

3 Nobody's business but my own

This Chapter discusses the world of the independent professional. Firstly, the definition and types of professionals are discussed. Secondly, the differences between freelancers, entrepreneurs and employees are highlighted. Last, but not least, a short description of the different worlds of freelancers is given. Thus this Chapter provides the necessary background to understand this research.

3.1 A typology of professions

According to the Webster dictionary, a professional is someone who is engaged in a calling, requiring specialized knowledge and often long and intensive academic preparation. Maister (1997) in his research on the behavior and performance of professionals, lists 4 elements that are characteristic for all professionals:

1. Exercising a profession requires highly valued specialist knowledge, abilities and skills.
2. Professionals have a large autonomy in exercising the profession,
3. Originality and creativity are important in exercising the profession.
4. Professionals have a strong professional identification (e.g. profession standards).

Barley and Kunda (2004) wrote one of the first books on highly skilled independent professionals, or on what they called the *'itinerant experts in the knowledge economy'*. With this long name they want to distinguish this new professional from the other three forms of professions such as 1) free professions, 2) professional firms, and 3) corporate professions. According to Barley and Kunda, **free professionalism** is the oldest form of professionalism (see Table 4). Doctors and lawyers in the 19th and early 20th century are prototypes of this free professionalism. These professionals acquire skills through education and apprenticeships. Once certified they choose a location to practice their craft. Finding clients is relatively easy for these free professionals as almost everyone needs their services at some point in time. The protective regulatory structure that often accompanies these professions guarantees long-term security, although there is often some form of local competition. These industries are often regulated by professional associations and group norms. Regulation also implies that there is no compelling need for continuous education. Especially in the early days of free professionalism, it was sufficient to remain slightly up to date. **Professional firms**, such as: law firms, architectural firms and accountancies, came up in the beginning of the 20th century. Cooperation allowed practitioners to specialize, which in turn allowed professional firms to offer a broad scale/scope

of services. This specialization allowed partners to specialize in client management, whereby junior colleagues performed the actual work. These economies of scale ensured that professional firms could handle more clients at lower costs. This gave the senior partner a higher income and the junior employee opportunities to develop him/herself. One of the advantages of this form of organization is that it pools expertise and fosters professional development.

Table 4: Various types of professionals

Value Chain Activity	Free Professionals	Professional Firm	Corporate Professional	Itinerant Professional
<i>Marketing & acquisition</i>	Acquisition based on location. Limited effort in marketing.	Specialized marketing and acquisition function. Often performed by senior partners.	Focus on internal network and politics.	Use professional networks and agencies for referrals and recommendation.
<i>Client relationship</i>	Many smaller and local clients. Clients are typically the consumers of the product.	Bigger clients due to pooled experience. Strong relationships with core clients.	Corporation is the client.	Employers are often clients. Relationship sometimes owned by agency.
<i>Service delivery</i>	Service delivered in professional's office. Service delivered to client.	Service delivered in local office and/or at client site. Service delivery often in close working relationship with client team.	Corporation determines location.	Service delivered in local office and and/or at client site. Service delivery in close working relationship with client team.
<i>Professional development</i>	Own responsibility with support from professional associations.	Responsibility is shared. Professional development within the firm. Firm pays for education.	Responsibility is shared. Professional development within the corporation. Corporation pays for education.	Own responsibility with limited support from professional associations and/or agencies.
<i>Wages & benefits</i>	Fee for service basis. Own responsibility for benefits.	Profit sharing (partners) & salaried (consultants).	Company pays salary and benefits.	Fee based on hourly or daily rate. Own responsibility for benefits.

Source: Barley & Kunda (2004)

Corporate professionalism is the third form of organizing professionalism, which came up in the beginning of the 20th century, due to economies of scale in industrial organizations. These professionals work as salaried employees of firms. Examples of such professionals are: chemists, engineers, lawyers, and accountants. These professionals have no need to market themselves outside their company. The cost for personal development is born by the employer, who pays for education and membership of professional organizations. Sometimes, for instance in some larger R&D labs, a complete professional community is established within the corporation.

When one looks at Holland's (1975) subdivision of occupations (i.e. conventional, enterprising, social, artistic, investigative and realistic), one can easily see that freelancers are active in all sorts of occupations. It is fair to say that there is some overrepresentation of freelancers in the conventional, realistic, artistic and enterprising occupations and a bit of underrepresentation in the social and investigative occupations. This is perhaps because in those occupations there is a strong role of the government supporting the larger educational and health care institutions, which leaves very limited room for the independent professional. One might even argue there is a crowding out effect in these occupations.

Barley and Kunda argue that the independent contractor is a new form of professionalism, which combines elements of traditional approaches with new ways of working. Barley and Kunda write (p.198): *“Like free professionals, technical contractors worked as solo practitioners and, in most cases, arranged for their own benefits. They drew on professional networks for referrals and recommendations and took responsibility for professional development. Like members of professional firms, they often work for one organization, a staffing agency, but offered their services to another. Like corporate professionals they practice inside organizations, often as members of a team whose work was subject to management direction. But unlike free professionals and members of professional firms, contractors are rarely [...] paid on a fee for service basis. Nor were they salaried like corporate professionals or members of professional service firms”*.

But in practice it is very hard to make clear distinctions between the various groups of professionals and even harder within the group of independent professionals. Definitions are a bit fluid and professionals themselves do not help researchers either by frequently moving from one form of professionalism to another. The line between the various professionals is sometimes very thin. It is sometimes unclear what the difference is between an itinerant/independent professional and a free professional. Is a lawyer an itinerant or a free professional? The lawyer sometimes charges by the hour (as an independent professional) and sometimes a fixed service fee (free professional). Sometimes businesses are the clients (independent professional) and sometimes consumers are the clients (free professional). Another distinction that perhaps seems clear at first sight is the difference between a professional in a professional firm and as an independent professional. What about the independent management consultant who has an exclusive relationship with a renowned consultancy firm? Is he independent or not? Last but not least, some coaches are sometimes hired by individuals (B2C) and sometimes by organizations (B2B) to coach their employees. These examples do show that the lines between the various forms of professionalism are sometimes imprecise and very ambiguous.

3.2 Why independent professionals are special

One might argue that independent professionals are nothing special and, as there has been extensive research into both entrepreneurs and employees, combining both bodies of knowledge will give you a pretty accurate view of the world of the independent professional. One would be probably not be far off with such a prediction, but I would argue that there are very good reasons to study the amateur-entrepreneur as I tend to call the independent professional. First, the independent professional is the smallest atomic part one can study within organizational science. There are no aggregation problems to any collective level (e.g. team, organization). All aspects of modern organizational theories are united within one entity and often easily measurable and therefore testable. Although the freelancers' resource endowment may be small in monetary terms, the typical freelancer has a broad set of resources, with attributes on human capital, personality capital, financial capital, and social capital as well as various property rights attached to these attributes. Most of the independent professionals have an explicit strategy that they actively pursue, based on a value proposition and they sell their skills on the open market with reasonable transparent price structures. Although it is easy to understand the sexiness, challenge, and importance of studying large corporations, some organizational hypotheses are perhaps better testable at this atomic level.

