see final section of this paper).

8. One example of a professional association which represents the interests of the independent self-employed is IPSE, the Association of Independent Professionals and the Self Employed (formerly the PCG or Professional Contractors Group).
space inevitably leads to a fragmentation of bargaining. Furthermore, the legal status of the freelance worker is complex. If the freelancer is defined as an independent contractor, the worker, in operational and legal terms may be termed an ‘employer organisation’ unless they are defined as the employee of their own organisation (Gallagher and Sverke, 2005). On the other hand, the semi-dependent freelancer who only works for one employer, might achieve employee or ‘worker’ status. Trade unions are defined as organisations ‘which consist wholly or mainly of workers’.9 The self-employed may not come within this definition, thus causing legal problems in terms of defining and constituting appropriate bargaining units for purposes of trade union recognition. Issues of contract and status thus combine with ambiguities of occupational identity and operational diversity to result in basic organisational dilemmas for both the self-employed worker and the trade union.

Despite and perhaps because of these inherent problems, freelancers’ needs for organisation have been increasingly recognised. One of the issues for trade unions is whether to prioritise ‘servicing’ or ‘organisational’ functions in developing strategies to accommodate the distinctive interests of such workers. The literature reflects an old debate within the trade union movement as to how to maximise recruitment in an era of declining membership (Vandaele and Leschke, 2010; Dolvik and Waddington, 2004). Contingent workers place an extra burden on the servicing function of trade unions and union organising costs are higher, thus entailing a different calculus of resources.

The final section of the paper examines the changing strategies of trade unions in response to these dilemmas.

4. Trade Union Organisational Strategy Towards the Self-Employed

If trade union strategy is to adapt to the changing contours of a flexible labour market, how might this be accomplished? Trade union decline appears to have followed the ‘post Fordist’ fragmentation of collective bargaining that accompanied the collapse of nationally standardised industrial relations (Hyman, 2007). Gaps in union density between temporary and permanent workers indicate that a diversified strategy towards contingent workers should be adopted.10 The issue is not just one of changes in industrial structure; it is also related to attitude and expectation. As Hyman (2007) has observed,

‘to the extent that disparate personal life-worlds shape employees’ expectations and aspirations from work, the possibility that a standardised common rule can satisfy is diminished’.

10. Vandaele and Leschke (2010) indicate that union density for temporary workers was 17% compared with 28% for permanent workers in the UK in 2008 (comparable figures for the Netherlands were 9% and 23%).
A crucial issue for trade unions is the problem of defining a more inclusive constituency for self-employed members and then structuring their representation facilities so as to extract resources from the new membership. This so-called ‘logic of membership’ is crucial to survival of the collective body (Pernicka, 2005). The fear of losing its membership base has precipitated a reversal in trade union strategy over recent decades towards contingent workers. Earlier exclusion strategies, based on fear of undermining standard workers have been replaced by both inclusion strategies, based on equal membership and ‘engagement’, which recognises their different interests (Heery, 2010). The challenge for trade unions now is to find methods of interest aggregation to forge a common identity and then to forge efficient structures of collective representation (Pernicka, 2005).

In practical terms, trade union organisational strategy needs to address twin issues of recruitment and organisational structure. Freelancers are more difficult to recruit as their contracts are often short-term and spread across multiple clients. They are more difficult to reach and organise as they are not based in one firm alone. In addition, it is more difficult to identify an employer relationship in client firms where they are hired through separate companies or agencies. The nature of project work also involves spells of unemployment. Traditional union recruitment methods which have operated at enterprise level clearly need to be adapted to the dispersed working arrangements of many freelancers.

There are differing views as to what are the most appropriate structures of interest representation for the self-employed. Union structure can achieve integration in different ways. Industrial unionism provides vertical integration of individuals in the same workplace or industry, regardless of occupation. Craft unionism provides horizontal extension by enlarging similar occupational groups (Abrahamsson, 1993; Pernicka, 2005). One question that arises is whether self-employed members should be absorbed into existing structures of representation alongside other members or whether unions should set up separate structures to deal with their specific needs.

What types of representation do freelancers want? In terms of identity and aspiration, dependent self-employed workers may self-define as ‘entrepreneurs’ or alternatively, as economically dependent employees. While the former group may resist any collective identity or allegiance, the latter may orient more towards traditional union representation (Pernicka, 2006). Alternative methods of representation involving network arrangements, internet platforms and the like may be favoured by the more individualistically-oriented worker (Saundry and Antcliff, 2006). Such arrangements may also be more efficient and flexible than traditional union modes.

If union orientation is favoured, freelancers, as independent contractors, may seek collective models which are different from typical industrial models and be more effectively represented by craft-based models of representation (Gallagher and Sverke, 2005). Some commentators have suggested that a return to earlier forms of unionism might be more appropriate in view of trends in modern labour
markets to return to pre-industrial contractual conditions (Capelli, 1999; Heery, 2009).

One proposed method of addressing these issues is to extend trade union representation beyond the enterprise. Heery (2004) has identified a number of different practices as regards union behaviour in relation to freelancers which differ from the norm for conventional workers. His analysis suggests there is a distinctive form of ‘freelance unionism’ in the UK, distinguished by an emphasis on organising and representing workers in the external labour market. The particular characteristics of this form of unionism are as follows: recruitment is located at the point of entry into the occupation or job search; union participation is centred on geographical and occupational branches rather than firm level; representation is performed by external paid officers; the union service function is more accentuated; collective bargaining tends to be multi-employer bargaining and targeted at occupational labour markets. Heery suggests that the methods adopted by freelance unions such as BECTU and APTG, could be extended to other occupational groups with substantial numbers of freelancers, particularly those in IT, personal and business services and perhaps more widely in the knowledge economy (Heery, 2004, 32).

How have trade unions responded to the challenges posed by this changed organisational climate? It is beyond the scope of this paper to address this empirical question in detail but in conclusion, some broad trends across jurisdictions may be adumbrated.

The main issue is whether self-employed union members should be treated the same way as employees, treated differently within existing union structures or whether autonomous unions of self-employed workers should be created.

Workers in the arts and film industries are often organised in craft unions, reflecting a strong tradition of unionisation. In the UK, BECTU, for example, represents a community of workers across the media and entertainment industries and represents both employees and freelance workers.11 The union’s freelance branches are organised on both a craft basis, for example, camera, sound, hair and make-up etc. or geographical basis such as Southwest Freelance or Scottish Freelance. BECTU has multi-employer agreements for freelancers, for example, the PACT12/ BECTU Freelance Production Agreements which regulate relations between producers and individuals engaged in the UK film-making industry.13 These agreements set basic rates of pay, overtime rates, and holiday entitlements and determine the types of contractual engagement as well as providing for a range of security benefits such as sick pay and public liability insurance. The agreements establish standard rates across the industry and both non-union

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11. BECTU, the Broadcasting Entertainment Cinematograph and Theatre Union currently has 24,000 members.
12. The Producers’ Alliance for Cinema and Television.
13. BECTU is currently negotiating a 2014 agreement with PACT, which improves on the minimum rates of the 2003 agreement, including travel time and night-working. There is also a time scale for the payment of fees.
members and non-PACT members may make use of the arrangements if they wish. Non-PACT members might negotiate their own deals if they can find crew to accept such deals but most films are registered with PACT even if the production company is not a PACT member, putting the individual production under the PACT fold. These freelance agreements therefore help to establish minimum conditions in the industry and union rate cards are generally followed, though Heery (2004, 29) does report some resistance to union pressure by some of the independent television companies with usage of sub-contractors. Like other unions catering to a large constituency of freelancers, BECTU offers a range of labour market services such as Crewbus, its Freelance Directory, A Freelancers’ Fair, health and safety craft cards for freelancers operating in temporary locations, a tax guide for freelancers and employees and public liability insurance.

The BECTU freelance model is also followed in other EU countries such as some Nordic countries. In Denmark, for example, trade unions for freelancers in the art and culture sectors negotiate collective agreements with employer associations or single employers, typically on minimum and standard fees as well as on standard contracts, for example, the Danish Artists Union and the Danish Actors Association. These trade unions organise both employees and freelancers and sign collective agreements with employers’ associations (Pedersini and Coletto, 2010).

The experience of the German union, Verdi, is a prime example of some of the difficulties of the assimilation approach to the self-employed. Verdi, the Unified Service Sector Union, was formed in 2001 as the result of the merger of five unions in the private service and public sector and has extended membership to all dependent self-employed workers. Only one of the original five unions, the Media Union, had previously included self-employed members. Verdi is very service-oriented in its approach to the self-employed with a focus on legal services and representation, training and education and insurance products. German unions have had some success on the political front, for example, the former Media Union successfully lobbied for new regulations in favour of the dependent self-employed (Pernicka, 2005). One of the problems of Verdi as an inclusive union is that of conflicting constituencies of full-time employees, works councillors and rank and file.

