

11 The new networked organization

Chapter 2 showed that the growth in the number of independent professionals is largely explained by technology developments, which through a lowering of transaction costs, and by rearranging the resource distribution, started a path-dependent process of increasing standardization, and specialization. Other factors, such as: globalization (i.e. international specialization), government policy (e.g. promoting entrepreneurship), sociological (e.g. fostering higher education), cultural factors (e.g. the increasing importance of individualism and authenticity), and the age wave all play a supporting role in the increasing numbers of independent professionals.

This chapter discusses the impact of the advent of the new freelance society on organizations and is based on theoretical considerations found in the organizational literature, as well as qualitative insights from our interviews with sponsor organizations and employment agencies. The following sections are more of an exploratory nature and hypotheses are not explicitly tested. Firstly, to understand the impact of freelance growth on organizations, the relevant literature on the impact of freelancing on organizations was studied. Secondly, based on the relevant academic literature, 2 versions of structured interview lists were created: 1) a version for organizations, and 2) a version for employment agencies. These interview lists consisted out of 3 groups of questions (see appendix):

1. Questions on environment, organization characteristics, and resourcing strategies.
2. Questions on the perceived advantages and disadvantages of working with freelancers.
3. Questions on the practical implications of working with and managing freelancers.

Thirdly, based on our interview insights and relevant academic work, some exploratory conclusions were drawn. Our main findings are on 4 different areas: 1) the strategic impact of freelance growth on organizations, 2) emerging resourcing strategies, 3) advantages and disadvantages of working with freelancers, and 4) the practical implications of hiring and working with freelancers in an organization. The next four sections each discuss one of the above areas.

11.1 Decreasing profits of the firm?

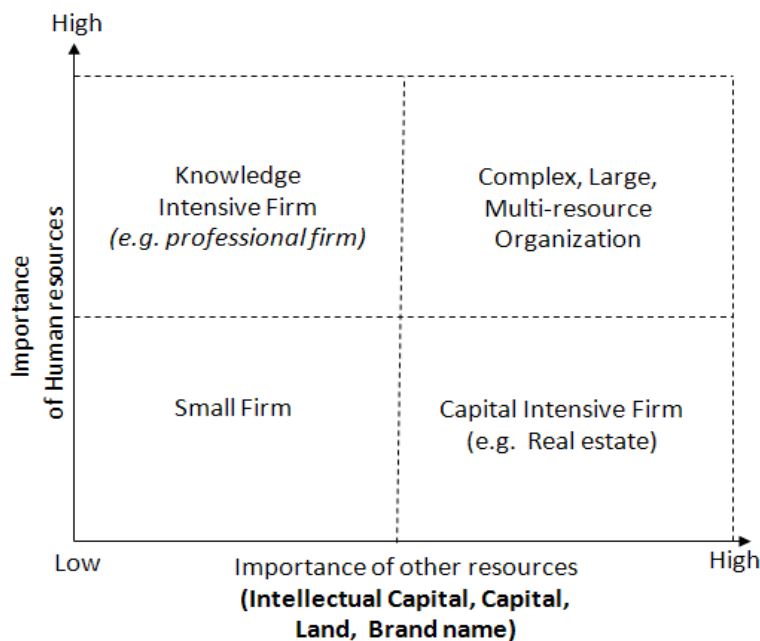
The resource-based view of the firm is used as a starting point to explore the consequences of the major forces behind freelancing for the competitive position of organizations. The 4 cornerstones of competitive advantage (Peteraf, 1993) are: 1) heterogeneity, 2) imperfect mobility, 2) ex ante limits to competition, and 4) ex post limits to competition. These 4 cornerstones are in 3 ways influenced by the trends that cause freelance growth. Firstly, due to technical developments more and more resources become in the realm of a single individual. Where cooperation was once necessary for production, a single individual is now free to work alone. This implies that the average size of a firm is decreasing, as fewer individuals are needed to create a competitive and dynamic set of resources. This however does not necessarily mean that resources are becoming more heterogeneous or evenly distributed across firms and/or individuals. It might very well be that due to technical progress, one scarce resource (e.g. an individual with a valuable network) does not need the other more abundant resources anymore (e.g. unskilled craftsmen), which leaves the latter resources obsolete. Secondly, the decreasing transaction costs imply that the mobility of resources increases. This increased mobility of resources decreases the profits that can be generated from these heterogeneous resources, because firms will increasingly compete over resources even if these resources are imperfectly imitable and imperfectly substitutable. Thirdly, intangible resources, such as: certain skills, abilities, and networks become more valuable. This decreases the relative added value of capital, machineries and distribution networks. Looking at the above 3 forces, it is likely that the growth of freelancing runs in parallel with declining profits of larger organizations, and increased competition for high-value individuals.

This bleak future of larger firms is somewhat supported by recent research (Graeme, Tempest and Starkey, 2006; Van Buren, 2003), which suggests that the rise of the independent professional may leave employers marginalized in previously unforeseen ways. Firms risk being excluded from key arenas of knowledge exchange in the future that may have fundamental implications for their competitive performance. Kinnie, Swart and Purcell (2005) refer to this as the 'darker side' of networks. Mallon and Duberley (2000) argue that the philosophical underpinnings of HRM are up for renegotiation, and that these changed times require a fundamental review of practices. Gardner (2005) argues that the employment agencies which have emerged to mediate the relationship between firms and the spot labor market, are becoming a threat for firms.

Increasingly, companies are competing in 2 markets simultaneously: 1) the product market for its services, and 2) the resource market for attracting and keeping a skilled professional workforce.

To really understand the impact of the growth of freelancing on organizations, one perhaps needs to distinguish between firms which base their competitive position mainly on the professional knowledge of their employees, and firms who build their competitiveness on a combination of human skills and other resources (such as: intellectual capital, proprietary knowledge, financial capital, brand name, and distribution power). Figure 29 makes such a distinction. In Quadrant two, there are small firms with limited human resources, as well as other resources. An example is a retail shop, a small professional firm or even a free professional (e.g. a dentist). Then there are the knowledge-intensive firms in Quadrant three (Alvesson, 1995, 2000). In these firms the large majority of the work is of an intellectual nature, with well-educated and skilled employees at the heart of the workforce. This can be any larger professional firm (e.g. an accounting firm). In Quadrant one there are firms whose competitive position is largely based on other resources, such as: financial capital (e.g. a small industrial firm). Last, in Quadrant four, there are the complex firms whose competitive position is based on a complicated constitution of human and other resources. These are often the large multinational firms with significant distribution power, brand name, financial, and intellectual capital (e.g. banks, FMCG companies, et cetera).