The second reason to study independent professionals is that it brings together a large body of knowledge on entrepreneurs with a large body of knowledge on employees. But comparing these worlds also shows some differences, overlaps and missing elements on both sides. Take the literature on employability as an example. This literature (e.g. Harvey, 2001; Potter, 2002; Lankhuijzen, 2002; Brown, 2003; Fugate, 2004) focuses very much on activities that the individual may or may not do, to improve his employability over the whole career period. These efforts are often linked to human or social capital. When one relocates the concept of employability to the entrepreneurial world, one sees that the concept of competitiveness is in essence the same notion, but richer in nature. The entrepreneurial theory of fit between capabilities and environment is much more explicit and refined than existing employability and career theories. The market and its attributes, such a central concept to entrepreneurs, is eccentric to employability researchers. Simple instruments, such as: a competitive analysis (e.g. Porter, 1980) with barriers to entry and exit, competitive strategy and the relative power of suppliers and clients are uncommon in employability research. On the other hand, some essentials in

employability research are unusual in entrepreneurial research. To judge entrepreneurial success by any other means than monetary rewards, is something that is quite new. Employees will become more entrepreneurial in the knowledge economy, as firms increasingly share risks with employees. The materialization of this new knowledge worker will act as an advocate for a rapprochement of the literature on entrepreneurs and employees. The shift towards the new entrepreneurial worker is already visible in the new employee career theories, such as those of Arthur and Defelippi (1996), Hall (1976) and Handy (1985). These new career theories are based on entrepreneurial theories, and underline the importance of an entrepreneurial stance. There is third, and last, reason for studying freelancers. One cannot get a good feel for the performance, challenges, and career behavior of the independent professional by simply combining the research on entrepreneurial performance and on employee careers. Both types of research are biased as they encompass a much broader group of individuals, where different sets of behaviors lead to success.

3.2.1 Comparing independent professionals with entrepreneurs

There are a number of arguments why empirical research on independent professionals may add value to the already large body of research on firm success. Even though independent professionals are per definition self-employed, for two reasons they should be considered a separate class of entrepreneurs. Firstly, freelancers sell their professional knowledge, but nothing else. This sets them apart from other entrepreneurs who sell tangible products or services, often made by other manufacturers. To be successful, an independent professionals needs a different skill set than the average entrepreneur. Human capital is almost certainly more important to the professional worker than for the entrepreneur in a retail or industrial world. But access to financial capital is less important, as most independent professionals work within services where capital requirements are almost irrelevant. The second characteristic that sets independent professionals apart from other entrepreneurs, is that they do not hire employees. Leadership, organizational, and administrative skills, which are necessary when one has to run an organization, are not of much benefit to the average freelancer.

A second reason why studying freelancers may add value to the existing literature, is that most entrepreneurial research tends to concentrate on fast-growing organizations, companies that bring economic prosperity and jobs to the economy. By focusing on firm growth or firm survival, most researchers tend to focus on firms with economies of scale which is precisely the feature that independent professionals lack. Independent professionals have typically little capital invested in their enterprise and have no ambition to grow. When economic conditions are

favorable, freelancers might increase their revenue through reference fees, but not by hiring workers. And when economic conditions are adverse, the lack of invested capital makes it easier to opt out and move into a regular job. This organizational behavior is in sharp contrast with enterprises with substantial fixed investments (Porter, 1980). Independent professionals have thus lower survival rates and lower firm growth rates than firms with capital requirements and economies of scale. Therefore entrepreneurial research has a tendency to overlook freelancers.

The third and last reason why research on independent professionals may add value to existing literature on entrepreneurs, is the attention to subjective career success. Many independent professionals do not have any ambition to grow or to make loads of money. Other ambitions such as a better work-life balance, increased flexibility, or the ability to maintain high quality standards are often more important reasons to choose for an independent career than monetary rewards.

3.2.2 Comparing independent professionals with employees

Four factors have reduced the difference between employees and independent professionals in the last decades. Firstly, lifelong employee security is no longer an organizational guarantee. This has reduced job security for employees in comparison with independent professionals. The traditional trade-off between employment security and rewards is vanishing in the knowledge economy and cannot be promised by a single employer. The sources of security and stability are changing. In Barley and Kunda's book (2004) one of the independent professionals defines job security as follows: *"Job security is the ability to get a job. Employees don't have job security, because they do not have the networks. They can't call someone and get a job tomorrow morning. They think they have job security, but it's on paper. Real job security is when you have a network [...] that you can simply call and get a job"* (p. 265). This definition by an independent professional highlights the fact that one of the new sources of job security is related to an individuals' social capital and that there is no a priori reason why the social capital of independent professionals is less than that of employees.

Secondly, the employer-employee relationship has also become more formal and transactional as turnover rates of managers and employees increase. Employees have to prove themselves more frequently and, when they do not perform as expected, the employment relationship ends. This has further reduced job security for employees in comparison with independent professionals. The study of Bangma and Timmermans (2008) shows that job turnover is rapidly increasing in the Netherlands. Job turnover increased from less than 10 percent in the beginning of the 1990s to 12-13% in the middle of the first decade of the 21st century.

Thirdly, more and more employees have professional careers within organizations. These professionals are typically measured against the same type of yardsticks as freelancers (i.e. billability, project results, et cetera) and they need the same capabilities. Fourthly, with the advent of the boundaryless career the employee has become responsible for managing his/her own career. Organizational career management is becoming rapidly less important. The employee is not directed to a new function anymore, but he/she needs to direct his own career within or outside the organization. This amplified the importance of networking and further decreased the difference between employment and freelancing. All in all the above four factors contribute to a vanishing difference between employees and independent professionals. The difference between a boundary less career worker hopping from job to job every 2 to 3 years and the independent professional hopping from assignment to assignment is not very large. The challenges that they face and the tactics they pursue to resolve their problems are quite alike.

Currently perhaps only three important differences remain between independent professionals and traditional employees. Firstly, an employee still receives some organizational support for continuous personal development, such as: training and networking opportunities. An organization supplies schooling and training opportunities, provides a social network, and offers challenging job opportunities. But O'Mahony and Bechky (2006) argue that the amount of social support found in external networks can be as much or more than within organizations. There is a continuum between pure free market contracting and structured, guided and supported internal labor markets. In some cases the social support of freelancers is even superior to the organizational support of employees. Secondly, large organizations have the necessary resources (e.g. distribution network, capital, access to specialized knowledge, patents, et cetera) to provide large, complex products and services to clients. These complex assignments provide specific challenges to employees that cannot be replicated easily by freelance networks. This complexity attracts certain types of persons. These are most likely individuals who excel in the larger bureaucratic environments, persons who love combining the technical complexity and challenge (e.g. creating a car) or simply people who love the frequent interactions between colleagues. Thirdly and last, being an employee still provides a cushion against market forces and temporary misfortunes. In a recession, a company typically first lays off all their peripheral independent professionals before they dismiss any of their core employees.

3.3 The increased importance of knowledge

Solow identified the major growth factors of the 19th and 20th century: the inputs of labor and capital. Romer (1986), Lucas (1988) and Krugman (1991) showed that labor and capital are not sufficient factors to explain production output. Knowledge has become the major growth factor in the developed world. It is in this knowledge economy where freelancers are typically active. Therefore some basics of the knowledge economy and how knowledge is created and transferred are described in this section.

3.3.1 Our understanding of knowledge

Lacking decent measures of knowledge, social scientist often apply crude proxies of knowledge, such as: patents and R&D investments. These rudimentary knowledge surrogates are not always very useful. Especially not in a service economy where property rights on knowledge are ill-defined and learning does not happen through large R&D investments, but by using out of pocket expenses, such as: education, active participation in communities of practices and learning on the job. A more refined model and corresponding toolbox is needed to measure the relationship between knowledge, production, and economic growth. In such a new model, the elementary aspects of knowledge (e.g. tacit versus explicit, specific vs. general) and our current understanding of exploration (innovation) and exploitation (production) processes (e.g. the importance of interaction, complementarily of knowledge) should be applied. It should balance the role of the individual, who is the locus and source of knowledge as Felin and Hesterly (2007) convincingly argue, with the crucial importance of the role of the collective, social context which allows knowledge to be created, integrated and distributed (Hargadon and Douglas, 2001; Knorr Cetina, 1981, 1999). One single overarching theory of knowledge production does not exist as of yet. In spite of all the talk about knowledge-based management and the recognition of the need for a knowledge-based productivity theory that fundamentally differs from the existing organizational models, there is in my humble opinion still little understanding of the exact relationship between knowledge and productivity. We have only just started opening this interesting black box.