A different type of autonomous trade union structure is exemplified by the Spanish unions. In the 1980s, the UGT established a union specifically to represent self-employed workers, the Union of Professionals and Self-Employed Workers, UPTA. UPTA and the relevant employer associations negotiated a Self-Employed Workers Statute in 2007 which includes possibilities of concluding

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14. Verdi organises 2,800,000 members and has around 30,000 self-employed members.
15. Establishing a new category of arbeit-nehrmerähnlicher Selbständiger (self-employed worker similar to an employee).
16. Self-employed members are not represented in work councils.
17. Union General de Trabajadores.
agreements of professional interest’ (Pedersini and Coletto, 2010). The encouragement of collective bargaining for semi-dependent workers is a great innovation. Italy has also witnessed the creation of organisational bodies specifically to represent semi-dependent workers (quasi subordinate workers). These new unions are NIDIL-CGIL, ALAI-CISL and CPO-UIL (Bibby, 2005).

5. Conclusion

This paper has attempted to reflect upon some of the inherent difficulties of organising self-employed workers and chosen freelancers as a category which exemplifies both constraints and opportunities for trade unions wishing to pursue alternative strategies and reverse declining membership in more traditional areas of representation. The evidence indicates that despite the greater cost of recruiting and organising a more mobile and individualistic workforce, there are gains to be made both in terms of providing services to a potentially vulnerable group of workers and in building new constituencies for a modern workforce. Genuine dependent self-employed workers may be a heterogeneous group and in some cases, resistant to traditional models of union representation, but this challenge to trade union thinking is good for both trade unions and for the new types of worker that freelancers typify. Union effectiveness requires ‘the capacity to interpret, decipher, sustain and redefine the demands of the represented, so as to evoke the broadest possible consensus and approval’ (Regalia, 1988). The example of unions such as BECTU, in catering to the distinctive needs of freelancers and adapting their structures, services and organisational capacity to this important category of workers indicates that the project is both worthwhile and beneficial, if not without major obstacles, not the least of which is a certain amount of employer resistance.

18. Such workers have been termed an ideal type of future worker, the ‘entreployee’ (Arbeitskraftunternehmer) (Pontgratz H. and Voss, G. (2003)).
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What’s in a Name? The Value of ‘Entrepreneurs’ Compared to ‘Self-Employed’… But What about ‘Freelancing’ or ‘IPro’?

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Abstract. This paper is concerned with those individuals who do not fit easily or comfortably into traditional notions of employment. Variously described as ‘self-employed’, ‘sole traders’, ‘own account workers’, ‘freelancers’, ‘independent contractors’ – or more accurately, as independent professionals (IPros), they operate essentially as a nano-business. As a ‘business of one’ they blur the boundaries of socially and legally accepted distinctions between employment and self-employment, small business and entrepreneurship. This paper explores some of the important implications and consequences that this blurring of boundaries has for social as well as government interest and their support of the individual operating as a nano-business.

Keywords: contracting, freelancing, entrepreneurs, self-employment, independent professional, IPro.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

While it is well recognised that small business, both in its own right and in partnership with others, enables many organisations to be responsive to the dynamic business environment (Casale, 2011; Kitching & Smallbone, 2012; OECD, 2010), the reality is that small business challenges many of the institutions, structures and expectations established to support the employer-employee relationship (Casale & Perulli, 2013; Philips & McKeown, 2012). Issues such as fairness, protection and government support have been features of the legal, social and political systems of most developed countries for many, many decades but they still remain contentious at the nano-end of the smallest of small business (Deakin, 2010; Faix, 2012). It seems that systems designed around the notion of business being something performed between and within organisations

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continue to wrestle with the idea that this is not necessarily an amorphous, anonymous group of people, that it can in fact be one individual – quite literally, the organisation of one (Roy, Sane & Thomas, 2012). This longstanding issue becomes particularly difficult for the self-employed individual when the matter is one of government support. Further, that this remains an ongoing issue at complete odds and is one which is increasingly irrelevant in a world where digital technology in particular can level the play-field in terms of the enhanced access to resources typically associated with increasing size (Mettler & Williams, 2011; Tidd & Bessant, 2011).

It is timely to reinvestigate the issues which have typically confounded and confronted those dealing with self-employment and consider whether these constraints have also become outdated. This paper will provide an examination of the terms or labels applied to self-employment with a specific focus on the professional occupations. It will draw on recent events in both Australia and the UK in particular which demonstrate the power of names and the definitions associated with them shape not only social and political debate but also generate actions and behaviours – because, as noted by the European Commission (2010, p.7) definitions have important implications for realities such as tax and national insurance.

The paper is organised into four main sections. First, it outlines key features of the definitions which surround self-employment and entrepreneurism. Second, it places these definitions into the specific context of current debates in the UK, and to a lesser extent the EU, and then Australia to examine both official statistics as well as wider research. Third, I offer a particularly Australian context to self-employment brought about by the introduction of the Independent Contractors Act (2006), where both data and definition support the value of this segment of the workforce. Fourth and in conclusion, I suggest that the term ‘entrepreneurship’ is an important one for the self-employed – but that it is a label rather than a classification of work. Note within the context of this paper, the label of ‘entrepreneur’ is not as an academic term, but refers to the broader societal context where it is a label that can leverage government and societal interest in a way that the term self-employment can never do. As a label ‘entrepreneur’ has an important role in gaining government attention and support but it is also time to develop a more sophisticated understanding which acknowledges the changing nature of employment, particularly self-employment, and allows the growth in the IPro workforce in particular to be recognised and supported.

2. From Self-Employment to Entrepreneurism

Work is mostly structured and organised through a notion of employment bounded within a highly specific legal and managerial context (Whitely, 1999). In both its legalities and managerial application, employment involves a ‘boss’,
an employer, organising employees to perform functions at the employer’s direction. With self-employment it is completely different. Self-employment offers an alternative to the master/servant relationship of being employed (Deakin & Wilkinson, 2005). Self-employment by its nature forces the individual into operating as a business of one – into risk taking. There is no income security umbrella of the firm because they are the firm. They are subject to the vagaries of the market/s within which they operate. The existing literature on self-employment generally falls into one of two groupings. First, there are legal definitions. These are important because they are known to determine the scope of the legislative and regulatory design under which the self-employed can operate (see for example, Stanworth and Purdy, 2008; Leighton and Wynn, 2011). The second are the behavioural identifiers, which are important because they enable an appreciation of the different perspectives self-employed people can have to work and to understand how and why they do things (Scase, 2003).

The combination of these two bodies of literature on self-employment also highlights the dilemma which surrounds it. Put simply, as both a notion and as behaviour, ‘self-employment’ is not an engaging term – it is not inherently exciting or even, the stuff of aspirations. For this we must turn to the term of ‘entrepreneurism’. Yet, as will be shown below, the practical distinction between the two is difficult to make and indeed, some even contend that they are one and the same. At the academic, government and societal levels, the lack of aspirational notions associated with self-employment are largely because the entrepreneurial activities of the self-employed person are mostly small and unspectacular, and in many ways, just ‘ordinary’.

Adding to the debates is the view that the self-employed can be running a business but that this activity is not entrepreneurial. The OECD (2010) adds a further suggestion offering that “self-employment may be seen either as a survival strategy for those who cannot find any other means of earning an income or as evidence of entrepreneurial spirit and a desire to be one's own boss.” This perspective offers a continuum from self-employment to entrepreneurism – a view supported by academic research (see for example Kolvereid & Isaksen, 2006). However, others such as Sanandaji and Sanandaji (2014) from the UK based Centre for Policy Studies, argue that self-employment is not the same as entrepreneurship, partly because the former is easily measured and the latter is not. This brings us to the first major task of the paper – defining the terms self-employment and then entrepreneurship.

3. Defining the Terms

Aronson (1991, p.ix) notes “self-employment is unquestionably the oldest way by which individuals offer and sell their labour in a market economy.” The term
‘self-employment’ has been consistently defined since a 1993 resolution by the 15th International Conference of Labour Statisticians to mean:

where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced (where own consumption is considered to be part of profits). The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise. (In this context "enterprise" includes one-person operations). (ILO, 2014)

This definition builds on the United National Statistical Commission definition, approved in 1958 of an ‘own-account worker’ as a person who operates his or her own economic enterprise, or engages independently in a profession or trade, and hires no employees (ILO, 2014). Put simply, self-employment sees an individual earning their living and generating their income by working for themselves, not as an employee of someone else. A recent (ILO) view from Bignami, Casale and Fasani (2013) explicitly positions the role of this international body as one where:

the protection of the employment relationship, placed within the contract of employment, has been at the heart of the International Labour Organization’s agenda since the middle of the 1990’s. The employment relationship is the natural evolution of what previously represented the master-and-servant model. The employment relationship within the contract model operates as a framework for both the protection of workers and the guaranteeing of the exercise of fundamental rights at work.

This focus on protection and rights is at odds with the independence and self-sufficiency emphasis of self-employment - and may explain the general anti self-employment stance of many ILO publications (see for example Casale, 2011, where terms such as ‘subordinate work’ and ‘economically dependent work’ are key themes). The concern is that the self-employed can be engaged by organisations to avoid obligations and cut costs and there is a substantial literature that sees a key feature of this form of work as one where individuals lack ongoing job security, entitlements such as sick and holiday leave, employment protection and union rights. These themes will be explored in more detail below.