Figure 29: A typology of organizations



It is only reasonable to assume that freelance growth has the greatest strategic impact on small firms, and particularly on so-called knowledge-intensive firms, because personnel is their most significant resource. But the freelance trend will probably also have a significant impact on the knowledge-intensive departments of the large multi-resource organizations. This impact will increase in the near future, if more corporate activities are outsourced to third-parties, or are set apart in relatively independent shared service centers.

The increased mobility of professionals threatens the profitability of especially smaller firms, and knowledge-intensive firms. If professionals do not feel rewarded, they will leave the company and bring their resources (i.e. knowledge, experience, and clients) with them. Even large established knowledge firms always risk losing entire groups of employees. This relatively risky position of knowledge-intensive firms is perhaps not always appreciated enough by many of the large industrial multinationals, such as IBM, which often base their corporate strategies on the growth of these knowledge-intensive services.

It seems obvious that the growth and increasing maturity of freelance markets has potentially the large impact on knowledge-intensive firms. The strategy, structure, and governance of these firms will have to adapt to the increased significance of the independent professional, and the upcoming markets for professional knowledge. Professional firms are increasingly competing with networks of individual actors for business and resources. As these freelance networks become more capable of safeguarding exchanges, for instance by managing reputation risk, many firms may lose their current competitive advantage. Especially firms who primarily base their competitive advantages on the breadth and variety of their resources, may find that the market mechanism is more able to do this than firm hierarchy.

To survive as a firm, an organization should add something more than whatever the market (i.e. the combined competitors, professional firms and individual networks) already provides. When one ponders on the choices of knowledge intensive firms, it looks if these emerging freelance markets leave many knowledge-intensive firms with only 2 strategic options. The first alternative is to refocus the organization on activities in niches of the market where firms will always have comparative advantages over markets (see also Section 11.3). Networks are for instance poor in providing services where reputation, quality control, and continuity are crucial. This is also true for large and complex products, such as: IT or outsourcing deals, as clients prefer solid, large suppliers for these services. Smaller firms do well to focus on a specialized niche, in which a

group of individuals can collectively build an expertise and brand name for themselves that cannot be matched by the market. A second alternative for knowledge firms would be to become better than other competitors in using the growing size of the freelance market. This implies improving the skills of the organization of forming, and managing dynamic teams for specific projects.

From our interviews it became clear that the potential impact of freelance growth on their organizations is hardly recognized by most organizations. The majority of firms tend to see the existence of freelance markets as a given on which they base their resourcing strategy. Although they always acknowledged the strong growth of freelancing in their markets, they tended to underestimate the potential impact of freelancing on their firm. Most firms regard freelance growth as a temporary trend explained by the temporary strong labor market for skilled employees. Perhaps these firms underestimate the network economies of scale of markets. Markets often have a point at which the comparative advantage of markets suddenly tips over in favor of markets instead of firms. This already can be witnessed in the markets for goods where online marketplaces, such as: *Marktplaats* (in The Netherlands) or *eBay* (in the US) still profit from their first mover advantage, which is based on network economies of scale. Currently, there are no strong marketplaces for freelancers, as product heterogeneity and reputation issues still seem to hamper exchanges, but there are plenty of recent private initiatives in The Netherlands (e.g. In Interim, Associates) with limited market share. In the near future it is likely that one or more freelance marketplaces will rise to dominance.

In our interviews we found a small number of firms which acknowledged that they had consciously adapted their resourcing strategy and business model, to benefit from the growth in freelancing. These were all knowledge-intensive firms. One of these organizations is a training firm that recognized that the variety, and quality of courses offered in the open market was of such a high quality that they increasingly used freelancers to provide their courses. The other examples of organizations that changed their strategies in response to freelance growth are all employment agencies. They typically switched from delivering consultancy services to brokering freelance consultants. This basically means that they withdrew their product development and production and distribution capabilities and focused on the marketing and sales activities of the knowledge value chain.

11.2 Resourcing strategies of organizations - theory

It is quite clear why organizations are currently hiring freelancers: 1) to obtain specialized skills, 2) to deal with temporary assignments, 3) to cope with peak demand, 4) as a way around budget restraints, 5) to overcome resource problems, and 6) because temporary staff is more productive than permanent staff (McKeown, 2005). However, this observation tells us nothing about: 1) which organizations should use independent professionals and which not, 2) where (i.e. in which organizational areas) independent professionals should be working, and 3) how many independent professionals an organization should hire. To shed some light on these practical questions, the resourcing theories of Handy (1992), Lepak and Snell (1999) and Matusik and Hill (1998) are briefly discussed in this section.

11.2.1 The shamrock organization of Handy

The British management scholar Charles Handy (1989) predicts that all competitive firms and institutions of the future will have 3 types of workers. Handy uses the term shamrock organization to describe the organizational structure he envisions, with each type of worker representing one of the leaves in a shamrock. The first leaf of the shamrock is made up of the *professional* core. It consists of professionals, technicians and managers who possess the skills that represent the organization's core competence. Their pay is tied to organizational performance, and their relations will be more like those among the partners in a professional firm than those among superiors, and subordinates in today's large corporation. The next leaf is made up of *self-employed professionals or technicians* of smaller specialized organizations that are hired on contract, on a project-by-project basis. They are paid in fees for results, rather than in salary for time. The third leaf comprises the *contingent work force*, where there is no career track, and which involves often routine jobs. These are usually part-time workers who will experience short periods of employment and long periods of unemployment. They are paid by the hour, day or week for the time they work. The thinking of Handy is in essence based on the core-periphery organizational model of Atkinson (1984). In his model, a firm has 2 parts: 1) a core consisting of those employees being most vital to the firm, and 2) the periphery consisting of those employees of less importance.