To discuss the role of the knowledge in production, some basic taxonomy on knowledge and forms of knowledge is needed. Firstly, one should understand the difference between knowledge and information. Knowledge is dynamic, created in social interactions, and context-specific. Without the context, knowledge is just information, not knowledge. Scholars have classified knowledge across many dimensions, for instance:

1. **Individual and collective knowledge.** Individually held knowledge is the sum total of individuals skills, abilities, information and knowledge (Zander and Kogut, 1993), whereas collective knowledge consists of routines and practices, organizational schemes, goals, missions, et cetera that are widely diffused throughout the organization and held in common by a large number of organizational members. Walsh and Ungson (1991) contend that knowledge resides in five parts of the organization: (1) individual members, (2) organizational culture, (3) roles and organizational structures, (4) the organization's standard operating procedures and practices, and (5) the physical structure of the workplace.
2. **Tacit and explicit knowledge.** Tacit knowledge is knowledge learned through experience and is difficult to articulate, formalize, and communicate (Polanyi, 1962, 1966). Explicit knowledge is codified and transferable in formal, systematic methods, such as in rules and procedures. Thus, the critical difference between tacit and explicit knowledge lies in their transferability and the mechanisms for transfer across individuals. While explicit knowledge is revealed by its communication, tacit knowledge can be learned only through personal experience.
3. **Private and public knowledge.** Private knowledge is unique to an actor, whereas public knowledge resides in the public domain. Private knowledge can be a source of competitive advantage.
4. **Component and architectural knowledge.** Component knowledge is the knowledge that relates to a subroutine or discrete aspect. Architectural knowledge relates to the whole, to routines and schemas for coordinating the various components and putting them to productive use.

To discuss knowledge exploration and exploitation, most researchers distinguish between the first 2 dimensions of knowledge: 1) tacit-explicit, and 2) individual-collective (Spender, 1996; Nonaka, Toyama and Konno, 2000). Most authors acknowledge that knowledge creation is fundamentally dependent on individual members as knowledge cannot be created without individuals. An organization can only learn in two ways: 1) by the learning of its members, or 2) by employ new members who have knowledge the organization didn't previously have. Indeed, an organization cannot control knowledge, independently from individuals, because knowledge does not exist independently from individuals. In an interesting study Anand, Gardner and Morris (2007) investigate the process of creating practice areas. Their analysis sheds some light

on the complex interactions between the individual and the collective, which are needed to create new knowledge and translate this from knowledge into value.

Knowledge is a resource which is subject to problematic **appropriability** (Grant, 1996).

Appropriability refers to the ability of the owner of a resource to receive a return equal to the value created by that resource. Tacit knowledge is not directly appropriable because it cannot be directly transferred: it can be appropriated only through its application to productive activity.

Explicit knowledge suffers from 2 key problems of appropriability: Firstly, as a public or non rivalrous good, anyone who acquires it can resell without losing it. Secondly, the mere act of marketing knowledge makes it available to potential buyers. Thus, except for patents and copyrights where knowledge owners are protected by legally established property rights, knowledge is generally inappropriable by means of market transactions.

3.3.2 A theory of knowledge creation

Knowledge transfer is the process through which one unit (e.g. individual, team, and organization) is affected by the experience of another (Argote, 2000). Although knowledge transfer is considered as important to organizational success, there is very little information about the underlying process through which knowledge transfer actually occurs (Szulanski, 2000).

Recent studies show that knowledge properties are important for the knowledge transfer process. Tacit knowledge is more difficult to transfer than explicit knowledge (Nonaka et al., 2000), knowledge that has not been codified is more difficult to transfer than codified knowledge (Zollo, 2002), and knowledge that is not well-understood is also harder to transfer than straightforward knowledge (Szulanski, 1996). Factors that facilitate the knowledge process are perceived status, level of trust (McEvily, Perrone and Zaheer, 2003), and frequency of interaction (Argote, 2003). There is not a lot of knowledge on knowledge transfer outside organizational boundaries. Research has shown that knowledge is more likely to transfer within one organization (Ingram and Simons, 2002), than to cross organizational boundaries. Menon and Pfeffer (2003) have shown that organizational members are more likely to value knowledge from external, rather than from internal sources.

Nonaka et al. (2000) propose a model of knowledge creation with three building blocks: 1) knowledge assets, 2) the process of knowledge creation and 3) shared context. Firstly, the authors argue that all knowledge-creation is based on available knowledge assets. These knowledge assets act as necessary inputs, outputs, and moderating factors of the knowledge-creating process. These assets are a necessary but not sufficient condition for value creation. As knowledge cannot

be sold, due to problematic appropriability, knowledge assets must be processed to realize their value. Nonaka et al. categorize knowledge assets into 4 types; 1) experiential knowledge (i.e. the shared tacit knowledge within actors), 2) conceptual knowledge (i.e. explicit knowledge articulated through images, symbols and language), 3) systemic knowledge (i.e. packaged explicit knowledge) and 4) routine knowledge (i.e. tacit knowledge that is embedded in the actions and practices of the organization, such as: organizational culture and routines). Secondly, the authors focus on the knowledge-creation process. The authors argue that knowledge creation is a continuous process of dynamic interactions between tacit and explicit knowledge. There are four basic forms of knowledge interaction:

1. **Socialization** (from tacit knowledge to tacit knowledge). The process of converting new tacit knowledge through shared experiences. A classical case of socialization is the traditional apprenticeship where apprentices learn the tacit knowledge needed in their craft through hands-on experience, rather than from written manuals or textbooks.
2. **Externalization** (from tacit knowledge to explicit knowledge). Externalization is the process of articulating tacit knowledge into explicit knowledge. Explicit procedures to increase quality are a typical example.
3. **Combination** (from explicit knowledge to explicit knowledge). Combination is the process of converting explicit knowledge into more complex explicit knowledge. Explicit knowledge is collected from various sources and then combined, edited, or processed to form new explicit knowledge. Using computers to combine and represent data in different forms is a well-known illustration of combining knowledge sets.
4. **Internalization** (from explicit knowledge to tacit knowledge). Internalization is closely related to 'learning by doing'. The classical example is reading a manual, before slowly but steadily improving the ability to operate a machine.

Thirdly, the authors argue that, besides knowledge assets and processes, the context is very important in knowledge-creation as such contexts provide the basis for individuals to interpret information to create meanings. The authors call this time-space context with physical, virtual, and mental subspaces *Ba*. Based on Japanese philosophy *Ba* is defined as the communal context in which knowledge is shared, created, and utilized. In knowledge creation, especially in socialization and externalization, it is important for participants to share context. *Ba* is the platform of knowledge creation by collecting the knowledge of the area into a certain time-space nexus. As *Ba* can be a mental or virtual place it does not have to be bound to a physical space. In relation to context Augier, Shariq and Vendelø (2001) show that tacit knowledge sharing in

solving complex problems, requires creating contexts with many similarities, as otherwise problem solvers cannot obtain verifications of similarities in understanding, e.g. of knowledge and problems.

Based on their vision of the knowledge-creating process and the three building blocks, Nonaka et al. argue that the knowledge-creating process cannot be controlled, but leaders can facilitate knowledge creation by providing certain conditions. Leaders can provide the knowledge vision, facilitate the continuous spiral of knowledge interaction and create a shared context. Providing the knowledge vision gives direction to the knowledge-creating process by asking fundamental questions (i.e. what are we?, what should we create?, and where are we going?). Facilitating the dynamic process of building knowledge assets helps individuals create individual and collective knowledge. It should be noted that knowledge assets can hinder as well as foster knowledge creation. Organizations are subject to inertia and it is difficult for them to diverge from the course set by their previous experiences. Successful experience leads to excessive exploitation of the existing knowledge, and in turn hinders the exploration of new knowledge. The shared context can be built by providing physical space, such as meeting rooms, virtual space, such as a computer network, or mental space, such as common goals. To build context requires selecting the right mix of people and promote their interaction. For Nonaka et al. autonomy of the individual is very important. Not only does autonomy increase the commitment of individuals, but it is also a source of unexpected knowledge. By allowing individuals to act autonomously, an organization increases the chance of accessing, and utilizing knowledge held by its members.