The distinction between self-employment and entrepreneurship can be a fine-grained one. Filion (2011, p.42) explains the derivation of the term entrepreneur from the French words literally meaning ‘between-taker’ or ‘go-between’ and noted that it has been extensively used, particularly in context of world exploration, since the 1500s. While seen as the pioneer in the field, Schumpeter (1954 p.555) pinpoints Say as first providing the “value –added” role now commonly associated with the entrepreneur today (Filion, 2011 p. 45).

Internationally, governments extol the benefits of entrepreneurship, implementing policies to promote its revival (see for example ILO 2011, EC 2010, OECD 2010, 2014). Parker (2004 p.1) suggests that much of what is achieved is actually in the
traditional small business/self-employment sphere. This returns us to the reality that it is the widespread availability of data on the self-employed that makes it easier and more useful to operationalise. This is shown in greater detail in the next section with a brief overview of self-employment and entrepreneurism in the UK and Australia – with the corollary that while there is a much wider range of terms we could also include and explore, we are generally restricting discussion here to these two.

4. Self-Employment & Entrepreneurship in the UK

A 2014 UK Office of National Statistics (ONS, 2014) report shows self-employment is becoming increasingly common, with an increase from 6.3% to 3.8 million between 2009 and 2013 – while employment, by comparison, grew by only 2%. The global management consultancy Von Essen (2014) privately generated a report on “self-employed consultants” in the UK which adds further to this picture, showing that the number of self-employed workers is increasing at a faster rate than the average for Europe's 15 leading economies. The lure of self-employment is clear, “these professionals offer valuable flexibility for employers, allowing businesses to bring in specialist talent for a limited period” (Von Essen, 2014). An important feature in this rise is that the great majority of these are at the nano-end, never employing others, effectively remaining a business of one. Von Essen (2014) also offer that “consulting has risen in popularity as a career choice for skilled workers, as it offers the opportunity to earn more than permanent employees while enjoying more control over working times and practices.”

This view is in stark contrast to the union (TUC, 2014) report that the ONS figures on self-employment which account for 44% of the net rise in jobs since mid-2010 have come at the expense of more secure roles. The tension, even polarisation between views as to the push or pull of self-employment, and whether such moves are a good or a bad thing often emerges very strongly in the UK. The current debate also exemplifies the tension between the terms self-employment and entrepreneurism. Since they are not synonymous, policy makers should not assume policies which encourage self-employment necessarily promote entrepreneurship. In a report for the privately funded Centre for Policy Studies (CPS), Sanandaji and Sanandaji (2014) suggest that while many successful entrepreneurs started small companies, not all self-employed people are innovative entrepreneurs – which they define as developing successful new products and services. They also offer that countries such as Greece, Turkey, Spain, Portugal and Italy have high self-employment rates and correspondingly low rates of innovative entrepreneurship. As detailed below, it is a view in stark contrast to the literature from a variety of private groups associated with entrepreneurship in the UK.
5. Entrepreneurs in the UK

The Entrepreneurs' Alliance, a collective of bodies including the Forum of Private Business, the National Enterprise Network and the Federation of Small Businesses, published an open letter in response to the TUC (2014) report to "make the case for the self-employed" (Entrepreneurs' Alliance, 2014). As a new pressure group “which stands up for Britain’s wealth creators,” the Entrepreneurs Alliance answers both TUC claims that people are only choosing self-employment because they cannot get a full-time job as well as the Centre for Policy Studies’ assertions that the self-employed are not entrepreneurs because they are not driving innovation.

They are educating the next generation of entrepreneurs and making greater contributions to their local economy… They are generating wealth, without being a burden on the public purse …collaborating with fellow freelancers and professionals to grow the business through outsourcing and subcontracting, as opposed to hiring staff …This is, quite simply, the most entrepreneurial way to start and grow

Another group, the well-established Professional Contracting Group (PCG, renamed IPSE in 2014), has also entered the fray – declaring that the rise in self-employment is indicative of a structural change in the way that people now approach work (PCG, 2014). While much of this current debate is being carried out in the media, IPSE also does its own research and acts as a powerful lobby group with a recent report finding that those operating at the independent professional (often called freelancer), end of self-employment see themselves as having with greater control of their lives, in terms of working patterns and the projects taken on (Leighton, 2014). This offers an important corollary to the growth in self-employment as it explicitly acknowledges that the majority of growth is at the white collar, professional end. The CEO of IPSE, Mr Bryce, stated that this is part of a "long-term phenomenon" which has taken hold in both positive and negative economic periods. This is helping the UK economy recover and is creating more jobs (Roberts, 2014). It is a perspective which offers the view that this form of self-employment may be more about what it enables in creativity and innovation, rather than what such individuals may directly produce. There is also wider support from the EU for such a contention where research by a Brussels-registered think-tank, the Lisbon Council, says the micro-multinational is taking over – as technology and social trends enable individuals to compete with big companies globally (Mettler & Williams, 2011). These authors suggest some radical changes are occurring and that, over the long-term, prevailing labour market trends suggest that fostering entrepreneurialism is really the only job creation game in town.

It is a view which both contrasts and corresponds with the research noted above by Sanandaji and Sanandaji (2014) at the Centre for Policy Studies on what
they call “super entrepreneurs”, where they studied the backgrounds of 1,000 self-made men and women who have earned at least $1 billion through entrepreneurship. One important finding was that active government and supranational programmes to encourage entrepreneurship – such as the EU’s Lisbon Strategy – largely fail. They caution that policy makers should not assume policies which encourage self-employment necessarily promote entrepreneurship and that the difference is that entrepreneurship must be defined based on innovation.

Overall, the view from the UK is one of considerable contrast between the claimed support for self-employment and entrepreneurship by government, the realities in the labour market and the perceptions within wider society. It is clear that some still believe – and this is sometimes promoted by politicians and commentators, that self-employment is morally wrong and deviant, with its main driver being the avoidance of obligations, mainly of individuals to the taxation system but also from organisations avoiding the traditional costs of employment. Research by Urwin (2011) into the nature of entrepreneurship found that only a tiny proportion of today's small firms become tomorrow's large firms. More importantly, the nature of entrepreneurial discovery is such that we cannot predict those individuals or firms that will flourish in this way in advance. As such, any policy that involves picking winners or encouraging particular sectors is doomed to failure (Arshed, Carter & Mason, 2014; Bridges, 2010; Mazzarol, 2014; Mettler & Williams, 2011). Instead, it is seen as important to remove general impediments to the self-employed taking on employees and to small firms growing. What emerges most strongly is that these long held debates must move forward as the growing numbers of professionals in the UK present a compelling case for the urgent need to clarify attitudes towards the self-employed. These are attitudes that must be addressed within wider society through education systems and aspirations as well as by the government and in workplaces. This is made more difficult by the fact that the language of self-employment is also becoming increasingly complex. This is seen for instance in the studies and papers noted above which used a wide range of terms, including self-employment to micro-multinational and super-entrepreneur to freelancer and independent professional. The tension between self-employment and entrepreneurship provides a good place to start in terms of resolving some of the confusion in language at least and, as will be shown, Australia may provide an easier country to both make the distinction and begin to examine this interface.

6. Self-Employment and Entrepreneurship in Australia

The tension between self-employment and entrepreneurship is less marked and certainly less vocal in terms of media attention in Australia. While the language of entrepreneurship has recently emerged, with the suggestion of a new
government funded ‘Entrepreneurs’ Infrastructure Program’ (Mazzarol, 2014a), the focus has generally been on self-employment rather than on ‘picking winners’ (Mazzarol, 2014). With the passage of the Independent Contractors Act (2006), the term ‘self-employment’ within Australia became more detailed than in the UK and captures all working people who are not employees. This is split into two major sub-categories:

- Independent contractors - work entirely on their own without employing anyone.
- Other business operators - own and operate their business which has grown to a size where they employ other people.

The Independent Contractors Act (2006) provides a definition which not only ensures that independent contractors are subject to commercial rather than industrial relations law but also provides the basis for official statistics on this population (Phillips & McKeown, 2012). It should also be noted that parallel legislation was introduced which made illegal the practice of ‘sham contracting’ – that is, treating employees as if they were independent contractors. There have been long held concerns in many countries with sham contracting, typically in industries such as construction and transport (see for example Deakin, 2010; Roles & Stewart, 2012). IPros are therefore professionals who operate as independent contractors, which are defined as:

those who operate their own business and who contract to perform services for others without having the legal status of an employee, that is, they are engaged by a client under a commercial contract, rather than an employee under an employment contract (ABS, 2009 p.6).

The Australian Bureau of Statistics is the equivalent of the ONS in the UK and recent data on independent contracting from the 2013 Forms of Employment survey reveals that of the 11.57m employed people in Australia in 2013, 8.5% (986,400) were independent contractors; and a further 8.8% (1.01m) were "other business operators". A key point in the availability of such data is that it allows us to track the trends and reveal insights into the IPro workforce.