11.2.2 The employment modes of Lepak and Snell

Lepak and Snell (1999, 2002) is one of the first HRM models that discuss the management of a diverse workforce. They argue that as different groups of employees possess different skills that vary in importance to a firm's competitiveness, the HR practices used to manage these employees

should also vary. Their arguments are based on real-life findings, where firms use different modes of employment for strategic reasons and establish different employment relationships depending on the expected contribution of employees to the firm. The model of Lepak and Snell focuses on: 1) strategic value, and 2) uniqueness of human capital as principle drivers of employment modes. The strategic value of human capital, on the one hand, refers to its potential to improve the efficiency and effectiveness of the firm, exploit market opportunities, and/or neutralize potential threats. The uniqueness of human capital, on the other hand, refers to the degree to which it is rare, specialized and, in the extreme, firm-specific. Such resources are not readily available in the labor market, cannot easily be duplicated and provide a potential source of competitive advantage (Snell, Youndt and Wright, 1996). The division along these 2 axes implies 4 types of employment, as visualized in Table 99:

1. **Knowledge-based employment.** Because of their value, these employees are able to contribute to a firm's strategic objectives. They represent the knowledge base around which firms can build their strategies. According to Lepak and Schnell, located in quadrant 1, these workers are those most likely to represent a firm's knowledge workers.
2. **Job-based employment.** Human capital that has strategic value, but limited uniqueness falls within the bottom right quadrant 2 of the HR architecture. These workers' skills are not particularly unique to the firm, and thus cannot serve as a differentiating source of competitiveness. Here, there is a focus on hiring instead of developing.
3. **Contract work.** Quadrant 3 contains human capital that is, neither of particularly high strategic value to a firm, nor is it unique. Workers in this category are prime candidates for outsourcing. "One job-holder is pretty much as good as another".
4. **Alliances and partnerships.** Human capital that is unique, but of insufficient strategic value to employ internally, can be found in quadrant 4. In alliances, external workers provide knowledge intensive services to client firms. Through partnerships, firms gain human capital without incurring the entire costs of internal employment, while gaining the ability to maintain an ongoing relationship that is necessary for application of unique and specialized skills.

When the model of Lepak and Snell in Table 99 is applied to independent professionals, one might argue that the highly skilled independent professional with unique skills would be within Quadrant 4, and the less skilled independent professional with market skills would be within Quadrant 2 or 3.

Table 99: The HRM model of Lepak and Snell

	Low Strategic Value	High Strategic Value
High Uniqueness	Quadrant 4: Alliances and Partnerships	Quadrant 1: Knowledge Based Employment
Low Uniqueness	Quadrant 3: Contractual Work Agreements	Quadrant 2: Job Based Employment

11.2.3 The dynamic perspective of Matusik and Hill

Both Matusik and Hill (1998) and Nesheim (2003) provide a new perspective on the growth of independent professionals. Both papers start with the observation that there has been an enormous growth in the number of self-employed knowledge workers in last decades. Most of these highly skilled professionals are functioning in the core functions of organizations. These individuals work in combined teams of both long-term regular employees and independent professionals. It is even often the case that large firms have strategies on the percentage of regular employees and outside independent professionals, who work on certain projects (e.g. 30% employees, 70% independent professionals). Traditional theories, such as: the earlier model of Lepak and Snell, and related core-periphery types of employment models, would argue that it is illogical to employ freelancers permanently in the high-value areas of organizations. Most of the existing organizational literature promotes a cautious stance toward the use of independent professionals, advocating their use only outside of core value-creation areas central to the attainment of competitive advantage (Handy, 1989; Pfeffer, 1994).

Table 100: The model of Matusik and Hill

	Environment	
	Stable	Dynamic
Mild cost and flexibility pressures	<ul style="list-style-type: none"> • High value on knowledge preservation • Low value on knowledge creation • Low value on public knowledge accumulation • Low value on direct cost saving 	<ul style="list-style-type: none"> • Low value on knowledge preservation • High value on knowledge creation • High value on public knowledge accumulation • Low value on direct cost saving
Intense cost and flexibility pressures	<ul style="list-style-type: none"> • High value on knowledge preservation • Low value on knowledge creation • Low value on public knowledge accumulation • High value on direct cost saving 	<ul style="list-style-type: none"> • Low value on knowledge preservation • High value on knowledge creation • High value on public knowledge accumulation • High value on direct cost saving

Matusik and Hill emphasize the importance of the dynamics of the environment. They argue that in dynamic and rapidly changing environments, firms need to use contingent work arrangements in core areas to access knowledge, to bring in new ideas and to create an innovative mix with the

firm's employees. In their model (Table 100), 2 variables determine whether a firm should use outside expertise. The first is the extent to which the environment is characterized by extreme competition, based on cost pressures and the option value of flexibility to respond to ever changing market conditions. The second factor is the dynamism of the environment, particularly concerning the rate of technological change. Dynamic environments typically are characterized by rapid technological change, short product life cycles and a Schumpeterian process of creative destruction. In such a context, it is important to be able to continuously upgrade the level and quality of firm knowledge.

Matusik and Hill's theory explains why growth of freelancing is mainly at the high-skilled end of the job market, and in innovative industries, such as: media and high-tech. Their point of view is supported by Heckscher (2000, pp. 269-270), who argues that freelancing makes sense within the logic of networks: *"There is no imperative for internal development of talent; it can be bought from the network. The stability and predictability of a group of loyal employees, become liabilities when the main competitive challenges are innovation and responsiveness to change."*

A critique one may have on the employment models presented above, is that they all discuss the preferred employment strategy from the point of view of the organization, not from the perspective of the freelancer. Implicitly, it is the organization which determines the terms of employment. This seems inappropriate in the 21st century where, according to Miles and Snow (1996, pp. 114), *"individual and organizational roles will be reversed – the organization will become a tool of its members"*. When one starts to see the individual professional (employee or independent) as just another actor within the larger network with specific capabilities, goals, and preferences, it is becoming clear that the terms of employment are jointly determined by demand and supply on the market for knowledge. An independent professional might contribute more to his professional knowledge base by freelancing, than by staying with a single employer. The employment terms are thus the result of complex negotiations within a competitive landscape.

