

# 1 Introduction

*“The basic philosophy for modern R&D should be to morph big into small in recognition of the fact that critical mass in fundamental research is the size of one human brain”*

Jean-Pierre Garnier, CEO GlaxoSmithKline

Harvard Business Review, May 2008

The large scale firm dominated the 19<sup>th</sup> and the 20<sup>th</sup> century. This supremacy is natural in a world with economies of scale and scope. For long, the small firm was seen as something irrational, a phenomenon on the brink of extinction, with lower levels of efficiency (Pratten, 1971), invention (Audretsch, 1995) and growth (Scherer, 1991). But with the advent of the knowledge economy, small is again beautiful. The ongoing miniaturization of technical solutions has given enormous power to the individual. Most professionals, in whatever industry or sector they work, do not need anything more than a laptop and a mobile phone to effectively perform their profession. Even complex activities such as finding a new pharmaceutical drug, which needed massive laboratories as recent as in the 1980s, can nowadays largely be performed on a simple laptop with the assistance of specialized software. Architects, who since the beginning of their profession needed large drawing tables and several clerks to perform the manual work, can now work alone on a laptop with standard AutoCAD software. Even architectural scale models, which traditionally took weeks to create by specialized professionals, can now simply be printed by a 3-D printer. The advent of the mobile phone and other telecom solutions, such as teleconferencing, have provided the individual with hitherto unknown flexibility and provided the possibility of coordinating and communicating teamwork efforts, without the need of shared premises. Continuing technical developments, such as virtual reality, will in the near future provide individuals with even more tools to work alone, or in flexible and endlessly changing teams. It is the individual who owns the means of production in the knowledge economy (Drucker, 1999). This individualistic view is increasingly embraced by organizational scientists. Recently, in a review of the scientific literature on knowledge, Felin and Hesterly (2007), concluded (p. 214): *“Individual knowledge is not wholly (perhaps not even mostly) socially constructed or environmentally determined, [...] but, rather, there is a core self, which may to a large degree determine learning and knowledge outcomes”*.

The increased importance of the individual is not only visible in organizational research, but more importantly, very visible in daily life. The importance of the individual in the knowledge professions, can be illustrated by the Dutch proverb "*het is de vent en niet de tent*" ("*it's the professional and not the firm*"), which is often heard when a professional is about to be hired. Key is the professional whose résumé is carefully scrutinized: the firm for which the professional works is often of secondary importance. By emphasizing the role of the individual, I am not saying that social factors are not important in the knowledge economy. On the contrary, a sense of trust and a shared context, or what Nonaka (2000) calls *Ba*, is crucial for individuals to be able to be productive. But this sense of trust, meaning and shared context is increasingly provided by ever changing networks of individuals and professional associations, and progressively less by the traditional firm. To be honest, there is also no convincing reason why firms should be better in this task than social networks. It is more that, in the industrial era, the firm was the natural provider of social context, as they had the necessary capital to do so and were the main beneficiary of providing social context.

I must confess that I feel that I am still fairly ignorant about the knowledge economy, despite years of study and practical experience. But I do think that I am in the good company of many social scientists. In my quest to understand knowledge workers and their dilemma's, organizational science rarely gave me straight answers. Most scientists, it seems, are still trying to grasp the basic mechanisms of the new knowledge society. This should not be a surprise, as understanding the ways of modern society is a daunting and sometimes overwhelming task. Only gradually, by solving smaller issues, science is beginning to understand the exact mechanisms of the knowledge economy. However, one critical observation of organizational science, should be made here. It does not help that most organizational scientists are still studying the past. While almost all scientists are working in an academic environment, where knowledge is fundamental to their performance, the chief subject of organizational studies is all too often the large industrial organization. It almost seems that many researchers are shortsighted. They study the old world outside their offices and cannot see the modern knowledge society and its dilemmas in which they operate.

Let us turn now to the subject of this thesis: The independent professional or the freelancer. The independent professional is one of the three most common types of knowledge workers. The other ones are corporate professionals (who by definition work for corporations) and firm professionals (who work for professional service firms such as legal, accounting or consulting

firms). Freelancers are not dependent on a large firm and they enjoy their independence which provides them with more autonomy and time for their profession. They tend to be fed up with useless overhead structures, detailed bureaucratic procedures, and the political games so often seen within large firms. The functions traditionally provided by the firm, such as a shared context, sense of meaning, security, and trust are increasingly provided by upcoming networks.

Besides my sincere interest in the freelancer, for sake of the freelancer as a recent and growing phenomenon, another important reason for my curiosity is rooted in the fact that I consider the freelancer to be the archetypical employee of the future. In the imminent knowledge economy many workers will be job-hopping from one assignment/job to another in order to maximize learning and experience and thus the value of their skills. This future is already visible in the increasing job turnover of employees. In short, understanding the current dilemmas of the freelancer, may help us understand the future problems of the majority of knowledge workers.