7. The IPro - A Midpoint in the Self-Employment/Entrepreneur Debate?

While the data captured by most national governments through labour force surveys generally provides data on the self-employed (which is then often also the basis for international comparisons by the ILO and OECD), it does so in ways where IPros are often impossible to separate out. A common problem which results is that this group is “neglected by researchers as a form of small business
activity” (Kitching & Smallbone, 2012, p.74) where “...the distinct lack of empirical data on freelancers explains the lack of government support” (Mould, Voley and Liu, 2013, p.8). However, in Australia, we know that independent contractors make up nearly 10% of the total workforce, accounting for 13% of employed males and 6% of employed females (ABS, 2013). Further, adding the definition of professionals as a further filter allows us to isolate the nearly 30% of individuals within this population who make up the Australian IPro workforce. Another important aspect of IPros that we can draw out from ABS data is that IPros are highly educated, skilled and creative individuals in sectors such as the media, ICT, engineering, and design operating across a wide range of regulated and unregulated professions. It is a segment that accords with the work on freelancing in the UK, briefly referred to above, as well as with a number of international studies. Synthesising these studies consistently identifies IPros as characterised by high levels of motivation, self-reliance, durability, job satisfaction, flexibility and mobility and capable of achieving high levels of income, and employing organisation’s report very favourably on their contribution to the organizations own effectiveness and development - see for example recent work on IPros in the EU by Leighton & Brown (2014), Finland and Germany by Bogenhold et al. (2013), America by Horowitz (2012) and Osnowitz (2010); Australia by McKeown (2010); McKeown & Cochrane (2014); Germany by Dullroy & Cashman (2013; Witlivet & Brantz (2013) and the United Kingdom by Burke (2012); Kitching & Smallbone (2012); Mould et al. (2013) and Storey (2012).

There are a number of aspects about the growth of the IPro workforce which must be noted. Once seen as very much the domain of manual occupations, the growing organizational practice of engaging contractors in professional and managerial positions, sees the impact of changing working relationships impacting across all levels within an organization (Bidwell and Briscoe, 2009; Parker, 2010). Mention must also be made of the large body of academic literature devoted to IT, construction, engineering and architecture where IPros have long been an industry and professional norm (see for example Ang and Slaughter 2003; Burke 2011; Evans, Kunda & Barley 2004; Kivrak et al, 2008). Another aspect revealed by research in both Australia and now the EU and UK (Entity Solutions, 2009-2013: EFIP, 2014), reveals that in a time of increasing unemployment among employees, major macro-economic concerns, and mounting concerns about job creation and competitiveness, IPros are not ‘failed employees’ pushed into working for themselves as they have no other choice: IPros have made a conscious choice and each year more and more are making it. They tend to be high earners, they are also high spenders and do take steps to protect their income, including for retirement. They are not ‘burdens on the state’ and actively take responsibility for the development of their working lives. This research has also however identified that this workforce does face a range of practical problems that politicians, organisations and others have
generally, as yet, not responded to. One of the first Australian reports was titled ‘The Forgotten Workforce’ (McKeown, Connelly & Gallagher, 2008) and although this theme of neglect and oversight continues today, we contend that there is simply too much to lose in not fully recognising, utilising and supporting this workforce.

The emerging body of work which has begun to establish the features, both personal and professional, of the IPROS themselves has provided considerable insights into their working lives but relatively little research has been undertaken into the practicalities. Topics such as fiscal matters and ground level issues such as access to finance, business advice, training and development and regulation or otherwise by professional or trade bodies are all important areas for future research. Survey evidence suggests these are key factors in the success or otherwise of IPROS, along with a key question of the attitude and policies of central and local/community governments (EFIP, 2014; Leighton & Brown, 2014; McKeown, 2005).

Another matter which stands out in much of the current research data is the critical tension over how the self-employed see themselves. Exploring this issue of self-definition will be vital to explore during the research as it is a fundamental issue, which underpins policy development and lobbying, strategies at the individual, organisation and government levels. With this context in mind, the role of the IPRO within the SME/self-employment space is threefold:

1. The first is to provide robust, authoritative evidence, which is especially important for any initiatives in policy development. Clearly, evidence is also vital so as to assess the role that IPROS play in supporting productive, competitive workplace outputs by others. While research data on the self-employed generally is increasing, IPROS still remain marginal, atypical or even an anathema in many people’s eyes. The small business SME area is far better developed. It is important to note that, those less aware of IPROS include governments, and one consequence is that they appear more comfortable to speak of ‘entrepreneurs’ than to deal directly with the nature and needs of the nano-end of the self-employed spectrum.

2. The second is to begin the process of identifying those issues and barriers that impact on the effectiveness of self-employment. Many speak of the ‘creativity’, and ‘innovation’ of freelancers/IPROS, contractors and other groups. While this is an important outcome, it also highlights the vital need to identify barriers and problems which many face, such as in setting up their business, working outside their own state and coping with bureaucracies. The role of IPROS as enablers of creativity and innovation, as well as creators of it, provides a broad area for investigation. This also entails investigation of the context and regulatory framework within which IPROS operate, noting here that the
fiscal and legal issues in these areas are especially fraught and controversial. Work in this area is difficult yet vital. With a clearer understanding of this, later research can then move to an evaluation of IPro efficiency and effectiveness, and what would improve it.

3. The third is to identify those factors which provide positive support for IPros. A rarely researched topic is the role of professional bodies, support networks, social networks, not just digital but in terms of clubs and societies. We know these are very important for people who, essentially, operate as a nano-business and often work alone.

8. Conclusion

A key theme of this paper is that, regardless of the term applied, for the individual working for themselves, they are a business. As Bridge (2010) notes, there is an important corollary to this which, contrary to government's often-held view, small business people are not “little” big businesses. This is something that government (particularly on the taxation side), employees in big businesses, most economists and society in general, have difficulty in understanding and accepting. They hold to the commonly accepted idea of a ‘business’ as a command-and-control type pyramid of owners, managers and employees. Application of the label “entrepreneur” to the self-employed business seems to provide a way out of this misperception – but here too there are problems. There was a sense that permeates the literature and research that the terms entrepreneurism is really a label and one that needs review and re-energising, not least because it is recognised that industry/jobs/productivity benefits from research but that much of the research is insufficiently practical for ‘consumers’. As Sarah Horowitz, founder of the Freelancers Union, a non-profit organization that represents America’s independent workforce says, “we are dealing with an outdated employment system – it was built for a workforce from the 1930s, and it no longer works for us today” (Horowitz, 2010).
References:


Trade Union Congress (TUC) (2014), *More than two in five new jobs created since mid-2010 have been self-employed* Accessed 15th April 2014.


Freelancers, Self-Employment and the Insurance against Social Risks

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Abstract. In contrast to dependent employees, most self-employed people are free to choose if they wish to insure themselves against social risks such as longevity, illness, or long term care. Alongside the general protection scheme, which provides security at a minimal level, self-employed people are not or are only partially covered by statutory systems. And even in case of coverage, statutory social security provisions for self-employed persons vary greatly. Unfortunately, we know very little about the situation of self-employed people regarding the protection against social risks, as reliable data is missing. Therefore the state of knowledge is far from satisfying. However, the few available findings indicate that large groups are not covered at all. Against the background of the upsurge of these professions, this lack of coverage is indicative of an increasingly precarious position or social exclusion of those groups.

Keywords: social risks, insurance, social security, self-employment, independent professionals.

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

1. Introduction

Unlike dependent employees, a large proportion of self-employed people are not included in social security systems. Alongside the general protection scheme, which provides a minimal level of security, self-employed people are not or only partially covered by statutory systems. And even in case of coverage, the statutory social security systems for the self-employed are very heterogeneous (Directorate-General for Employment, 2014). Indeed, there is no common denominator for the theoretical construction of a social security system targeted specifically at self-employed people. In some countries a voluntary form of social insurance exists – sometimes fiscal incentives are established and/or savings are subsidised by the government through tax exemptions or reductions. Self-employment, though a cross-national phenomenon, displays country-specific

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characteristics which become clear if the development over time, the branch distribution or the social risks are considered.

Self-employed people in all parts of the world are, at least to a certain extent, free to choose whether and the extent to which they wish to insure themselves against social risks such as longevity\(^2\), illness, long-term care, disability, invalidity, lack of orders\(^3\), shortfall in payment, bankruptcy, widowhood, etc.\(^4\)

The occurrence of a social risk during working life leads to a break of employment, a loss of income and in some cases – such as illness - to additional financial burdens. To cope with such a situation, to maintain one’s living standards and to avoid social exclusion, one option is to acquire ancillary insurance in addition to the general protection scheme. However, for some risks, such as bankruptcy, this is not always possible, as no insurance market exists.

As self-employed people are insufficiently insured against social risks, they are unable to compensate for financial losses thus caused. This has negative external effects and results in social exclusion. In addition, it contradicts social policy aims in Europe and counteracts the goal of the European Commission and of most member states of fostering self-employment. In order to avoid such consequences and to find measures capable of improving this situation, it is necessary to first ascertain how exactly self-employed people are currently protected against social risks.

However, each of these social risks has its own logic regarding the mechanisms of financing and the construction of benefits. To get a better understanding it is necessary to start with the analysis of each single social risk. Only then can the problems and the advantages of specific measures or regulations for self-employed people be fully observed.

Looking at the development over time, self-employment, though being a cross-national phenomenon, displays country-specific characteristics in terms of its distribution between economic sectors and the extent to which self-employed people are covered by insurance systems against social risks. In addition, for each social risk not just one insurance scheme, but a number of different schemes exist which seek to minimise the relevant risk’s consequences for self-employed persons. Germany provides a good example for the heterogeneous nature of insurance against the risk of longevity. This is briefly examined below.