11.3 Resourcing – practical considerations

This section discusses the practical advantages and disadvantages of working with freelancers, and is primarily based on our interviews. A distinction is made between corporate professionals, professional firms and independent professionals (see Figure 3).

11.3.1 Corporate professionals versus outside professionals

It is clear (Goshal and Moran, 1996) what the potential, theoretical advantages of corporate versus outside professionals are. Firstly, corporate professionals can provide professional advice where **no markets exists** due to uncertainty or small numbers exchange-relations. Especially in firm-specific knowledge areas, there might not be a market for outside professionals. Secondly, corporate professionals can pursue **dynamic efficiencies** with uncertain outcomes, which may create new options and expand the scope of activities. This implies that corporate professionals may specialize in areas where substantial investments are needed to grow the business, which might not lead to an immediate return on the time and money invested. Thirdly, organizations have the ability to promote a **sense of shared purpose**, which influences the behaviors and preferences of corporate professionals. By building trust and commitment through shared goals and motives, organizations may increase the efficiency and effectiveness of corporate professionals above market levels.

Moving away from theories, our interviews with several organizational representatives have taught us that working with outside experts has certain additional **disadvantages** that are not always mentioned in the theory (see Table 101). Firstly, it is hard for an organization to retain the knowledge that has been generated by the outside professional. Outside professionals will leave the organization at one point in time. At that time, they will have given some of their knowledge and skills to the organization, but they will also take intangible and tangible knowledge with them. Although knowledge is not a zero-sum game, this knowledge loss might be disadvantageous to the organization. This might be so because a valuable non-replaceable source of knowledge is lost or because valuable strategic knowledge or information ends up in the hands of a competitor.

Table 101: Using outside experts or inside employees?

Advantages of using outside professionals	Disadvantages of using outside professionals
<ol style="list-style-type: none"> 1. Rapidly available resources 2. No fixed personnel costs (e.g. lay off, training) leading to more flexibility 3. Alternative hiring channel 4. More commitment to the assignment/project 5. Expansion of the available resource set leading to more creativity and innovation 	<ol style="list-style-type: none"> 1. Risk of losing valuable knowledge 2. Time needed for freelancers to understand challenge 3. Less commitment to the organization 4. More administrative efforts of contracting 5. Managing employees and freelancers simultaneously

The second disadvantage has to do with the time that needs to be invested in any organization to get up to speed. Despite increasing levels of standardization, in most organizations outside professionals need some time to get acquainted with the local situation and customs before his knowledge can fully contribute to the local knowledge base. This is more so in firms with

significant firm-specific knowledge. Moreover, if the objective depends on collaboration with and interaction between new team members, some time should be allowed for team dynamics to endure (Tuckman, 1965). The third potential disadvantage of using outside professionals has to do with organizational commitment: freelancers are not that committed to the firm to the extent that long-term employees are. The fourth disadvantage is the extra costs of running a contractor administration. Last, but not least, it is sometimes difficult for organizations to manage long-term relationships with employees, and temporary relationships with freelancers at the same time. HRM practices that are perceived unfair to one of the two groups might lead to tensions between outside contractors and inside employees (Broshak, 2006).

Working with outside professionals has also a number of **advantages**. Firstly, most outside professionals are readily available. This implies that they can be hired as temporary resources quickly. For instance, when a valuable employee becomes ill or when someone leaves the company at short notice. Secondly, outside professionals have no fixed personal costs (e.g. social security, lay off costs) attached to them. Combined with the fact that they are rapidly available, as they work on short-term projects, this means that the scalability and flexibility of an organization is significantly increased by using freelancers. Outside professionals can be used to pursue growth opportunities, which cannot be pursued otherwise. Thirdly, using outside professionals can be an attractive hiring channel. With limited advertisement and selection costs, the organization can observe how an individual performs, and then, without the costs and with the extra information, decide on a possible job offer. Fourthly, freelancers are more committed to the success of assignment than employees are, as success is crucial for their bread and butter. Fifthly, but certainly not least, by working with outside professionals, the resource set of the firm expands. By adding the outside resources, and combining these with other outside professionals and the existing resources of the firm, new strategic value can be created. Here the true value of working with outside professionals lies. The internet has minimized search and transaction costs, and it is now much easier for an organization to search, find, and hire a professional with very specific knowledge for a specific assignment.

11.3.2 Choosing between independent professionals and professional firms

Any organization which currently works with corporate professionals and which might outsource their services can do this to one or more professional firms, to one or more independent professionals or to a combination hereof. This decision will be based on the disadvantages and advantages of independent professionals versus professional firms. From our interviews, it

became clear that the **potential advantages** of independent professionals in relation with larger professional firms can be found in 5 aspects (Table 102).

Table 102: Hiring the independent professional vs. the professional firm

Advantages independent professionals	Disadvantages independent professionals
<ol style="list-style-type: none"> 1. More variety in market (knowledge, skills and abilities) 2. Better cost-to-quality ratio 3. Powerful position in bilateral negotiations 4. Direct contact with senior professional who actually performs the job 5. No sales pressure to buy adjacent services 	<ol style="list-style-type: none"> 1. Significant continuity risks for hiring organizations 2. No accepted reputation and brand name recognition 3. No quality control and assurance (peer review) 4. Limited access to explicit and tacit knowledge sources 5. Limited scope of provided services 6. More administrative costs for organization (i.e. more actors) 7. Sometimes difficult to find the 'right' person for the job

First and foremost, the variety within the overall independent professional market means that one can hire the professional with the right skills. Secondly, independent professionals have no overhead costs, which makes them comparatively cheap. Thirdly, independent professionals are relatively small in relation to the sponsor organization. This gives the sponsor organization more power in contracting and working arrangements. Fourthly, the client deals directly with the professional without any inference of non-knowledgeable account managers. Moreover, there is a senior professional (e.g. a firm partner) who sells the assignment and a junior professional who actually performs the job. Fifthly, and last, independent professionals do not need to cross- or deep-sell other products. Several independent professionals argued that the quality of independent professionals is better than the quality of firm professionals, as professional firms have difficulty retaining experienced staff, but this cannot be verified.