Due to various forces, which are discussed in detail in this thesis, the number of independent professionals is growing in most Western economies. More and more professionals are discovering that they need nobody but themselves, to perform their profession. Freelancers are on the rise in many industries. Especially in knowledge services where innovation and competitiveness are crucial, freelancing is increasingly the preferred method of contracting. In industries such as television, film, newspapers, and in the arts, freelancing is already the norm. But also in professional services freelancing is rapidly becoming the norm. Management consultants, interim managers, IT professionals, legal professionals and finance professionals are increasingly working alone, assisted and supported by formal and informal networks. In the Netherlands their numbers are hard to estimate, as freelancers are not required to register, and estimates vary between 250.000 and one million independent professionals. Best guess is that there are currently around 300.000 to 350.000 independent knowledge professionals, with an estimated growth rate of five to ten percent per annum (see Bangma and Timmermans, 2008). This trend seems to increase with growth rates above ten percent in the years 2005-2007.

At this point it is probably good to give a bit of attention to the concept of income gravity. That is, due to the tacit nature of professional knowledge and the lack of well-defined property rights, the income of freelancers is capped by the number of hours they work. In this sense, freelancers are totally different from other entrepreneurs, who sell products or services provided by others. The income inequality between freelancers is therefore almost always less than the income

inequality among other entrepreneurs such as brokers or merchants. This is an important feature of freelancers that organizational scientists and policy makers need to understand.

*“The most important piece of advice [...] came when I was 22. A second-year Wharton student told me to get a profession that is “scalable”, that is, one in which you are not paid by the hour and thus subject to the limitations of the amount of your labor. [...] Some professions, such as dentists, consultants or massage professionals, cannot be scaled. [...] In these professions your income is subject to gravity and depends on your continuous efforts more than on the quality of your decisions. Other professions allow you to add zeroes to your output (and your income), if you do well, at little or no extra effort. [...] You do the same work if you produce a hundred units or a thousand. [...] In quant trading, the same amount of work is involved in buying a hundred shares as in buying a hundred thousand shares, or even a million. The same property applies to recording artists and movie actors: you let the sound engineers and projectionists do the work: you do not have to show up to perform. [...] So the distinction between writer and baker, speculator and doctor, fraudster and prostitute is a helpful way to look at the world of activities. It separates those professions in which one can add zeroes of income with no greater labor from those in which one needs to add labor and time (both of which are in limited supply) – in other words, those subject to gravity.”*

Nassim Nicholas Taleb, *The Black Swan*, 2007, pp. 27-28

The major concern of this thesis is the freelance professional career. What determines freelance career success? Is it knowledge (i.e. human capital), network (i.e. social capital), personality (i.e. psychological capital) or are other factors such as firm strategy and the environment (e.g. market factors) important. In this study career success is not only defined by objective monetary criteria, but also by subjective criteria such as career satisfaction. This is because most freelancers start freelancing for other reasons than monetary rewards such as autonomy and flexibility. By drawing on multiple definitions of freelance career success one might get a better picture of what drives this success. It is important to note that this research is done for various freelance professions (e.g. interim managers, journalists) to get an overall picture of these knowledge professionals and their similarities and dissimilarities across various professions and markets.

Secondly, this thesis gives special attention to the relationship between freelance success and aging. There are three reasons to give some extra attention to older freelancers. A, we live in an era where the number of older individuals is on the rise and the labor participation rate of older employees is (too) low. The underutilization of these potential valuable skills is caused by a dodgy combination of strict labor regulations, age discrimination, skill obsolescence, and employee

seniority wages. The Dutch government looks at freelancing as an attractive alternative for traditional employment in order to stimulate labor participation of older individuals. B, and more important, there are earlier studies (Platman, 2004) which indicate that it is hard for older freelancers to remain productive and earn a decent living. Older freelancers see their networks dwindle as valuable contacts retire early and older freelancers find it hard to keep up with the latest technology changes. If this is really the case, the age wave will prove to be an even bigger problem for governments. C, and last, there is currently a lack of information on freelance career patterns. Freelancers have fundamentally different views on their careers. Some freelancers argue that one should first freelance and then move to a regular job; others argue that one should first have a traditional job and then move into freelancing; and a third group argues that one should start with a traditional job, then cash in and freelance, before moving back into regular employment. The reality is that we do not know. Our current understanding of the freelance career and earnings across the path of life is simply based on our imperfect knowledge of the career paths of employees and the earnings of entrepreneurs.

Thirdly, this thesis wants to shed some light on the impact of the growth of freelancing on organizations. The growth of freelancing and the emergence of freelance networks must have an enormous impact on various professional organizations. The sheer existence of some professional knowledge organizations is probably under threat; for others the growth of professional networks implies a significant change in business strategy, proposition, and governance. This thesis discusses, amongst other things, 1) which type of organizations should use freelance contracts, 2) what the advantages and disadvantages are of using freelancers, 3) in which organizational areas an organization should use freelancers, and 4) how to combine freelance workers with traditional employees. Our ambitions in this part are limited: our goal is to give the reader an overview of the current literature and explore some of the implications and challenges which working with freelancers triggers in organizations.

It is by now well accepted (Potter, 2002) that humanity has picked most of the low hanging fruit that created the economic development in the agricultural and industrial societies. Simple solutions, such as adding new labor or capital, are no longer effective (Krugman, 1991). To sustain economic growth in the modern age, humanity has to come up with increasingly thorny and complex solutions to develop our intangible knowledge base. Freelancing may play an important role here as it facilitates the creation of new and dynamic combinations of individuals, which helps to generate new knowledge. I hope that this research expands our understanding of

the challenges and dilemmas of the individual knowledge professional and thereby improves our understanding of the basic building block of the knowledge economy.