\(^{2}\) The risk of running out of money due to increasing life expectancy.
\(^{3}\) This is the equivalent to dependent workers becoming unemployed.
\(^{4}\) A basic, although not comprehensive overview is provided by: Directorate-General for Employment (2014), or Schoukens (2000) (outdated). For a short overview of the protection in Nordic countries see e.g. Ulmestig (2013), and for Eastern Europe Schoukens (2002) (outdated to some extent).
2. Case Study: Insurance Against the Social Risk of Longevity in Germany

As can be seen in the following tables, mandatory systems specifically tailored to self-employed people do exist. Table 1 gives an overview of the mandatory old-age provision for the self-employed. The specific profession is listed in the first column. The mandatory system is stated in the second column and, if there is a supplementary system in which the insurance is mandatory, this is listed in the third column. However, the heterogeneity goes even beyond old-age pension provision, and specific features exist which also have to be taken into consideration. These include:

- the social security scheme for artists and writers, which also covers the risk of health and long term care;\(^5\)

- the *Versorgungswerke* for the free professions (which even when employed are exempt from the statutory old age pension system and are allowed to join in the special system) and

- the federal insurance body for farmers. This system is tightly connected to measures of agricultural policy.

As is apparent from the table, not all self-employed people are included in mandatory insurance schemes sponsored by the state. An especially large section of the population engaged in freelance activities is not covered.

Furthermore, the situation becomes even more complicated and heterogenic when the financing of the statutory old age provision is considered. This is shown in Table 2. The basis of assessment is listed in column 2 and exemptions in column 3. Column 4 shows the basic financing structure of each system. The table demonstrates that the basis for calculating pension entitlements and individual contributions together with the extent of state funding varies considerably, depending on the area of work in which the self-employed are engaged:

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5. See for example: Künstlersozialkasse (2013).
Table 1: Types of mandatory old age provision for self-employed, as of October 2014

<table>
<thead>
<tr>
<th>Security system</th>
<th>Standard system</th>
<th>Supplementary system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory insured</td>
<td>German statutory pension insurance scheme</td>
<td></td>
</tr>
<tr>
<td>a) homeworker (self-employed in cottage industry)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) teachers, pre-school teachers or educators, nursing professionals, midwives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Self-employed with one client</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) River and harbour pilots</td>
<td></td>
<td>d) Mutual compensation fund of the pilotage system</td>
</tr>
<tr>
<td>e) Coastal mariners and inshore fishermen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-employed craftsmen - craftsmen with an entry in the register of artisans (register of self-employed craftsmen)</td>
<td>German statutory pension insurance scheme with the possibility of an exemption after 18 years of compulsory membership</td>
<td></td>
</tr>
<tr>
<td>District master chimney sweepers</td>
<td>German statutory pension insurance scheme</td>
<td></td>
</tr>
<tr>
<td>Artists and writers</td>
<td>German statutory pension insurance scheme regulated in the act on social security for artists (KSVG)</td>
<td></td>
</tr>
<tr>
<td>Farmers</td>
<td>Social insurance for agriculture, forestry and horticulture (old-age insurance for farmers)</td>
<td></td>
</tr>
<tr>
<td>Subgroups of the liberal professions</td>
<td>Professional pension schemes of the liberal professions</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Financing of the statutory old age provision within the German statutory pension insurance scheme for the group of self-employed, as of October 2014

<table>
<thead>
<tr>
<th>Contribution of the insured</th>
<th>Basis of assessment</th>
<th>Exemptions</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Homeworker (self-employed in cottage industrie)</td>
<td>a) Earned income up to the earnings ceiling</td>
<td>b) Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month</td>
<td>a) Contributions: 50 % by the insured and 50 % by the client; additionally federal grant</td>
</tr>
<tr>
<td>b) Teachers, pre-school teachers or educators, nursing professionals, midwives, male midwives, self-employed with one client</td>
<td>b) Earned income in the amount of the reference value</td>
<td></td>
<td>b) and c) Contributions: 100 % by the insured; additionally federal grant</td>
</tr>
<tr>
<td>c) River and harbour pilots</td>
<td>c) Earned income up to the earnings ceiling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Coastal mariners and inshore fishermen</td>
<td>d) Earned income which is subject to the contribution in the German Statutory Accident Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-employed craftsmen - craftsmen with an entry in the register of artisans (register of self-employed craftsmen)</td>
<td>Earned income in the amount of the reference value</td>
<td>Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month</td>
<td>Contributions: 100 % by the insured; additionally federal grant</td>
</tr>
<tr>
<td>District master chimney sweepers</td>
<td>Earned income in the amount of the reference value</td>
<td>Upon verification of a higher or lower income this earnings income up to the income ceiling, at least 450 EUR a month</td>
<td>Contributions: 100 % by the insured; additionally federal grant</td>
</tr>
<tr>
<td>Artists and writers</td>
<td>Prospective annual earnings</td>
<td>Exempt if earnings from professional (revenue minus expenses) work are below the minimum income limit for compulsory social insurance of 3,900.00 EUR p. a.</td>
<td>Contributions: 50 % by the insured, 30 % client, 20 % federal grant</td>
</tr>
</tbody>
</table>

Some research has been done on old-age provision for self-employed people in Germany. One milestone was the analysis of Fachinger et al. (2004) which gave the first comprehensive overview of the situation. Since then, the social security of self-employed people has received an increasing amount of attention. Some of the most relevant publications include those by: Fachinger and Frankus (2014), Frankus and Fachinger (2012), Koller et al (2012), May-Strobl et al (2011), Münstermann (2013), Niehues and Pimpertz (2012) Schulze Buschoff and Schmidt (2009), Schulze Buschoff (2007), Schulze Buschoff and Protsch (2006), Ziegelmeyer (2010).

Basically, the work is for the most part theoretic-conceptual and descriptive with a particular focus on insurance for old-age. The findings provide some evidence that an increasing number of self-employed persons lack adequate insurance. However, most of the literature covers the self-employed in general, and does not allow for the heterogeneous nature of self-employed work. In this context the old-age provision of freelancers is practically uncharted territory for Germany.

Whilst we have at least some information about self-employed people’s old-age provision, almost nothing is known about the approaches these people take towards insuring themselves against other social risks such as illness, long-term care, disability or bankruptcy.6 This is true not just for Germany, but also for most other countries (O'Connor, 2013, p. 57).

3. On the Situation of Freelancers

3.1. Some General Remarks

The brief summary of the situation in Germany regarding the insurance of the social risk of longevity exemplifies the heterogeneity of this group. However, freelancers also have to deal with other issues when trying to cope with social risks. These include health insurance together with the regulations concerning equal treatment on pregnancy and maternity for employees and self-employed people (European Parliament, 2010, European Commission, 2008, p. 46 ff.).

As regards health insurance, in most EU countries independent professionals and freelancers are covered by country-specific national health services. Nevertheless, this is mostly a basic insurance and is not customised to the needs of self-employed people. Usually, health-care costs, but not costs incurred by the

6. The probability of the occurrence of such risks is generally known, and an insurance market exists which covers some of these risks. However, this does not mean that the self-employed are actually insured, even if the insurance is in theory mandatory in social security systems. The ‘de-jure’ and the ‘de-facto’ insurance of freelancers sometimes deviate considerably from each other.
loss of income caused by illness are covered by the health care system. Considerable differences exist between European countries on this issue: whereas in some countries a monthly fixed amount is granted (e.g. Austria, Belgium, Netherlands, United Kingdom), in others a percentage of previous income (such as the person’s declared income, his/her taxable income, gross earnings or revenue) is paid (Directorate-General for Employment, 2014). However, it may be possible to insure the risk of income loss via supplemental income insurance.

Freelancers face the additional risk of losing orders if they are unable to work due to disease, illness, or as a result of an accident. Furthermore, they may not be able to finish orders on time and may even have to deal with contract penalties. A temporary break can have devastating consequences for the business, and especially for that of self-employed people working alone, as the danger of losing regular customers is very high, although this danger is clearly contingent on the length of time in which the freelancer is unable to work.

3.2. Some Methodological Remarks

So as to obtain substantiated empirical information regarding the approach taken by freelancers in order to protect themselves against social risks, it is first necessary to define who exactly is meant with ‘freelancers’. There exists no generally accepted definition. Even the seemingly straightforward distinction between employees and self-employed does not adequately depict the economic situation, as the boundaries between those two states of employment are blurred (Directorate-General for Internal Policies of the Union, 2013, Purcell, 2000).

The matter is complicated still further, as freelancers are a very heterogeneous group of people. For example, and as pointed out in the literature, a distinction should be made between people voluntarily and involuntarily engaged in self-employment (Kautonen et al, 2010). Freelancers can belong to both groups. This is because the decision to voluntarily become self-employed is usually the result of rational decisions taken against the background of external factors e.g. the general regulatory framework of business and the legal environment of self-employment. Self-employed physicians and lawyers provide a good example of this group of people. People engaged in these professions start planning their careers early in life, as specific educational qualifications are required for these occupations. They are thus able to make rational choices in order to insure themselves against social risks. In contrast, involuntary self-employment often arises out of necessity and/or occurs by chance. This group of self-employed people are not able to plan in advance for a career in the self-employed sector. As a result, they may fall out of the social security system and consequently lose social protection.