Independent professionals have also a number of **disadvantages** versus professional firms. Firstly, they are small, and therefore face significant continuity risks. Large firms will not use a single individual for some services where continuity is key (e.g. IT infrastructure). But also in other services, the fact that the independent professional cannot provide a replacement, for instance when he or she becomes ill, is a major drawback. This is important with, for instance, nurses who take care of patients. They need to have a back-up when they become ill, as someone needs to take care of the patient. Secondly, independent professionals have no accepted reputation or brand name, as some professional firms do have (e.g. McKinsey, Baker and McKenzie), which signals trust and quality to potential sponsors. Thirdly, independent professionals do not have quality control and assurance. By using peer reviews and management overview, professional firms provide quality control. One might question in how far this is a genuine advantage, given the fact that a true professional should know more about his assignment than any outsider. Fourthly, professional firms have more access to explicit

knowledge sources than independent professionals (e.g. bought knowledge sources such as Gartner or propriety firm knowledge sources). Fifthly, the scope of provided services of individual freelancers is low compared to professional firms. In some instances, this is an advantage, but in other cases it is a disadvantage, because the professional firm already has multiple contacts with the client, thus understanding their challenge. Sixthly, the administrative costs of hiring multiple independent contractors are higher than the administrative costs of selecting and hiring one or some preferred suppliers of knowledge services. Seventh and last, despite the rise of the internet, it is still difficult to search and pick the right person for an assignment.

11.3.3 The meaning of the market

From our interviews it was clear that the theories of Handy, Lepak and Snell, and Matusik and Hill all have practical relevance. The underlying thoughts and arguments are well accepted and recognized by the interviewees. Especially the concept of a dual workforce consisting of a stable core of permanent employees, and a ring of flexible freelancers was in the minds of many interviewees. But also Matusik and Hill's arguments about the advantages of innovation and flexibility were acknowledged by the interviewees. The theory of Matusik and Hill's is especially relevant in staffing temporary projects. Here the project sponsors resourcing strategy often aims for a combination between permanent employees, and temporary freelancers. Freelancers are selected based on their specific expertise and proven ability to work within a certain culture. Permanent employees are supposed to act as a bridge between the organization, and the outside experts. They are considered essential in bringing in specific knowledge about organizational culture, politics, processes and systems. The share of freelancers versus permanent employees often depends on the aim, and challenges of the project. If innovation is key and internal organizational difficulties are low (e.g. no resistance to change, no complex IT mechanisms), more outside experts can be used. But if firm-specific challenges are crucial, a significant share of permanent employees is often allotted to a certain project. As far as we have seen there are no explicit models that calculate this optimal share of freelancers in projects, but their relative shares are always determined by practical arguments and local conditions.

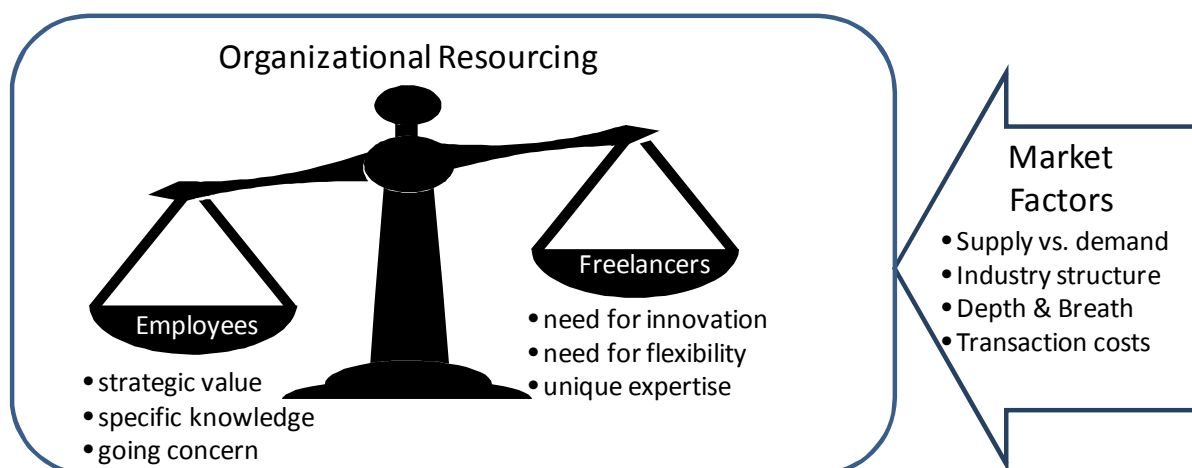
In steady-state line organizations, the theories of Lepak and Snell and Matusik and Hill are also recognized by practitioners, although we found no organizations which used proper methods or tools to formally assess the most favorable percentage of freelancers in their resourcing strategy. In some markets, such as: the television and movie industries, the need for innovation is indeed an important reason to use freelancers as a permanent fund of resources. Another important

reason is the need for flexibility. Flexibility is for instance very important for advertisement agencies and architects. These knowledge-intensive firms are often involved in complex bidding procedures to win clients. If they win an assignment, they immediately need skilled resources, and if they lose assignments, they are often forced to let resources go.

But the main reasons why organizations hire independent professionals (i.e. more variety in market, better cost-to-quality ratio, and a powerful position in bilateral negotiations), suggest that the theories of Handy, Lepak and Snell and Matusik and Hill are missing one crucial element: The principal reason why organizations hire freelancers is the presence of a mature, and attractive market for freelance resources.

Where in thin markets both organizations and individuals tend to prefer long term contracts to minimize transaction costs, both organizations and individuals prefer freelance contracts in thick markets. Organizations can subsequently profit from the variety of expertise in the market, and freelancers can profit from the variety of assignments in the market and thus maximize learning. The interests of freelancers and large organizations collide when there is either a strong seller-market or a strong buyer-market. In markets where demand is strong, individuals tend to prefer freelance contracts, as this maximizes their options and return. In markets with an abundant and continuous supply of workers (e.g. journalists, artists, media professionals, and some low-skilled professionals), sponsors regard freelancing as an attractive alternative for permanent employment.