3.3.3 The importance of social context to knowledge creation

From the above, it is clear that the social context is vital to the knowledge-creation process. In recent years, the concept of Communities of Practice (*CoP*) has been developed. *CoP* are groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly. This concept is closely related with social capital theories (Cohen and Prusak, 2001). These communities might provide the ideal social context for freelancers to facilitate knowledge creation and distribution. Three characteristics are crucial for a community of practice:

1. A community of practice has an identity defined by a shared domain of interest.
2. In pursuing their interest in their domain, members engage in joint activities and discussions, help each other, and share information.
3. Members are practitioners. They develop a shared repertoire of resources: experiences, stories, tools, ways of addressing recurring problems—in short a shared practice.

The CoP can be seen as a real-life physical-virtual example of Nonaka's *Ba*. The CoP concept has been adopted recently by many firms because of the recognition that knowledge is an increasingly critical asset, that needs to be managed in a certain way using a common platform.⁶ A CoP provides such a platform. However, some of the very characteristics that makes a CoP ideal as a platforms for creating knowledge (i.e. autonomy, practitioner-orientation, informality, crossing boundaries) are also characteristics that make them a challenge for hierarchies.

Roberts (2006) discusses the limitations of the CoP theory. She argues that a CoP does not function in a vacuum but within a set of several power relations. The power context in which a CoP is embedded is a major factor determining its success as a means of creating and transferring knowledge. This link is largely missing in the current CoP literature.

3.4 The strange freelance world

To understand the behavior of the independent professional we need to understand the basic characteristics of the freelance world. After all, it is this outside world that is the most important determinant of the freelancers' options, behavior, and his/her outcomes. Therefore, the daily world of the independent professional in the Netherlands is explored in this section.

3.4.1 Administration, taxes and social security in the Netherlands

In the Netherlands there are basically two types of self-employed independent professionals dependent on their tax status: those with a specific type of VAR (often called *zzp-ers*) and without this type of VAR (often called freelancers). In the last decade of the 20th century there was some uncertainty about the exact responsibilities of paying taxes and social security.

Organizations which employed independent professionals were afterwards often confronted with high fines from tax authorities. The tax authorities considered the independent professionals to be dependent employees for which taxes should be withheld instead of independent businesses.

To solve this issue the *Verklaring Arbeidsrelatie* (Statement of Labor Relations) or VAR was invented. All independent professionals can apply for a VAR at the Dutch tax authorities.

Potential clients are guaranteed that they do not have to pay taxes or social security for workers

⁶ Lindkvist (2005) developed an alternative view of CoP in the form of *collectivities of practice*, to refer to temporary groups concerned with knowledge creation and exchange. While communities of practice depend on shared enterprise, mutual engagement and shared repertoire, collectivities of practice rely on individual knowledge, agency and goal-directed interaction.

with a VAR. There are various requirements for independent professionals to be able to get a VAR. This includes a complex test (as in the US), but the most important one is that an independent professional has to have some autonomy on the way the work is performed. Independent professionals with a VAR are themselves responsible for paying taxes and social security. There are however a lot of independent professionals that do not have a VAR, especially in the arts and media sectors. These independent professionals make use of so-called ‘payrolling’ organizations. This organization acts as their employer and pays taxes and social security. Often these organizations send bills to clients and withhold a percentage for taxes and administration. The remainder is then paid to the independent professional. These independent professionals are themselves responsible for their success through engaging in client acquisition, networking, marketing, maintaining professional knowledge, performing, et cetera. Regarding the goal of this study the differences between independent professionals with or without a VAR are therefore minimal. For a detailed study on the legal perspective and development of the regulatory framework, one can read the excellent study of Aerts (2007) on this subject.

3.4.2 The tri-partite labor market

The employment agency is an important element in the lives of many independent professionals. In recent years the number of staffing or employment agencies has increased spectacularly. The Netherlands has seen more than 600 percent growth in the number of these agencies in just over a decade. The same phenomenal growth is evident in the UK. According to Hotopp (2001, p. 1) *“the employment agency industry is a new and very dynamic sector in the British economy. It plays a considerable role in providing jobs for those who are not necessarily interested in permanent employment for whatever reason”*. Staffing agencies are very important for independent professionals and in many cases central to their livelihood. Agencies broker the market; they compile information on job openings as well as on contractors. They match organizations and independent professionals, negotiate deals and, sometimes, act as the employer-of-record. The agencies receive a percentage of professional fees for their services (which can be as high as 40 percent of total professional fees). These employment agencies demonstrate strong sales cultures and the overriding concern of most agents is ‘closing deals’ as their compensation is based on bonuses and commissions. There are various types of agencies. There are the large ‘generalist’ agencies, such as: Manpower and Michael Page, and the large ‘specialist’ body shops, such as: Accenture and Robert Walters. Typically these larger agencies have strict formal rules and billing rates. They are almost only interested in getting independent professionals billable. Especially in the lower skill ranges these ‘body shops’ only superficially test résumés and check references. Low skilled independent professionals are seen as commodities (i.e. product homogeneity), and the way these agencies

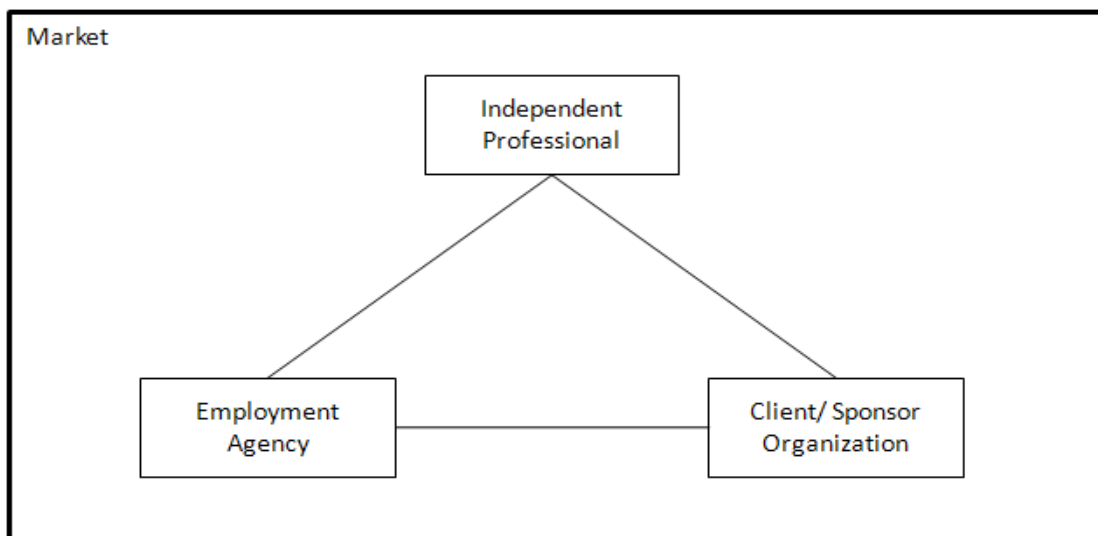
work, is geared to this principle. On the other end of the spectrum there are the *'Mama and Papa'* agencies that place only a couple of independent professionals. Because the barriers of entry are low, there are a large number of these small *'Mama and Papa'* agencies. Some agencies specialize in a certain field enabling greater knowledge of technical requirements and skills as well as potential clients.

As assignments (and not professionals) are most of the time in short supply, a rewarding system for finding assignments has been developed in many professions over the years. Many agencies will pay reference fees to independent professionals that help them find assignments. Here new relationships develop between agencies and independent professionals where the independent professional receives fees for finding assignments at the client site. These reference fees can be substantial (in some cases 20 euro per hour per professional), and in interviews we found professionals that make much more money on reference fees than on professional fees from their own labor. Because of the development of reference fees, in many professions it is not uncommon for a professional to ask money from another professional if he/she finds an assignment for him/her. Here professionals mimic the employment agencies, and follow their example. But not in all professions you come across reference fees. For example in the worlds of art, media and legal professionals, this type of behavior is not always considered acceptable or in some cases is even forbidden (e.g. legal professionals cannot accept reference fees). In the world of arts, networking is more informal and based on personal knowledge and clusters of tight networks that develop over time. O'Mahony and Bechky (2006) describe the difference between agencies in the film industry and in high-technology sectors. In the film industry, brokers, and independent professionals have informal relations. In the technology sector, relationships are more formal with contracts between brokers and independent professionals and financial incentives for brokers. Because brokers have a financial incentive, contractors freely juggle agencies to get the best placement. The informal structure of the film industry resulted in a strong web of mutual obligations.