These factors may result in people who are involuntary self-employed finding themselves in a ‘grey area’ in which they are no longer covered by the statutory
social security system. They have to insure themselves against social risks via the private insurance market and are as such subject to specific market conditions, where some risks may not be insurable and risk selection takes place.

As involuntarily self-employed people are often in an economically precarious situation, they frequently have a limited ability to pay for insurance. In addition, low-earning self-employed people who choose to insure themselves against risks often face a disproportionally large financial burden when doing so, as insurance contributions do not vary according to income but are instead a fixed amount. As a result, freelancers, and especially those with low incomes, may decide not to acquire insurance against social risks as a result of financial restraints (Perry and Rosen, 2001), leading to serious problems if a social risk – such as illness, a shortage of orders etc. – occurs.

3.3. Some Remarks about Data

In addition to the aforementioned terminological difficulties, it is not easy to identify freelancers, even when the definition employed in the given data sets is used. For example, at any given point in time a person can work both as a freelancer and be employed in a firm. In addition, the length of time in which a person has been self-employed (i.e. the duration of the self-employment) cannot be determined using cross section data. It is thus not possible to ascertain whether self-employment is merely a temporary episode in the working life of an individual, or whether he/she has been engaged in self-employment for a prolonged period and is ‘trapped into’ a situation of inadequate social protection and societal vulnerability.7

Therefore longitudinal data is necessary. Although data of this nature is available, these data sets all lack detailed information. Process-produced longitudinal data from social insurance institutions are, for example, limited to information necessary for the administrative process. The surveys at hand (even the Socio-economic Panel for Germany, the DNB household survey (DHS) for the Netherlands, or surveys such as the SAVE study) are not sizeable enough to be able to cover the heterogeneity of the self-employed, let alone to be able to analyse the differing situations in which freelancers find themselves. Additionally, only few of these data sets aim to glean information about the degree to which self-employed people save money to insure themselves against social risks. The matter is even more complicated, as for a better understanding data about the willingness and the ability to save are necessary. Unfortunately, the information contained in the available data sets is insufficient. Therefore, little is known about the current status of the self-employed and about their willingness

and ability to save money in order to insure themselves against social risks. However, it has become evident that a large proportion of freelancers – especially women – are in precarious financial situations and even have problems earning enough money to have a decent standard of living, let alone to save in order to protect themselves against social risks (Bögenhold and Fachinger, 2013, European Commission, 2005, Frankus and Fachinger, 2012).

4. Conclusion

Generally speaking, only limited information is available about the insurance situation of freelancers and independent professionals. In addition, reliable data on this subject is lacking (Directorate-General for Internal Policies of the Union, 2013, European Commission, 2005, Mettler and Williams, 2011, p. 28, Román et al, 2011, p. 386 ff.).

The findings highlight that the state of knowledge on the provisions which freelancers and independent professionals acquire in order to insure themselves against societal risks is far from satisfying. As we have a good understanding of the problems and advantages of specific measures or regulations concerning social security, our current knowledge on the specific situation of freelancers is insufficient. In this context, it is impossible to provide any insights into the design of social protection systems aimed at freelancers. However, the information which is available is not encouraging: given the increase in the number of freelancers working in EU countries, insufficient social protection afforded to this group will invariably lead to a rise in the number of people exposed to social risks. This will in turn result in increasing poverty and a rise in the number of people suffering from social exclusion. Alongside the difficulties posed for social policy, these factors will have negative consequences for economic policy, especially as regards the promotion of self-employment.

In order to obtain further information on the insurance situation of freelancers and independent professionals and to understand which factors contribute to this situation emerging, further research is required. Only by increasing our knowledge base will it be possible to find adequate measures for the design of social protection systems, as is called for by, amongst others, Mettler and Williams (2011) or the European Commission (2010).
References:


Determinants of the Own-Account Worker’s Decision to Hire Employees: A Review

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Abstract. Given the increasing numbers of own-account workers in many European economies, an important question for policy makers is to what extent these own-account workers move on to become employers. Yet, empirical research on job creation by own-account workers hardly exists. This paper reviews a small stream of empirical literature which, by using the European Community Household Panel (ECHP), focuses on the determinants of the own-account worker’s decision to hire employees. At the individual level, our review suggests the importance of both human capital and liquidity constraints for the decision of hiring employees. At an aggregated level, we find that own-account workers are less likely to hire employees during recessions. Finally, we also detect the importance of some factors at the environmental and institutional level such as a higher education level of employees and consumers, a higher expenditure on employment incentives and a lower degree of employment protection. The evidence from our review may be useful for governments aiming to create a more enabling micro- and macro-environment for employment growth.

Keywords: own-account worker, employer, self-employment, hiring, job creation, Europe.

Funding: The authors acknowledge funding from the Spanish Ministry of Economy and Competitiveness (Ana Millán under project ECO2013-48496-C4-4-R, and José María Millán and Concepción Román under project ECO2013-43526-R).

JEL-classification: D22, E02, J23, J24, J28, J38, L25, L26, M51, O52

Acknowledgements: The paper has greatly benefited from the constructive comments of the editor Andrew Burke and an anonymous referee.

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1. Introduction

The design during the last decades of a set of instruments directed at encouraging people to become self-employed has been a central issue within the European entrepreneurial promotion policy. The strong need for economies to create new jobs due to the financial and economic crisis of 2008 has only stressed governments’ attention to entrepreneurship. The aim to foster entrepreneurship, however, cannot be limited to temporally achieving a certain number of self-employed to reduce the level of unemployment. On the contrary, the objective also has to incorporate the achievement of mid and long-term effects in terms of both business survival and new jobs created by new and incumbent self-employed.

In this context it is crucially important to give a clear and accurate overview of the policy incentives and instruments that can help to achieve this target. An important route of stimulating employment may be to persuade own-account workers to take on employees. In this respect, Earle and Sakova (2000) highlighted the following:

It is useful to distinguish self-employed employers from own-account workers, those who work alone or with the cooperation only of unpaid family helpers, because the former represents clear cases of genuine entrepreneurship: they are creating jobs for others, implying that they have had some success in their business, that they have been able to hire capital and other inputs to work with their employees, and that they are most likely engaged in self-employment voluntarily. [...] By contrast, the status of own-account workers is much less clear: although some of them might be successful entrepreneurs, others might instead be displaced workers from declining firms and sectors, forced to engage in whatever activity necessary to ensure their survival. (Earle and Sakova 2000, p. 580).

Indeed, leaving aside some specific activities such as farming, that given their nature, are suited to own-account self-employment, the logical expansion of any entrepreneurial venture should result in a transition from own-account worker to employer. Therefore, the challenge should be to identify the key factors for building a climate where own-account workers can thrive by expanding their labour force. Yet remarkably, although there is a small literature on job creation by the self-employed in general (see e.g., Burke et al. 2002, and Cowling et al. 2004), empirical literature on job creation by own-account workers is practically non-existent. It is important to distinguish between job creation processes by own-account workers and employers as the former suffer from a one-employee threshold (Désiage et al., 2011) linked to the cost of managing a first employee.

and to legal constraints, such as the restrictions on layoffs. Désiage et al. (2011), as cited by A. Millán et al. (2015, p. 322), argue that once an entrepreneur has experience with running a business with personnel (e.g. experience with financial planning to pay a salary every month, experience with administrative burdens associated with employing personnel, etc.), the step to employing more personnel may well be smaller. Désiage et al. (2011) also provide empirical evidence supporting this argument.

To shed light on this issue of job creation by own-account workers, this work presents an overview of some of our previous studies (Congregado et al. 2010; A. Millán et al. 2013, 2015; J.M. Millán et al. 2014; Román et al. 2014), which all deal with the determinants of the transition from own-account worker to employer in Europe. In particular, using micro data from the European Community Household Panel for the EU-15, the papers included in our review analyse the effects of individual-level factors (human capital and liquidity constraints) and macro-economic factors (business cycle, education levels of the population, employment protection legislation, and employment incentives) on hiring decisions by own-account workers.

Our review suggests that informal processes for the acquisition of human capital such as previous experience in the labour market, venture-specific work experience or intergenerational transfers, present stronger effects on the decision of hiring employees than do the processes associated with formal education. We also find evidence supporting the existence of liquidity constraints for business growth. As regards the economic conditions, we show that own-account workers are less likely to hire employees during recessions, which supports the prosperity-pull argument. Finally, we also detect the importance of some factors at the environmental and institutional level such as a higher education level of employees and consumers, a higher expenditure on employment incentives and a lower degree of employment protection.

The remainder of this paper is structured as follows. Section 2 provides some brief theoretical arguments about the role of some individual-level and aggregate-level variables on the own-account workers’ decision to hire employees. Section 3 describes the data, methods and empirical results from our previous studies mentioned above. Finally, the concluding remarks of the study are put forth in Section 4.