Figure 30: Freelancers and employees: the practical trade-off



Therefore we conclude that, although the theoretical argument of the increased importance of innovation and flexibility does influence the trade-off between employees and freelancers

somewhat, the labor market characteristics are more important in determining the optimal sourcing ratio between freelancers and permanent employees (see Figure 30). Just as we saw in Chapter 8, that market factors are the most important driver of freelance revenue, here we see that also the decisions of organizations are heavily influenced by market conditions.

11.4 Managing the new networked organization

In this section the operational challenges of managing an organization with freelancers are discussed. As in the other sections, first the organizational literature is shortly discussed before the section moves to the insights from the interviews.

The network organization has been a buzzword since the 1990s. In this popular view, hierarchies are being flattened to make way for flexible teams, and control is replaced by the market's invisible hand. Podolny and Page (1998), in a review of studies on network organizations, argue that network forms of organization have many advantages: they foster learning, represent a mechanism for the attainment of status or legitimacy, provide a variety of economic benefits, facilitate the management of resource dependencies, and provide considerable autonomy for workers. There are however many different forms of network organizations. Podolny and Page define a network form of organization as (page 59): *any collection of actors ($N \geq 2$) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange.* This definition includes a wide array of organizational forms, such as: joint ventures, strategic alliances, business groups, franchises, research consortia, and outsourcing agreements.

Not all network organizations do perform as well as is suggested. For instance, one such a form of organization, the strategic alliance, is known to be prone to failure. The current literature on networked forms is scattered, and very unclear on exact definitions and specifications. Borgatti and Foster (2003) even speak of a linguistic chaos.

Hayes (2004) criticizes the popular management literature, which argues that nimble networks will arise to manage the new knowledge worker. Hayes argues that in the 1990s and the beginning of the 21st century firms did invest in the dismantling of hierarchies and tearing-up of regulations, but that hierarchies, as systems of imperative coordination through vertical responsibility and accountability, have remained. The result of the efforts in the 1990s has been not post-bureaucratic, internal network organizations, but 'bureaucracy-lite': the strength of bureaucratic

control with only half the hierarchical calories. The research of Hayes indicates that there are strong forces against networked organizations, and that networked organizations may have their own drawbacks. Hayes predicts (p 65.) that: *‘if organizations are regarded, [...] as instruments of management [...] organic forms of organization are likely to remain, as they always have been, the exception. They will be confined either to the small scale [...] or to temporary periods of experimentation by large organizations before the visible hand of hierarchy retightens its grip.’* One might criticize Hayes research, as it was performed in the UK public sector only, hardly a place where one would expect network organizations to flourish.

It is very doubtful whether one can characterize a freelancer organization (i.e. an organization that has a significant proportion of freelancers) as a network organization. For once, freelancers typically operate in projects which have strict governance rules. Moreover, even if there is no hierarchy imposed, then there is always the client-supplier relationship, which has its own rules of conduct and distribution of power. In some cases, asymmetric market power maybe so immense that one can certainly speak of a strong hierarchy.

11.4.1 Organizational commitment of freelancers

Although it is clear by now that working with outside professionals might be beneficial to organizations, there is still a lot of prejudice against working with outsiders instead of long-term employees. One of these biases is that outside professionals would be less committed to the organization. But despite the large amount of research dedicated to the loyalty of nonstandard workers, much of the existing research shows little or no difference between theirs and the commitment of regular employees (Pearce, 1993). Connolly and Gallagher (2004) performed a meta-analysis on the relation between various forms of contingent work and various measures of behavioral outcomes (e.g. commitment, job satisfaction, trust, violation). They conclude (p. 962): *“seemingly contradictory findings appear to be fairly common in the realm of contingent work research. This may be partly because results, as seen here and elsewhere, may vary depending upon the type of contingent workers being examined.”*

The literature on contingent work varies from low-skilled temps to high-skilled independent professionals. McClurg (1999) argues that high-skilled contingent professionals are as committed to their sponsor organizations as ‘core’-workers are. This finding is supported by various authors, such as McKeown (2005). The project based nature of knowledge work means that contingent professionals quickly become part of the team and quickly integrate into being good team members. McKeown concludes that contingent professionals demonstrate a much greater

willingness to exert extra effort to ensure organizational success than co-workers and managers thought them capable of. He argues that this willingness to exert extra effort comes from their professionalism. The identity of independent professionals is linked with commitment to the profession rather than any individual organization. He also mentions that the time-to-contract may be an important factor in determining organizational commitment. Freelancers who work for only a short time span are less likely to have significant organizational commitment than independent professionals working on longer projects.

Mallon and Dubberley (2000) argue that the relationship between organizations and individuals are moving beyond the straightforward dichotomy of relational versus transactional contracts (Rousseau, 1996). People's experience of contracts is increasingly complex and ambiguous. People appear to be able to accept a transactional contract (short-term, demarcated, monetisable), but also want to have a sense of belonging and mutual trust. This finding is confirmed by Inkson, Heissing and Rousseau (2001). They conclude that the experience of independent professionals is far from being purely transactional. Although the evidence is overwhelming that the commitment of freelancers does not differ from employees, the perceived lack of loyalty among freelancers, still is a concern for managers (Ang and Slaughter, 2006).

The presence of freelancers might also worsen the relationship between managers and long-term employees, and decrease the loyalty of regular workers (Davis-Blake, Broshak and George, 2003). Pearce (1993) discovered that regular employees, who found themselves working with freelancers, reported lower trust in their organization. Interestingly, using freelancers is often portrayed as an effective way to protect employees from environmental turbulence (Lepak and Snell, 1999). There is much debate on how freelancers and regular workers should be integrated to create a blended workforce. Some authors advocate that both types should fully integrate, working side-by-side in similar jobs, while others contend that the two groups should have no communication between them (Kochan, Smith, Wells and Rebitzer, 1994). Whether or not the two types are blended appears to depend, to a great extent, on the purposes behind hiring the freelancer. Lautsch (2002) argues that the decision to "blend" or "separate" is based on the organization's objectives they hope to accomplish through using freelancers. When freelancers are hired to add to the existing knowledge base or to enhance flexibility, it is more sensible to integrate them, than when doing extra work efficiently is the main motivation (Connelly and Gallagher, 2004). When freelancers and employees are mixed, the idea of one group being inferior to the other disappears (Matusik and Hill, 1998).

11.4.2 Managing professionals

No discussion on managing freelancers can pass without discussing managing professionals. The debate on managing professionals has been quite intense in the last decade. The sociological work of Reed (1996) points to expert power (May, Korzynsky and Frenkel, 2002). It focuses on the strategies knowledge professionals use to establish and guard exclusionary claims to their expertise, and to maximize their economic and symbolic rewards. In this view, based on the philosophical underpinnings of Foucault (1991), experts are seen as important sources of power, who try to monetize this power through various power strategies, one being monopolization. As a counterbalance, organizations and societies have a tendency to control this expert power. Much research has been done on the conflicts of interests between professionals and organizations in the medical world, where the interests of doctors and hospitals often clash (e.g. Dent, 2003).

In the 1980s and 1990s, the advent of new managerial control systems (e.g. total quality management, process mapping, information systems) was associated with attempts to control expert power within organizations, by pursuing rationalization and control procedures. Various authors have written on this phenomenon (e.g. Evetts, 2003, 2005; Sewell, 2005), observing that the conditions of trust, autonomy, and competence, which are necessary for professional practice, are challenged, changed, or regulated.

The title of Weggeman's (2007) book "*Managing professionals? Don't!*" already shows his doubt regarding the possibilities of organizations in managing professionals. He argues that using Taylor-style control systems, will lead to no organizational good, as most experts are already intrinsically motivated. The bureaucracy associated with these modern control systems is most likely to put professionals off, so diminishing their productivity. Professionals should be managed by a shared commitment, and by providing a challenging career environment where continuous learning is essential. This work is in line with authors, such as: Sthyre and Sundgren (2003), who in their research in the pharmaceutical industry argue that 'management is evil' in the sense that the totality of management practices, routines, and standard operating procedures, do more harm than good.

Robertson and Swan (2003) show that a manager in a knowledge firm needs to balance autonomy with control, and uncertainty and flexibility with efficiency. Winroth (2002) argues that expert firms, such as: universities and investment firms, are dominated by an occupational logic instead of an administrative logic. Mintzberg (1998), in his seminal article on covert leadership, argues that professionals require little direction and supervision. What they do require is protection and

support. He argues therefore to (page 147) *“get past the myth of [...] complete control and you may learn what today’s managing is really about. Not obedience and harmony, but nuances and constraints.”*

The theory of Sonnenfeld and Peiperl (1988) on career systems, is one of the few theories that shed some light on how to manage relationships with independent professionals. Sonnenfeld and Peiperl distinguish career systems based on 2 dimensions: 1) openness of the career system to the external labor market at other than entry levels, and 2) whether career is made on the basis of individual performance or group contribution. This results in 4 different career systems: 1) baseball teams, 2) academies, 3) clubs, and 4) fortresses. Sonnenfeld and Peiperl argue that firms, which are open to the external labor market at various levels, and which reward on the basis of individual merit, should be managed as baseball teams. Firms with this baseball team-type of career system typically operate in industries, such as: advertising, broadcasting or other professional networks, and are organizations that thrive on product innovation, and the creation of new markets. The theory of Sonnenfeld and Peiperl gives some direction regarding the HRM practices of firms employing freelancers, but it does not deal with the daily practical challenges that are faced by organizations that rely heavily on freelance contracts.

11.4.3 Practical considerations when working with freelancers

Currently, there is, as far as we know, no organizational literature on managing organizations that largely rely on freelance resources. This is perhaps not justified, as managing employment relationships with independent professionals is perhaps even more challenging than with regular employees, partly because a third party (i.e. employment agency) influences the relationship, but also because the working relationships become more fluid and flexible. Based on organizational models and theoretical considerations 10 organizational areas were identified (see Figure 31, where working with freelancers potentially changes the way the organization interacts with their workers. As said, a structured interview list was used to discuss these items with our interviewees.

Figure 31: Organizational issues when hiring and managing freelancers



The interviews demonstrated that the practical knowledge of managing freelance relationships is still scarce. But as more and more organizations use freelancers structurally in their sourcing model, the learning curve is bound to kick in. It is also clear from the interviews that firms are

increasingly treating freelancers for what they in essence are: independent providers of services. Until quite recently, freelancers were still treated as if they were employees, but as the contracting procedures become more adapted to hiring outside experts, freelancers are increasingly treated as suppliers instead of employees.

Knowledge management

Knowledge management has 3 specific elements. Firstly, bring in suitable knowledge by selecting the proper freelancer who has the sought-after knowledge, which potentially expands the current resource frontier of the firm. Secondly, adopt the freelancers' knowledge and make optimal use of it, and thirdly, make sure that the acquired knowledge is not lost to the organization at the end of the assignment. Or, even worse, that valuable organizational knowledge ends up in the hands of the main competitors of the firm. Out of our interviews it was clear that most of the interviewed organizations do not have formal knowledge transfer processes at entry and exit. In some cases, there are somewhat formal entry procedures, but formal exit procedures were constantly missing. Legal protection against freelancers, who sell their acquired knowledge towards competitors was not found.

Team dynamics

Team dynamics is very much related to knowledge management. When team dynamics are well managed, the adoption of the freelance knowledge by the organization is facilitated. This includes careful procedures, and a clear description of the role of the freelancer versus the roles of permanent employees. In our interview several managers argued that independent professionals are not as effective in their organization as they could be, because of missing management of team dynamics. Often both the freelancer and the employees in the organization are insufficiently briefed about their respective roles, and challenges thereof. Freelancers therefore had limited knowledge of the culture and the more intangible ways of working of the organization. To be fully effective, one needed to know the most important people in the organization more deeply.

Negative reactions towards freelancers are found in circumstances where the turnaround of freelancers is very high. In these situations permanent employees sometimes feel that they are constantly instructing freelancers on the practical challenges of the organization, and just when the freelancers are starting to become productive they leave the organization. Permanent employees find this tiresome.

Customer ownership

Often freelancers are hired by sponsor organizations to perform activities for the customers of those organizations. Freelance sales representatives can for instance be hired by an organization

to do their sales. Another example is a training organization, who hires freelance trainers to give training to their customers. In these cases a major discussion point, which arise between the sponsor organization and freelancer, is who ultimately 'owns' the customers (i.e. the individuals to which the activity is directed). This point becomes especially important when a freelancer is also employed by another firm delivering the same service (e.g. sales or providing training). When the independent professional performs really well, some customers will want to contract directly with the independent professional. But if the independent professional does not perform well, the hiring organization is ultimately responsible for managing the quality. In all of our interviews, agreements were made how to deal with such situations. Most often, the contract stipulates a non-compete clause under which the freelancer agrees to not pursue assignments with customers of the sponsoring organization.

Intellectual capital

Intellectual capital is a major issue in all freelance relations. Who owns the product that the freelancer creates? In almost all freelance contracts, this is made explicitly clear; the sponsor organization is the owner of the intellectual capital. Nevertheless, in some industries, there are real struggles around intellectual capital. For instance, freelance journalists have their own standardized contracts in order to maintain the rights for publication in a foreign country or on the internet. In reality the ownership of intellectual capital depends very much on power relations.

Management practices

Most managers treat freelancers as just another employee, although freelancers tend to be treated somewhat harsher, and more directly judged on their immediate added value. If the freelancer does not add value to the team, and firm within short notice, he or she gets replaced. But the management style (e.g. participative or directive) of the manager does not change in dealing with freelancers vis-à-vis employees.

Procurement and administration

The procurement process is not always properly defined. Sometimes the HR department, sometimes procurement, and in other instances line management itself, is responsible for searching, finding, and hiring freelancers. The exact process and corresponding responsibilities depends partly on the organizational view of outsourcing. When freelancers are used only exceptionally, the line manager is often responsible for the freelance contracting process. When freelancers are hired as a matter of normal business conduct, the HR and procurement department share the burden of the contracting process. Procurement's role is often to negotiate

the overall framework contract. The administration is often outsourced to a pay-rolling firm or an employment agency that deals with all the freelance administration issues. Procurement or HR just pay the overall invoice to the employment agencies. As freelancers are typically paid based on a time-based fee, it is necessary to monitor the hours worked by the freelancer. This sometimes implies keeping an extra administration.

Currently, most large organizations in The Netherlands (including the Dutch government) work with preferred suppliers who have the right of first refusal. They receive freelance vacancies that they try to fill. They use subcontractor employment agencies to fill these vacancies. If the preferred suppliers cannot deliver the right freelancer, the job offer often goes to a second line of preferred partners. Eventually it goes to the market. When dealing with large organizations, freelancers are forced to work through one of these preferred employment agencies. These agencies charge a hefty fee, which lessens the net fee of the freelancer. Independent professionals have no real choice but to work with these agents, if they want to perform assignments for larger organizations. Large sponsor organizations are using these kinds of procedures to minimize transaction costs, to be able to provide some quality control (assessing the quality of the freelancer), and to minimize legal risks.

Rewards and incentives

In our interviews, no freelancers were found who were paid any rewards or received any other incentives. In contrast with regular employees, freelancers do typically not receive bonuses. In our interviews we found many projects where regular employees received an incentive from the organization, but where freelancers did not. In some instances, this can lead to some tension between freelancers and employees, especially if the incentive is paid for project results where freelancers had a major contribution.

Conflicts and commitment

Our interviews confirmed the outcomes of earlier work; there are almost no conflicts between employees and freelancers, and the commitment of freelancers to project success is often even higher than that of regular employees. The organizational commitment is of course somewhat lower for freelancers as they leave the organization after a short period. It is in this area that one of the bigger conflicts between freelancers and sponsors arise. It sometimes happens that a freelancer leaves an organization because he or she has a better assignment offer from another sponsor. This is a potential conflict as the freelancer is no employee, and hence formally cannot terminate the employment contract before its end-date.

The role of HRM

The role of HRM may change when the organization uses freelancers extensively. In extremis, a large part of the role of HRM disappears if only freelancers work for an organization. The responsibility of HRM regarding continuous development, rewarding, reorganizations and individual lay-offs is then absent. HRM becomes a casting function responsible for looking in the market for available freelancers, who might add value to the resource set of the firm. Here the HRM department might use alliance partners to search, find and hire the right freelancers. In this extreme case, the positioning and marketing of the organization towards freelancers, becomes a key competence. To be known as an organization where freelancers can do interesting projects, becomes a key competence. Currently, this is not yet the case in most organizations; HRM, for the moment, holds on to its broad spectrum of activities.

Conclusions of Chapter 11:

1. The increased mobility of freelance resources will lead to decreasing profits of firms. The relative value of intangible freelance resources will increase versus the relative value of capital, machineries and distribution networks.
2. The increased mobility of freelance resources will have the greatest strategic impact on small firms, and so-called knowledge-intensive firms. With the increasing threat of freelance networks in some markets, knowledge-intensive firms will have to adapt their strategies in order to survive.
3. Freelancers are becoming an integral part of an organizations resourcing strategy. Traditional models, such as: Handy and Lepak and Snell, argue for a dichotomy in firms, where strategic human resources become employees (core) and non-strategic human resources become freelancers (periphery).
4. More recent theories, such as: Nesheim and Matusik and Hill, emphasize the importance of the dynamics of the environment. They argue that in dynamic and rapidly changing environments, firms need to use freelancers in core areas to access knowledge, to bring in new ideas and to create an innovative mix with the firm's employees.
5. A critique one may have on these resourcing models, is that their point of view is that of the organization, not that of the freelancer. Implicitly, in these models, it is the organization which determines the terms of employment. This seems inappropriate in the 21st century where resources become increasingly scarce and may opt for a freelance relationship to maximize learning experiences.
6. In practice the maturity and attractiveness of the market are the most crucial elements in determining the optimal ratio between freelancers and permanent employees. This aspect is lacking in the discussed resourcing theories.
7. When an organization uses freelancers in their sourcing model, they have to adapt their policies and procedures to make the best use of them. These organizations need strengthening of their knowledge management and team dynamics, measures to protect their intellectual capital and customer ownership and a lot of changes in procurement and administrative issues. In the extreme case, the role of HRM will change completely to that of a casting bureau spotting and selecting talent in the marketplace.