From the above, it should be clear that the labor market for independent professionals is not so transparent. The costs of matching the assignment and the professional are often very high, allowing employment agencies to develop. In some cases the relationship between the "independent" professional and the employment agency is very much like an employer-employee relationship. Druker and Stanworth (2004) analyzed the relationships between employment agencies, sponsor organizations (i.e. the ultimate client of the freelancer) and white-collar

independent professionals in the UK. They concluded that independent professionals are on balance, positive about their relations with agencies. In their research they found that independent professionals are more critical towards the host organizations where they were positioned than towards the agency that placed them. These results are in line with McClurg (1999) in the US. This should not be a surprise as it is often very hard to find an assignment. Some form of gratitude might reflect on the agency that helped them. Research by Koh and Yer (2000) in Singapore suggested that independent professionals were more positive about their agency if the agency invested in training, development, and benefits. Liden, Wayne, Kraimer and Sparrow (2003) also show that independent professionals develop attachments to both their agencies and their sponsor organizations. Interesting is that Liden's research also shows a negative relationship between organizational commitment (as assessed by managers) and agency commitment of independent professionals. This suggests that professionals who are more committed to the sponsor organization are less committed to the employment agency. All in all the labor market for most independent professionals can be described as a tripartite relationship between clients, independent professionals and employment agencies who mediate the market.

Figure 4: The tripartite labor market



In this tripartite relationship (Figure 4) all participants have their own challenges and ambitions. For sponsors it is access to the right professionals for the lowest possible price; for professionals it is access to assignments, now and in the future; and for agencies it is how to bring demand and supply together and at the same time getting a reward for this. As in most tripartite relationships, there are several conflicts of interests. Most of these have to do with the added value and rewards of the employment agency. When supply and demand have found each other, the role and added value of the employment agency is often considered minimal and both other parties (sponsor organization and professional) have an incentive not to involve the agency when there is any

cross or through-sell. The employment agency wants to stay involved with the sponsor, as this is their bread and butter, and often offers additional services, such as: quality control and continuity guarantees. More often than not the professional and the sponsor do not value these additional services to a great extent (it is hard to provide quality control on the work of a professional if one is not a professional oneself) and there is a strong tendency for professionals and organizations to build a bipolar relationship without the middle man.

Probably the most important reason why freelancers remain loyal to the staffing agency is the existence of restrictive covenants in the contract. The most important thereof is the non-compete clause in which the freelancer promises not to compete for business at the sponsor organization. This means that the freelancer cannot sell any additional services to the sponsor, without the approval of the agency. The agency will only give their consent for repeat work if the freelancer agrees to do this assignment via the agency who then charges a fee for their services. It is very debatable whether this power position of the agency is for the common good. Bibby (2008, page 12) shows some examples which reveal these practices: *“A recruitment consultant will tell you that you must accept a 25% cut in fee, or that you must work overtime without pay [..], which you are not willing to accept. The recruitment consultant will then remind you that you are bound by the restrictive covenant not to work for the client directly so you must accept these terms.”* However, there are also examples of agencies and independent professionals who become almost symbiotic to their own mutual benefit. They develop long-lasting relationships in which they collectively try to further the career of the freelancer by finding the right assignments and looking for development opportunities.

Many sponsors and professionals are convinced that the average share of employment agencies (between 20-40% of the total fee) is much too high. There are therefore various initiatives of both professionals and sponsor organizations to cut out the middle man. Until now this has not been very successful. It proves to be very hard to improve the transparency (quality, availability) and managing the risk (reputation) in order to improve market functioning.

The second conflict of interest is between agencies and sponsor organizations. In this conflict, the question again is who has access to the professional. This conflict has an operational element and a strategic element. At the operational level, it is sometimes the case that organizations use independent professionals as a comparable low-cost employment channel, offering independent professionals long-term regular employment when they perform. This sometimes creates conflict as to a particular individual. From a strategic point of view both parties fight for the same talent.

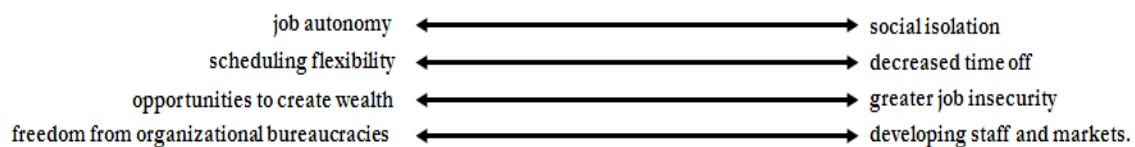
More and more employment agencies are offering long-term deals and career development, and are in direct competition with sponsor organizations in the war for talent.

The third and last conflict of interest is between professionals and sponsor organizations. Here there are contractual debates on property rights, responsibilities for continuation and damages and, of course, discussions on fees.

3.4.3 The challenges that freelancers face

Feldman and Bolino (2000) looked at the challenges that entrepreneurs face. They concluded that entrepreneurs are always looking for equilibrium. Firstly, entrepreneurs have to balance **job autonomy** and **social isolation**. Secondly, entrepreneurs have to balance **extra flexibility** with **decreased time-off**. The ability to work when you want, is a major advantage for most entrepreneurs, but ironically it often leads to less time-off and vacation, as one is “always working”. Thirdly, entrepreneurs balance **opportunities to create wealth** and **greater job insecurity**. Making more money often implies taking risks and diminishing security. Fourthly and last, entrepreneurs face the paradox of **escaping organizational bureaucracies** and **developing staff and markets**. Many entrepreneurs choose entrepreneurship to escape from the organizational burden in large firms, but if they want to grow they need to develop staff and markets, which often implies an increase in administrative burden.

Figure 5: The challenges of entrepreneurs



Source: Feldman & Bolino (2000)

Not all four entrepreneurial challenges in Figure 5 are equally relevant to freelancers. Most freelancers have no ambition at all to grow their company. So the latter two dilemmas (wealth vs. risks and escaping bureaucracies vs. developing staff and markets) do not apply to most freelancers. But independent professionals face a much bigger challenge. One of the crucial questions for independent professionals is what O’Mahony and Bechky (2006) call the ‘career progression paradox’: balancing the need for differentiation with the need to hedge your bets. Independent professionals run the constant risk that their human and social capital becomes worthless overnight. The value of their entrepreneurial capital may implode due to technological developments or changes in their business networks (e.g. an important client goes bust). This is why most

independent professionals hedge their bets (Barley and Kunda, 2004). Besides investments in their core profession, they continuously invest in new upcoming technologies and in the renewal of their business networks. Most of these investments will never pay off. The goal of the independent professional is to create an option portfolio that may be valuable in the future. It is interesting to see how independent professionals solve this paradox between specialization and continuous development. This paradox does not only apply to independent professionals. From the literature on older employees (van der Heijden, 2003, 2006) it is well known that employees face the same dilemma. Direct supervisors of employees have no interest in helping employees with their continuous development outside their current job requirements. Activities aimed at broadening and improving the career outlook of employees are therefore rare.

But the risk of skill obsolescence is much larger for independent professionals than for regular employees. Independent professionals operate on the free market where new entrants often have unlimited access and where the level of competition is typically higher than within a company. Independent professionals are not protected by specific firm knowledge, an organizational network or other forms of organizational support. Independent professionals learn that if they do not keep pace with the latest skills, employers move their business to other professionals or even turn back to employees as they are often less expensive. Especially in some technical fields the halftime of new technologies and skills is so short that many independent professionals need to continuously develop themselves. The risk of skill obsolescence is always just around the corner. One of the independent professionals in Barley and Kunda's book described the value of a certain skill as a concave function of time that, in the end, crashes suddenly. When a skill first attracts attention, an independent professional can demand high fees. When competition kicks in fees rapidly fall. When a new skill becomes more important, most independent professionals will learn the new skill and accept work in the new area. This then might increase the value of the old skill as the competition lessens. This is true for various industries and sectors, although this process of skill obsolescence is faster in the high-tech sector.

From the above, it is clear that continuous learning is important, for all knowledge workers, but in particular for the independent professional. Nevertheless, regarding formal schooling and education, the available data indicates that the self-employed invest less in formal training than employees do (van der Sluis, 2007; Parker, 2004). This seems like a puzzle. Why should an independent professional invest less in formal training than employees do? O'Mahony and Bechky (2006) argue that independent professional learn most of their knowledge, skills and

abilities not by attending training sessions and courses, but by pursuing “*stretchwork*”. They define stretchwork as (p. 924): “*work that largely fits with an individual’s previous work experience but introduces a small novel element that extends his or her skills in a new direction*”. They show that all independent professionals face the career progression paradox; when professionals try to acquire work to develop their skills in new areas, they find that sponsors and employment agencies prefer professionals with similar prior experience and a clear career path in this area (see also the work of Jones (2000)) A unambiguous public profile and résumé makes it much easier for agencies and sponsors to engage with an independent professional. As learning new skills is central to navigating in external labor markets, it is essential that independent professionals reconcile this career progression paradox. O’Mahony and Bechky provide evidence that they do this by engaging in stretchwork assignments. Stretchwork help professionals to acquire new skills that later on can be marketed as experience. They also identify four tactics for acquiring stretchwork:

1. **Differentiating competence:** By doing jobs exceptionally well, independent professionals built trust in their temporary settings and bolstered their reputations. This can lead to extra or more challenging work within the assignment or a referral to another client or project.
2. **Acquiring referrals:** Independent professionals can obtain stretchwork through referrals from their network, that confirmed their credentials in one area and their potential for transferability to a new area.
3. **Framing and bluffing:** People who did not demonstrated their ability in a particular area, framed their existing capabilities to convey competence and continuity. To acquire stretchwork, independent professionals framed their prior experience in terms that allowed for easy translation to the desired jobs.
4. **Discounting:** Accepting pay that was below market rate. By accepting a fee below market rate a freelancer can obtain an assignment in which he is no specialist yet and is not as productive as experienced colleagues. By offering a lower fee, hiring may be attractive to both freelancer and client.

An important factor that enabled contractors to find stretchwork is workplace flexibility, implying opportunities to expand the job role or to take on new roles on the assignment. This workplace flexibility is dependent on the industry and type of assignment. For instance, in assignments where failure is not an option, employers are not willing to provide stretch opportunities. Rather they hire professionals with deep experience.

3.4.4 The role of reputation and signaling in the external labor market

Currently sponsor organizations use employment agents to minimize transaction costs. One of the major reasons why these transaction costs are so high is the perceived risk of hiring the 'wrong' freelancer. To minimize the potential risk of contracting a specific independent professional, sponsor organizations need to assess the associated risks of working with a particular freelancer. They often outsource this activity to specialized agencies, who obtain information on the reputation of the independent professional. In recent years online reputation mechanisms are emerging as a promising alternative to traditional monitoring and control mechanisms. Although many websites already employ some reputation mechanism, widespread use of such mechanisms to form an opinion of freelance standing has not materialized yet. Dellarocas (2001) makes the following remarks on online reputation systems based on game theoretic insights:

1. Reputation is a highly time sensitive property. Upon on-line entry of a new actor (independent professional or sponsor) it needs to be built; and once built, it needs to be maintained.
2. Ratings, which are public goods, are likely to be underprovided.
3. Actors may milk their reputation before exiting the market.
4. Reputation effects are strongest during the initial phase when actors must work hard to establish a reputation.
5. When on-line reputation mechanisms begin to exercise greater influence on decision-making, the incentive for strategically manipulating them becomes stronger.

It is clear that the major problem of online reputation mechanisms lies in the asymmetry between the incentives of the ratee and those of the rater. Whereas bad behavior by the ratee results in a negative rating, dishonest behavior by a rater does not incur any future consequences for the rater. At present, many practical (e.g. allexperts.com, advogato.com, naymz.com, et cetera) and scientific solutions (e.g. Damiani, 2002; Josang, 2003) have been developed to overcome the above problems of on-line reputation mechanisms. Until now, none of these methods or sites has received dominance in any freelance profession. However, there are plenty of attempts to build such a freelance marketplace and some of them can be regarded as quite successful and innovative (e.g. Detaned in the construction industry). If one of these reputation networks becomes the dominant industry standard, this will certainly affect the current strategic position of the employment agency.

Signaling is another important activity in the external labor market which aims to minimize the risks of hiring organizations (Jones, 2002). Signals are signs that convey information to others (Spence, 1974). Signals can be '*cues, tests, hints, expressive gestures, status symbols*' (Goffman, 1959, page 249) and are used to predict behavior, value, or quality that is difficult to ascertain before it is experienced (Goffman, 1959).

Table 5: Signaling strategies of independent professionals

Goal	Possible signaling strategies
Status Enhancement	<ul style="list-style-type: none"> • Affiliation with high status individuals (e.g. company CEO) • Win status competitions and obtain industry awards • Obtain material perks (e.g. luxurious automobile)
Reputation Building	<ul style="list-style-type: none"> • Building effective relations and making conscious choices on the strength and dispersion of relations (e.g. narrow vs. broad audience, weak vs. strong ties, structural holes)
Image Management	<ul style="list-style-type: none"> • Ingratiation tactics (homophile —the tendency of individuals to affiliate with other individuals that are perceived to be similar) include opinion conformity, and expression of similar attitudes and values • Self-promotion by 1) claiming responsibility for positive outcomes, 2) by exaggerating one's contributions to positive events and 3) by describing how one overcame obstacles • Defensive tactics such as excuses and justifications

Source: Jones (2002)

Jones shows that these signals are used to: 1) increase status, 2) build reputation, and 3) manage images. Status involves someone's rank in the social group whereas reputation involves in-depth knowledge about someone's attributes. Reputation is widely shared information about a person's personality, skills, reliability, and other attributes important to exchanges (Jones and Walsh, 1997). Image/impression management is the change of individual behavior in order to create a positive impression on others. Status plays an influential role in partner selection where quality is difficult to discern and outcomes are uncertain (Podolny, 1994). As Kilduff and Krackhardt (1994) show in their analysis of prominence within a firm, being perceived to have friends of high status was more important for predicting the parties' perceived job performance than actually having these friendships. Image management tactics may be used strategically to amplify, reduce, or deflect signals. A key distinction between image management and reputation building is that reputation building involves trying to manage information through third parties, by the strength and pattern of ties, whereas impression management involves individuals manipulating their own behavior to influence another's perception. Impression management tactics may be assertive or defensive (Stevens and Kristoff, 1995). Assertive tactics, such as self-promotion, amplify positive

signals by enhancing perceptions of the signal's positive attributes (e.g. competence), whereas defensive tactics, such as: excuses or justifications, dampen negative signals by minimizing their impact. It is important that the various signals strengthen each other. This decreases the perceived risk of the sponsor. In Table 5 the possible signaling strategies of independent professionals are listed.

Independent professionals use signals first and foremost to obtain assignments. A freelancer actively signals competence for a possible assignment to potential clients. The freelancer will do so by conveying information on: 1) identity and personality, 2) knowledge, and 3) network. Firstly, an identity and personality that is clearly communicated to prospects and sponsors is a means for differentiating oneself from competitors. Differentiation is a key aspect of developing a reputation (Fombrun and Shanley, 1990). Secondly, the freelancer will use various means (e.g. a résumé) to signal knowledge; i.e. relevant experience and performance. Freelancers often use various résumés to signal the right message to the right prospect. Thirdly, an independent professional will signal important relationships, for instance by indicating that he/she has worked with a particular well-known or famous person in an industry.

Personal branding (McNally and Speak, 2001; Montaya and Vandehey, 2002) is the most extreme form of signaling. Personal branding is basically managing one's own image as if this is a corporate brand. Personal branding suggests that career success can be promoted by carefully building and communicating a clear profile to the outside world. The term is thought to have been first used in an article by Tom Peters (1997).

3.5 Market structure and governance

3.5.1 Market structures of freelance markets

The world of the independent professional is a strange one, especially in professional services (e.g. accountancy, law, management consultancy). In some bids the independent professional is in direct competition with a larger professional firm, in other assignments he or she will work, as a subcontractor, for the same professional firm. Depending on the market opportunities, the role of competitor, supplier, and sponsor all change.

Although the various markets for freelance knowledge are very different in many aspects there are some important similarities. Firstly, almost all freelance markets are defined by a relatively large number of suppliers. But at the demand side this picture differs from one profession to the

next. There are professions with many actors at the demand side (e.g. IT professionals), but also markets with (almost) monopsonic demand structures (e.g. interpreters). In these latter markets, independent professionals face the risk of strong competitive buying pressures, leading to low prices and unpleasant contract conditions (Porter, 1980). To counter these pressures, there are basically two market strategies that freelancers pursue. Firstly, there is the strategy of collective action. In The Netherlands this is especially visible in the more traditional free professions, such as: notaries, lawyers and real estate brokers. However, most independent professionals find it hard to organize themselves. Perhaps because of identity issues (most independent professionals value their independency and entrepreneurial stance), but also because of other collective difficulties, such as: free-rider behavior and the tendency of larger organizations at the demand side to oppose collective action (see Olson, 1965). A second strategy pursued by independent professionals is to accentuate the heterogeneity of their offered services. This seems logical as resource and product homogeneity would imply non-favorable market conditions ranging from perfect competition, via oligopsony to monopsony (as a result of oligopolies and monopolies in product markets; for a monopsony model see Baily, 1975), all focusing on price competition. By stressing the uniqueness of their resources and services (e.g. knowledge, network), independent professionals try to improve their market conditions. By stressing resource heterogeneity, they try to create monopolistic competition or even dyadic collaboration.

Boone and van Witteloostuijn (2006) propose that the distribution of the resource space and exploitation economies (i.e. scale and scope) jointly mold market structures (i.e. number and size of firms). They have developed a six-step model which, based on questions on the distribution of resources and exploitation economies, determines which market structure is most likely to result. Boone et al. show that eight different market structures are theoretically feasible. Not all of these eight feasible market structures are in practice equally relevant for professional knowledge markets. The three market structures below seem most relevant for freelancers assuming: 1) that the typical resource distribution in the freelance space has no strong center, as there are many freelancers with a comparable set of resources, and 2) that scale economies are not very relevant in freelance markets. In these circumstances, the model of Boone et al. suggest, that the following market structures result:

1. **The classic case of perfect competition.** This market structure evolves in markets with resource homogeneity and the absence of scope economies.
2. **The case of monopolistic competition.** This market structure evolves in markets with resource heterogeneity and in the absence of scope economies. In these markets every

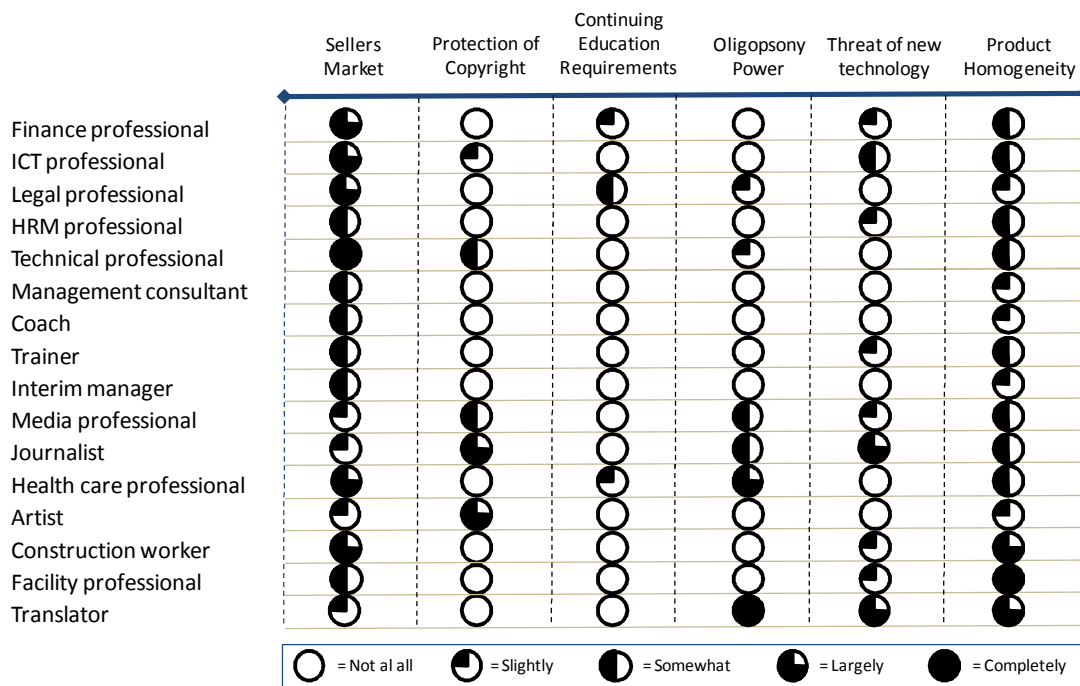
firm (independent professional) eventually specializes to serve niches with minimal overlap with other niches.

3. **The case of multi-product generalists.** This market structure evolves when scope economies are relevant. Under such conditions, large generalists benefit from shared benefits (e.g. brand) and/or costs (e.g. overhead), but independent professionals might occupy certain niches or even work for these generalists.

The above analysis shows that freelancers can be found in markets with various structures and that: 1) product homogeneity, 2) scope economies, and 3) resource distribution are the important determinants of market structure and thus competition. These market structures determine the financial attractiveness of the freelance market for professionals, and vary from occupation to occupation.

There is an important exception to the above analysis. This is when a profession or freelance market is characterized by a relatively small number of sponsor organizations. These sponsor organizations often have access to scarce resources which are complementary to the human resources (such as: financial capital, or a distribution network). In this case the resulting market distribution is frequently a monopsony, or an oligopsony.

Figure 6: Some characteristics of freelance markets



Moving from market structure of freelance markets to a competitive strategy perspective, one sees that most of the freelance markets are not that attractive. Using Porter's (1980) five forces model, one must conclude that the competitive position of many freelancers is not that attractive. Although freelancers are not hampered by bargaining power of suppliers (as they have none), the other four competitive forces (i.e. bargaining power of clients, barriers to entry, threat of substitutes, and competition) are less rosy for many freelancers. Firstly, in professional services most sponsor organizations are using employment agencies to restrict access to these clients. If one wants to do business with them, one has to register via an employment agency which charges hefty fees. The power of employment agents depends largely on the profession, but in most cases the bargaining power is on the side of the large sponsor organization and not on the side of the small freelancer.

Secondly, barriers to entry, such as: continuing education requirements or copyrights, are almost always missing in these professions. In this respect the freelancer does not resemble the more traditional free professions, such as: doctors, lawyers and notaries, which all have strict barriers to entry. Thirdly, although the threat of substitutes is limited, there are professions for which this threat is relevant. For instance the translators see increasing use of electronic translations programs, but also in the IT this is a constant risk. Fourthly, the level and intensity of competition between freelance professionals, is in some professions severe. Especially in markets where products and services are perceived homogenous and where supply of labor outstrips demand, the competitive position of freelancers is bleak. But in other markets, where products are heterogeneous and demand outstrips supply, the outlook is much better.

The above competitive analysis not only shows that the competitive position of freelancers is not that rosy, but also shows that the competitive position of freelancers depends very much on the profession in which a freelancer works. Figure 6 gives an indication of some of the most important market characteristics which influence the competitive position of freelancers. Note however that these indications are based on discussions with freelancers, employment agencies, and sponsor organizations, not on rigorous research.

3.5.2 Governance in freelance markets

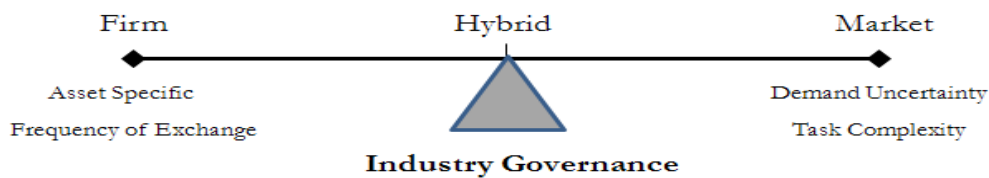
The research of Jones, Hesterly and Borgatti (1997) on industry governance is quite interesting as it provides some background information on the environments in which knowledge organizations live. Jones et al. distinguish three forms of industry governance: 1) firm governance, 2) market governance, and 3) network governance; a hybrid governance model

between the market and the firm. Jones et al. (p. 914) define network governance as “*Network governance involves a select, persistent, and structured set of autonomous firms [...] engaged in creating products or services based on implicit and open-ended contracts to adapt to environmental contingencies and to coordinate and safeguard exchanges. These contracts are socially-not legally-binding*”.

Jones et al. identify four conditions which are necessary for network governance to thrive:

1. Demand uncertainty with stable supply.
2. High human asset specificity.
3. Complex tasks under time pressure.
4. Frequent exchanges among parties comprising the network.

Figure 7: The emergence of hybrid governance structures



Source: Jones, Hesterley and Borgatti (1997)

In Figure 7 one can see that hybrid governance arises in those industries where there are opposing governance forces. Demand uncertainty and task complexity favor a market (i.e. contracting) style of governance, but asset specificity and frequency of exchange favor a hierarchical style of governance. If a combination of these opposing forces is present in an industry, the result is often a hybrid form of industry governance. These hybrid industry governance models are much more common and stable than one might expect and are visible in many industries, for example in the movie and television industry.

Research on environmental uncertainty has shown that **demand uncertainty** makes vertical integration for firms very risky (Balakrishnan and Wernerfelt, 1986). Under conditions of demand uncertainty, firms disaggregate into autonomous units through outsourcing or subcontracting. Customization of products or services is often found among firms in a network (Miles and Snow, 1992). This form of customization involves **human asset specificity**, because it is derived from participants' knowledge and skills. Customized exchanges with high levels of human asset specificity, require an organizational form that enhances cooperation, proximity and repeated exchanges to transfer effectively tacit knowledge among parties. Cooperation among exchange parties is necessary, for parties must work together to gain tacit knowledge. **Task complexity**

refers to the number of different specialized inputs, needed to complete a product or service.

Task complexity in conjunction with time pressures has led to team coordination, where diversely skilled members work simultaneously to produce a good or service. **Frequency of exchange** allows human asset specificity, to deepen through continued interaction and enhances the transfer of tacit knowledge. Frequency also transforms the orientation that parties have toward an exchange and the amount of informal control that can be exerted over exchanges. Repeated personal contacts across organizational boundaries create the perception of a similar destiny with greater mutual interest.

Table 6: Social mechanisms and hybrid governance

Social Mechanism	Coordinating Exchanges	Safeguarding Exchanges	Boundary Conditions
<i>Restrict access to exchanges</i>	<ul style="list-style-type: none"> Minimizing variance in parties expectations, skills and goals Developing communication protocols and establishing routines from continued interactions 	<ul style="list-style-type: none"> Decreasing the amount of monitoring required and enhancing the monitoring of others that is done Increasing parties' interaction to enhance commitment and identification 	Need some permeability of boundaries for innovation and new knowledge. Otherwise, participants " <i>allow in their collective protocols and establishing ignorance</i> "
<i>Macro culture (strong industry culture)</i>	<ul style="list-style-type: none"> Creating convergence of expectations through socialization Establishing common language to convey complex information Specifying broadly shared, tacit rules for behavior 		<ul style="list-style-type: none"> Takes decades to establish shared understandings and routines Requires third parties (e.g. guilds and professional schools) to institutionalize across firms Content should value cooperation an commercial exchange
<i>Collective sanctions</i>		<ul style="list-style-type: none"> Increasing costs of misfeasance Decreasing costs of monitoring to any one party Providing incentives to sort and monitor partners 	<ul style="list-style-type: none"> Difficult to distinguish misunderstandings from opportunism Need to discern best from minimal effort
<i>Reputation</i>		<ul style="list-style-type: none"> Spreading information about behavior among parties 	<ul style="list-style-type: none"> Information may be inaccurate or misused May induce greater homophily in system and exclude women and minorities from network

Source: Jones, Hesterley and Borgatti (1997)

The purpose of governance is to coordinate and safeguard exchanges. Hybrid governance does this by using social mechanisms rather than authority, bureaucratic rules, standardization or legal recourse. Such governance provides the market participants with the social capital needed to exchange. According to Jones et al. there are four strategic instruments used in hybrid governance: 1) access to exchanges, 2) a strong industry culture, 3) collective sanctions, and 4)

reputation. In Table 6, the processes through which these instruments provide coordination and security are described.

It is not unrealistic to think that hybrid governance seems very suited for most freelance markets. Firstly, a lot of freelancers work in service markets with high demand uncertainty. Secondly, they perform activities for which deep industry or occupational knowledge is crucial. Thirdly, a lot of large projects require inputs of various experts. Fourthly, and last, freelancers work in close cooperation and proximity with other freelancers and employees of the sponsor organization. Combining these forces, one sees that hybrid governance can be an ideal governance model, which allows complex high quality projects to be completed while distributing the risks over all participants. This suggests that hybrid governance has a future role in freelance markets and that there is third way between market, and firm governance.

Conclusions of Chapter 3:

1. Independent or itinerant professionals are a new and growing form of professionalism next to free professionals, professionals in professional firms and organization professionals. The boundaries between the various forms of professionals are very thin.
2. The independent professional is both an entrepreneur and an employee. They resemble entrepreneurs in the sense that they sell their knowledge on the free market and have a business strategy and marketing efforts to be able to do so. They resemble employees in the sense that their personal knowledge is their most important asset and many sponsors are larger organizations.
3. The current gap between entrepreneurs, employees, and freelancers is rapidly disappearing. In the knowledge economy firms are becoming smaller and employees are becoming more entrepreneurial and responsible for managing their career. In the near future it becomes customary for professionals to have different roles (entrepreneur, employee and freelancer) across their lifetime.
4. Continuous learning is crucial for freelancers. But freelancers do not use formal courses, they learn through stretchwork (“work that largely fits with an individual’s previous work experience, but introduces a small novel element that extends his or her skills in a new direction”).
5. Freelancers operate on a tri-partite labor market where employment agencies benefit of the substantial transaction costs. This tri-partite labor market can be characterized by many potential conflicts of interests between the various parties.
6. The freelance market structures drive the financial attractiveness of the freelance market. These market structures vary from one occupation to the next and are determined by: 1) product homogeneity, 2) resource distribution, and 3) economies of scale and scope.
7. The optimal way to govern many freelance markets may lie in hybrid governance. This is a third way of governing between the extreme forms of firm and market governance. Online reputation mechanisms and online marketplaces are recent initiatives that attempt to reduce both the ‘hard’ and the ‘soft’ transaction costs. They can also be seen as attempts to implement hybrid governance models in the market.
8. If these new online marketplaces are successful in bringing sponsor organizations and freelancers together, the transaction costs may decrease further, leading to additional growth of freelancing.