2. Brief Theoretical Background

This section provides some brief theoretical arguments that explain the effects of individual and macro-economic factors on the individual decision of becoming self-employed with employees (employer) from own-account self-employment.
**Individual factors**

Human capital endowments are important not only in establishing a business but also in hiring other workers. These endowments take shape as entrepreneurial abilities to *perceive* and *exploit* business growth opportunities. These abilities can be influenced by many forms of human capital: education (Casson 1995), work experience (Shane 2003, p. 75) and knowledge of the market (Jovanovic 1982). Thus, entrepreneurs with higher endowments of human capital are expected to employ larger workforces (Lucas 1978; Brock and Evans 1986; Cowling et al. 2004). When concentrating on the role of liquidity constraints, one possible impediment for entrepreneurs before deciding to opt for growth is simply the lack of capital. If entrepreneurs cannot borrow to attain their profit-maximizing levels of capital, then those entrepreneurs who have substantial personal financial resources will be more successful than those who do not (Holtz-Eakin et al. 1994).

**Macro-economic factors**

Successfully exploiting business opportunities and, hence, employing other labour, not only depends on individual factors but also on aggregated ones. We refer here to the institutional and macro-economic environment in which entrepreneurs run their businesses.

As regards macro-economic conditions, individuals may opt for self-employment due to a lack of alternative employment options (*recession-push* argument). In contrast, individuals may enter self-employment when prospects in the economy are good (*prosperity-pull* argument). These theoretical arguments have been mainly constructed to explain entry decisions (see Parker 2011) but they do not necessarily fit well to predict hiring decisions. The extent to which employing new personnel is stimulated by recessionary situations seems limited. On the contrary, job creation by the self-employed seems more likely in situations of favourable business conditions and high demand for goods and services.

The education level of the population can also play a role in the decision to recruit additional staff. Thus, the education level of employees and consumers may shape both supply and demand functions of entrepreneurs’ outputs. In particular, a higher share of educated employees may positively affect the entrepreneur’s productivity whereas a higher share of educated consumers may lead to a higher level of demand for innovative products and services (J.M. Millán et al. 2014).

Concerning the impact of the institutional environment and, in particular, the role of labour market regulation, there is a heated debate in Europe (J.M. Millán et al. 2012; Román et al. 2011, 2013). Thus, differences in the degree of employment protection and the expenditures on employment incentives can influence the decision to become an employer. *First*, the risk for entrepreneurs of hiring an employee is bigger in situations of strong employment protection: if the firm wants to let the employee go (either voluntarily or involuntarily), the costs of dismissing the employee are relatively high. Strong employment protection
thus creates a disincentive for entrepreneurs to hire employees which, moreover, may be especially pronounced for smaller firms (Parker, 2007). Second, as one of the most important active labour market policies, the expenditure on employment incentives is, by definition, expected to increase hiring decisions. However, the economic literature offers four negative indirect effects that might outweigh the positive direct employment effects: **deadweight**, **displacement**, **temporary nature** and **substitution** (Bishop and Montgomery 1993; De Koning 1993; Dahlberg and Forslund 2005; Betcherman et al. 2010).

### 3. Empirical Evidence

This section aims to offer an overview of some of our previous works (Congregado et al. 2010; A. Millán et al. 2013, 2015; J.M. Millán et al. 2014; Román et al. 2014). These works provide an exhaustive empirical analysis of the individual (human capital and liquidity constraints) and aggregate-level determinants (business cycle, education level of the population, employment protection legislation, and employment incentives) of the transitions from own-account worker to employer in Europe. The literature on the specific impact of these phenomena on the post-entry performance of entrepreneurs (in general), is limited. This holds even stronger for the literature on the link with **job creation by own-account workers**, the topic of the works we are reviewing in this study.

#### Data

The reviewed papers use data from the European Community Household Panel (henceforth ECHP). The ECHP is a panel of households in the EU-15 covering the period 1994-2001. This panel offers information on 60,500 nationally representative households, which includes approximately 130,000 individuals aged 16 years and older. Every year, all members of the selected households in each country are interviewed about issues related to demographics, the labour market, incomes and living conditions. The same questionnaire is used for all countries, which makes the information directly comparable.

#### Econometric framework

The reviewed papers mainly use random effects binary logit models that control for unobserved heterogeneity across individuals (Wooldridge 2002). In these models, the probability of switching from own-account worker in year $t$ to employer in year $t+1$ is assumed to depend on a set of individual characteristics and economic variables, $X$, observed at time $t$. Thus, an individual $i$ who is own-

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3. The ECHP data are used with the permission of Eurostat (contract ECHP/2006/09, held with the Universidad de Huelva).
4. Additional details on the ECHP data can be found in Peracchi (2002).
5. In Congregado et al. (2010), multinomial logit models are applied.
Determinants of the Own-Account Worker’s Decision to Hire Employees: A Review

account worker at time $t$ will be observed as employer at time $t+1$ if the utility derived from his new role as employer exceeds that obtained from own-account work. Consequently, the probability of switching can be written as:

$$
\Pr(Y_{i,t+1} = 1) = \Pr(U_{i,t+1}^{Emp} > U_{i,t+1}^{OA} \mid U_{i,t}^{Emp} \leq U_{i,t}^{OA}) = F(\beta' X_{i,t} + u_i)
$$

where $Y_{i,t+1} = 1$ if the individual who was own-account worker in period $t$ becomes employer in period $t+1$, and $Y_{i,t+1} = 0$ if the individual continues as own-account worker in period $t+1$. The vector $X_{i,t}$ represents individual characteristics and economic conditions in the year prior to moving into the new status, $\beta$ is the associated vector of coefficients to be estimated, $u_i$ is a disturbance term that includes the time-invariant unobserved heterogeneity (the person-specific effect), and $F(\cdot)$ is specified as the logistic cumulative distribution function.

**Empirical results on individual level determinants**

This subsection summarizes the main results of our empirical analyses on the individual level determinants of hiring decisions of own-account workers in Europe. In particular, we concentrate on the effects of variables capturing human capital and the possible presence of liquidity constraints.

With respect to human capital variables, first, we observe a robust positive relationship between higher education and the probability that own-account workers expand their labour force (Congregado et al. 2010; A. Millán et al. 2013, 2015; J.M. Millán et al. 2014; Román et al. 2014). Further, the presence of relatives working as self-employed is associated with a higher likelihood of hiring employees, which reflects the importance of intergenerational transfers of human capital for business growth (Congregado et al. 2010; J.M. Millán et al. 2014). Regarding job tenure, our results show both a positive linear (Congregado et al. 2010) and non-linear (U-shaped; A. Millán et al. 2013, 2015; Román et al. 2014) impact of the number of years of experience as an own-account worker on the probability of becoming a job creator, which suggests that also venture-specific work experience (i.e., work experience obtained in the own firm) is important for taking on personnel.

Concerning entrepreneurship experience in general, we find that own-account workers are more likely to become employers when they have been self-employed in the past (Congregado et al. 2010), which suggests that people learn from earlier self-employment experiences. Similarly, human capital acquired in previous spells of paid employment increases business growth chances for own-account workers as well (Congregado et al. 2010, A. Millán et al. 2015). Finally, as Congregado et al. (2010) stress in terms of the relative importance of human capital for business growth, informal acquisition of human capital (i.e., previous experience in the labour market or intergenerational transfers) presents stronger effects than do the processes associated with formal education.
When liquidity constraints are considered, results of the reviewed papers show that the incomes of own-account workers in the previous period have a positive effect on transitions to employership (Congregado et al. 2010). On the one hand, this result supports the existence of liquidity constraints for business growth. On the other hand, it supports the idea that an own-account worker’s successful development of an entrepreneurial venture should result in a transition to employer, which is the natural expansion of the business. Other proxies aiming to capture the role of liquidity constraints, such as home ownership, the income situation compared to last year, the ability to make ends meet (A. Millán et al. 2015) and having some money left to save considering a household’s income and expenses (A. Millán et al. 2013, 2015; Román et al. 2014), also have a positive effect on transitions, further supporting the existence of liquidity constraints.

**Empirical results on aggregate level determinants**

This subsection concentrates on the effects of country-specific variables in the decision to hire employees with a special focus on four key elements: the role of economic conditions, education levels of the population, employment protection, and employment incentives.

With regard to macro-economic conditions, we observe that the prosperity-pull argument applies to those entering employership from own-account work, which supports the importance of expansionary periods for recruiting personnel or, in other words, our results show that own-account workers are less likely to hire employees during recessions. These results are robust, irrespective of the measure of the business cycle used, either the national unemployment rate (Congregado et al. 2010; J.M. Millán et al. 2014) or the GDP growth rate (A. Millán et al. 2015; Román et al. 2014).

With the purpose in mind of analysing the role of educational attainment at the macro level, in J.M. Millán et al. (2014) we incorporate as our main explanatory variable the share of the population holding tertiary education observed per country and year (source: Eurostat). This variable is defined as the percentage of the active population from 25 to 64 years with at least first stage of tertiary education (International Standard Classification of Education –ISCED– categories 5 and 6). Further, we also consider this educational attainment indicator at the regional level (observed at NUTS-1 level). In both cases, the result that stands out is the strong positive effect of the share of the population in

6. It should be noted though that a higher income of the entrepreneur may also reflect a higher human capital level of the entrepreneur, possibly having a positive impact on job creation. To the extent that the income in the previous period was obtained from the current business, the effect may also reflect the viability of the business. To summarize, the positive effect of income on the transition to employership may only partly reflect liquidity constraints. However, we also note that the positive effect was also found for other proxies of liquidity constraints.

