



THE INDUSTRY'S BUSINESS MODEL
DEPENDS ON FREELANCE BUILDERS



GENUINE FREELANCE BUILDERS PLAY
A PIVOTAL ENTERPRISE ENABLING ROLE



LEGITIMATE FREELANCE BUILDERS
ARE NOT FALSELY SELF-EMPLOYED



THE ECONOMIC ROLE OF FREELANCE WORKERS IN THE CONSTRUCTION INDUSTRY (Second Edition)

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EXECUTIVE SUMMARY

Remarkably, there has been little research investigating the economic importance of freelance workers in their own right. Instead, freelancers tend to make cameo appearances in research on industrial relations and entrepreneurship where they are usually cast in a negative light as exploited workers or underperforming entrepreneurs. In this research paper freelancers are the prime focus of attention. We examine their economic role in the context of the construction industry.

Freelancers in the construction industry are normally referred to as 'labour-only subbies' or 'pricework subbies'. We find that freelancers serve a unique and hitherto ignored positive function in the economy. They create economic value added by enabling greater enterprise. Indeed, since this value added creates a source of income which is unique to freelancers, we argue it is their defining feature. It distinguishes them from entrepreneurs and employees.

EXECUTIVE SUMMARY

We find that freelancers create economic value in the construction industry through 6 channels:

1. Freelancers enable greater de-risking of business ventures which limits the downside risk and enhances the expected return on investment.

Freelancers offer firms a 'pay as you go' model which saves them the risk of sunk costs inherent in employment contracts. This facilitates the staging of finance and the associated de-risking techniques so crucial to business venturing.

2. By enabling de-risking strategies, freelancers enhance entrepreneurial capability by reducing finance constraints and enabling greater flexibility to alter strategy and tactics.

Freelancers reduce barriers to entry to the construction industry by reducing the need to raise large amounts of finance per building project. By enabling the staged construction of building units freelancers reduce the amount of finance needed for the high-risk/early-stage of a project. If the project proves viable then follow on stages of finance are less risky and hence cheaper and more readily available. If the project proves to be unviable then the use of staged finance minimises financial loss and increases the ability to embark on alternative ventures.

3. Freelancers enable ventures to utilise performance related pay schemes which can raise productivity and pass off risk.

In the construction industry the use of piece rate remuneration practices is almost exclusively restricted to freelance workers. This implies that the more productive and/or less risk averse workers self select into freelance work.

4. The construction industry has a high degree of specialisation of labour with a concomitant significant amount of downtime (with an average range of between 53 to 82 per cent in our case studies) per trade per project. Freelancers reduce these costs as they entail no downtime costs. But freelancers also reduce the need for firms to have a large portfolio of projects in order to reduce extensive spare capacity costs. So by reducing minimum efficient scale they promote lower concentration in the construction industry.

We found that firms in the construction industry were emphatic in their appreciation of this efficiency enabling feature of freelancers. Every firm we interviewed indicated a severe contraction of operations (more usually closure) if they had to absorb the downtime costs saved through the use of freelancers. Without freelancers, the higher costs would lead to higher prices which would in turn cause a contraction in the industry.

EXECUTIVE SUMMARY

5. Freelancers enable firms to reduce the cost and risks associated with uncertainty over fluctuations in consumer demand.

Here the spare capacity results, not from the specialisation of labour techniques used in the industry, but from an economic downturn. We found that freelancers absorb much of this risk for firms and hence reduce the scale of bankruptcy. By contrast we found that in boom periods freelancers have played a key role in ensuring that firms were not constrained by lack of capacity. Both effects imply lower costs and building prices for consumers at every stage of the business cycle.

6. Freelancing reduces monopolistic power and promotes competition.

We found that freelancers reduce sunk cost barriers to entry, increase the ability to raise venture finance, reduce risk in entrepreneurship and reduce industry concentration. In sum, they increase the level of competition in the industry which is a major benefit to the British economy. One 'sting in the tail' for freelancers is that this increased competitiveness reduces their ability to benefit from the value added that they create. Strong competition means that much of the value added is passed onto consumers.

The construction industry's business model is enabled and underpinned by the availability of legitimate freelancers. Without genuine freelancers the construction industry would be smaller in size and hire

fewer workers. It would be less entrepreneurial and more inefficient. Consumers (i.e. households, industry and Government) would pay higher prices to a more highly concentrated and less competitive industry. The empirical evidence in this report supports this view. In the case studies we observe industry executives explaining that the industry business model relies on the ability to use freelancers. We test this further by doing two intensive 'ground-up' estimates of the use of freelancers on a homebuilding and a state funded school building project. The research only finds a legitimate use of freelancers consistent with definition outlined in Burke (2012) which captures the unique value added provided by genuine freelancers in the modern economy. Our results indicate that an average of 51 per cent of headcount and 57 per cent of work days on these construction projects were accounted for by freelancers. In other words, freelancers dominate employees in the trades-manual workforce of the construction industry.

Genuine freelancers play a pivotal enterprise enabling role in promoting economic performance in the construction industry. They are not entrepreneurs but enable entrepreneurship. Their unique contribution needs to be recognised and valued. Their frequent misclassification as lesser forms of employee or entrepreneurs runs the risk of encouraging policies aimed at eliminating this vital input to economic performance.