7. This result does not imply, nor does it exclude, that the impact of recession periods on the probability of hiring personnel is different for own-account workers and small and medium-sized firms.
tertiary education. Thus, higher educated individuals in an economy may benefit own-account workers’ performance (including expansion) by increasing the supply of high-skilled labour on the labour market and by acting as critical consumers demanding innovative products from entrepreneurs.

Regarding employment protection, in A. Millán et al. (2013) we include an employment protection legislation index as our main predictor (source: OECD Employment Database). This indicator is intended to measure the strictness of employment protection from less to more protected workers. As defined by the OECD, the employment protection legislation refers to regulations about hiring and firing, where higher values of the index reflect that it is more difficult (costly) to hire or fire employees. We find a negative impact of our index on the probability of switching from own-account worker to employer. Therefore, as argued by Parker (2007), a stricter degree of protection seems to impose sunk costs for self-employed workers who decide to take on employees, which, ceteris paribus, causes many own-account workers to refrain from hiring employees. Let us stress, however, that a stricter protection of workers is also observed to lower the number of job dismissals in A. Millán et al. (2013). These results suggest the existence of a trade-off of higher employment protection legislation in terms of benefits for those individuals who have a job (the ‘insiders’) and those who don’t (the ‘outsiders’).

With respect to the effect of employment incentives on the individual decision to hire employees, in Román et al. (2014) we use the variable employment incentives (source: OECD Employment Database), which offers information on government expenditure on employment incentives as a percentage of GDP. Employment incentives are public programmes to facilitate the recruitment (and/or continuing employment in the context of restructuring or similar circumstances) of unemployed persons and other target groups (see Grubb and Puymoyen 2008 for additional details). Our results suggest that expenditures on employment incentives have a significantly positive impact not only on the likelihood of switching from own-account worker to employer but also on employment growth for firms of all sizes. This impact is, however, significantly smaller for smaller firms, suggesting that employment incentive programs are relatively less effective for own-account worker firms. On the other hand, when concentrating on the differential effects of incentive programs depending on the state of the economy, we find stronger effects of such incentives during recessionary periods, but only for firms without employees (i.e., own-account workers).

Summary of the empirical evidence
Table 1 summarizes the main contributions of the five papers reviewed in this work.
Table 1: Summary of the empirical evidence

<table>
<thead>
<tr>
<th>Paper</th>
<th>Focus</th>
<th>Method</th>
<th>Main predictors</th>
<th>Main results</th>
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<tbody>
<tr>
<td>Congregado et al.</td>
<td>Hiring decisions by own-account workers.</td>
<td>Multivariate non-ordered discrete choice</td>
<td>Human capital: formal education, previous experience in the labour market, relatives working as self-employed.</td>
<td>Informal acquisition of human capital (previous experience as self- and paid employed and inter-generational transfers) presents stronger effects on the decision of hiring employees than do the processes associated with formal education.</td>
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<td>(i) employership; (ii) paid employment; (iii) unemployment; and (iv) inactivity.</td>
<td>Business cycle: national unemployment rate. Source: OECD.</td>
<td>National unemployment has a strong negative impact on hiring decisions, which supports the prosperity-pull argument.</td>
</tr>
<tr>
<td>A. Millán et al.</td>
<td>Hiring decisions by own-account workers. Firing</td>
<td>Bivariate discrete choice models:</td>
<td>Employment protection legislation index (EPL). Source: OECD Employment Database.</td>
<td>Strictness of EPL is negatively related to both hiring and firing decisions, and hence, to labour mobility.</td>
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<td>(2013)</td>
<td>decisions by very small firms (1-4 employees).</td>
<td>transitions (i) from own-account work to</td>
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<td></td>
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<td>employership; and (ii) from very small firms</td>
<td>Positive cyclical effect on transitions from own-account worker to employer irrespective of the measure of the business cycle used (i.e., at either the macro or micro level).</td>
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<td>(employers with 1 to 4 employees) to own-</td>
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<td>(2015)</td>
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<td>transitions from own-account work to</td>
<td>Business cycle: reported household’s general feeling about the present economic situation. Source: ECHP, Eurostat.</td>
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<th>Paper</th>
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<th>Method</th>
<th>Main predictors</th>
<th>Main results</th>
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<tr>
<td>J.M. Millán et al. (2014)</td>
<td>Entrepreneurship success: hiring decisions by own-account workers; self-employment earnings and survival; survival as an employer.</td>
<td>Bivariate discrete choice models: (i) transitions from own-account work to employership; and (ii) survival as an employer. Multivariate non-ordered discrete choice model: self-employment survival to (i) paid employment; and (ii) non-employment (i.e., unemployment or inactivity). Censored regression model: self-employment earnings.</td>
<td>Share of the population holding tertiary education. Source: Eurostat.</td>
<td>Population’s share of highly educated individuals has a positive impact on all measures of individual entrepreneurship performance.</td>
</tr>
<tr>
<td>Román et al. (2014)</td>
<td>Decision to hire employees.</td>
<td>Bivariate discrete choice models: probability of switching from a lower to a higher size-class firm.</td>
<td>Government expenditure on employment incentives as a percentage of GDP. Source: OECD Employment Database. Business cycle: national GDP growth rate. Source: OECD Economic Projections.</td>
<td>Expenditures on employment incentives have a significantly positive impact on hiring decisions for firms of all sizes. This impact is significantly smaller for smaller firms. Stronger effects of employment incentives during recessions, but only for own-account workers.</td>
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4. Conclusions and Discussion

Within the European entrepreneurial promotion policies, the relative weight of instruments oriented towards the workforce expansion of the self-employed is small, as compared to the importance of other measures aimed at facilitating the entry of the unemployed or other target groups into self-employment. The lack of useful guidelines within the existing entrepreneurship research might be argued as an important reason for this unbalanced distribution. To shed some light on this issue, this paper reviews a small stream of empirical literature which, by using the European Community Household Panel (ECHP), focuses on the micro and macro level determinants of the own-account worker’s decision to hire employees. The main conclusions and implications of our review are summarized below.

First, our overview shows the importance of fostering processes for the acquisition of (entrepreneurial) human capital to favour job creation by the self-employed. In this respect, informal acquisition processes such as previous experience in the labour market, venture-specific work experience or intergenerational transfers, have been found to have stronger effects on the
decision of hiring employees than do the processes associated with formal education (Congregado et al. 2010). Furthermore, based on our finding that past spells of self-employment are an important driver behind the decision to hire employees, policy makers may consider reviewing the existing bankruptcy legislation with the aim of making restarting more attractive to entrepreneurs.

Second, we observe how liquidity constraints and recessions reduce the probability of transitioning from own-account worker to employer. Our results hence stress the value of facilitating access to credit in economic downturns for the smallest SMEs in order to mitigate the negative consequences of recessions on job creation by own-account workers. However, bearing in mind the relevance of human capital described above, suppliers of credit to entrepreneurs might consider the human capital levels of the applicants if the goal is to promote a type of self-employment that contributes to the job generation process (A. Millán et al. 2015).

Third, our review also shows that the probability of employing personnel is not only affected positively by the education level of the own-account worker but also by the share of highly educated individuals in the population. In consequence, educational policies may be viewed as an instrument to develop high-quality entrepreneurial businesses. In particular, an education system that results in a higher share of people with tertiary education levels will produce more productive entrepreneurs together with more productive employees where the latter will benefit the former and vice versa (J.M. Millán et al. 2014, p. 627).

Fourth, stricter employment protection is found to have a negative impact on the probability of switching from own-account worker to employer. As expected, stricter employment protection is also found to lower the number of job dismissals, so that the net effect of stricter employment protection is a lower level of labour mobility in an economy (A. Millán et al. 2013). This is a relevant finding since higher labour mobility is associated with higher levels of knowledge spillovers and productivity growth (see, e.g., Breschi and Lissoni 2001; Cooper 2001).

Fifth, it is found that expenditures on employment incentives have a positive impact on employment growth for firms of all sizes, although this impact is smaller for own-account worker firms. On the other hand, we detect the employment impact of incentive programs to be stronger during recessionary periods, but only for own-account worker firms (Román et al. 2014). Policy makers are hence confronted with a challenge: on the one hand there is pressure to cut government expenses during recessions, whereas on the other hand, when job creation by own-account workers is considered, expenses on employment incentive programs are especially effective during recessions.

Future research may focus on integrating the models from the five papers in one encompassing model. In particular, the way in which the papers deal with structural cross-country variations is slightly different. Four of the papers (Congregado, 2010; A. Millán et al., 2013, 2015, Román et al., 2014) include a
full set of country fixed effects dummies, thereby making sure that the coefficients for the respective macro-level variables of interest capture over-time variations. However, rather than including country dummies, J.M. Millán et al. (2014) control for cross-country variations by including a wider set of country-level control variables. Besides combining the various independent variables of interest from the five papers, an integrative model would have to include either a full set of country fixed effects dummies or a wider set of country-level control variables.
References:


