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# **VALUE (CO)CREATION BY MEANS OF ONLINE FREELANCING IN SMES**

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## Table of contents

1	INTRODUCTION .....	7
1.1	Flexible workforce as a growing phenomenon in modern society.....	7
1.2	The evolution of value co-creation concept .....	9
1.3	The purpose of the study .....	10
2	FEATURES OF ONLINE FREELANCE LABOR MARKET .....	15
2.1	The elaboration of freelance labour definition.....	15
2.2	Freelance workforce compared to traditional employment.....	19
2.2.1	Approach to work and philosophy .....	19
2.2.2	Expertise .....	21
2.2.3	Temporality, flexibility, and mobility.....	23
2.2.4	Independence .....	24
2.2.5	Professionalism .....	25
2.2.6	Reputation .....	26
2.2.7	Attitude towards payment .....	27
2.2.8	Disengagement.....	28
2.3	Self-regulatory market mechanisms and freelancing.....	29
3	SME PERCEPTION OF FREELANCE LABOR FORCE .....	33
3.1	Human resource management perspective.....	33
3.1.1	Challenges of theorizing human resource management in SMEs ...	34
3.1.2	Labour externalization for SMEs.....	36
3.1.3	Freelancers in HRM activities of SMEs .....	39
3.2	Outsourcing theory perspective.....	40
3.2.1	Why and what to outsource.....	41
3.2.2	How to outsource .....	46
3.2.3	Outcomes of outsourcing .....	49
4	THE PROCESS OF VALUE (CO)CREATION .....	52
4.1	Roles of customer and service provider in value creation .....	52
4.2	Value as an experience and bidirectional process.....	56
4.3	Value-creation in outsourcing context .....	58
5	METHODOLOGY .....	63
5.1	Research design.....	63
5.2	Data collection.....	65
5.2.1	Participants selection .....	66

5.2.2	Interviews.....	67
5.3	Data analysis and evaluation of the research .....	68
6	FINDINGS.....	72
6.1	Three approaches to freelancing .....	72
6.1.1	Freelancer as a tool .....	78
6.1.2	Freelancer as an expert .....	79
6.1.3	Freelancer as a team member.....	82
6.2	Two layers of value .....	85
7	SYNTHESIS.....	91
7.1	Conceptual framework and conclusions .....	91
7.2	Theoretical contribution .....	97
7.3	Managerial contribution .....	98
7.4	Limitations and further research .....	99
8	SUMMARY.....	101
	REFERENCES.....	102
	APPENDIX - CASE INTERVIEW SAMPLE .....	111

## List of figures

Figure 1	Positioning of the study and gap in the literature .....	12
Figure 2	Self-regulatory process of freelance labour market (developed based on the presented literature) .....	31
Figure 3	Labour market segmentation on two axes (Loveridge and Mok 1979, 123) .....	37
Figure 4	Competence level – quality matrix (Anikin and Rudaja 2009, 77); customer – competence matrix (Sandhu, Shamsuzzoha, and Helo 2018, 2206).....	45
Figure 5	Framework for performing outsourcing capability (Pratap 2014, 237).....	48
Figure 6	Value creation as the customer’s creation of value-in-use or as an all-encompassing process including provider and customer activities (Grönroos 2011, 283) .....	54
Figure 7	The processes for value-in-use creation for freelance services .....	55
Figure 8	Research design of the study .....	64
Figure 9	Direct and returned value creation .....	86
Figure 10	Integrated conceptual framework .....	92

## List of tables

Table 1	Needing dimensions and definitions of needing functions (Strandvik, Holmlund, and Edvardsson 2012, 136) .....	56
Table 2	Antecedents for value creation (Grönroos and Helle 2010, 572).....	58
Table 3	Respondents overview .....	66
Table 4	Strategies towards freelancing from SMEs perspective.....	75



# 1 INTRODUCTION

This chapter introduces the phenomenon of online freelancing and discusses its relevance for businesses and society today. It gives a brief insight into an existing academic literature about the topic and states the gap in research which this paper aims to fill. Further, the research questions derived from the purpose of the study are presented and explained.

## 1.1 Flexible workforce as a growing phenomenon in modern society

Freelance labour market is arguably a growing and important phenomenon in modern society. According to various sources of information, such as reports and surveys (“Freelancing in America: 2017” 2017; “Generation Y and the Gigging Economy” 2014; Leighton and Brown 2013; Yoganarasimhan 2013; Motoyama et al. 2011; Born and Witteloostuijn 2013) freelance labour force has been growing during last decade dramatically. Technological development is one of the main reasons for that trend (Yoganarasimhan 2013), as it creates great opportunities and provides availability of working remotely for almost everyone. Consequently, more and more people choose this option for their further employment, because it is considered very attractive with its flexibility and independence. Simultaneously, it provides significant cost and quality benefits for companies which hire freelancers. Intense competition, market instability, and high technological dynamism force companies to seek improved effectiveness and efficiency, reduced costs and increased flexibility (Strebkov and Shevchuk 2012). Thus, more companies address freelance markets which offer a relatively low-cost way for remote players to trade. The supply is supported not only by the attractiveness of employment form, but also by the excess of unemployed skilled workers in emerging economies (e.g., Indian subcontinent, Eastern Europe) that have a relatively low costs of living on the one hand and by a healthy demand for skilled workers in developed countries, where local labour is expensive on the other (Yoganarasimhan 2013).

Being a direct consequence of the information dominance era, the flexible workforce is a relevant subject for modern society. It relates to the process of globalization because the physical presence and distance do not play such an important role for workforce anymore. Further, it relates to international business because it creates international relations between entities. It relates to a firm’s innovation since remote workforce can be discussed as an innovative approach to human resource management and reflected in such aspects as finding, selecting and training employees, integrating them into a company, interacting and acquiring an external expertise. Moreover, it relates to SME’s opportunity to produce innovations since it allows to pool and utilize the best talents around the globe. Some researchers showed the interest to freelancers already at the end of 20<sup>th</sup> century when the

online freelancing was not as popular. For example, Baines (1999, 18) states that the freelancers represent a facilitating force for new forms of organization and new, technologically mediated, ways of work (Baines 1999, 18).

In general, freelancing has become the matter of academic research relatively recently, in 2000s, but studies of that decade focused mainly on several fields, where freelancers were especially in demand: media, television, audio-video industries (Stanworth and Stanworth 1995; Baines 1999; Storey, Salaman, and Platman 2005; Saundry, Stuart, and Antcliff 2007). In the 2010s, along with technological development and increasing popularity of Internet online freelance market together with the theories of virtual organization and global virtual teams attracted more and more researchers. However, the understanding of freelance workforce remains limited with a major focus on its benefits or challenges for contractors, emotional aspect or job satisfaction, and comparison with the traditional approach to recruitment (Kunda, Barley, and Evans 2002; Strebkov and Shevchuk 2012; Osnowitz 2010; Leighton and Brown 2013; Storey, Salaman, and Platman 2005; Born and Witteloostuijn 2013; Platman 2003; Kitching and Smallbone 2012). The process of companies' interactions with skilled and relatively independent remote contractors is still under-explained. At the same time Strebkov and Shevchuk (2012) argue that almost a half of freelancers' clients are small companies with 2-15 employees (47%). Thus, being the main buyers of freelancers' services, SMEs need the better understanding of opportunities and threats imposed by online freelancing. It is supported by David Reed (1999) stating that freelance labour can be a way for SMEs to overcome difficulties related to lack of resources.

This study is dedicated to the value (co)creation that takes place along the freelancer's work for his client. Getting a better insight into working process and relationships between an independent contractor, who is considered a specific form of workforce lying between traditional employment and business-to-business contracts, and their clients can discover aspects useful for a better understanding of the concept of value and value (co)creation process.

In addition, the paper aims to give a more precise and detailed look at the nature of freelancing and concentrates on benefits companies are able to gain from it. The study strives to reveal new opportunities in human resource management and innovative approach to the recruitment for SMEs. At the same time, it demonstrates the possibilities of applying the temporal remote freelance labour in organizations. On the other hand, some SME managers can discover the threats of online freelancing in case independent professionals operating in the same fields are detected as flexible, innovative or professional competitors. Besides, since more people go freelancing companies face the threat of losing the most talented and skilled employees because of the employees choice to become independent contractors.

Overall, there are many angles from which companies can look at this phenomenon. In any case, SMEs should consider the trend and be ready to adapt to changes, where the significant part of the regular organization might consist of more independent contract workers in the future. Consequently, managers should better understand the value freelancing can bring to the company, because there is a chance that they will have to deal with it closer in the future. From the freelancers' perspective, a better understanding of value (co)creation process should help them stay competitive and meet their clients' expectations.

## **1.2 The evolution of value co-creation concept**

It is acknowledged that due to a certain level of the ambiguity, abstraction, and fuzziness of value and value co-creation concept the consistent understanding of this notion is not developed (Grönroos and Voima 2013; Saarijärvi et al. 2013; Ballantyne et al. 2011; Grönroos 2011; Khalifa 2004). The particular issue of interest among researchers in marketing and management since 1990s trying to develop and justify the shift towards more customer-centric and relationship-based approach includes value creation process and the locus of value creation (Grönroos 2008, 299).

The subjectivity of customer-perceived value can hardly be challenged. According to Ravald and Grönroos (1996, 22) it is seen through the eyes of the customer, related to his value chain and highly context specific. The authors examine the value from benefit-cost ratio adding the relationship and developed trust as factors positively influencing customer-perceived value (Ravald and Grönroos 1996, 23–25). The firm is considered the value creator and it should improve internal and external service quality for the customer to stay competitive. The authors put the locus of value creation in company's hands, although underlined the importance in interactions with clients via services. Similarly, Khalifa (2004) discusses the models of customer value, distinguishing value components, benefits/cost ratio, and means-ends models. It should be noted that in the first two models a consumer value is discussed using a good-dominant logic, where the product's attributes are viewed as value components. The latter model highlights the process of consumption and personal values. By "means" it is assumed products or services, whereas "ends" encompass consumer values and benefits (Khalifa 2004, 653). As a result, products here are named as sources of values that are acquired through consumption. It can be interpreted as a shift towards service-dominant logic.

Additionally, the author mentions stakeholder value as one of the categories of value, which encompasses the value company creates for various stakeholders including co-workers and suppliers (Khalifa 2004, 647). Thus, if considering value (co)creation as bi-directional process and plying it to freelancer-client relationships, stakeholder value

represents the benefits freelancer gets from the client, whereas customer value relates to client's gains in the result of freelancer's engagement.

With the development of service-dominant logic, the perception of services, the role of companies and customers, and the notion of value and value co-creation has significantly changed. By claiming that service is the fundamental basis of exchange, that operant resources are the fundamental source of competitive advantage, and that the customer is always a co-creator of value, Vargo and Lusch (2004, 6) stated that value is not only defined by, but also always co-created with the customer through collaboration and learning. From service-dominant logic perspective, the potential customer has always a choice whether to engage into self-service (do something himself) or go to the marketplace and buy it (Vargo and Lusch 2004, 13). It should be relevant for the outsourcing choice in B2B market as well. Nowadays companies constantly face the strategic dilemma in attempt to distinguish their core operations from the activities that can and should be outsourced to the external party that has enough resources, skills and knowledge to manage them. Further Vargo and Lusch (2011) claim "it is all B2B" meaning that all actors engaged in economic activities are service-providing and resource-integrating enterprises, whose main goal is value co-creation (Vargo and Lusch 2011, 181). This approach seems to be relevant in explanation of freelancer-client relationships as well.

The definition of service as the application of specialized competencies (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself (Vargo and Lusch 2004, 2) fits freelancer's offer emphasizing specialization, competence, and expertise. While it is stated by Vargo and Lusch (2008, 7) that service is the fundamental basis of exchange, Grönroos (2011, 285) argues that service is just a mediating factor, while value creation is the real basis of all business

It should be stated that the phenomenon of freelancing fits the service-dominant logic well. It directly supports the main foundational premises offered by Vargo and Lusch (2008, 7) or at least does not contradict with any of them. Nevertheless, the questions about how value is created for customers or co-created with the customers, who indeed creates it, where and when, remain not fully answered. It leaves to this study an opportunity for research and managerial contribution.

### **1.3 The purpose of the study**

Modern enterprises strive to achieve numerical flexibility and cost savings (Stanworth and Stanworth 1997b); freelancing can be one way to reach this goal (Kitching and Smallbone 2012). More and more tasks and operations are externalized or outsourced, while regular employer-employee relationships are replaced by commercial relationships

with contractors. These strategies enable companies to concentrate on their core competencies and allocate resources more efficiently. (Kalleberg 2003, 156).

Small companies are the main consumers of services offered by freelancers, followed by individual businessmen and private individuals. The results of Strebkov and Shevchuk (2012) quantitative study state that small companies, up to 15 employees, constitute almost a half of freelancers' clients (47%), while the shares of individuals and large companies are 30% and 23% respectively; the main areas of work delegated to freelancers include the creation, support, and promotion of Web sites (40%), design (26%) and advertising (26%), software development (20%), and trade (17%). The data also shows the distribution of freelancers' clients among almost all sectors of the economy: finance, consulting and auditing, publishing, education, art and culture, construction, industry, and transportation and communications. (Strebkov and Shevchuk 2012) However, online freelancing is a very dynamic environment developing rapidly within the last decade, moreover, the study was country-focused, thus the statistics presented above is not fully applicable.

Although SMEs play a significant role at the online freelance labour market, their process of cooperation with freelancers and the benefits gained in the result of such cooperation are still under-explained in the literature. Figure 1 presents the main areas covered by the literature. On the one side, the significant part of the literature is focused solely on the phenomenon of flexible workforce (Leighton and Brown 2013; Osnowitz 2010; Strebkov and Shevchuk 2012; Platman 2003; Storey, Salaman, and Platman 2005; Kunda, Barley, and Evans 2002; Born and Witteloostuijn 2013). These studies strive to explain the individual motives of workers to go freelance, discuss the benefits and challenges of chosen way of employment, establish the factors determining the success in freelancing, uncover and explain the reasons for the emergence of that phenomenon in modern society in general, etc. On the other side, there is a block of literature attempting to explain the companies' strategic choice to hire contractors. This choice is discussed and explained based on either human resource management (HRM) and outsourcing approaches. Studies that use HRM approach present freelancers as a temporal and specific resource of the company among other occupational groups (Kalleberg 2003; Handy 1988, 1980, 1989; Ko 2003). At the same time, from outsourcing theory perspective freelancers relate to external agents who aim to establish mutually beneficial business relationships with their clients (Alderete 2013; Abraham and Taylor 1996; Aubert, Rivard, and Patry 2004; Jiang and Qureshi 2006). The literature dedicated to the theory of value and value co-creation process cannot be ignored as well, because value is the crucial component of the main subject in this paper too. Thus, the third block of the literature presents an existing theoretical basis for further discussion of the concept of value, the process of value co-creation, value consumption, contributors to value creation.

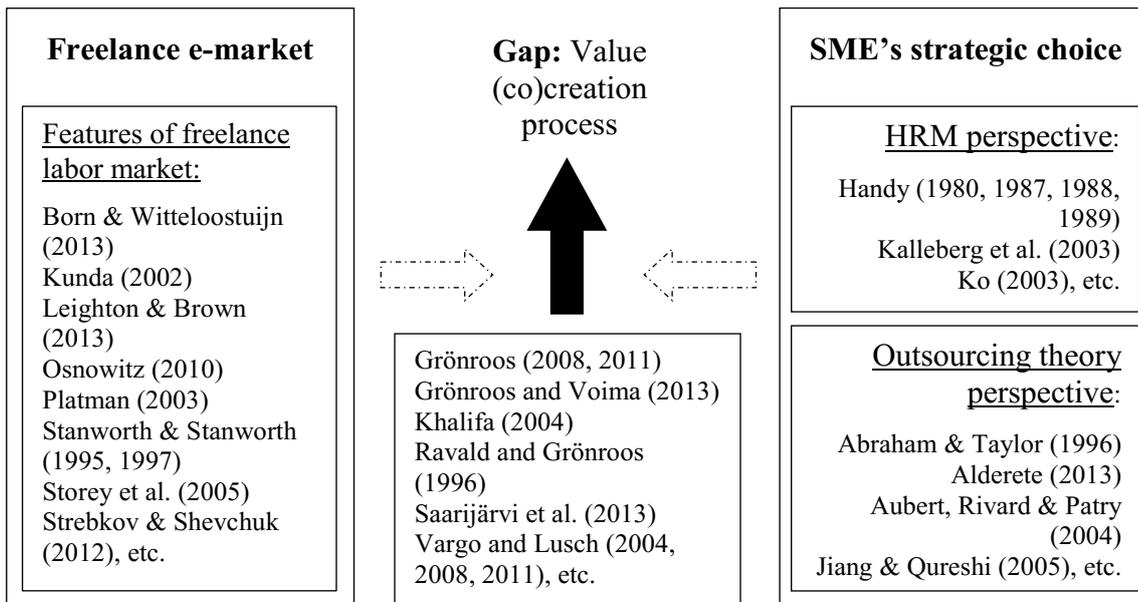


Figure 1 Positioning of the study and gap in the literature

Identified fields of studies are important because they give an insight into the perception of a temporal workforce by freelancers and by companies who might use their services. In turn, it relates to what freelancers offer to their clients and how companies expect to benefit from them. However, a cohesive approach to the process of their cooperation and value (co)creation is not presented in the literature. Thus, the aim of this research is to get a better understanding of the process of value (co)creation between freelancers and their clients, particularly small and medium enterprises. Hence, the following research questions were developed for the study:

**The main research question:**

*How do online freelancers being a temporal type of workforce (co)create value for or with their clients?*

The research question intentionally was structured to remain as open as possible. First thing to consider here is whether the mutual contribution in process of value creation indeed takes place. The literature does not provide a definite answer to this question. Hence, “co” in the question is placed in brackets. It refers to both freelancer’s and client’s contribution, meaning the question who is engaged in the creation of value remains arguable. Secondly, taking into consideration that the value is highly context-dependent, this study focuses only on online freelancing as a subject of research and its contribution into the value potentially experienced by hiring SMEs.

To answer the main question the existing theory and empirical data should be incorporated. Critical analysis of the relevant literature and received data should help to examine the subject and develop a basis for deeper understanding of the value (co)creation

process for SMEs when utilizing online freelance labour. The following subquestions were developed to guide the reader across the main issues of the study and help answer the main question.

**Subquestion #1:**

*How can online freelancing be explained and integrated into the hiring company?*

The existing theories and concepts provide an explanation of the flexible workforce emergence and SMEs demand for it, thus the literature should be discussed and analysed critically. Two approaches to the phenomenon of freelancing from distinct fields are discussed in the paper: when independent contractors are considered as part of companies' resource base (human resource management) and when they represent entirely separate, external entities (outsourcing theory). Further, the empirical data collected through semi-structured interviews aims to reveal the common patterns across cases and deepen the understanding of freelancer's image in the client eyes. The combined theory and data should help to frame the freelancer's and client's roles in value (co)creation process from client's perspective.

**Subquestion #2:**

*How do online freelancers and their clients contribute in value (co)creation in practice?*

To answer the main research question, it is crucial to define the roles parties play in the process of value (co)creation. Having a closer look at the literature dedicated to the concept of value is a starting point to answer this question. However, the theory should be complemented by the empirical data analysis. The conducted open-ended interviews focus on the value (co)creation experienced by interviewees aiming to uncover the input of both parties and whether this input is perceived valuable for the clients.

It should be mentioned that answering the subquestions separately is not the purpose of the paper. Rather combining information received from various sources and detailed analysis of this information should help to give a holistic and cohesive answer to the main research question.

Since the studied phenomenon is relatively novel and lacks both theoretical and empirical groundings, the current paper is defined as an exploratory qualitative study. It means that it does not rely on pre-existing concepts or preliminary framework. Further, the grounded theory is adopted as the analytical approach of the study that is aligned with the absence of pre-conceptualisation. According to this methodology, the theory derives directly from received empirical data while a researcher should remain open-minded and ready to revisions and modifications of the results as new data arrives. Nevertheless, the existing theoretical scope cannot be ignored and should be integrated to explain the data

and shape the emerging theory. It implies the constant interaction between the empirical data and theory making the analysis non-linear and hardly structured. For that reason, to make the paper more organised and easier to read, it is presented in a more straightforward and logical way.

The chapters 2, 3 and 4 introduce the main theoretical blocks of the study as stated in figure 1. The literature is discussed first because it is necessary to define the subject of the study clearly and uncover the theoretical basement to a reader before moving to empirical data analysis. Further, chapter 5 is devoted to the explanation of methodological choices made in the current paper. Chapter 6 introduces the empirical findings of the study that are further elaborated and integrated together with the discussed literature into a conceptual framework in chapter 7. In addition, the conclusions and implications of the study are discussed. The final chapter provides the short summary of the current paper.

## **2 FEATURES OF ONLINE FREELANCE LABOR MARKET**

Before moving towards a discussion of the role freelancers play in their clients' companies, operations, and value (co)creation process, it seems reasonable to state clearly what the notion of freelancer means in this paper and have a precise look at the characteristics that distinguish them both from traditional labour force and suppliers in common sense.

### **2.1 The elaboration of freelance labour definition**

According to Intuit 2020 Report that examines the main trends of current decade a shift of work from full-time to free agent employment is happening at the labour market. It is expected that the number of contingent employees will increase worldwide and, for instance, in the United States it will exceed 40% of the workforce by 2020. (Intuit 2020 Report 2010) Similarly, independent research firm Edelman prognoses that by 2027, at its current growth rate, freelancers will consist the majority of the U.S. workforce. The results of the survey show that 57.3 million Americans (or 36 percent of the U.S. workforce) are working as freelancers in 2017, moreover it is noted that almost half of working Millennials (47%) freelance, more than any other generation ("Freelancing in America: 2017" 2017). The same trend has been noted in the EU. For example, Leighton and Brown (2013, 16) highlight the remarkable growth of independent professionals in European Union since 2004 due to economic crisis and the growth of unemployment. In numbers, from 2004 to 2013 the increase by 45% from just under 6.2 million to 8.9 million is stated that makes independent professionals the fastest growing group in the EU labour market. (Leighton and Brown 2013, 16) These numbers indicate the changes currently happening in an employment sector and expecting for the future.

This trend could not be left without attention by both practitioners and researches, thus a wide range of academic papers relates to freelance labour topic. However, due to variety of used definitions and overlapping of concepts, the understanding of the phenomenon might be problematic. The following definitions referring to a freelance labour force can be found in the literature: self-employment (Stanworth and Stanworth 1995, 1997b; Felfe et al. 2008), independent employment, portfolio or contract worker (Mallon 1998; Mallon and Duberley 2000; Storey, Salaman, and Platman 2005; Platman 2003; Handy 1980, 1988, 1987), independent contractor (Kunda, Barley, and Evans 2002), independent professional (iPros) (Osnowitz 2010; Born and Witteloostuijn 2013; Leighton and Brown 2013), freelancer (Ertel et al. 2005; Stanworth and Stanworth 1997a; Saundry, Stuart, and Antcliff 2007; Baines 1999).

Two opposite approaches when the matter is a contingent workforce are distinguished by Kunda, Barley and Evans (2002, 236) named "institutional" and "free agents"

perspectives. The followers of institutional perspective relate temporal workforce to the second labour market, which is characterized with less stability, lower income and poorer conditions for work. The institutionalists argue that contingent labour is forced to work at this market due to inability in find a full-time job (Loveridge and Mok 1979; Kalleberg 2003; Stanworth and Stanworth 1997b; Handy 1987). However, the studies that support this approach are focused primarily on low-skilled labour. On the contrary, the advocates of “free agent” perspective are mostly dedicated to an experience of highly skilled contractors. A free agency approach argues that contingent status is rather a choice than a necessity; that it represents rather liberation than isolation from the workplace; that uncertainty about employment is actually minimized while flexibility enhances personal control; that contractors receive more money than permanent employees because they are paid for every hour that they work at rates that reflect a premium for skills; and that the contractors experience rather self-actualization than estrangement (Kunda, Barley, and Evans 2002, 237). This study focuses on educated and high-skilled online workforce and for that reason the “free agents” perspective is considered as closer and more accurate approach.

The self-employed are defined by Strebkov and Shevchuk (2012) as the workers not included in the staff of any company who independently market goods or services produced by their personal labour. Similar to entrepreneurs, self-employed have their own means of production and variable income. They directly access markets, independently organize their work and make decisions and choices on a wide range of questions. Nonetheless, since they do all work without creating companies or hiring personnel they are still considered workers. (Strebkov and Shevchuk 2012)

Other terms such as “independent contracting” and “portfolio working” are used to describe similar forms of work but their relationships with freelancing are unclear (Kitching and Smallbone 2012). Contracting is one of the alternative forms of paid work that contrasts with standard jobs (Osnowitz 2010, 6). Osnowitz (2010) described the difference between professional contractors and other types of contingent workers in their opportunity to grow in professional field with fewer market labour obstacles. It can be concluded that the high level of skills, knowledge and expertise unite the professional contractors studied by Osnowitz (2010) with independent professionals and freelancers that are discussed further.

Independent professionals are defined by Leighton and Brown (2013, 8) as highly skilled self-employed individuals who work for themselves but do not employ others. Ranging from journalists and designers to ICT specialists and consultants, independent professionals represent a significant segment of workforce generally, making up 25% of all workforce in professional, scientific and technical work and 22% in arts and entertainment. (Leighton and Brown 2013, 1)

The term “freelancers” is close to definition of independent professionals, however it is not yet in the focus of many studies (Born and Witteloostuijn 2013, 34). Kitching and Smallbone (2012, 80) explain that academic researchers typically use the term “freelance” to refer to independent workers in creative and media occupations. Similarly, Strebkov and Shevchuk (2012, 78) note that traditionally the representatives of “free professions” such as journalists, artists, photographers, architects, etc. were called freelancers, nonetheless the authors state that the range of professionals is expanding today due to the workers who have a direct connection with information technologies (programmers, designers of various fields, specialists in Internet advertising and management of virtual projects, etc.) Thus, in this paper freelancing as the designation of an employment form is defined as a term widely used for self-identification in the environment of independent professionals that as well is presented in the names of Internet sites (including those devoted to seeking work), associations, forums, and unions.

In the survey conducted by independent research firm Edelman freelancers are defined as “individuals who have engaged in supplemental, temporary, or project- or contract-based work, within the past 12 months.” To qualify more precisely the employment status of respondents, five segments of freelancers were captured:

1. Diversified workers, charactering with multiple sources of income, mixture of traditional (can be part-time) employment and freelance work.
2. Independent contractors – traditional freelancers, who don’t have employer and involved in temporal, or supplemental work on a project-to-project basis.
3. Moonlighters, who have a traditional job, but also moonlight doing a freelance.
4. Freelance business owners – freelancer, who has one or several employees or partners and who consider themselves both a freelancer and business owner.
5. Temporary workers – individuals with single employer, client, job and contract project where their employment status is temporary. (“Freelancing in America: 2017” 2017)

This typology is built on the combination of various employment options available for freelancers today. Thus, depending on the sources of income and the role of these sources for a worker different forms of freelancing can be distinguished. Nevertheless, common features for temporal workforce were defined by researchers too. For example, Storey et al. (2005, 1039-1040) argue that practices typical for this type of employment include termination, responsibility, search mechanism, informal network. Termination is an intrinsic property of freelance employment relationship as well as the responsibility for the stream of work and income that lays in the hands of freelancer. Unlike the protection offered to the permanent member of staff, a self-employment received neither redundancy pay nor help with redeployment or retraining once the assignment ended. Further, client, or employers, use search mechanisms to find, select and hire freelancers that include recruitment agents, freelance databases and registers. By far the widely used system

for finding freelance talents was an informal network. Informal network is highly flexible and allows very quickly and selectively bring additional workforce. However, it causes the problems for freelancers such as the lack of knowledge about vacancies, restricted selection process, obstacles to interfere into established relationship of closed networks. In addition, within informal network a freelancer can hardly challenge or change the reputations once established. (Storey, Salaman, and Platman 2005, 1040) On the other hand, using the informal network narrows significantly the client's choice of available workforce, may increase the deployment time and may prevent from establishment of transparent business relationships. Thus, the current paper shifts the focus from informal network search mechanism to online freelance labour market, which can be characterized with more open, fair and transparent system.

Internet has been increasingly used as a networking tool by freelancers. With the emergence of online platforms for freelancing it became possible to obtain information on potential employers and share experiences of working in the industry. (Saundry, Stuart, and Antcliff 2007, 183) Current online freelance labour market is represented by the range of websites where freelancers and their potential clients can find each other, negotiate about tasks and prices, work and monitor the work, get and make payments. The developing infrastructure is one of the main factors that, by making easy and fast trade of freelance services possible, enforce the growth of temporal workforce worldwide or regionally.

In this study for better understanding of online freelance labour market the term freelancer means *a self-employed individual, who works independently on temporal basis for one or several clients through online platform(s)*. The term does not highlight specific occupations or skills, because the nature of distance work via Internet naturally restricts the field of work, but during the last decade the range of work which can be performed distantly has increased and continues to grow. The term underlines the temporality and independence of work, as they are key features of freelance labour. Additionally, freelancers can be involved in more than one project and they can be hired both by companies and other individuals. This is the first reason why the term "client" is used in the definition. The second reason is that being unincorporated service providers freelancers demonstrate "the shift of attitude from having a job to working for clients" (Leighton and Brown 2013, 6). Further, the focus of this study is a freelance labour operating online. It means that online network and infrastructure together with informational technologies should play more important role than personal networks as a source of finding new clients and jobs. It should be also stated that since the definition highlights the offering of online services this study is focused on the relatively high-skilled temporal workers.

## **2.2 Freelance workforce compared to traditional employment**

The client's perception of freelancers and expectations of their services cannot be separated from the features of freelance services offered on the market in general and from the specific nature of relationship occurring between the hiring company and a freelancer. For that reason, in this subchapter the features of freelancing are brought to light through the comparison of freelancers with regular employees. The existing academic literature is used to have a deeper insight into characteristics of temporal employment type that differentiate it from employment in common sense. Each section below is devoted to a specific aspect that is worth considering.

### **2.2.1 *Approach to work and philosophy***

It has been noted that freelancers differ from employees in terms of their approach and attitude to work. How they define themselves and why they became freelancers should be considered here as well. However, defining who freelancers are is a challenging task. They see themselves as a distinct group that doesn't fit the existing employment types – not employees but not small businesses either (Leighton and Brown 2013, 29).

As independent professionals do not recognize themselves as employees it influences their relationships with “employers”. Leighton and Brown (2013, 6) argue that there is a major change in the way a work is performed - from having a job to working for clients. Osnowitz (2010, 22) supports this argument stating that contractors negotiate working relationships as they develop a clientele. To sell their skills and abilities and demonstrate the authority over their work, they have to display competence and strive for an effective performance. (Osnowitz 2010, 22)

The role of networking in freelancing is discussed in many studies, while the working environment is characterized as collaborative rather than competitive. It might look paradoxically, because freelancers still compete for a limited number of contracts. Nevertheless, the literature provides evidence that freelancers do not perceive colleagues as competitors but rather as a sources for opportunities and exchange (Osnowitz 2010, 128). Born and Witteloostuijn (2013, 41), for example, state that social capital positively influences both subjective (satisfaction) and objective (revenue) career success of freelancers. The collaborative way of working reflected in network creation is defined as one of the crucial elements for successful contracting. In general, 85 percent of freelancers use social capital to find work (Strebkov and Shevchuk 2012, 91).

Well-developed network with efficient connections with previous, potential, current clients and colleagues can always bring to new clients and contracts. According to Osnowitz (2010, 122), some contractors consider networking as a part of doing business while

others associate work-based arrangements with personal relationships as well. Meanwhile, the most of successful freelancers use the network to display knowledge, reliability, and commitment to high standards. (Osnowitz 2010, 121–23) Online communication facilitates the network building and exchange even further, since previously limited due to geographical proximity, connections can now expand virtually between members who have never even meet each other face to face (Osnowitz 2010, 203).

Being flexible and innovative, providing value-added to businesses and economies, with their distinct approach to work and philosophy, independent professionals respond to failures in existing business and management strategies. By choosing freelancing, some independent professionals have rejected standard employment, which they feel requires conformity and represses creativity. (Leighton and Brown 2013, 3–4, 6) Strebkov & Shevchuk (2012, 86) explain it by the shift of freelancers' motivation from materialistic to postmaterialistic values. However, quantitative data also indicates that although many EU citizens (37%) wish to work independently, they are deterred by fear of failure, a lack of finance and skills, and red tape. (Leighton and Brown 2013, 6)

Here the risks associated with freelancing worth specifying. Besides skills and knowledge in their occupational field, freelancers are responsible and have to spend significant time finding and getting new contracts, negotiating about terms with each client, ensuring that they are able to finish the job on time, deliver the expected quality and earn satisfactory incomes. Moreover, being out of the internal labour market shelter contractors often play the role of crisis or shock absorbers, because they are hired when needed but quickly dismissed in times of rapid change (Osnowitz 2010, 47–48). In other words, freelancers are, in most cases, the first to be let go when the company faces changes. The end of assignment in this case is hard to predict, which makes it difficult to avoid gaps in earnings (Platman 2003, 291).

One more risk of freelancing, being the feature of it at the same time, relates to less social protection. What now is considered as regular full-time employment, flourished in the time of industrial era with the development of large manufacturing corporations. Clear structure and hierarchy of an organization revealed a clear career path opportunity for employees, who tended to work for one employer for the whole life. Social insurance protected employees and often their family members from the risks of illness and disability (Osnowitz 2010, 7). Constituting a different employment type, contractors usually cannot expect a sick leave or social insurance from the client.

Nevertheless, freelancers are aware of their vulnerability including the financial risks (as well as the deficits of pension and other social benefits) (Storey, Salaman, and Platman 2005, 1051). They recognize that their sources of work could be paused or finished at any time and without warning. However, despite this contractors still show a comparatively high level of satisfaction with their work, their financial situation, and life as a whole (Strebkov and Shevchuk 2012, 92).

The literature steadily challenges the question of why some people choose this approach to work. As it was defined before (p. 15), this study considers a freelancing as a matter of choice rather than a decision imposed by labour market conditions or other circumstances, thus the research adhering similar approach is discussed further. For example, Leighton & Brown (2013, 27) offered five main perspectives in attempt to explain it:

- Rejection of employee status: contractors note that employee benefits including rewards and salary are either illusory or bought at far too high price; they found themselves tired of the burden and monotony of the standard job while often feeling undervalued.
- Priority of focusing on skills: freelancers often state that when taking some position, they had to fulfil tasks not related to their occupation, so they wanted to get back to it (see section 2.2.2).
- Wanting autonomy: desire to be one's own boss is also a significant reason for many to start freelancing; ability to adjust schedule and work at convenient time, taking into account personal and family needs is an irrefutable benefit determining the further choice (see section 2.2.4).
- It was the natural thing: there are some occupational fields, where independent working is the required approach to work, for example, writers, lawyers, developers, etc.; in these fields the temporal nature of provided services established a traditional way to do it. In addition, it might be a traditional approach to work in family. Previous experience of parents can also influence the decision to freelance.
- Financial incentives: some people switch into independent work just because they were offered to earn more using the set of knowledge and skills they have.

Osnowitz (2010, 164) offered similar explanations of choice in favour of freelancing: for some it offers a greater variety than most standard jobs provide, for others it accommodates family needs and personal interests. One may consider, that independent workers do not have a career, thus they may feel with the lack of motivation or achievements. However, the years of experience and strong network can lead to greater responsibility and higher fees corresponding to a career growth in an organizational hierarchy (Osnowitz 2010, 164).

### **2.2.2 Expertise**

By the supply of expertise emerging to serve a continually shifting demand from the organizations Leighton & Brown (2013, 12) explain the key reason for sustained growth of independent professionals. Expertise distinguishes professional contractors from other types of contingent workforce. Being a source of human capital, contract professionals

bring skills and knowledge to their assignments. They invest considerable time and effort learning and developing their skills, often both through formal education and informal trainings. (Osnowitz 2010, 196) In turn, the human capital provided by independent professionals is positively related to their objective career success – revenue (Born and Witteloostuijn 2013, 41). It means that being highly skilled they expect to generate a higher income.

Clients hire independent professionals due to their expertise. They expect contractors to be of low maintenance, begin work with the necessary expertise and move on quietly when their work is completed (Osnowitz 2010, 120). This attitude is completely different compared to hiring an employee, where company usually stimulates the development and learning of workers and invests in training or workforce management programs. In case of freelancing, the expertise is assumed and should be evident.

When building relationships with their clients, freelancers constantly presenting and “selling” themselves. Unlike employees, they cannot rely on organizational status when claim their authority over work-related tasks and responsibilities, their authority highly depends on the demonstrated expertise. (Osnowitz 2010, 72) Thus, even considering themselves experts freelancers can often discover that they are not always given the respect they thought they deserved (Kunda, Barley, and Evans 2002, 247). If a contractor is unable to demonstrate expertise, he experiences the lack of authority and there is a high probability that his advice might be ignored in the organization. It contradicts with one key reason why a company generally hires independent professionals – due to their expertise. The lack of authority, in turn, can result in underperformance. On the contrary, when the expertise is demonstrated successfully, and the domain of authority is established the hired expert is trusted and his recommendations are willingly accepted.

To maintain client relationships independent professional should simultaneously assert expertise while avoiding and being disengaged from organizational conflict (see 2.2.8). The conflict avoidance is often assumed as one component of freelancer’s expertise (Osnowitz 2010, 22, 181). Thus, disputes with clients are usually rare and can be explained by the common principle “the client is always right”. Indeed, firstly, often being paid hourly a freelancer cannot afford to spend much of working time participating in various debates unless they are necessary. Secondly, each client tries to bring a professional contractor that is comfortable and easy to work with the team. Nevertheless, here the conflict avoidance should not be interpreted as the unconditional acceptance of any decision and blind following the instructions.

Expertise is also a tool that independent professionals use to manage the consequences of unforeseen problems. Unexpected problems arise often in the activity of any company and if the employees just continue working normally trying to solve the problems during working hours or overtime, freelancers usually are not ready to absorb the cost of resolving them. They use their expertise to anticipate the unexpected, elaborate solutions, share

the ideas, negotiate the agreement beforehand and adjust it along the working process. In general, informal processes and informal agreements are usual in online freelancing. The forms and regulations are perceived as an annoyance that tend to narrow the freelancer's expertise to a series of tasks and almost always fail to describe their work adequately (Osnowitz 2010, 87). Informality, on the contrary, allows independent professionals to stay flexible while the project progresses and to be more independent in decision-making supporting greater equality between parties.

### **2.2.3 *Temporality, flexibility, and mobility***

Temporality, flexibility, and mobility are interconnected characteristics of freelancing. A short-term need is often mentioned as the main reason for companies to hire freelancers. However, it should be considered, that temporal nature of the work endows independent professionals with mobility because they should switch between clients. At the same time, temporality and mobility require that freelancer be flexible as they manage the relationships with several clients, adjust their offering to different clients' need and modify their work depending on the terms.

Opposed to a standard job that is claimed to be stable, means an ongoing relationship with a single employer and a steady pay check, and presumes the established patterns of authority and accountability, freelancing provides less stability or at least less regularity. The contracts can be part-time, intermittent, casually arranged, temporary, or seasonal, thus workers usually experience high mobility, including periods of unemployment or periods with multiple employers and contracts. (Osnowitz 2010, 6–7) Mainly for that reason freelancing is often considered as unpredictable and unsecured. However, Osnowitz (2010, 49) argues that the mobility and willingness to adapt to changes secure the most contractors. Using the established network, flexible workers can find work surprisingly easily and fast, when they need it most.

The nature of relationships and contract between independent professional and his client is also specific and differs from standard job. In case of traditional employment, the process is formally regulated, the procedure is commonly accepted and standardized. On the contrary, freelancing is usually very fluid and flexible, it has own norms and mechanisms of control. For managers in employing organizations contracting offers a workforce placed outside the formal regulation of most public policy and organizational practice; for contractors, the same system offers an alternative opportunity of negotiated agreements and further mobility across multiple clients (Osnowitz 2010, 192). To be said, many independent professionals distinguish the term contract, which is understood as formal, legalistic and rigid, and the agreement they prefer to make with clients: informal and open-ended (Osnowitz 2010, 86). To their opinion informality increases flexibility,

it makes constant assessment of the project possible taking into consideration changing environment and circumstances.

Altogether freelancers see their assignments as allowing them to work in new ways, on a variety of projects, and for range of clients. In theory at least, they are in position to refuse unattractive assignments, walk away from difficult clients and renegotiate impossible deadlines (Storey, Salaman, and Platman 2005, 1051). Working on different projects with different clients over time freelancers can earn an income with their expertise while making their skills more affordable to potential clients. (Leighton and Brown 2013, 12) It matters because their independence allows their skills to be available more flexibly and adaptively across the economy (Leighton and Brown 2013, 11). As a result, companies utilize contractors to respond flexibly to increasingly competitive and changing environment (Kunda, Barley, and Evans 2002, 235).

#### **2.2.4 Independence**

Freelancers usually work alone or with their partners organizing their own work and generating income, but not employing others. On the contrary, employees are more dependent on and work under the direction of their single employer. (Kitching and Smallbone 2012, 76–77)

Offered independence is often designated by researchers as the main reason for people to become self-employed and freelancing is not an exception here. Independence is attractive for professionals for a number of reasons including the potential for a more varied work experience or in some cases the possibility to increase their financial benefits by offering services to clients who have specific or urgent needs (Leighton and Brown 2013, 12). Freelancers usually willingly highlight autonomy and independence in their working lives being very positive about the implications of these features (Storey, Salaman, and Platman 2005, 1050). They have chosen higher level of autonomy and independence together with the chance to maximize their income (Felfe et al. 2008, 82–83).

To be said, for many people the charm of independence lies in self-fulfilment from being independent but also the opportunity to focus on the ‘interesting’ work. The prospect of greater control over the time, place and pace of working is the second factor. While freelancers often work as many hours as employees, being able to easily balance work with other priorities seems to be an important element of job quality. (Leighton and Brown 2013, 13) Kunda et al. (2002, 247) share the similar opinion stating that the autonomy, focus of new skills development and control over time are among the main reasons for contracting. In addition, according to the Trends in job quality in Europe report (2012, 14) working time quality is designated as one of the core elements of total job quality. Working time quality means the extent to which a job meets the needs for a good

balance between the demands of work and of life outside paid employment (Eurofond 2012, 14).

Meanwhile, not all researchers are of the same opinion about the independence and autonomy of contractors. No freelance worker has complete control in their hands due to the influence of clients: some freelancers, for instance, utilize clients' premises, facilities, and tools to perform work, the other work the same days and hours for a particular client like regular employees do and report to the same manager (Kitching and Smallbone 2012, 78). For that reason, Stanworth & Stanworth (1995, 227) conclude that freelancers in the book publishing industry are essentially "casualised employees" with very limited autonomy and freedom rather than independent self-employed. Moreover, the research provides evidence that working on more than one project at a time, contractors feel pressured towards creating the illusion that they are working exclusively for one client (Stanworth and Stanworth 1995, 224). It means that freelancers should treat each client as the only client they have, but simultaneously manage many tasks. It can be stressful and reduce freelancer's independence. However, the authors focus on publishing industry only and do not take into consideration the current possibilities of online labour market, thus their statements can be disputed. Nevertheless, the importance of the reputation and relationships with clients cannot be negated for successful freelancing. It leads to a conclusion that freelancers are not as independent as they consider themselves.

### **2.2.5 Professionalism**

Osnowitz (2010, 137) argues that professionalism is a feature of contracting that relates to self-control in the rigorous execution of skill and meeting commitments. In contrast to expertise, which highlights the presence of the necessary skills and advanced knowledge in a certain field, professionalism emphasizes the way how the knowledge and skills are delivered and implemented into an organization. In heart of any profession lies a special relation between a client and professional while in the core of professionalization lie the guarantees for this relationship including education, client-protective credentialing, ethics codes and so on (Abbott 1991, 356–57). Platman (2003, 291) similarly states that successful freelancers should be prepared to work long hours to maintain a productive portfolio and to guarantee flexible, affordable and near-instant services to the client.

In contradiction to traditional employment, development and professional growth are hardly supported by the contractors' clients. Traditional long-term employment usually implies some formal training and informal learning on the job, because employers tend to invest in education of their employees. In fact, an important characteristic of employees is the ability to learn at the working place. On the contrary, contractors receive little or no support for professional development because clients expect them to bring all their

expert background to the work at the start. Even when contractors and employees are assigned the same work, they function differently. The contractors usually cannot ask employees for help due to the conviction that they should already have all necessary skills and knowledge. In the contrary, employees can openly learn on the job, they are more readily allowed to ask questions and make mistakes. (Osnowitz 2010, 78, 81)

Nonetheless, freelancers do not seem to feel the lack of sources for professional development, according to Leighton & Brown (2013, 6) they usually even reject the need for professional bodies. In contradiction to regular employees who tend to rely on professional development and relate to a certain, often official, community of professionals, contractors look for less formal, more flexible and contemporary source for professional growth including online trainings, social clubs or networks, and interdisciplinary facilities. They usually define independently which of their skills need to be developed or what knowledge they should gain and then decide to narrow the gap. Since independent professionals operate in fast moving knowledge areas a continuing professional development amongst them plays a crucial role (Leighton and Brown 2013, 6).

### **2.2.6 Reputation**

Reputation plays a crucial role for each independent professional. The opportunity for repeated future work with existing clients and their referrals plays the role of incentive. It stimulates freelancers to meet client needs and take care of their reputation that becomes a mechanism of regulation (Osnowitz 2010, 134). Successful freelancers have to market themselves and turn themselves into a 'brand' (Storey, Salaman, and Platman 2005, 1038).

Reputation depends on many factors including the level of performance, assistance to colleagues, flexibility in response to change, etc. A key component highlighted by Osnowitz (2010, 131) is the willingness to follow commitments, even if more interesting or promising offers arise. Most of the successful contractors feel they cannot violate given words and promises because by letting their clients down they cannot expect the emergence of trust and further development of relationships. Moreover, they are at risk to create an image of unreliable and unprofessional contractors in the eyes of wider audience and lose potential contracts in the future.

In a network-based market place reputation is a major factor of success, because despite of all previous merits a freelancer is always in danger of being forgotten. (Storey, Salaman, and Platman 2005, 1043) Thus, having a list of referrals and recommendations is crucial to self-promotion. However, there is then other side of the coin as well. Due to extremely transparent system of the online market, together with the growing competition, a reputation can be strongly and irrevocably damaged by just few negative

experiences. Usually, the reputation of the freelancer in online marketplaces is built on a two-way feedback mechanism. Both the seller and buyer have a chance to rate each other after each transaction. Further, these ratings are available to their prospective clients. These feedback systems are designed to incentivize players to behave well because they are aware of possible future consequences (Yoganarasimhan 2013, 861). Yoganarasimhan (2013, 887) concludes that buyers value high-reputation sellers – these freelancers are not only more likely to become selected but they can also expect to get higher price offer.

To summarize, a reputation system plays a crucial role in online marketplace. On the one hand, it simplifies the selection process for the client. At least in part, contractors can be trusted, because concern for their good reputation incentivizes them to adhere to occupational norms and address the goals of the client (Osnowitz 2010, 198). On the other hand, a good reputation used as a referral system becomes a source for new contracts and relationships for a freelancer. Without it high-quality sellers could easily leave the marketplace thereby increasing buyers' likelihood of cancelling the offer or even leaving the marketplace too, being unable to find a necessary expertise (Yoganarasimhan 2013, 887).

### **2.2.7 *Attitude towards payment***

The way how employees and freelancers are paid differs significantly. This directly affects the costs of a hiring company. Whereas traditional employment implies salary, independent professionals usually have two ways of getting paid: by hourly rate or fixed price. In the first case the client is charged for every hour spent to complete the work, in the second – the price is negotiated in advance for the product or task. It is tempting to think that hourly rate contract can be used by freelancer to report and charge their clients more than they work. However, the clients can use the existing online tools to monitor the freelancers' activity and assess the outcome. Due to a high competition contractors should work with greater efficiency and cannot afford slow productivity that might occur in office environment (Osnowitz 2010, 62). On the contrary, the hourly rate agreements also incentivise the client to use a contractor's time efficiently.

Consequently, contractors' attitude towards extra work and urgent tasks is different when they are paid hourly. While traditional employees usually work overtime unwillingly, because it is an investment in their career in the future, freelancers often readily take extra job since they see the increase of their income immediately. There is an evidence that some employees, who had a chance to work together with contractors, moved to freelancing due to the perception that contractors make more money for doing the same job (Kunda, Barley, and Evans 2002, 245). One reason for this way of thinking is that freelancers are paid for overtime and extra job.

The different attitude towards payment derived from an important feature of freelance marketplace. Unlike employees, contractors do not routinely receive pay checks; instead, they must act to be paid (Osnowitz 2010, 97). In this sense they are selling their expertise, skills and knowledge more apparently than regular employees and simultaneously to many clients. Thus, their main priorities comprise the delivery of best possible services and meeting their clients' needs.

Self-assessment is one of the possible actions used by freelancers to guarantee the best value for money. For instance, Osnowitz (2010, 98) pointed reviewing of billable time against a subjective sense of the service provided. Many contractors described excluding from their bills any time spent in backstage efforts to find information or update a skill since they could not expect client investment in their knowledge (Osnowitz 2010, 99). Similarly, many freelancers charge strictly for work undertaken sitting at desk or computer, excluding any extra time like for a break or lunch from the charge sheet (Stanworth and Stanworth 1997b, 67).

Although contractors are not guaranteed a long-term employment, the hourly rate agreements correspond their effort and investment more accurately compared to regular employees (Osnowitz 2010, 48). How the time is calculated is another issue that sometimes can cause discrepancy or be disputed. Fixed-price contracts, on the contrary, are less risky for the client, however, in case of substantial changes in the work scope, freelancers can initiate the negotiation to change the initial estimation, which often happens in an informal manner.

### **2.2.8 *Disengagement***

In the official statistics individual professionals are related to either self-employment or SME data (Leighton and Brown 2013, 5). However, as it was already stated they perceive themselves as a separate group (p. 18). Being engaged for some time, contractors cannot expect and even do not strive to be completely accepted by employees. Due to the lack of organizational position and separation from permanent employees, the freelancers stand apart from the internal conflicts or office politics that can undermine expressed goals and hamper individual success (Osnowitz 2010, 48). Thus, even if contractors share the work experiences of employees, are assigned the same tasks or required regular interaction and cooperation, their presence in the organization is temporal and distinct.

On the other hand, contractors easily avoid organizational conflicts, or office politics in a broader term, considering it as a major advantage of their status (Osnowitz 2010, 67). As a proof, organizational politics is stated to be one of main motives for people to exchange a permanent full-time job to freelancing. In this case "politics" is a term used to refer to the endless ways in which the machinations and manipulations of self-interested

others undermined technical rationality as a criterion for organizational action (Kunda, Barley, and Evans 2002, 241). Overall, being experts in their respective fields, nothing prevents freelancers from functioning like employees and become full contributors to the goals of the client, but their status demands a strategic disengagement (Osnowitz 2010, 119).

After more detailed review and comparison of traditional employees to freelancers, it can be concluded that the latter function differently, have own priorities and use another mechanisms and strategies. Contractors face some contradictions in relationships with their clients that can be hardly resolved. They are willing to contribute to client goals and meet needs and expectations but stay independent and detached from organizational life. They communicate and interact with employees, follow the progress of a project or even company's performance but avoid internal disputes and organizational politics. High mobility in the labour market supports their autonomy, but in practice they should take care of accountability to sustain their reputation and performance. (Osnowitz 2010, 95) In a similar way Kunda et al. (2002, 248) explain the realities of contracting centred around four themes, each of which is marked by an opposition: independence versus being an outsider, security versus uncertainty, enhanced income versus hidden unpredictable costs, and skills as an expertise versus skills as a commodity.

### **2.3 Self-regulatory market mechanisms and freelancing**

Technological development and the arrival of the information age of the twenty first century are the main reasons making the idea of independent and remote online work possible and attractive. Operant resources matter for the companies more than ever, thus expertise becomes a valued good for trading. In addition, the grow of service sector in economy expands the opportunities for professionals, at the same time enhancing their specialization due to the grow of expertise depth required in any one professional field. All these factors increase the chances of independent contractors to be in demand. (Leighton and Brown 2013, 12)

The question related to the presence of experts in the company has always been how to manage them. They have their own way of work, ethic code, and ambitions, they are hired due to their expertise and the logical question arises: who can be competent enough to judge their standards (Quader 2007, 159). It could become a challenge for human resource management if the respected expert works in the company permanently, but in case of temporal worker the situation should be viewed from a slightly different angle.

Although freelancers separate themselves from employees and entrepreneurs or small business, they obviously obtain characteristics of both groups. Many researchers analysed the features of freelancers in attempt to establish their relationship to entrepreneurship,

enterprise or small business (Born and Witteloostuijn 2013; Felfe et al. 2008; Kitching and Smallbone 2012; Storey, Salaman, and Platman 2005). For example, Born & Witteloostuijn (2013, 34) argue that independent contractors are employees turned into entrepreneurs and consider freelancers as the hybrid of employees and entrepreneurs. On the one hand, they explain that freelancers are employees because they are almost always hired by firms to work for a period and sell nothing else but their intangible professional knowledge. It differs from other entrepreneurs and self-employed selling tangible products to customers. Nonetheless, this argument can be a subject of debate because nowadays many companies can supply exclusively knowledge and services, for example, consulting company, law firm or digital marketing agency at certain level. On the other hand, authors state that freelancers are entrepreneurs because they work for their own risk and reward without any organizational guarantee or support. In similar way Kitching & Smallbone (2012, 80) contend that freelancers form a particular type of small business owners. They can be distinguished from small employers because they do not employ others, from own-account workers because of the knowledge/skill-intensive services they provide and from employees on the grounds of their autonomy. Felfe et al. (2008, 82-83) relate freelancers to self-employed as well mainly in the form of 'one-person-businesses'. These 'semi'-entrepreneurs have chosen a higher level of autonomy and independence together with the chance to maximize their income.

Thus, recognizing entrepreneurial characteristics of freelancers and accepting that they operate at open market the self-regulatory market mechanisms can be used to describe the relationship between contractors and their clients. In a similar way, Osnowitz (2010) describes why contractors can be trusted and in demand.

Freelancers compose a type of workforce that moved significantly from organizational to market-based employment relationships (Storey, Salaman, and Platman 2005, 1049). For that reason, to be successful contractor has to meet clients' requirements and accomplish assigned tasks. Success depends on pleasing the client whatever it takes (Storey, Salaman, and Platman 2005, 1048). Client-focus is crucial at reputation-based market place and freelancer have to adapt to the needs of their clients (Storey, Salaman, and Platman 2005, 1052). Many freelancers assume that inefficiency and underperformance can result in poor reputation, undermine their status as expert practitioners and compromise the relationships with their clients (Osnowitz 2010, 98).

The same market regulatory processes simultaneously support the freelancer's independence. For example, self-control and adherence to the norms can relieve managers of the need for close supervision (Osnowitz 2010, 136). Freelancers' concern for their reputation and their expressed commitment to high standards can make them independent from managerial scrutiny (Osnowitz 2010, 198). However, this statement seems more justified when an independent contractor has already had a chance to demonstrate an

expertise and prove himself, thus a certain level of trust between him and his client is established.

Based on the literature mentioned above, the self-regulatory process at freelance labour market was developed (figure 2). It is assumed that freelancers operate on the open market, obtain entrepreneurial characteristics and offer expertise, thus they act in competitive environment and should take care of their reputation and develop competitive advantages. It can guarantee, at least in part, quality, reliability and efficiency for their clients stimulating the trust in freelancer-client relationships, expanding the freelancers' network and supporting their autonomy.

Horizontal layers of the figure 2 have the following logical reasoning. Firstly, high specialization and expertise form a competitive advantage of the freelancer on the market. It claims a certain level of quality the client may expect from the flexible worker. Thus, being treated as an expert it relieves the need of close supervision and makes freelancer's work more autonomous. Secondly, being in process of constant search of new opportunities, a freelancer should rely on his entrepreneurial skills where the process of constant network building, problem-solving and expertise demonstration play important role. They force freelancer to take care about his reputation. The client knows about this concern, this makes freelancer reliable in his eye, and thus the client imposes less control over his actions.

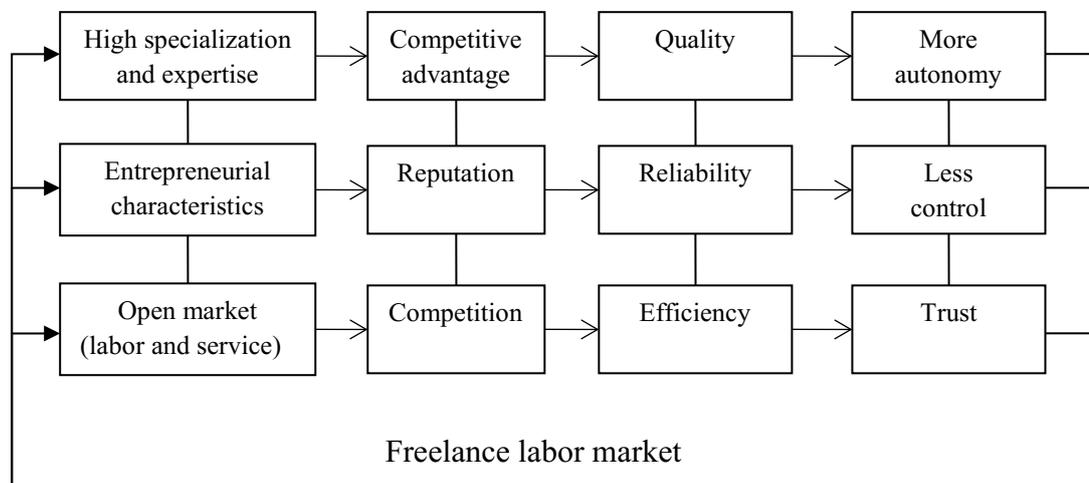


Figure 2 Self-regulatory process of freelance labour market (developed based on the presented literature)

Thirdly, operating in the open and relatively transparent online market with intense competition freelancer should consider efficiency and high-level performance as key elements that can lead to a long-term-relationships and trust between him and his clients. Further, being trusted and autonomous in their networks, freelancers use working

experience to deepen and improve their expertise and entrepreneurial characteristics. Overall, it should be stated that all dimensions presented in the figure are interdependent. It is shown with vertical dependencies meaning that any dimension can influence the other horizontal level directly and indirectly.

In this chapter the definition of the phenomenon was elaborated, the main features of freelancing through its comparison to regular employees were distinguished, and market mechanism regulating the relationships of freelancers with their clients is discussed. The characteristics of this type of employment type should determine the way how SMEs utilize freelancers, how their relationships are built and what kind of value they expect to get in the result. However, to understand the value (co)creation process, the clients' perception of freelancers and understanding of their role in SMEs' operations are more important. Thus, the next chapter examines freelancing from organizational perspective using two approaches that potentially can explain the place and role of contract worker in company's structure and its business relations.

### 3 SME PERCEPTION OF FREELANCE LABOR FORCE

*Work is no longer means only jobs or employment. The same work can be done in a variety of different ways. Nobody recall the girls in service at the big house anymore. Well, houses still get cleaned. Some people are still prepared to pay the exorbitant costs of a live-in domestic. But they do not have to. They can contract it out to a firm, or to an independent operator which is often working at marginal prices. Or they can invest in various forms of technology that do the work with minimum human involvement. Or the owners can take a personal pleasure in doing themselves what their forebears paid others to do. Similar choices are open to all work organizations today. (Handy 1980, 32)*

The quote above refers to a decision each SME should make in relation to workforce today. The companies have an option to employ full-time regular employees, to outsource some operations, or to utilize individual contractors. Indeed, it is considered as one of fundamental questions which processes should and make sense to be completed internally versus processes that are reasonable to externalize. Thus, independent professionals and relationships with them can be perceived and explained by SMEs from two main perspectives. On the one hand, it can be described as a specific form of employee-employer relationships whereas, on the other hand, it can be closer to outsourcing and business to business (B2B) relationships.

#### 3.1 Human resource management perspective

The company's owner or managers can consider freelancers as an approach to human resource strategy meaning that the company hires a contractor in attempt to acquire additional human capital. According to the resource-based view and VRIO framework (Barney and Wright 1998, 32; Barney 1991; Wright, McMahan, and McWilliams 1994) human capital is the source for sustainable competitive advantage for a company. It makes the resource-based theory the core concept for development of strategic human resource management (Mayson and Barrett 2006, 448).

The firm's human capital resources are defined by Barney and Wright (1998, 32) as "the skills, judgment, and intelligence of the firm's employees". At the same time Wright, McMahan and McWilliams (1994, 304) emphasize the direct employment relationships when defining human resources, thus it contradicts the intrinsic features of contingent workers discussed in previous chapter. For that reason, the practicability of human resource strategies can be reasonably questioned in this case. However, human resource management aims to enhance employee commitment and productivity (Marlow 2006,

473) that should be useful when dealing with freelancers as well. Moreover, although freelancers have their own characteristics they are still considered as a type of workforce. They bring an expertise and skills to the companies becoming a source of human capital, thus human resource practices cannot be ignored and worth discussing.

Nonetheless, the development of coherent labour force management theory for SMEs in the literature is hindered by the lack of commonly accepted understanding and explanation of the human resource processes in such companies. Nolan and Garavan (2016, 85) argue that the existing research dedicated to human resource development in SMEs is limited in terms of utilized theoretical concepts, coherence, national and cultural contexts, and SMEs' heterogeneity. Although scholars managed to expand the knowledge about human resource development in SMEs they were not able to develop a coherent and uniquely applicable approach to date (Nolan and Garavan 2016a, 101). Similarly, Marlow (2006, 468) argues that the attempt to find human resource management practices and theories typical for large companies in small firms allows to conclude that the labour managerial practices somehow do not exist in SMEs. However, this conclusion rather refers to an inapplicability of traditional human resource management frameworks to small firms than their absence. (Marlow 2006, 475)

### ***3.1.1 Challenges of theorizing human resource management in SMEs***

The researchers are struggling to develop the broadly applicable human resource management framework for SMEs. Human resource practices vary among the small and medium companies greatly, although Borcosi (2015, 323) offered the following common characteristic of HRM regular for these companies:

- less inequalities between employees;
- interdependence between the employees of higher and lower hierarchical levels;
- relatively small differences in wages of employees from different organizational levels;
- subordinates expect to participate in decision-making;
- the power is associated with the expert quality, ability to provide rewards, etc.

The roles and responsibilities in small companies are less clearly defined, people know each other better, have more freedom and often decisions are made quickly or even spontaneously, without a certain proven process and consulting. Informality became a commonly accepted feature of human resource development in SMEs (Psychogios et al. 2016, 324; Behrends 2007, 56; Lai, Saridakis, and Johnstone 2016; Marlow 2003; Greenidge et al. 2012; Mayson and Barrett 2006; Barrett and Mayson 2007). In fact, the research provides evidence that the smaller the company is the more likely it follows informal HRM

processes primarily controlled by top manager (owner) of the company (Psychogios et al. 2016, 322).

However, at the same time Nolan and Garavan (2016b, 412) argue that informality of human resource activities and the role of SME context are still conceptualized in the literature insufficiently. Company's size is the most used determinant in existing literature of the informality of human resource management because small-sized companies are associated with the lack of resources (B. Kotey and Sheridan 2004, 484), lesser system complexity (Behrends 2007, 59; Marlow 2003, 531) and concentration of HRM in a top-manager's (usually owner's) hands (Lai, Saridakis, and Johnstone 2016, 3; Marlow 2003, 534, 2006, 473). Working closer with their employees, managers can find the normative HRM practices too bureaucratic for their scale, non-essential and imposing additional operational costs.

The evidence shows that with firm's growth its human resource processes evolve towards formalization and while proximity between management and employees becomes less tangible the new formal processes occur (Marlow, Taylor, and Thompson 2010; B. Kotey and Sheridan 2004). Among factors facilitating faster transition to formality researchers found growth-orientation (Barrett and Mayson 2007, 314), geographic operation (international versus local), sector (manufacturing versus services), and size (Psychogios et al. 2016, 322). The question if there is a reverse correlation between growth and transition to HRM formalization, in other words if more formalized management stimulates or is necessary for SMEs' growth, is unclear. In general, it is argued that a certain level of formality and informality mixture always exists in small companies (Edwards et al. 2006, 710; Marlow 2003, 533), moreover the degree of formality in companies of the same size may vary greatly (Ram et al. 2001, 846). The challenge related to implementation of formal practices by SME lie in finding of an appropriate balance that is both context- and dynamics-dependent.

The role of context in explanation of HRM in SMEs is also indicated in the literature. For example, Nolan and Garavan (2016b, 431) criticize existing research dedicated to human resource development in SMEs for lacking contextualization. Acknowledging the importance of a company's size in shaping human resource strategy it cannot be sufficient. It is concluded that the researchers should also take into consideration a wide range of internal and external contextual dynamics determining SMEs behaviour (Nolan and Garavan 2016b, 416). In a similar way, other studies state that HRM in small and medium companies can be hardly prescribed to any established standards due to a significant role of firm-specific context, including its size in combination with sector and other influencers (B. Kotey and Sheridan 2004, 483; Marlow 2003, 531; Ram et al. 2001, 845).

Accepting the importance of human capital for any company, the growing amount of work that companies externalize nowadays should be justified. The main concepts

explaining the SME's choice in favour of external workforce type are discussed in the following section.

### **3.1.2 *Labour externalization for SMEs***

The most common explanation of labour externalization lies in SME's desire to keep flexibility and reduce costs. While permanent employment tends to stabilize the workforce and increase loyalty to the company through firm-specific training, skills development to better match the company's needs, and continuous full-time contracts; externalization, on the contrary, is designed to increase organizational flexibility rather than stability (Kalleberg, Reynolds, and Marsden 2003, 526). Similarly, Lytras et al. (2010, 268) argue that flexible work models offer an advantage to maximize firm's flexibility for adjusting the workforce to the business cycles and fluctuating demand. It is concluded that a certain mixture of full-time and flexible employees allows small and medium companies to manage labour cost effectively (B. Kotey and Sheridan 2004, 476).

The organization utilizing several types of workforce was called by Handy (1987, 516) the Shamrock Organization. This organization engages three types of labour forces, each of them has different terms and conditions. The first group is considered as the basement of the company forming the committed core which includes essential managers, technicians and key workers. Being essential and highly-valuable for the organization, these workers are paid well and promised lifetime, secured careers in return for high commitment and specific for this company skills. The second type of employees consists of so called the contractual fringe, individuals or groups providing goods or services on contract basis. The additional petal of the shamrock is the flexible workforce utilized occasionally to cope with seasonal peaks of fluctuations in demands. (Handy 1987, 516)

Thus, the segmentation of workforces in the company is caused by the attempt to achieve flexibility and based on the division of core and periphery business components simultaneously creating the distinction between insiders and outsiders of the organization (Kalleberg 2003, 156). Loveridge and Mok (1979, 123) offered the framework for labour market segmentation (figure 3). The 'vertical' axis presents a differentiation of employees in terms their rewards, working conditions, responsibility, autonomy and job security (primary vs. secondary); the 'horizontal' axis characterizes workers by their tasks, the skills required and place in organizational hierarchy (internal vs. external) (Loveridge and Mok 1979, 123). Conversely, more autonomous and secured primarily market is separated from less protected and more controlled secondary market. Further, internal market characterized by the presence of firm-specific knowledge and skills is distinguished from external market that offers an expert knowledge in the fields in general, thus should be adjusted to company's needs. However, discussing the distinction of primary and

secondary markets further it can be assumed that the autonomy and security of workers depend on the relationships and developed level of trust between them and company, thus relates to their performance, skills and knowledge. It means that vertical and horizontal axes presented in the framework being skills-dependent should correlate.

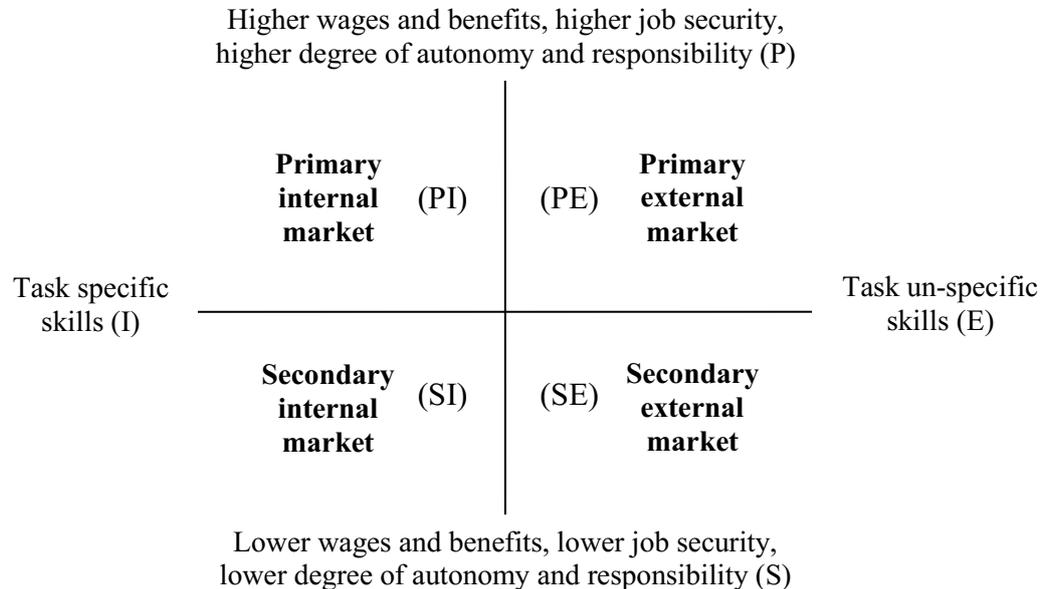


Figure 3 Labour market segmentation on two axes (Loveridge and Mok 1979, 123)

Using the above-mentioned segmentation Stanworth & Stanworth (1997a, 53) argue that external labour market presents the freelance workers of two types, who are different from internal company's workers but perform relatively the same job. Primary external (PE) group of freelancers are those, who highly regarded by in-house managers and experienced a flow of repeat work (reducing their insecurity); whereas secondary external (SE) group gained opportunities only when former is unavailable (so experienced lower and more unstable earnings).

The dimensions of labour market segmentations were also presented by Kalleberg (2003, 164) who explained the difference of workforce by their relationships with employer (core-periphery) as well as by control over their skills and market situation (high-low). Similar to the first type of workforce in the Shamrock Organization discussed above, it is argued that companies strive to keep for regular employment only employees with core and specific for their business skills. Being sheltered from external competition full-timers are often promised future advancement within the firm internal labour market (Kalleberg, Reynolds, and Marsden 2003, 526). For the standardized operations companies tend to use contract workers, whose control over the situation highly depends on the skills and service they deliver (Kalleberg 2003).

The relationship between internal and contingent employment is examined by researchers from substitutive and complementary perspectives (Ko 2003, 475). The substitutive perspective explains the external workforce as a replacement for existing internal systems. With the help of external labour companies want to achieve better flexibility and cut costs by reducing their obligations to employees in conditions of growing economic uncertainty. From the complementary perspective the external workforce plays a role of buffer needed to protect core employees of the organization from labour market fluctuations. On the one hand, contracting compensates the cost of employees internalization, on the other hand, it increases the commitment and motivation of full-timers who were still given a position in the company. (Ko 2003, 474)

In his survey Ko (2003) strongly supports complementary perspective, however, does not refute the other approach. Similarly, the concept of Shamrock Organization discussed above follows complementary approach, stating that companies reward their essential workers with full-time contract while use temporary worker when additional workforce is required (Handy 1987, 517). On the contrary, Stanworth & Stanworth (1997a, 53) state that freelance labour is not used as a complement to in-house full-time labour anymore but rather as a substitute. The argument that contingent labour is used to protect core employees seems controversial because according to George (2003, 297) externalization has a significant negative relationship with internal workers' trust in and commitment to the organization. George (2003) examined whether externalization in its extent and length were associated with internal workers' attitudes and whether this relationship was moderated by two contextual variables. The negative relationship was established for both the extent and length of externalization and employees' attitude (George 2003, 397). Kalleberg (2003, 171) also argues that by protecting core employees with a buffer of numerically flexible workers companies try to reach both internal and external flexibility, but in some cases the use of nonstandard workers may create conflicts with regular employees and thereby diminish cooperation and teamwork (Kalleberg 2003, 171).

To summarize, the relation between external and internal workforce can hardly be acknowledged as absolute substitutive or complementary. Firstly, contingent labour varies greatly depending on industry, level of skill, attitudes to work, relationships with their clients. Secondly, organizations follow their own motives when choosing certain human resource management strategies.

While examining human resource management in small and medium enterprises, the researchers distinguish a range of HRM activities typical for this type of the organization. These activities are discussed further in the context of freelancers in an attempt to justify their usage by SMEs.

### 3.1.3 *Freelancers in HRM activities of SMEs*

The human resource activities of SMEs emphasized by the literature include recruitment and selection, training, performance appraisal, human resource policies and records (B. Kotey and Sheridan 2004; Greenidge et al. 2012; Hill and Stewart 2000). However, most of them differ in relation to freelancing or cannot be applied at all. For example, generally being highly informal in SMEs human resource policies and records often absent at all for external workers. The relationships with freelancers are rather regulated by market mechanisms discussed in chapter 2.3 than formal policies and records elaborated inside the enterprise. To guarantee the transparency and accessibility of the market online platforms develop tools that allow to leave the feedback, assess work, resolve disputes, verify the identity of freelancer, share their portfolio, confirm their skills and so on playing the role of market regulator. Further, the necessity of worker motivation and performance appraisal is also replaced by the freelancer's desire to deliver the best possible service to the client. Freelancers cannot afford underperformance if striving to establish mutually beneficial long-term relations with their clients. Thus, a large part of SME's human resource activities mentioned in the literature is replaced by market mechanism in case of freelancing.

The recruitment and selection process can be considered less risky when hiring freelancers because they can be replaced relatively easily in case of underperformance or lack of skills, while meeting the expectations of the client can lead to long-term relationships. According to Hill and Stewart (2000, 100) human resources development is not perceived as a core business process for SMEs functioning, as a result, companies tend to employ qualified people who need little or no training. From this perspective, hiring freelancers is also reasonable because they already have necessary expertise and are responsible for the development of their skills exempting SMEs from financial and time investments in their education. Similarly, Kotey and Sheridan (2004, 484) claim that if a micro-firm is at the introductory stage of its life cycle, its business strategy is likely to be highly intuitive and oriented towards aggressive search for opportunities. In this case utilizing a freelance labour can be justified by their expertise and flexibility enabling to pursue occurring opportunities immediately. Nevertheless, the recruitment and selection process at the online freelance market should not be considered as effortless. Managers of the companies that hire freelancers face a great choice of workers around the globe. Each of them has its own level of skills and expertise, attitude to the client and work, cultural background, level of language, personal characteristics and so on, thus often making a right choice challenging, requiring from managers the experience of work with freelancers and clear business strategy towards this type of workforce.

The personalized and informal approach should not be taken to signify that the recruitment is not treated seriously. Informal mechanisms act as a flexible yet rigorous means

for testing the suitability of potential recruits. (Ram 1999, 882) Complex documentation, formal structures and increased control at early stage of the company can disrupt its ability to respond quickly to the changing strategic orientation (B. Kotey and Sheridan 2004, 484) At the same time, as discussed in the section 3.1.1 with firm's growth its HRM becomes more formal while simultaneously company tries to keep flexibility by attracting the contingent labour.

According to Kalleberg (2003,154), employers can respond to environmental changes by seeking two main kinds of organizational flexibility. First, functional, or internal, flexibility means the ability of employers to reassign different tasks to their regular workers. (Kalleberg 2003, 154) Second, numerical, or external, flexibility describes the extent to which the firm can adjust the size of its workforce to demand fluctuations by using temporal external workers. Obtaining numerical flexibility by asking or requiring the regular employees to work overtime is also an option for organization. (Kalleberg 2003, 155) Both internal and external flexible working arrangements (FWAs) can be used by SMEs pursuing the strategy of superior human capital (B. A. Kotey 2017, 365). At the same time, the literature argues that firms with high flexibility of workers show a significantly higher technical efficiency compared to companies declaring medium or low workforce flexibility (Lytras, Castillo-Merino, and Serradell-Lopez 2010, 271) While being flexible is crucial for organizations nowadays they can use different ways to achieve the necessary flexibility: some take the "high road" focusing on functional flexibility, whereas others follow a "low road" strategy of cutting costs with numerical flexibility (Kalleberg 2003, 171).

In this subchapter the freelancing was discussed in terms of SMEs human resource management. Defining and conceptualizing human resource practices for small and medium companies is challenging task itself. An attempt to integrate temporal workforce there makes it even more complicated although fascinating as well. The key theories and frameworks to labour force segmentation were examined together with the place of freelancers in human resource activities of SMEs. In the next subchapter an approach to freelancing is discussed from a different angle. Considering freelancers as separate from any company and self-sufficient actors the outsourcing theory is brought to explain SMEs judgment about them.

### **3.2 Outsourcing theory perspective**

Perceiving a freelancer rather as the external partner of a company than an employee makes the outsourcing theory relevant in explanation his working process with SMEs. It can be assumed that outsourcing primarily refers to interfirm cooperation, although many researchers avoid pointing to only businesses as the participants of these relationships

using the following definitions: “external party” (Everaert, Sarens, and Rommel 2010, 93; Carey, Subramaniam, and Ching 2006, 14), “external supplier” (Aubert, Rivard, and Patry 2004, 922), “external service provider” (Carey, Subramaniam, and Ching 2006, 12), “providers outside the enterprise” (Alderete 2013, 305). Together with self-regulatory market mechanisms (see section 2.3) it supports the statement that individual professional contractors can be acknowledged the actors performing outsourced tasks.

Finding the right approach to outsourcing strategy is crucial for the company to address organizational competitiveness (Jiang and Qureshi 2006, 44). Grossman and Helpman (2005, 136) underline the important role of partnership between sides stating that the role of outsourcing expands over the purchase of materials or standardized intermediate goods and services. Finding a partner for mutually beneficial relationships fitting the firm’s needs is key purpose of the outsourcing (Grossman and Helpman 2005, 136).

Outsourcing research scope is divided by Jiang & Qureshi (2006, 46) in three main areas: 1) studies focused on the drivers behind a firm’s outsourcing decision – “why”; 2) research concentrating on the process of partner selection, contract negotiating, implementation, control, monitoring – “how”; 3) and studies about the results or outcomes that the decision to outsource brings to the firm – “and what then” (Jiang and Qureshi 2006, 46). Chadee & Raman (2009, 428) support this division in their study of the academic literature devoted to the information technologies services outsourcing and add the fourth area that covers the attractiveness and competitiveness of service provider.

Together outsourcing decision, management and outcomes should be discussed in this study because the first area defines initial SMEs expectations when deciding to work with a freelancer, the second gives a better insight into the working process, and the third group of research assesses the outcome of the outsourcer-outsourcee cooperation – thus all together they can explain the potential value (co)created by a freelancer and the hiring company.

### **3.2.1 *Why and what to outsource***

The transaction cost theory of the firm (TCE) has become a commonly used framework to explain firms’ decisions on whether to perform a specific process internally or externally (Everaert, Sarens, and Rommel 2010, 93–94). TCE explains the firm’s choice by a relative cost of a transaction (Everaert, Sarens, and Rommel 2010, 94) which depends on asset specificity required for the transaction, level of uncertainty surrounding the transaction and transaction frequency (Everaert, Sarens, and Rommel 2010, 96–98; Aubert, Rivard, and Patry 2004, 922; Hafeez and Andersen 2014, 21–23; Greenberg, Greenberg, and Antonucci 2008, 595–96; Aubert, Rivard, and Patry 1996, 53–55; Williamson 1981, 555). According to the TCE assumptions, outsourcing occurs in the situation of low cost

of transaction, thus frequency, assets specificity and uncertainty are low. However, empirical results of various studies are contradictory. For example, Everaert et al. (2008, 108) confirm TCE predictions about frequency and asset specificity examining the outsourcing of accounting, although does not support the role of environmental or behavioural uncertainty. On the other hand, Hafeez and Anderson (2014, 27) do not find a negative relationship between the higher frequency of non-routine functions and outsourcing in accounting. At the same time, authors provide the evidence of significant negative correlation between asset specificity and accounting outsourcing choice that corresponds with TCE prediction. Aubert et al. (2004, 929) demonstrate ambiguous results in IT operations stating that according to the first survey more specificity leads to more outsourcing, but subsequent data sources revealed the opposite correlation. The low level of uncertainty and presence of technical skills play significant role in favour of IT outsourcing (Aubert, Rivard, and Patry 2004, 929).

Although empirical evidences do not clearly define the influence of transaction characteristics on its cost and the decision to outsource, TCE emphasizes that decreasing transaction costs related to searching, monitoring and evaluation of service providers shift the optimal way of organizational form to the market. Online freelance labour market is an example of this shift. The development of communication technologies and online presence ease the process of finding and managing contractors, as a result leading to outsourcing of the certain operations. However, simultaneously it causes other challenges for the companies that should not be forgotten, e.g. how to cope with a great choice of independent professionals, how to monitor them, how to hedge risks, how to assess their work, etc.

Trust is established as a factor facilitating the decision to outsource to external service provider by minimizing transaction cost and opportunism. Especially, it is highly relevant in the context of companies operating in the environment where business is built on trust (Hafeez and Andersen 2014, 28). Greenberg et al. (2008, 594) distinguish two types of trust: interpersonal and institutional. The latter one can facilitate the outsourcing process with the help of trusted mechanisms including systems, institutions and parties. While trusted systems include the hardware and software enabling the development of transparent and protected relationships, trusted institutions refer to legal rules and policies, and trusted parties relate to behavioural patterns of side involved into outsourcing process (Greenberg, Greenberg, and Antonucci 2008, 598–602). Online platforms for independent professionals strive to position themselves as trusted systems protecting both parties from negative actions and consequences. Platforms often have a policy and every member gives a consent to follow it when signing up. In addition, some platforms have a feature on the website to conclude a contract and file a complaint with resolution centre in case of its breach. It plays a role of trusted institutions. Nevertheless, the widespread implementation of trusted institutions is challenging due to international nature of the

relationships between freelancers and their clients and differences in legal aspects among countries. For that reason, the large part of online agreements is made in written, unofficial form when the client reaches a contractor and asks if something can be done and at what price. When the work is completed the payment is released in accordance with provided invoice. Of course, such approach imposes risks on both parties such as unmet requirements and expectations, late delivery or for instance the client's rejection to pay. It explains the growing reliance of both freelancers and their clients on intermediaries, in case of online freelancing – on platforms. Interpersonal trust between external service provider and a company evolves during the time of cooperation and knowledge sharing. Thus, when it reaches a certain level the parties can withdraw the services of intermediary to eliminate its fees.

The second approach to outsourcing comes from the analysis of the organization-related capabilities. Taking into consideration knowledge and resources available, it is suggested that firm will outsource those activities and processes, which are non-core for the business from strategic perspective and, thus, the firm is relatively less capable to perform them (Alderete 2013, 306). From resource-based view (RBV), it is more beneficial for the company to concentrate available resources on core operations, develop and exploit capabilities to specialize, rather than embrace a wide range of non-core activities (Carey, Subramaniam, and Ching 2006, 14) Resource-based approach was supported by Hafeez and Anderson (2014, 28) stating that the level of competition between small and medium enterprises positively correlates with the accounting outsourcing. Authors conclude that firms tend to outsource accounting functions to increase their efficiency and competitiveness on the market (Hafeez and Andersen 2014, 28).

In general, the research distinguishes the following drivers for outsourcing based on the theories discussed above: 1) cost reduction; 2) focus on core competencies; 3) growth and flexibility (Brewer, Ashenbaum, and Ogden 2013, 178). Similar but more detailed structure of factors motivating outsourcing decisions was offered by Kroes & Ghosh (2010, 127) that include a) cost-, b) flexibility-, c) innovativeness-, d) quality-, e) time-related outsourcing drivers. Each of these groups composed of the number of factors suggested and supported by the relevant research in academic literature (Kroes and Ghosh 2010, 127). The most recent study also suggests an extensive list of reasons to outsource that includes business competition, technology advancement, production flexibility, customization, capacity management, time to market, tax benefit, source to innovation, quality assurance, and knowledge transfer (Sandhu, Shamsuzzoha, and Helo 2018, 2202). The shift from traditional cost reduction as a core explanation of the outsourcing, to more complicated and knowledge-based factors can be noted here. Although fierce competition, technology development, flexibility, innovation, tax benefits, or knowledge transfer can bring a cost reduction to the company, their emphasize demonstrates the changing

approach to outsourcing: from mainly cost-reduction activity of the company to more knowledge-intensive.

Founded on the TCE and RBV theories the study of Carey et al. (2006, 13) argue that company's decision to outsource internal audit is determined by perceived cost savings and perceived technical competence of external side. The corporate strategy is not associated with outsourcing of non-core activities, while the role of company's size is not evident from the results. Alderete (2013, 316) drew the same conclusion in relation to the company's size. Although, the main focus of the study was to test SMEs' innovation level and the usage of information and communication technology as factors in favour to outsourcing decision. According to the results, product and process innovation are positively associated with SME choice to outsource while organizational innovativeness has an opposite effect. The study also argues that the higher information and communication technology access company has, the lower is the probability of its decision to outsource. It is explained by stating that lower information and communication technology access of the company prevents it from coping with the high frequency of arrival of new technologies. Thus, instead of absorbing costs due to the obsolete technologies in periods of transition companies tend to outsource the operations to external parties which use the latest technologies. (Alderete 2013, 318)

Mahnke (2001) discusses the outsourcing decision from evolutionary theory perspective, stating the TCE and RBV neglect firms' strategic desire to develop knowledge and capabilities through learning dynamics and that clear separation of activities might not be possible in the codified form. Outsourcing can be considered as a response to knowledge-based competition (Mahnke 2001, 355), it is a relevant reason for utilizing freelance labour, because the company can try to access external knowledge from independent contractors through integrative learning and develop advantage through cooperation. Overall, it is concluded that the more capabilities based on experience, the more complex are activities and the less participants are capable and willing to share their knowledge with external vendor, the slower and more expensive the outsourcing process will be (Mahnke 2001, 373).

The variety of make or buy models can be found in the literature. However, after their review Makhmutov et al. (2017, 1622-1627) conclude that the academic research still lacks the integral model of outsourcing nowadays. The model of the whole outsourcing process is unavailable as well due to its complexity and ambiguity. The authors also state that the most commonly graphic presentation of the models takes the form of separate two-dimensional matrix (Makhmutov et al. 2017, 1631). In the context of current paper, two models will be briefly discussed (figure 4). This selection is caused by the models' determinants: 1) competencies as it is the crucial component of freelancers' services versus SME's in-house competencies; 2) resources availability as SMEs often experience

their shortage; 3) importance to customers, where customers of SME are taken into consideration and who potentially can be affected in the result of freelancer's engagement.

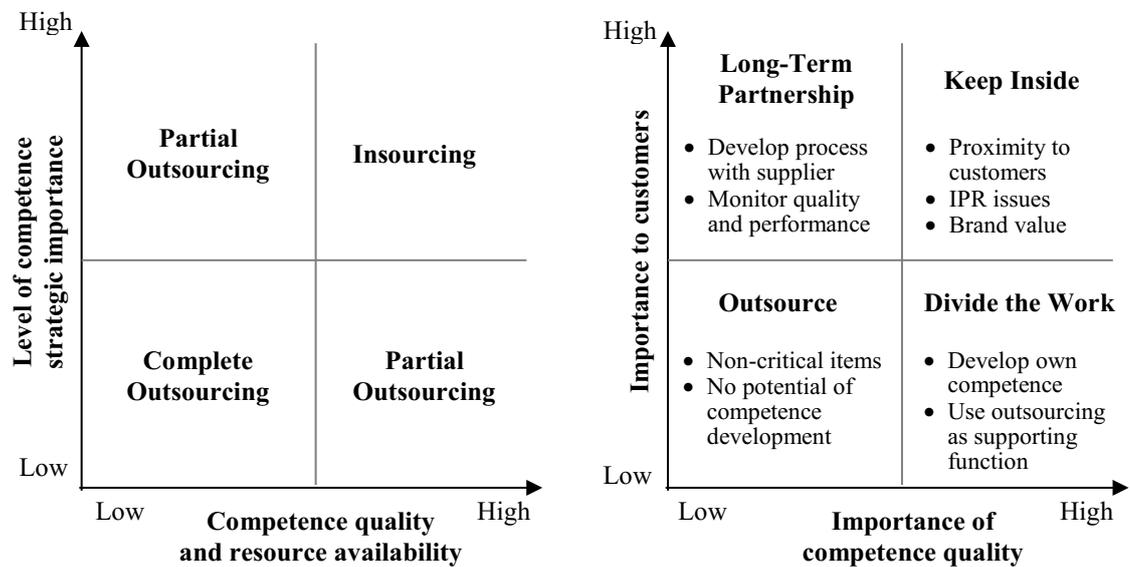


Figure 4 Competence level – quality matrix (Anikin and Rudaja 2009, 77); customer – competence matrix (Sandhu, Shamsuzzoha, and Helo 2018, 2206)

The matrix on the left suggests that competences of low strategic importance together with low quality and resource availability in the firm should be outsourced, on the contrary, high indicators of these dimensions should lead to preserving these competencies completely in house. The rest combinations should be considered as a signal for partial outsourcing of these competencies. The matrix presented on the right side introduces the importance to customer as the factor of outsourcing decision. Thus, the most important competences of the company that also play the crucial role for its customers should be insourced. On the contrary, non-key competencies of the company that are distant to its customers worth outsourcing. If the role of non-key competence increases for firm's customers, the long-term partnership with the competent supplier is recommended. Similarly, if the competence important for the company remains low in proximity to its customers, company should develop a competence further using outsourcing as a supportive measure. Although these models logically look applicable for SMEs and their decision to utilize freelancers, they were not developed for this purpose, thus their usability remains unclear.

Nevertheless, SMEs face the same dilemma whether to outsource or not, however not much research was conducted in this area (Smogavec 2017, 204). The example of study focused on small and medium enterprises in Malaysia suggests that business owner's characteristics such as innovativeness, knowledgeability, strategic vision positively influence

the SME's decision to outsource, while environmental dynamism impact it negatively. At the same time, the relationship between strategic orientation and the level of outsourcing was not supported. (Halim et al. 2017, 356–58) If the first conclusion can be explained by opportunistic and risk-taking entrepreneurial behaviour of SMEs managers, lack of formal procedures in SMEs that makes the process of outsourcing easier and increases its speed and intensity, the second conclusion is more contradictory. On the one hand, authors explain the negative relation between outsourcing and the dynamic environment with the increasing risk and shortage of resources when company operates in highly dynamic environment. On the contrary, flexibility should help to cope with increasing uncertainty and since it is named as one of the main reasons for companies to outsource, the outsourcing in dynamic environment can increase.

The picture of firm's motives to contract out can be more complicated than it is regularly perceived (Abraham and Taylor 1996, 417). While the company's decision to outsource is widely explained with the mixture of TCE and RBV, some researchers argue that outsourcing is far more sophisticated and use other theories for its justification. However, the integral approach to outsourcing decision is not offered by the literature so far, whereas its scope in terms of small and medium enterprises remains very limited. In the next section, the theory regarding the process of outsourcing is presented and discussed.

### 3.2.2 *How to outsource*

Outsourcing can bring benefits and opportunities for companies simultaneously resulting in managerial and organizational challenges due to its complexity (Mahmoodzadeh, Jalalinia, and Yazdi 2009, 851) For that reason Pratap (2014, 227) claims that researchers should move their attention from outsourcing decision to outsourcing management. But before discussing the proposed models, two types of outsourcing are briefly presented.

Smogavec (2017, 204) discusses the difference between traditional and strategic outsourcing which mainly lies in whether the company tries to increase its revenue through outsourcing. In other words, if the firm outsources activities that directly relate to its main operations aiming to increase the revenue in a long-term, it is a strategic outsourcing. Knowledge process outsourcing is an evident example of strategic outsourcing because its purpose is to gain access to talented and knowledgeable people around the world (Edvardsson and Durst 2014, 796). On the contrary, traditional outsourcing takes place when additional operations of the firm are transferred to an external service provider because he has a better capability to perform them in terms of cost, speed, or quality. (Smogavec 2017, 204)

According to Franceschini et al. (2003, 248) the outsourcing process is composed of four main stages: internal benchmarking analysis, external benchmarking analysis,

contract negotiation and outsourcing management that can be further divided into smaller steps. However, the authors present the outsourcing process as a linear with the high focus on initiation and introduction phases. Significantly less attention is paid to managerial processes when the partnership is already established. On the contrary, Mahmoodzadeh et al. (2009, 861) offer the lifecycle of business process outsourcing using business process management and knowledge management that consists of the following steps: 1. definition of core competences and strategic direction of business process outsourcing; 2. modelling and evaluation of current business processes, designing business process outsourcing plan; 3. modelling and assessment of business process outsourcing consequences before implementation; 4. implementation of business process outsourcing program; 5. measuring metrics; 6. evaluation of results and improvement (Mahmoodzadeh, Jalalinia, and Yazdi 2009, 861). The model highlights the opportunity for learning from previous experience, constant measurement of the results and their assessment for further improvements. The difference in discussed models can be explained by the type of outsourcing the company pursues. The latter model was developed for business process outsourcing which is in most cases a strategic outsourcing that implies close and long-term collaboration with external party. Meanwhile, the first model can be rather applicable for traditional outsourcing when the fast and right selection process plays the crucial role.

The model suggested by Pratap (2014, 237) offers different strategies for different outsourced processes. The models illustrate the applicability of different managerial strategies – flexibility, absorptive capacity, relationship, and monitoring – that depends on the characteristics of outsourcing process. According to the figure 5, if the process is not well-integrated into the company but simultaneously there are no vendors performing significantly better (1 uncertain drizzle), the firm needs to develop strong review mechanisms to improve the performance, but remain flexible and open in case better capabilities arrive to the market. When company decides to outsource a peripheral process to a vendor who has a capability to significantly improve it (2 bright sunshine), the company should be open to new opportunities and knowledge it can gain from the external partner, thus it should stay flexible and absorptive. Although it can be risky to outsource highly connected processes, if the external provider has an opportunity to significantly improve it (3 thunderstorms), the company should focus on building a long-term relationship with the partner while using cooperation and access to information for further improvements. Finally, in the case of deeply connected processes that cannot be significantly improved by external providers (4 monsoons) the model suggests spinning off the process. Thus, the company should establish a close relationship with newly established unit and monitor the processes ensuring the unit stays compatible with the firm. (Pratap 2014, 237–43) For companies this model can also be helpful in balancing flexibility, learning, relationship and control when they utilize freelance labour. When inviting a freelancer for cooperation the SME's managers should consider a certain strategy that matches the SME's and

freelancer's capabilities and allows a freelancer to perform well and (co)create value with the client.

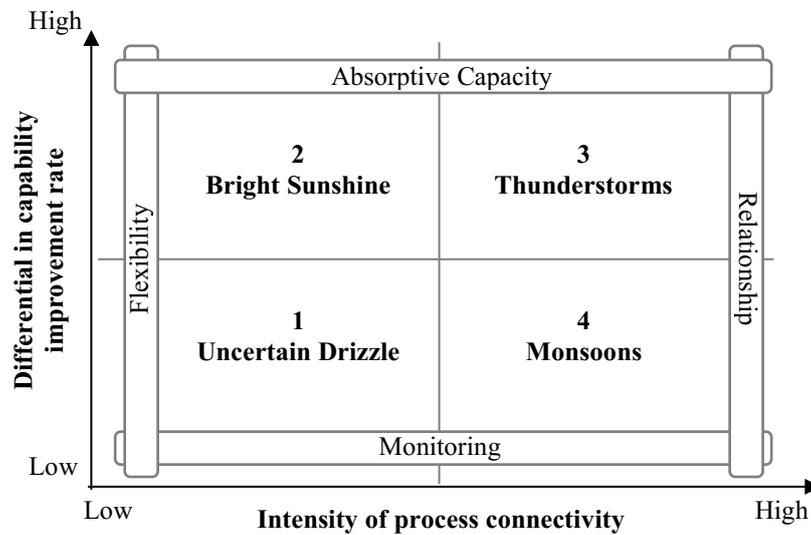


Figure 5 Framework for performing outsourcing capability (Pratap 2014, 237)

Relationship between the company and external party plays a crucial role in enhancement of economic value (Vitasek and Manrodt 2012, 6). Franceschini et al. (2003, 251) define four types of outsourced-outsourcer relationships based on levels of complexity and specificity:

- *Traditional vendor* characterizing both low complexity and specificity;
- *Temporary relationship* emerges when the specificity of the process is high but the monitoring and defining contract terms and conditions is not difficult;
- *Network organization* takes place in case of high complexity and specificity;
- *Strategic union* is the type of relationship that develops when the outsourcing process is complex but generally standardized;

Focusing on the collaborative relationships, Vitasek & Manrodt (2012, 8) suggest five rules of vested outsourcing, which should result in win-win collaboration, trust and shared value. They are: 1) focus on outcomes, not transactions; 2) focus on the what not the how; 3) clearly defined and measurable desired outcomes; 4) pricing model with intensives that optimize cost/service trade-offs; 5) a governance structure with insight, rather than oversight. The adopting of suggested principles enables the companies to develop a vested outsourcing agreement. (Vitasek and Manrodt 2012, 8)

According to Sharma et al. (2015, 592), when managing outsourcing SMEs should also pay attention to the business environment. The authors state that the influence of contextual factors is underestimated in the literature. As a result, it causes such contradictory results when examining the outsourcing outcomes (see section 3.2.3). Thus,

authors propose that SME's entrepreneurial nature helps to manage institutional differences and, if institutional differences are managed effectively, it enhances the outsourcing success. (Sharma, Lindsay, and Everton 2015, 593–94) The case study emphasizes the role of context and the ability to learn from failures for successful outsourcing management. The question, however, is whether in general, outsourcing is a promising strategy and what are existing evidence on outsourcing outcomes. It is discussed further in the next section.

### 3.2.3 *Outcomes of outsourcing*

Jiang and Qureshi (2006, 49) argue that outsourcing impact on firm's performance and value has not been well-established by research. The authors define five areas of possible measurable effects of outsourcing including cost reduction, productivity growth, profitability increase, firm's value improvement, and risk control. (Jiang and Qureshi 2006, 51). Further, to examine the impact of outsourcing on firm's cost efficiency, productivity and profitability empirically the quantitative study based on financial data was conducted by Jiang et al. (2006). While the results confirm that firm can improve cost efficiency with the help of outsourcing, the relation between two other measures, profitability and productivity, and outsourcing was not supported but not rejected either (Jiang, Frazier, and Prater 2006, 1296). Studying the relationships of outsourcing and firm's performance Martínez-Sánchez et al. (2007, 729) conclude that firms with greater outsourcing intensity do not experience significant improvements in performance. However, the assessment of firm's performance in this study was based on the perceptions of managers, thus their reliability and objectivity can be questioned. In addition, Martínez-Sánchez et al. (2007) examine the impact of flexibility on company's performance. The results show that both functional and numerical internal flexibility positively impacts firm's performance while the external numerical flexibility was not associated with improvement. At the same time, the authors suggest that the higher outsourcing intensity increases the functional internal flexibility of the firm, thus reinforce its impact on firm's performance. (Martínez-Sánchez et al. 2007, 729–30) The presented results demonstrate that while claiming that cost-reduction and increased firm's flexibility are widely desired results of outsourcing, the empirical data suggests that it does not always lead to a better company performance.

On the contrary, Wang et al. (2008, 150) make the opposite conclusions. However, the study is devoted to IT outsourcing, which could be a reason for different results. The findings indicate the positive performance effect of outsourcing, although it is more evident at the process level than at the firm's level. At the same time, the study finds that firm's IT capability and IT outsourcing are mutually reinforcing and performance

enhancing. By this resource complementarity authors explain the difference in performance measurements across companies. In other words, the stronger firm's IT capability, the better outsourcing is managed and aligned with firm's strategy which leads to a better company performance. (Wang et al. 2008, 150–53) Similarly, the focus of many studies was not the finding evidence of company's performance improvement in the result of outsourcing as such, but rather finding factors that increase the probability of successful outsourcing implementation. For example, Kroes and Ghosh (2010, 137) share the evidence proving the importance of strategic alignment between firm's competitive priorities and outsourcing drivers. This outsourcing congruence results in a better supply chain and firm's performance (Kroes and Ghosh 2010, 137–38). Similarly, Brewer et al. (2013, 192) confirm some outsourcing goal-outcome relationships. The authors claim that defined specific firm-level outsourcing goals lead to better achievements (Brewer, Ashenbaum, and Ogden 2013, 191–92).

While the positive outcomes of outsourcing remain doubtful and the literature does not provide a definite and consistent evidence of its benefits, Holger and Hanley (2004, 283) suggest that larger companies experience more advantage in profitability than smaller firms. It is explained by lower transaction cost for large companies, their higher bargaining power, resources availability for searching, selecting and managing suppliers. However, the influence of the contextual factors in the study (manufacturing sector, location of the participants, exclusion of micro-firm from the study) should be considered. (Holger and Hanley 2004, 271–77) Thus, the reliability of the finding in the context of the current paper can be questioned. Similarly, another context-dependent study was conducted by Agburu et al. (2017). The authors examine the impact of four outsourcing strategies on SMEs profitability and conclude that there is a significant relationship between the outsourcing of back office activities, primary activities and support services and SMEs profitability while the relationship between the outsourcing of accounting activities and profitability was not supported. Although this study entirely focuses on SMEs from various sectors, half of respondents represent wholesale and retail sector. (Agburu, Anza, and Iyortsuun 2017, 20–30) Moreover, the study is conducted among SMEs in Nigeria, thus as in the previous case due to the study scope the generalizability of findings is limited (Agburu, Anza, and Iyortsuun 2017, 32).

As opposed to financial outcomes of outsourcing discussed previously, Smogavec (2017) examines the satisfaction of SMEs with outsourcing. Satisfaction with outsourcing comprises both financial and non-financial benefits, thus closer in meaning to perceived value, the subject of current paper. The results show that satisfaction with outsourcing is relatively high both in general and in regard to individual elements such as price, quality, solving problems, the information flow, expertise and knowledge, technological equipment of the external contractor, innovative proposals, solutions, and recommendations, and quick adaptation. Authors also conclude that satisfaction is higher in case of

contractual compared to ad hoc collaboration. (Smogavec 2017, 223–24) Thus, setting well-planned and realistic outcomes affects satisfaction that matches the findings of Brewer et al. (2013) discussed above. The drivers for outsourcing do not impact satisfaction in case of traditional outsourcing, while the developmental long-term reasons that are more typical for strategic outsourcing significantly impact the satisfaction. On the contrary credibility criteria affects satisfaction when traditional outsourcing takes place, but not in case of strategic outsourcing. Finally, it is concluded that satisfaction with outsourcing is not affected by risk factors, but the difficulties that are the consequences of noncompliance with risk factors impact the level of satisfaction significantly. (Smogavec 2017, 224–26) Other study dedicated to non-financial outcomes of outsourcing was conducted by Agndal and Nordin (2009). The authors suggest that decision to outsource a certain function to external service provider results in decrease in ability to perform this function in the company. Moreover, due to interdependencies between functions in the firm it may negatively impact the performance of other functions, thus the company's capabilities. (Agndal and Nordin 2009, 329)

This subchapter presents three main areas of the literature dedicated to the topic of outsourcing. Since a freelancer is an external service provider, SME can perceive the hiring and delegating some task to freelancers as outsourcing process. The existing academic research provides some useful answers on what should be outsourced and in which cases, however, the explanation of managerial aspects and outsourcing outcomes, especially in the context of small and medium companies, remains inconsistent and limited. It is expected that outsourcing may decrease costs, facilitate an access to the expertise, increase firm's flexibility, help to keep up with modernization of technologies and absorb workforce fluctuations when implemented appropriately (Aubert, Rivard, and Patry 1996, 62; Abraham and Taylor 1996, 395).

In this chapter two approaches for an explanation of freelancing by companies were reviewed critically: human resource management and outsourcing. Some researchers argue that the outsourcing or workforce externalization should mostly be explained by the desire to generate cost savings and achieve flexibility, whereas others emphasize the significance of access to knowledge and expertise for a short time and with minimal expenditures before mentioning cost-saving and flexibility. This contradiction is the result of company's strategic focus. In turn, the chosen strategy can frame the value (co)creation process. In other words, how SMEs explain and perceive freelancing can determine their expectations and working process, thus determining the value that is (co)created as the result. In the next chapter the literature devoted to the concept of value and its creation is discussed.

## 4 THE PROCESS OF VALUE (CO)CREATION

The increasing role of specialization and information together with the developed technologies for its separation, transportation and exchange makes the outsourcing of the broad number of processes possible nowadays, thus creating opportunities for service providers (including freelancers) to trade their knowledge and skills (Vargo and Lusch 2008, 4). Considering that value creation is the essence of service provision, it plays a crucial role in understanding the freelancer-client relationships. However, despite of the growing number of research in recent years (Khalifa 2004, 645), value remains an elusive term (Vargo, Maglio, and Akaka 2008, 146). In this chapter the main theoretical approaches to understanding of value creation and assessment are examined.

### 4.1 Roles of customer and service provider in value creation

It is widely noted in the literature that the concept of value and its (co)creation impose significant limitations on the research due to its abstraction (Sánchez-Fernández, Iniesta-Bonillo, and Holbrook 2009, 107; Grönroos and Ravald 2011, 6; Saarijärvi et al. 2013, 7), definition-related challenges and measurability (Grönroos 2008, 303; Sánchez-Fernández, Iniesta-Bonillo, and Holbrook 2009, 107; Grönroos and Ravald 2011, 6; Grönroos 2011, 280). Consequently, the results related to the notion of value, how it is created, what are the starting and ending points, what are its components, and who are the participants (Grönroos and Ravald 2011, 6; Grönroos 2011, 282) are still limited. For example, Khalifa (2004, 646) considers value as one of the most misused concepts in social sciences, including management, while Grönroos and Voima (2013, 133) note that consistent understanding of value and value creation process is missing in the service literature.

Highlighting the bidirectional nature of value, it was defined by Grönroos and Helle (2010) as monetary gains created in mutually beneficial and reciprocal way by business partners. Customer value, in turn, is characterized with better off for user (Grönroos 2008) or its increased well-being (Vargo, Maglio, and Akaka 2008). Thus, *value for the client in this paper is defined as a scope of subjectively determined and perceived positive consequences received during and in the result of service provided by a freelancer.*

The theoretical approaches to value concept includes two mainstreams: “value-in-exchange” and “value-in-use” (Vargo, Maglio, and Akaka 2008, 146). Although the roots for this distinction refer back at least to Aristotle, the concepts are still widely used in today’s literature in attempt to explain the shift from good-dominant to service-dominant logic (S-D logic), in particular the shift from understanding of value from the firm’s

outputs perspective to the understanding of value as the process of firm's resource integration and customer's consumption (Vargo, Maglio, and Akaka 2008, 146–49).

According to S-D logic, the value is co-created by customer and manufacturer through mutual application of operant resources (including knowledge and skills) (Vargo, Maglio, and Akaka 2008, 146). Although value can be transmitted through goods or operand resources (Vargo and Lusch, 2004), perception and experience of the customer always determine value that is possible only in the process or, in some cases, after the utilization of the offering (Vargo, Maglio, and Akaka 2008, 148). It emphasizes the “value-in-use” as a primary source of perceived value. Nevertheless, it should be noted that authors state that the role of value-in-exchange cannot be underestimated. Since in most cases value cannot be obtained naturally and requires access to resources, value-in-use is mediated by value-in-exchange (Vargo, Maglio, and Akaka 2008, 150).

In attempt to elaborate S-D logic, the researchers suggest some alternative considerations. For example, Ballantyne (2011, 203) highlights the definitional problems that remain at the current stage of S-D logic development and focuses on the concept of value proposition which directly relate to the perception of value and its locus. The author states that although value proposition has a number of meanings in the literature, and all of them in one way or another consider customer value, the thinking about value propositions is still endowed with the components of good-dominant logic (G-D logic), where value propositions are characterized by value delivery rather than value co-creation (Ballantyne et al. 2011, 204–5). It is argued that value propositions are reciprocal, or multi-sided, and as a result can be initiated by any party or shaped through cooperation, however the received or potential value is always determined by beneficiaries (again from both sides) (Ballantyne et al. 2011, 205). It does not contradict with initial S-D logic premises, but rather put an attention on the bidirectional process of value co-creation, simultaneously considering its subjectivity.

More radical view on value creation process and the roles of parties was offered by Grönroos (Grönroos and Ravald 2011; Grönroos 2008; Grönroos and Helle 2010; Grönroos 2011; Grönroos and Voima 2013). According to this perspective, if considering value-in-use as a foundational approach to understanding the service logic, consumption should become the main mean of value creation (Grönroos and Ravald 2011, 8). In this sense, value-in-use is created and accumulating in time only via process of usage (Grönroos and Voima 2013, 136). Based on this logic authors state that all-encompassing approach to value co-creation does not match the nature of value-in-use concept. Everything is co-creation and everyone is co-creator when the it is considered as all-encompassing process (Grönroos and Voima 2013, 137). Only activities in which the customer directly involved can be a part of value creation. Thus, value-in-use that includes the creation of value by user and value creation as all-encompassing process that contains the activities of both service provider and client should be separated. (Grönroos 2011, 283)

This distinction is presented in figure 6. When discussing the concept in freelancer-client context, the question arises about the processes which compose the “provider sphere”: it can include all activities freelancer accomplishes before getting the contract (e.g. the development of skills, portfolio, reputation) or it can refer to activities during the his workflow that are separate from the client (e.g. sketching, concept development in design or calculations, analysis in accounting).

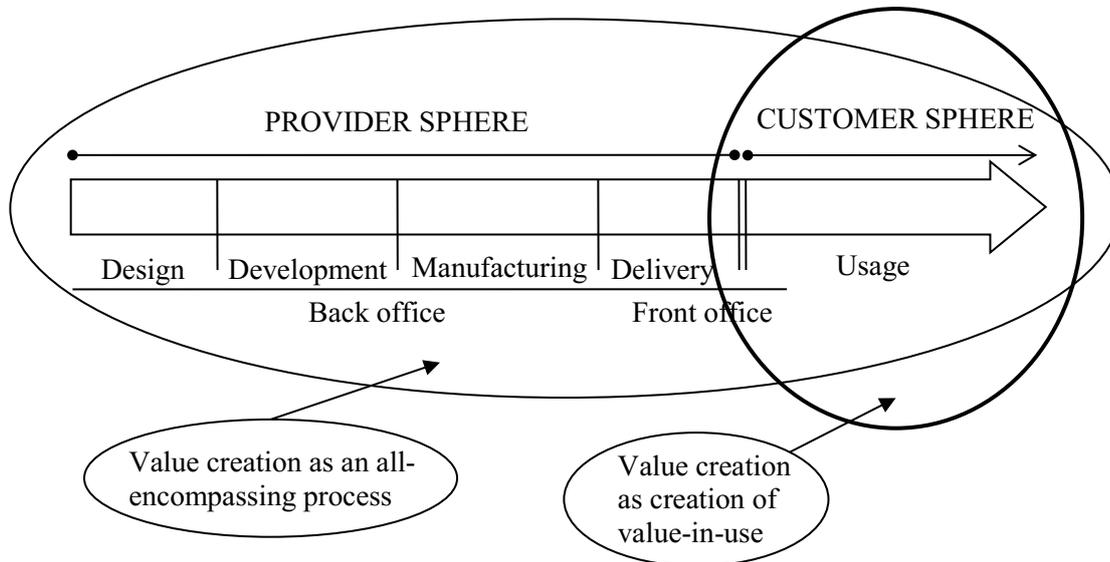


Figure 6 Value creation as the customer’s creation of value-in-use or as an all-encompassing process including provider and customer activities (Grönroos 2011, 283)

Putting it in line with other service providers, the first approach seems reasonable since value-in-use should start when the client hires freelancer and starts use his expertise. Before that a freelancer should develop his expertise and shape his offering that potentially can bring value to the client. Hence, the customer sphere covers all working process of the freelancer and further usage of this work results. The process of service provision often imposes constant interactions with the client, thus can be considered as a joint sphere. The moment of exchange, if considering value-in-exchange concept, can be stretched in time while the freelancer is paid by hours worked. Thus, combining these notes the elaborated process of value creation presented in figure 7. This process correlates one offered by Grönroos and Helle (2010, 507) for the manufacturing sector.

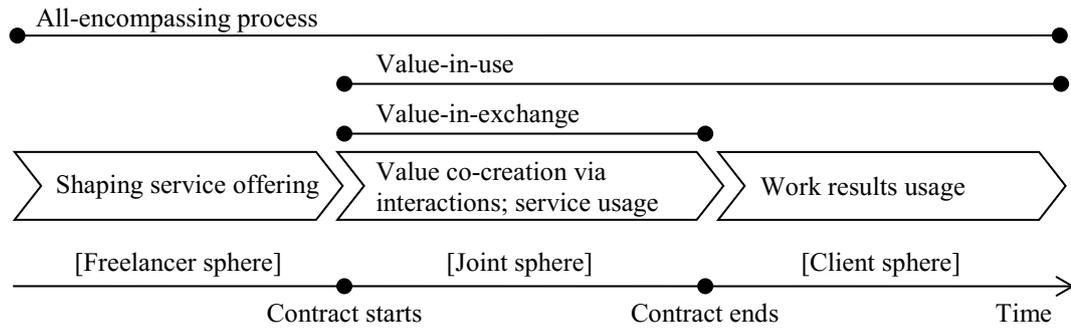


Figure 7 The processes for value-in-use creation for freelance services

To conclude, Grönroos and Ravald (2011, 15) suggest more customer-centric view at the value co-creation process than S-D logic initially proposed. The main idea behind the service logic is that service provider should interfere in consumer's value creation process and co-create it through direct interactions with the help of service (Grönroos and Ravald 2011, 10). Unless direct interactions take place, producer remains just the value facilitator being able to integrate the required resources (Grönroos 2011, 288). The customer is the ultimate creator of value for himself, not co-creator. At the same time, the quality of value facilitation and interactions is claimed to be the determinant of value-in-use for the client. (Grönroos 2008, 305–7)

The approach offered by Grönroos (2008, 2011) became a premise for more theories attempting to put the customer in the centre of value creation. For example, Heinonen et al. (2010, 532) mention that previous studies did not assign customer an active role in value creation, but only expect the purchase and consumption from him. Similarly, Strandvik et al. (2012, 133) argue that the development of new concepts is needed to understand value-in-use from the customer's perspective.

Heinonen et al. (2010) assert that S-D logic lacks customer focus and is advanced but still company-centred approach, thus introduces customer-centric logic (C-D logic) that aims to have a more precise look at the client's life, practices and experiences. The C-D logic should shift the view on how services should be developed and how value is created. Similarly to Grönroos (2008, 2011), it is argued that value creation process flows completely under customer's control, value encompasses not only visible interactions, but also invisible and mental actions, it emerges in mundane and everyday life of the customer (Heinonen et al. 2010, 542). As a result, companies should focus on customer's life, experiences, and goals and understand how services can be integrated there (Heinonen et al. 2010, 534–35) Value emerges when provided service is utilized and becomes a part of customer's activities, experience, practices, and context (Heinonen et al. 2010, 537).

Aiming to structure value-in-use, Strandvik et al. (2012) introduce the concept of customer needing. Through the dimension and functions of needing (Table 2) authors explain

how value-in-use is realized by buyers in B2B environment where services and equipment suppliers try more customer-oriented approach. Authors conclude that what customers buy differ significantly from what service providers think is bought and, as a result, differ from what is offered (Strandvik, Holmlund, and Edvardsson 2012, 138).

Table 1      Needing dimensions and definitions of needing functions (Strandvik, Holmlund, and Edvardsson 2012, 136)

Needing dimension	Needing function	Function definition
<i>Doing</i> A resource- and activity-oriented dimension	Relieving	Value in use realized by being relieved of performing tasks or carrying liabilities in current or future business activities
	Enabling	Value in use realized by getting additional resources, competence or capabilities that enhances the buyer's performance and activities within their current business or enables them to create new business
<i>Experiencing</i> A cognitive and emotional dimension	Sheltering	Value in use realized by being able to control risks and unwanted fluctuations in current or future business
	Energizing	Value in use realized is realized by getting inspiration and motivation to perform activities in current or future business
<i>Scheduling</i> Time-based dimension	Time Framing	Value in use realized by adaptation to expected time frame and pattern of development of current and future business
	Timing	Value in use realized by suitable timing of activities in current or future business

If accepting the B2B side of freelancer-client relationships the needing dimensions can be applicable to explain the hiring company's logic. However, in practice freelancers do not always correctly identify and interpret the clients' needs. Moreover, the challenge can be enforced if a service supplier interacts with one or several representatives of the client, for example, hiring manager of the company or project manager. Whether the initiator of a purchase is the buyer, payer or user his values and needs may vary greatly (Kowalkowski 2011, 281). In general sense, being the core of any business relationships, in broader sense perhaps the core of any human relationships and actions, value is a fundamental notion, but the question how to define and create it is still a matter of dispute due to its subjectivity and complexity. In the following section, few additional approaches to the explanation of value are presented that worth considering.

## 4.2 Value as an experience and bidirectional process

Value is created within experiences; that's why it is too limited to focus on value (co)creation within the service provider-customer interactions only (Heinonen et al. 2010, 543). Hence, value in the experience introducing a shift from the service-centred towards customer experience-centred mindset, requires proper analysis by service researcher in a broader context (Helkkula, Kelleher, and Pihlströ 2012, 59; Ramaswamy 2011, 195). Thus, Ramaswamy (2011) offers four premises of value as an experience:

1. Value is a function of human experiences;
2. Experiences come from interactions;
3. A firm is any entity that facilitates this creation of experience-based value through interactions. Engagement platforms are the means to creating value together;
4. Co-creation is the process by which mutual value is expanded together, where value to participating individuals is a function of their experiences, both their engagement experiences on the platform, and productive and meaningful human experiences that result. (Ramaswamy 2011, 195)

Similar to Grönroos (2008, 2011), interactions play an important role here resulting in value creation. However, this approach suggests that through interactions the customer experience is obtained that is the key element for value understanding and determination. In addition, the approach offers an alternative view at the process emphasizing that it is bidirectional on the one hand and experience-determined and experience-dependent on the other.

Analysing existing approaches in measuring the customer-perceived value, Helkkula et al. (2012) insist that research methods aiming at generalized outcomes and objective approximation are not applicable to explain how service customers make sense of subjective experience. Thus, the phenomenological and interpretive value measurement technique which is based on the following four propositions characterizing value in experience is suggested:

P1: Value in the experience is individually intrasubjective and socially intersubjective;

P2: Value in the experience can be both lived and imaginary;

P3: Value in the experience is constructed based on previous, current, and imaginary future experiences and is temporal in nature;

P4: Value in the experience emerges from individually determined social contexts. (Helkkula, Kelleher, and Pihlströ 2012, 61–62)

The offered approach makes value impossible to generalize or compare, which in general sense reflects the abstractness of the notion. Thus, research applying this technique can only be descriptive and exploratory.

Value (co)creation is always reciprocal and bidirectional process, although engaged parties have at least partly different goals (Grönroos 2011, 286). Grönroos (2008, 300) distinguishes at least three facets of service logic: service as an activity, service from client's value creation perspective, and service from provider's value creation perspective. Saarijärvi et al. (2013) similarly discuss the bidirectional nature of value co-creation process and elaborate the framework that should enable companies to analyse it from both perspectives. By answering what kind of value, by what resources, and through which mechanisms it is created for the customer and for the firm, practitioners should shape their strategy to maximize value for both parties. (Saarijärvi et al. 2013, 12)

Khalifa (2004, 647) introduces stakeholder value taking into consideration its bidirectionality. It is defined as value created by company for its stakeholders including employees and suppliers. It means that stakeholder value can also refer to the value that client creates for freelancers in the result of their cooperation. However, the subject of current study is the creation of value for, or with, the customer. Thus, stakeholder value is outside the scope of this paper.

When discussing the value creation antecedents, Grönroos and Helle (2010, 572) suggest considering several directions. Thus, four perspectives are summarized in Table 4 where both company and customer are recipients and creators of value on the one hand, but facilitators and value co-creators for the other party on the other hand.

Table 2 Antecedents for value creation (Grönroos and Helle 2010, 572)

Recipient of value / Co-creator of value	Customer	Supplier
Supplier	<ul style="list-style-type: none"> <li>- Supplier's understanding of customer's business process</li> <li>- Relevant practices for supporting client's business process and how these practices are related to customer's business processes</li> <li>- Attitudes towards the customer</li> <li>- Performance</li> <li>- Willingness and the process of communication</li> </ul>	<ul style="list-style-type: none"> <li>- The way in which he supplier supports its customer's relevant practices and business process</li> <li>- The customer's trust and commitment</li> <li>- The customer loyalty created</li> </ul>
Customer	<ul style="list-style-type: none"> <li>- Customer's understanding of supplier's business logic</li> <li>- Willingness to match its practices with the supplier's corresponding practices</li> </ul>	<ul style="list-style-type: none"> <li>- Customer's understanding of supplier's business logic</li> <li>- Value created for the customer</li> </ul>

The authors highlight that mutual understanding of business processes and relevant practices is an important antecedent for value creation (Grönroos and Helle 2010, 572–74).

To conclude, it is suggested that value is obtained through experiences and always a reciprocal, bidirectional process. Following this logic, negative experience, being a source of learning, can also result in value creation. Once again it proves the phenomenology and subjectivity to value perception and assessment. In the next section the literature devoted to value creation when outsourcing takes place is examined.

### 4.3 Value-creation in outsourcing context

The value creation for freelancer-client relationships is not conceptualised in the literature so far, although the current paper presumes that the freelancing can be explained, at least in part, with the help of outsourcing strategies and mechanisms. Thus, value creation in the context of outsourcing requires a deeper insight and the existing relevant literature,

which is examined in this subchapter. Comparing to section 3.2.3, where the outcomes of outsourcing, mostly financial, were investigated, this subchapter aims to critically review the studies that combine outsourcing and value creation theories, thus focusing on both monetary and non-monetary perceived gains clients can obtain through outsourcing and on the process of their creation.

The analysis of the relevant literature remains challenging due to the ambiguity of the notion of value (see 4.1) caused by its bidirectionality and complexity. As discussed above, multiple approaches to explanation of value, thus researchers should clearly define their position about the subject of study. When the value recipient or approach to explanation of value are not specified in the research, it may cause wrong assumptions, for example, in defining the antecedents or factors of outsourcing success.

Each company looks for better ways to reach its customers and become a value co-creator for them. Thus, in outsourcing decisions the companies should consider and strive to maximize the value creation for their own customers. To conceptualize this idea, Dobrzykowski et al. (2010, 122) introduce the term external value co-creation actors for end customers of the firm. It is suggested that the core activities of high potential for customer's value creation should be performed by the focal firm in house, while the rest of activities can be addressed through hybrid sourcing or outsourcing (Dobrzykowski, Tran, and Tarafdar 2010, 116). The study though does not clarify how either value for the focal company or for external end user is created through outsourcing.

To explain value creation in business process outsourcing Stauss and Jedrassczyk (2008, 22) identify direct and indirect mechanisms. It is argued that the customer company can experience a direct value 1. by reducing costs, 2. through improvement in the quality; 3. through knowledge and expertise transfer being a source for innovation; and indirect value by using changed external conditions (Stauss and Jedrassczyk 2008, 22). In a different way, Möller and Törrönen (2003, 110) also refer to direct- and indirect-value functions when classifying value that a supplier can provide for his business customer. The authors suggest three supplier-value dimensions: efficiency that sustains direct-value functions of the supplier, and effectiveness and network reinforcing indirect-value functions. Efficiency can contribute to profit increase, volume increase, and protect customer's level of business and revenue through arrangements. Effectiveness relates to the ability of supplier to produce innovative solutions that are more valuable than the existing at the market. Network provides the opportunity for a customer through supplier access new resources, new next-level suppliers, agencies or other customers, obtain specific information, positive references of signalling effect. Together, efficiency, effectiveness and network form the supplier's value creation potential. (Möller and Törrönen 2003, 111–12) The authors also conclude that the direct assessment of this potential is only possible for efficiency, for the evaluation of the rest two components they suggest using the supplier's capability base (Möller and Törrönen 2003, 115).

Murthy et al. (2016, 499) empirically investigate the antecedents for value co-creation in B2B IT services outsourcing. The study is based in the concept of bidirectional value co-creation, where client's and supplier's involvement in outsourcing leads to mutually beneficial outcomes. (Murthy et al. 2016, 488) It is concluded that strategic intent (defined as the opportunities identification and solutions implementation to impact critical business value significantly), alliance relationship (interactive and dynamic process influencing both organization and engagement level of either client or supplier), service actualization (activities performed to co-create expected services and potentially valuable benefits to both client and service provider as per contract) and intrapreneurship (the ability of individuals to conceptualize and deploy processes departing from customary way of doing business) have a significant and positive relationship with value co-creation. (Murthy et al. 2016, 492, 499) However, to be said, the authors highlight that the suggested antecedents are applicable only in the context of IT services outsourcing while to generalise the findings the separate research is required. Another study introduces seven attributes of value co-creation that enable the delivery of value-in-use for B2B service in the context of outcome-based contracting (OBC). Outcome-based contracts are defined as the agreements when a buyer purchases the result of the product used and not the ownership of product (Ng, Nudurupati, and Tasker 2010, 11). In this sense OBC is applicable for freelancer-client relationships when the client pays hourly for using the freelancer's knowledge and expertise. The study suggests that the offered service can be (re)designed in a joint firm-customer environment within the attributes that facilitate the two-way interactions necessary for value co-creation (Ng, Nudurupati, and Tasker 2010, 29,34): behavioural alignment, empowerment & control, our expectations, their expectations, process alignment, complementary competencies, behavioural transformation. It is emphasized that value co-creation goes beyond the resources and capabilities of the service supplier and how they are utilized and should embrace also the resources of the customer. If customer is incapable to co-create value, the supplier is not able to deliver the expected outcome. (Ng, Nudurupati, and Tasker 2010, 34–35)

Several papers that aimed to identify the factors of value co-creation are examined further. For example, Mukherjee et al. (2013) analyse the value co-creation through off-shore outsourcing that fits the context of current paper due to its international component. An integrative framework focuses on the internal resource management processes of the focal firm, thus acknowledging that it is a direct co-creator of value for its partner, itself and its customers (Mukherjee, Gaur, and Datta 2013, 378). According to the study the focal firm can affect value co-creation at three resource management stages: resource restructuring through disintegration, location-specific resource bundling, and leveraging externalization. Disintegration considerations are facilitated by strategic intent and emphasis on innovations, location consideration compose environmental scanning to select capable vendors or human capital worldwide, while externalisation means adoption of a

collaborative mindset within and across the organisation. (Mukherjee, Gaur, and Datta 2013, 380–81) In a similar way Talamkhaki and Olyaei (2015, 96) align value co-creation factors with the categories derived from the stages in IT outsourcing: outsource decision, contractor selection, contract management, service delivery, service support, and final successful IT outsourcing. Taking a service perspective the authors conclude that an outsourcing organization is an active creator of value that can increase the efficiency of outsourcing and own satisfaction from it (Talamkhani and Olyaei 2015, 97–98). Sun and Chen (2016, 3) support this perspective stating that enterprises can influence value co-creation in IT outsourcing through their behaviour and beliefs and suggest factors of value co-creation (Sun and Chen 2016, 10). However, it is not defined clearly who is considered a recipient of value in the study and what the process of value co-creation composes, thus the further applicability of findings can be questioned. In addition, what or who is in control of the examined value co-creation factors is not well-specified, thus the roles of parties in the process cannot be established.

As it was stated above, the recipient of value should be clearly stated in the research, thus considering the reciprocity of value co-creation Bhagat et al. (2010, 313) distinguish client firm value, outsourcing service-provider value, and relationship value. Client firm value can be captured by several antecedent factors: product quality, economic or monetary factors, operational knowledge, service-provider's reputation, and service-provider's responsiveness. Meanwhile, the relationship value composes the direct effects of client-server relationships. Its dimensions include intrinsic interpersonal commitment, relationship strength and leverage, information and knowledge exchange. (Bhagat, Byramjee, and Taiani 2010, 314) The role of outsourcer-outsourcee relationships in value creation is also discussed by Möller and Törrönen (2003, 113) and presented in form of relational value spectrum. The authors suggest three types of relationships between outsourcing company and service supplier: transaction-oriented, value-adding relational value production, and partnering relationships. These types differ in level of complexity and orientation term. In transaction-oriented relationships the focal firm gains benefits from core capabilities of the supplier, these relationships are not complex and oriented on the current time benefits. On the contrary, in partnering relationships the focal firm is oriented on future-value production and these relationships are characterized by high complexity. Value-adding relational value production lies in the middle of this spectrum. (Möller and Törrönen 2003, 113–14) Another framework that describes value co-creation through joint problem-solving process in knowledge intensive services is suggested by Aarikka-Stenroos and Jaakkola (2012, 21). This model is worth discussing in this paper due to the relevance of its context. Firstly, knowledge intensive business services are services that are often offered to the market by highly professional independent contractors; secondly, the study is conducted across small and medium enterprises; thirdly, the framework presents the roles of parties and components of value creation. However,

although the process of joint problem solving can take place in freelancer-client interactions, it is not always the case. The framework describes the emergence of value-in-use through five collaborative activities where both the client and supplier participate: diagnosing needs, designing and producing the solution, organizing the process and resources, managing value conflicts, and implementing the solution. By allocating its resources supplier plays the role of value option advisor, value process organizer, value amplifier, and value experience supporter. On the contrary, customer is described as co-diagnoser, co-designer, co-producer, co-implementor, co-marketer, and co-developer of value. (Aarikka-Stenroos and Jaakkola 2012, 22) This approach, although acknowledging the creation of value by supplier *with* the client, only assigns to the client a value co-creator role. It contrasts the perspective discussed above (see 4.1, 4.2) that value can only be phenomenologically perceived and assessed by the client, thus he is always its creator.

In general, it can be concluded that many presented researchers noted the expansion of outsourcing beyond mainly cost-cutting strategy proposed by TCE and RBV towards more complex strategic approach to collaboration with the primary focus on the creation of value (Bhagat, Byramjee, and Taiani 2010; Möller and Törrönen 2003; Stauss and Jedrassczyk 2008). For instance, Rafati and Poels (2016) examine a shift from tactical way of thinking about sourcing to a more strategic, focused on value-driven targets. Taking an SD-logic perspective, the authors assign to strategic sourcing the purpose of capability sourcing for value creation. (Rafati and Poels 2016, 35) In a similar way, the SMEs' approaches towards freelancing can lie at the opposite ends of the spectrum, from tactical cost-cutting thinking to more strategic and long-term.

This chapter was devoted to the scope of the literature that explored the concept of value. Much attention was paid to the research conducted in the context of outsourcing. In the next chapter the methodological choice of the current paper is presented and justified.

## 5 METHODOLOGY

There are two fundamental approaches to empirical research distinguished in academic literature: qualitative and quantitative (Krishnaswamy and Satyaprasad 2010, 5). Different methods aim at answering different questions and solving different problems. Thus, the decisions about the applicability of certain methods in the study are determined by its main purpose and phenomenon. The main purpose of the current paper is to explore how value is created and co-created during and in the result of SMEs cooperation with freelancers. According to theories and frameworks discussed in chapter 4, value is always uniquely, subjectively and experientially determined and evaluated by the recipient, thus qualitative approach is considered appropriate for this paper. In addition, it is suggested that qualitative study is useful to explore a complex phenomenon in its context (Eriksson and Kovalainen 2011, 2) and to develop the theory rather than test it.

The methodological choices of the researcher should be aligned with underlying philosophical assumptions. Although many intermediate philosophical views exist, two ends in terms of ontology and epistemology are positivism and hermeticism (Fisher 2010, 17). This study relies on critical realism, the approach that has positivistic roots related to the existence of objective reality and truth, but that acknowledges the complexity and hiddenness of things as well as the influence of subjectivity. Critical realism states that humans perceptions provide a window to the real material world, although it always remains incomprehensible completely (Healy and Perry 2000, 120). In other words, in terms of critical realism there is a systematic objective value (co)created during and in the result of cooperation with freelancers, which can be, at least in part, accessed through individual perceptions. At the same time, the existing subjectivity cannot be fully eliminated that corresponds to the previous discussion that value is always uniquely and phenomenologically determined and evaluated by the customer.

### 5.1 Research design

In terms of research intent, the current paper mainly relates to exploratory research. It is defined as a study of an unfamiliar problem, which is often less structured and less focused on pre-defined objectives (Krishnaswamy and Satyaprasad 2010, 12). This definition is aligned with the lack of theoretical conceptualisation of value (co)-creation in the context of freelancer-client relationships, thus fits this study. Overall, it is worth mentioning that any typology of research is relative and contains a certain level of freedom for interpretation. Moreover, pure types of research can hardly exist, thus the current paper has the elements of descriptive and evaluation research. Descriptive study is more focused on particular aspects of the phenomenon compared to exploratory, while

evaluation study strives to assess the impact of a certain activity (Krishnaswamy and Satyaprasad 2010, 12–13), in the current study it is the impact of freelancing on their clients value.

Figure 8 below illustrates the research design of this paper. The case study strategy based on semi-structured interviews and narrative research is utilized. A case study research aims at analysing the phenomenon in its context and processes to provide a better insight into the theoretical aspects (Hartley 2004, 323). Moreover, case study research has a potential to create enough contribution and data to generate hypotheses and build a grounded theory (Eisenhardt 1989, 534). Nevertheless, since each approach imposes both some advantages and limitations, theory building from cases is not an exception. The likelihood of generating a novel grounded theory that can be testable and empirically valid can be highlighted among strengths, whereas extensive complexity, or a resultant theory that is too narrow, are potential weaknesses of this approach (Eisenhardt 1989, 546–47). The theory-building approach from case study is relevant for the current paper because the value (co)creation in the context of online freelancing does not have sufficient empirical investigation, thus it fits the exploratory intent of the paper. Considering the distinctiveness of the virtual flexible workforce, it can bring a fresh insight into the strategic capability sourcing for SMEs and the process of value (co)creation derived in its result.

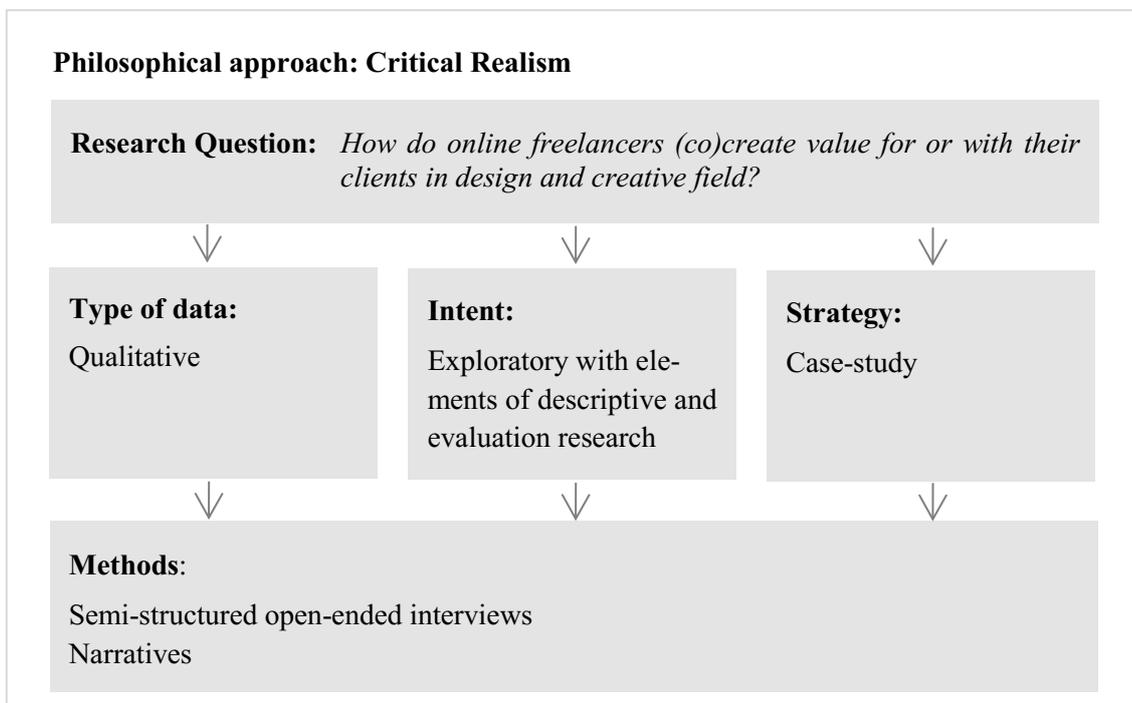


Figure 8 Research design of the study

Interview is often argued as one of the essential kinds of qualitative research, along with observation and document analysis. Depending on the goal and focus, the researcher

has also an option to choose from a variety of available interview forms including structured as the repertory grid, contextual as stories or narratives, and focused as the critical incident technique (Symon and Cassell 2004, 8). Taking into consideration the exploratory intent of the current paper the conducted interviews are characterized by medium structure, open-ended questions and relatively low level of interviewer influence. That being said, in qualitative study the interviewer influence cannot be completely avoided because the inter-personal relationship is the part of the research process (King 2004, 11).

Some interview questions are aimed at the collection of narratives. A narrative is defined by Eriksson and Kovalainen (2011, 214) as “the textual actualization of a story at a specific time and context, and to a specific audience”. Narrative method is considered as interesting and useful tool in this paper because it tends to specify the context very clearly and explain human actions and experience. Open interviews encourage participants to express their opinion freely with their own words, and that enhances the generation of narratives. In turn, narratives being a source for understanding of both conscious and unconscious individual processes aim to discover more precisely the value that is subjectively and experientially determined by the interviewee. Nevertheless, the life stories should not be considered as a totally individualistic approach here. Although they are focused on individual experience, they can also help to explore a relationships in a broader sense (Musson 2004, 35). There is a certain concern related to misinterpretation in doing a narrative research, because while describing human feelings or incomplete understanding, ambiguity becomes an attribute of many stories (Gabriel and Griffiths 2004, 115). For that reason, the current research does not focus on narratives exclusively, but instead utilizes several methods complementing each other that provide a more reliable and thorough data.

## **5.2 Data collection**

The exploratory nature of the study allows to take advantage of the flexible data collection approach described by Eisenhardt (1989, 539). Time overlapping of data collection with data analysis stages makes the adjustment of every next interview possible, enabling to focus on newly emerged topics or given situations. At the same time, the interviews are conducted in an open manner, thus the interviewee is perceived as an active participant that is encouraged to bring up new topics and opinions. The final number of cases was not predetermined and the decision about data plenitude and richness was made along with interview collection process. The interviews number 6 and 7 did not add new topics and information, thus the amount of collected data is considered sufficient for the purpose of the paper. One interview was excluded from the analysis because it did not provide useful information due to the participant’s reluctance to speak freely and openly.

### 5.2.1 Participants selection

The participants were selected among regular users of a popular online platform that connects the freelancers with clients. The participants were chosen among the recent publishers on the list of requested jobs because the list of clients is not available on the website. The following criteria were fundamental when choosing the platform members for further interview: country of origin and the sum spent on the platform.

Firstly, the country of origin allows to focus on the clients that are based in developed countries. It specifies the context because these clients should have similar external conditions and economical predeterminants to use flexible workforce for their operations. Secondly, the total sum spent on the platform should characterize the activity of participants, thus indicate those platform members who have repeated working experience with the freelancers. This data cannot be used to determine how considerable expenditures on a flexible workforce are in the total turnover of the companies. Nevertheless, it aims to exclude the clients who only started exploring online freelancer labour market and do not have sufficient experience of collaboration with them.

The additional information available on the website and received from interviewees embraces the industry, organizational structure and size, the number of jobs posted, the total number of hires, and the date when the participant joined the platform. The data are displayed in table 4. It is presented, however, mostly for informational purposes and can hardly be used to measure the intensity of online temporal workforce in the companies' operations.

Table 3 Respondents overview

<i>Interviewee</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
<i>Location</i>	Canada	Canada	Germany	The USA	New Zealand	Germany
<i>Industry</i>	Online services	Finance	Design	Advertising agency	Web development	Digitization business
<i>Number of jobs posted</i>	88	243	32	36	441	93
<i>Number of hires</i>	64	175	45	26	215	70
<i>Date of membership</i>	2012	2008	2012	2016	2010	2015
<i>Total sum spent</i>	Over \$5k	Over \$20k	Over \$10k	Over \$10K	Over \$20K	Over \$50K
<i>Organizational structure</i>	Entrepreneur	Two companies ( $\approx$ 5 employees each)	Entrepreneur	Up to 50 employees	Contractor with several full-time freelancers	Up to 5 full-time freelancers

Most of respondents agreed to reveal their names and the names of companies they represent but not all, for that reason this information is codified in the paper. It should be

noted that all participants represent small and medium enterprises being owners or top-managers of these companies.

### 5.2.2 *Interviews*

Interviews were conducted via Skype calls between 04.10.2017 and 02.03.2018, all interviews were recorded with the consent of the participants and then transcribed. Together with field notes the transcribed interviews formed 40 pages of text. The average length of interviews was 37 minutes, from 8 to 58 minutes.

As it was mentioned above, the interviews were held in a flexible way in attempt to explore the emerging situations and topics. However, the initial interview outline consists of three main parts: 1. background and overview of the participant; 2. freelancing in the company's operations; 3. the process of value (co)creation and roles of parties. The first part of the interview is dedicated to learning more about the interviewee's background, goals and business model of the company. Since participants represent small and medium enterprises, their own personal goals and experience should frame the structure of the business, meaning it is considered a useful source of information. The second part of the interview aimed at getting a better insight into respondent's understanding of the concept of freelancing in general and its role in their business operations in particular. The final part of the interview contains questions that should help respondents to generate narratives and discuss more the process of their co-working and perceived value during or in the result of this process. The initial case interview form is presented in appendix 1.

After each interview the feedback was collected to improve the experience and the quality of received information in the following interviews. Overall, the feedback was very positive. One respondent has noticed that he felt lacking the understanding of precise question of the research, however, this information was not initially revealed on purpose to avoid any biases or prejudgment. Another respondent mentioned that having a prepared in advance list of questions could be helpful. Nonetheless, at the same time, he has noticed that he is not sure if he would tell some stories being prepared to the questions. The researcher considers that the suggested approach makes the interviews much more structured. Moreover, although being a source of more conscious and logical answers, prepared in advanced answers do not reflect enough the emotional aspects that arise spontaneously during the conversation and are important to understand the perceived value.

### 5.3 Data analysis and evaluation of the research

Among the range of approaches to qualitative data analysis the main distinction lies in the vision of what stands behind the words. In this study the grounded theory methodology was utilized for the data analysis. According to Denscombe (2010, 280) the main purpose of grounded theory analysis is to develop concepts or theory based on the derived meaning of the received data. It means that the researcher aims at building a theory that relies on the gathered data and supported by it; grounded theory starts from a blank paper, without predetermined framework, and come to light through the careful data analysis process (Länsisalmi, Peiró, and Kivimäki 2017, 2).

The important distinction of grounded theory is that the codes are extracted from the data rather than imposed from the outside. At the same time, it can be challenging because the choice of which words to use is often made by the researcher (Charmaz 2006, 46). Thus, to minimize the subjective influence and avoid the distortion of meaning, the exact words of the participants were preserved at the first stage as much as possible. Further, to avoid the emergence of grounded description instead of the theory, the codes were modified to be treated in a more theoretical way at the later stages. Overall, three main stages were performed along the data analysis process: initial coding, focused coding and theoretical coding. The process was not linear and straightforward but rather spontaneous with constant movement between stages which was dictated by the data and emerging ideas.

The continual comparative method is an approach commonly used in grounded theory studies that was applied at each level of the data analysis. Constant comparison of code with code, data with data, data with codes at various levels, within one interview or several interviewees, ensures the emergence and elaboration of more accurate categories (Thornberg and Charmaz 2014, 7).

At the first stage, all transcribed interviews were carefully read several times and coded in an open manner (initial coding). It means that for each valuable line of the information, the code was assigned derived from the text, but not from a predefined list of codes. Line-by-line coding was chosen, because it is a good tool for a researcher to stay open through the analysis process, pay attention to details and avoid early preconceptions (Charmaz 2006, 50). As mentioned above, the researcher found it crucial to keep initial codes as close to received data as possible at this stage in order to eliminate the misinterpretation of the information.

At the second stage, the most significant or frequent codes were analysed and compared along with all gathered data. The purpose of focused, or selective, coding is to uncover and define the conceptual categories and have a deeper insight into them at various angles of the collected data. Given the large amount of information, decisions about the predominance of some information or codes over the others, coupled with the merger or widening of the conceptual categories are quite challenging (Denscombe 2010, 285).

It is crucial for the researcher to remain ready for necessary adjustments and modifications through the process. The following focused codes that reflect the main perceptions and themes brought up by interviewees were captured: freelancer as a tool, freelancers as an expert, freelancer as a team member, direct value, and returned value. They are further discussed in the next chapter (see sections 6.2, 6.2). According to Thornberg and Charmaz (2014, 8), the researcher should not necessarily look for one core category since it limits the analysis of data and usefulness of the completed report. Thus, a more flexible approach to focused coding was applied and several significant and frequent codes were identified for further theory construction.

Integration into a theory was the next step of the analysis, where appropriate theoretical codes were incorporated. Theoretical coding embraces models, frameworks or ideas of pre-existing theories and help to explain possible relationships between conceptual categories developed in the result of focused coding (Thornberg and Charmaz 2014, 10). The theoretical coding was based on the method of abduction. According to Thornberg and Charmaz (2014, 13) abduction means selecting or inventing a hypothesis that explains a particular empirical case or set of data better than any other candidate hypothesis. The outcomes of abduction are always provisional and open to revision in the light of new data or better explanations. (Thornberg and Charmaz 2014, 13) Throughout the data analysis process, memos about coding, emerging ideas and questions, categories and their comparisons were written down. Memos became the basement for findings and conclusions presented in the next chapters.

Many authors have contributed to the debate regarding the evaluation criteria for qualitative research (Flick et al. 2004, 184–85). For example, inter-subject comprehensibility, indication of the research process, empirical foundation, limitation, coherence, relevance and reflected subjectivity were proposed by Steinke (2004), who claims that terms ‘objectivity’, ‘reliability’ and ‘validity’ have been developed for quantitative research and thus have different definitions inappropriate for the evaluation of qualitative study. Similarly, Yardley (2000) arguing that many quantitative standard criteria are not applicable for qualitative research suggesting sensitivity to context, commitment and rigor, transparency and coherence, impact and importance as essential characteristics. Particularly for grounded theory studies, Charmaz (2006) highlights the importance of credibility, originality, resonance and usefulness. Some of the criteria suggested by various authors are interrelated, for example, inter-subjective comprehensibility and indication of the research process enforce transparency and credibility of the study. At the same time, criteria proposed by the same author can impact on one another, for instance, a strong combination of originality and credibility increases resonance, usefulness, and the subsequent value of the contribution (Charmaz 2006, 183). Taking it into consideration the offered criteria are discussed further in relation to the current paper.

An inter-subjective comprehensibility and indication of the research process is ensured by the precise documentation of prior understanding, data collection method, method of analysis and information sources. In addition, memos written during the analysis phase reveal decisions made and ideas emerged through the research process, thus enforcing the transparency of the study. The appropriateness of chosen procedure, methods, sampling and methodological decisions are explained to meet the credibility criteria.

Empirical foundation is established by strong reliance on the received information (the implementation of grounded theory codified methods), openness and flexibility during the data collection and analysis phases. At the same time, empirical foundation enforces sensitivity to context, commitment and rigor, and resonance criteria. Sensitivity to context is also strengthened by careful selection of the participants, relevant theories and literature. Awareness about the sociocultural settings is important for appropriate contextualizing, thus cultural diversity and language were taken into consideration at data analysis phase and discussed in memos.

Contextual settings frame the limits of theory. Steinke (2004, 189) suggest to test the area of application of a theory by contrasting of cases and analysis of extreme cases. Along the data analysis the maximally and minimally different cases were identified. For example, cases B and F are considered maximally different, while the cases C and D in their approach to freelancing are minimally different. The constant comparison of these cases with each other and with the developed theory enable to establish the essential elements of the phenomenon and the relationships between them. Similarly, extreme cases or situations were taken into consideration to capture the full width of a certain aspect. (Steinke 2004, 189). The suggested theory is internally consistent, thus meets the coherence criterion.

The study offers a new fresh perspective on value the SMEs can receive through online freelancing. It aims to contribute to the theoretical understanding of the concept of value and flexible workforce. For SMEs managers and owners the theory should explain how freelancers can be utilized and what value they potentially can co-create. Thus, the study also meets originality, usefulness, relevance, impact and importance criteria that have some common determinants and intersection in the meanings.

Reflected subjectivity is a criterion that explores to which extent the researcher being as a subject and a part of investigating social phenomenon determine the formation of the theory (Steinke 2004, 190). The researcher had been working as an online freelancer for four years when conducting the study and had an experience of multiple project-based tasks (e.g. carrying out a research, creating a content for social media marketing, designing graphic materials, etc.) as well as ongoing work with some clients (e.g. long-term work with a client as project manager for 3 years). This background can be considered as both strength and weakness for the research. Having experience of freelancing can help to understand and interpret the received information, however simultaneously it can be a

source for subjective judgement and create biases. To minimize subjective influence during data collection and analysis phase, it was decided to select and contact the participants who are not in working relationships with the researcher. The researcher should stay close to empirical data and rely on personal judgements and experience only if it is supported by the received information.

In this chapter the methodology of the current paper and the criteria of the research evaluation was presented. The following chapter is devoted to the study findings.

## 6 FINDINGS

In this chapter the empirical findings of the study are presented. Firstly, factors that determine a client's approach to a freelancer are discussed and three ways of collaboration with freelancers are introduced and explained. The next section is devoted to two layers of value in the creation of which freelancers and clients participate. The roles of parties in value (co)-creation process are debated.

### 6.1 Three approaches to freelancing

The way how companies perceive and utilize freelancers in their operations varies. Some participants acknowledge and mention that there should be different levels of collaboration with freelancers, thus it should be considered that the interviewees describe the work with their freelancers in the context of their current approach to them.

*“I need certainly to utilize them more at a higher level. And being able to utilize them for things like data analyzation, and things like that or something I haven't really looked at.” (A)*

*“Yeah, sure, I am not at that level, so what I am generally going is not in that road...” (B)*

Along the data analysis phase, the attributes characterizing a client's understanding of freelancing and determining the approach to it were revealed. They include work type, freelancer's level of skills required to complete the job, company's strategy, longevity of work, and the level of trust. These attributes frame the relationship emerging between freelancer and client, thus they are used as a basis for the suggested typology that describes possible ways of collaboration between SMEs and their temporal workers. Contrast cases were used as prototypes of behavioural models to compare and uncover differences between types, while similar cases to reveal boundaries and similarities within a type.

*Work type.* The type of job assigned to a freelancer affects the client's expectations and working process. In terms of complexity and uncertainty participants distinguish straightforward and creative work. Straightforward tasks are usually easier to perform, they have definite and objective measurements of the result meaning they can be assessed easier and doesn't require a high level of expertise and experience from a freelancer. On the contrary, more creative tasks are more complex and less certain. It is harder to evaluate them objectively, they require a certain level of talent, experience and non-verbal understanding of the client's needs. The work type does not refer to a certain field of

knowledge, both straightforward and creative tasks can take place in, for example, web development or web design. The main distinction lies in the problem-solving component intrinsic for creative tasks. The client knows the result he is aiming at but has no capability and knowledge to get it alone. On the contrary, in straightforward work is not about solving the problem, the client knows much more how to do the required job and needs extra hands to complete it.

At the same time work type can be characterised as non-administrative or administrative depending on its role in client's business operations. Administrative type of work refers to the operations that continuously should be performed by the client's company for its sustainability, for example, accounting, social media marketing, human resource management, etc. Non-administrative work directly relates to the activity of the company, to wit its offering to the market.

*Required level of skills.* The level of skills required to complete a task successfully determines the interchangeability of a freelancer. The more specific knowledge and higher-level skills are necessary to complete the work, the harder a freelancer can be replaced. On the contrary, low-skilled tasks can be performed by a wide range of freelancers. It is easier to test someone new with a small piece of work and then to replace the previous worker for a better price. In this case the other factors like cost of the workforce, availability, and communication skills play a more important role and allow freelancers to compete. Another skill that emerges and progresses along the cooperation process is institutional knowledge. Understanding the client's company policy, goals, business model, knowing employees of the company expand the freelancer's independent judgment and decision-making. He develops a better vision of not just how to complete the specific task better, but what stands behind the given job. Better mutual understanding and shared vision strengthen the trust between a freelancer and his client, thus increases his independency in a working process. Simultaneously, it reduces a freelancer's interchangeability.

*Primary client's strategy.* The client's strategy directly determines his expectations and requirements to the freelancer. A business strategy affects what the client is aiming to achieve as the result of the collaboration with a freelancer. On the one hand, it can be a maximization of cost benefits through a straightforward delegation of the piece of work. On the other hand, the client can follow the intention for a long-term strategic collaboration with freelancers that can result in a coherent team of experts. The latter approach does not exclude cost benefits, but it is not the primary goal of the client in this case. The balanced strategy combines the above-stated approaches and its main goal lies in filling the gap in existing internal team of employees, thus saving the time that would be otherwise spent on learning and acquiring some specific skills that the client's company does not need constantly.

*Longevity and trust.* Time of collaboration is a key determinant of the relationships between freelancer and client. In terms of longevity the involvement of external service provider can be task-based, project-based and ongoing. A task-based involvement here means a relatively independent piece of work that needs to be completed once, has a certain well-defined scope and timeframe. Often when the freelancer finishes this task the contract is closed, meaning the end of relationship. A project-based involvement is close to the task-based in terms of its defined scope and time restrictions, but the difference lies in its connection with other team members and necessity to communicate with them. Being involved in this type of engagement freelancer is more integrated into internal processes of the client's company. In this case a freelancer has a chance to build necessary relationships, thus, when the project is over there is a possibility that this freelancer will be invited again for some similar project or role. In general, it can evolve into continuous project-based engagement. An ongoing involvement resembles rather a full-time regular employment, though a freelancer is not restricted only by one client to work with. It depends on his workload and personal judgements. During ongoing engagement, the freelancer constantly participates in client's company work by performing assigned tasks, actively interacting with other internal and external team members and client's customers. It should be stated that the workload of ongoing assignments can vary significantly from full-time engagement to contract suspension. However, the key difference lies in strong built relationships with the client that make the switch cost for the client too high to replace the ongoing freelancer with someone else.

All participants mentioned that the longevity of collaboration with a freelancer determines their attitude to him. The longer and more constantly someone works with the client, the more developed mutual understanding is, the deeper institutional knowledge and interpersonal relationships are. In addition, if the work is continuously delivered on time and of required quality, the confidence in a freelancer and his expertise grows. Thus, the reliability is proven, becoming a basis for evolving trust. It means that the longevity of engagement leads to a certain level of trust that emerges and develops along the working process. In turn, long-term relationships are reinforced by the trust because it stimulates the desire of both sides to work with each other. Comparing to a single short-term work, it rarely creates an opportunity for a freelancer to prove himself and doesn't allow the reliability and trust to emerge. In this case, a freelancer the client has already worked with hardly differs from other applicants because all of them are strangers. It means that the client will not strive to keep the relationships with the contractor because he can easily replace this worker with someone else.

Based on the discussed above factors, three strategies towards the freelancing for SMEs are suggested: freelancer as a tool, freelancer as an expert, and freelancer as a team member. The approaches are summarized and presented in table 5.

Table 4 Strategies towards freelancing from SMEs perspective

	<i>Freelancer as a tool</i>	<i>Freelancer as an expert</i>	<i>Freelancer as a team member</i>
<i>Work type</i>	Non-administrative work		Can be non- or administrative work
	Commodity work	Creative work	Commodity or creative work, work with end user
<i>Level of skills</i>	Low-level, interchangeable skills	High-level, specialized skills	More diversified skills, institutional knowledge
<i>Primary client's strategy</i>	Delegate a piece of work to reduce cost	Fill the gap in a team, save time	Build a team
<i>Longevity</i>	Task-based	Project-based; can be continuous	Ongoing; can be project-based
<i>Trust</i>	Low	Medium	High

*Culture and personality.* These categories defined during data analysis are not included in the table above because they do not characterize the approach towards freelancing. Nevertheless, personality of the freelancer and cultural differences between parties play an important role in the working process and can influence the relationships between parties and client's willingness to work with the person at certain level, thus these categories are discussed below.

Since online freelancing opens almost unlimited access to international labour market, the cultural differences cannot be ignored. The participants note that working and business culture vary among freelancers vastly determining work quality, ethics, communication norms, the concepts of honesty, trust, fair business, etc.

*What I realize in my personal experience that there are some countries where it is just a better quality, a better work ethics or more honesty. I know this is kind of prejudgments here, but it is my personal experience.*  
(C)

*I had not that good experience with some people from [country] and [country] due to their language. Also, I have a large number of female team members at present and sometimes some of them don't work good with women.* (F)

Participants mentioned that the previous personal negative experience or even negative experience shared by colleagues or acquaintances form their judgment about freelancers from a certain region. Through generalization, an experience transforms to prejudices about freelancers from a certain country or region on which clients tend to rely when choosing a worker next time. Often participants clearly express their judgement that some labour markets are preferable for certain tasks or sectors than others, e.g. freelancers from Eastern Europe are widely used for design and creative work, while freelancers from Asian countries are suitable more for web development or security tasks.

*Compared to let's say [country name] or [country name], I have never really had much luck with them, 99% of the time I am disappointed... so I learnt not to involve too many [country name] or [country name] applicants, but in the Philippines it tends to be good for design, actually, Eastern Europe tends to be good, [country name], [country name]. They seem to just really know design. (E)*

*From a design standpoint I try to go for freelancers that are in Eastern Europe. I find a design paradigm in Eastern Europe very simple and stuff that I generally like, in addition to that, they are still at very good cost. In contrast, something like security services like cybersecurity services, maybe some sort of development type work I would probably outsource to an organization or person that's in Asia. (A)*

A better understanding of some cultural aspects can determine the labour market choice because it makes the working process easier. Cultural roots allowed participant E to realize the existing gap in labour cost between countries. Being half-Philippine and half-American he started his business with finding and hiring only Philippine workers through his personal network. Later, with the development of online freelancing, he moved to a more open worldwide labour market. Nevertheless, the participant still relies on the Philippines as the primary source of the workforce.

*... a lot of times I do look for the Philippines... Also, because I have been working a lot with the Philippines, well I am partly Philippine, I also understand the culture. I have legal agreements already in the Philippines that the contractors have to sign, and I have a lawyer who will take care of things if anything goes wrong. (E)*

Working with people who have a similar cultural background makes the communication and mutual understanding smoother. Such concepts as promise, trust, time, fair business, quality, etc. have different meanings and interpretations in cultures and although speaking the same language, people misunderstand each other. For example, the role of personality in the development of relationships was simultaneously brought up and highlighted by two participants C and F who appeared to be from the same country.

*I would say it [long-term relationships with the freelancer] is probably the same as any personal relationship, romantic relationship or any business relationships. It is a combination of how well you work together and how well you understand and get along with people. (C)*

*I think it [trust] comes from, in German we say it comes from chemistry... you can communicate with some people and you understand them, but at the same time there are people where you realize something is not working. I look for people I can communicate with, who understand me, and I*

*understand them. And that's mainly on the language level and also on the brain level. (F)*

A slightly different concept of trust in the relationships was described by participant A, who connects it more to the giving and keeping promises. As opposed to previous example, he directly refers to the performance of freelancer.

*If I get told one thing and something else happens, and that happens more than once, then the trust is gone and ultimately it is very hard to me to continue to want to work with you. So really it is not even English as the first language, it is really being truthful and quick to respond. (A)*

On the contrary, other participants explain the mutual understanding not by the personality as such, but rather by the developed communication skills, the level of language and education in a broader sense.

*I just assumed people would use a common sense in determining what to do and that was a huge mistake... If you are lucky to find somebody who actually has that skill to intuitively question the job where it is appropriate, that people are really valuable. People who just do it without asking any questions and make a lot of assumptions that are usually wrong... (B)*

Further, the interviewee states that SME owners who use freelancers constantly face the challenge of trading off between cost and time. Similar perspective was brought up by the participant C.

*If you want job done cheaply you need to be prepared to spend a lot of time communicating and making sure the things are done correctly... (B)*  
*That is part of the freelancer's model of the work that in order to save some money you have on the other hand a risk which means there might be some misunderstandings and there are might be people who just don't deliver as they promise. (C)*

Nevertheless, the participant C acknowledges the role of personality in the establishment of relationships with the freelancers. He argues that online freelancers should learn how to differentiate and position themselves in a better way.

*If you like somebody just for his look, for the way he behaves or for his voice, it is the entry level of a way to get the foot into the door. You will give somebody the chance that you would not give somebody due to some reason why you do not like him. (C)*

In general, it is concluded that personal features and cultural background are important components of the freelancer-client relationships and should not be underestimated. They influence the way people communicate and understand each other, interpret the requirements and expectations, perceive trust and more. This is a broad topic and deserves further research. In the context of the current paper, the impact of freelancer's culture and

personality should be noted, although the further examination of these factors remains outside of the study scope.

### **6.1.1 Freelancer as a tool**

While all participants seem to use this approach to freelancing from time to time in their operations, participant B described his philosophy towards freelancing and the working process mainly from this standpoint. For this reason, case B became the main prototype for explanation “freelancer as a tool” strategy, however it is supported by examples taken from other cases as well.

The underpinning explanation of this approach lies in the access to worldwide labour market that allows SMEs to outsource almost any task to external service provider at desired price and benefit from differences in wages of various regions. Freelancer as a tool strategy is similar in explanation to a decision of companies to move their manufacturing/assembling operations to the regions with lower level of income and lower level of life. The main purpose of this approach to freelancing is cost-cutting that is supported by the SMEs limitations in resources and inability to guarantee a full-time workload for certain tasks.

*I would say price is a big factor in my decision-making. (B)*

*Many small businesses don't have any access or don't have any need for let's say a skilled graphic designer on a full-time basis and what they need are very small things... (B)*

*In Germany or European countries, we are doing financially well, but we are requested to give employees lots of benefits which makes everything way more expensive and makes it hard for entrepreneurs just to hire people. It is a way easier for me just to look for freelancers, on the other hand you don't have the reliability and the loyalty you do have with the employees. (C)*

In this case the company consumes freelancer's services for a short period of time, usually on a task basis, when the task is straightforward and simple and should be completed over a certain time. The task is often does not require expert level of skills that makes applicants highly interchangeable and creates fierce price competition among them.

*I do a lot of trial. So, I may try somebody and if they fail miserably, I just end the contract and move on with somebody else. (B)*

When freelancer is utilised as a tool, the company usually already has a clear understanding of what, how and why some work should be performed. It results in a clear brief or guideline for a freelancer and then in regular checks of his performance to ensure he

meets the requirements and expectations. Although working in a relatively independent manner, the freelancer has a very limited space for his own judgment and decision-making. Independence here means rather the isolation from the other internal operations of the client's company, thus, a better work scheduling, but not the freedom to choose what and how something should be completed. Of course, the clients are often open to receive an additional opinion, but the simplicity of task usually imposes the limitations and the freelancer has a very little chance to demonstrate his expertise.

*You do stuff with great briefing, so the other person [freelancer] understands what you want and on the other hand you are able to communicate what you didn't like or what you want to change. (C)*

Short-term arrangement, isolation from the client's company, well-defined task and lack of possibility to share expertise create the conditions where the relationship between a freelancer and client stays at the initial phase. Even after some work is completed successfully parties tend to perceive each other like strangers with a relatively low level of trust.

*Once you search to employ people anywhere who you employ if far less important as skills that they have. (B)*

*You have some people who just do some small jobs, and he is not really a team member. And he or she probably feel this way too. (C)*

On the one side, the client believes that freelancer does not contribute that much since he gets all instructions and his only task is to implement them technically. On the other side, freelancer does not have a chance to prove himself by completing a challenging task, he also does not have access to internal team or operations. As a result, parties do not perceive each other as the collaborators for long term. After the work is completed and the contract closed, everyone often goes his own way. At some point, the client may have a similar task on the agenda. Then he can contact the same freelancer because they have already worked with each other, however, it can be easier and faster to find many new applicants than to negotiate and agree with one.

To summarize, freelancer as a tool concept refers to a delegation of certain tasks due to lack of time or skills inside the company to simultaneously reduce cost. In this sense, this approach to freelancing can be associated with the short-term outsourcing in its very straightforward and core meaning.

### **6.1.2 Freelancer as an expert**

The next approach to freelancing can be explained by the SME's need for specific skills or knowledge. Freelancer as an expert concept is strongly supported by the received data. It describes the relationships when a freelancer through cooperation and interactions with

the client becomes more familiar with his business, but still remains an outsider for the company and is not perceived as its member. Hence, this concept can be placed between freelancer as a tool and freelancer as a team member. The main prototype for this approach to freelancing has been the interview D. Additionally, interviews C, E, and F support and contribute into the concept development.

The main criterion when choosing a freelancer from this point of view is his expertise, knowledge and skills. Often it refers to a very specific type of required knowledge, which the company does not need permanently and thus does not have an in-house expert. For example, the company may need a person who knows and works with certain software or tool that is rarely used in the company. In this case, it is reasonable to hire a freelancer for the certain work and save time, which otherwise the internal team would spend learning and trying to quickly acquire the necessary skills.

*We reach out the freelancers when we need their expertise if it is something that we are not able to perform well in house. (D)*

*I put together the team as needed depending on the project I am working on. I do have a handful freelancers that work for me almost full-time, and then I just kind of grow the team as needed depend on the project. (E)*

*For me freelancer is someone like, let's call it, a special forces guy, you hire one for one special thing, where he is pretty good. (F)*

The task for this type of freelancing is considered more complex and creative compared to the commodity work described in previous section. Being more sophisticated, the task requires the freelancer's judgement about how it should be performed in the best way. The freelancer does not receive straight guidelines from the clients, he only receives goals and expectations. Thus, a higher level of communication and mutual understanding in addition to technical expertise is necessary to deliver the fair results. In this case freelancer has more power and independency to make own decisions and choices and in most cases the clients tend to rely on them.

*You need way more talent to deliver great illustration instead of let's say some graphic design. I don't want to say it is an easy task, but it is something which can be done with more technical knowledge, while as an illustrator you need an artist and understand what customer wants to have. (C)*

*If we are doing something technical, I will tell them objective standards that we need to meet. We have tools to that we use to measure certain things... I expect them to meet those standards. (E)*

The freelancer as an expert approach often takes place in case of the project basis engagement. However, if the external provider performs well, the client is satisfied with the outcome, and the company has a repeating need for this skill set, the development of long-term relationship between parties is probable. One significant difference from freelancer as a tool approach lies in high-level specific skills that makes the freelancer harder

to replace. Nonetheless, besides the ability and technical skills to complete the task, the role of previous working experience with the person increases here. If the first collaboration with a freelancer is successful, some level of trust and confidence between parties emerges because the level of technical and communication skills is tested. If later the client wishes to replace a freelancer, he has to start the selection and testing process again. It certainly costs him some time and, although the price can be lower, there is a risk that the next choice will not be successful. It differs from freelancer as a tool concept because the need for high-level skills and close interactions with clients are rare there. Since the task can be completed by a wider range of freelancers and even already engaged freelancers are not well-trusted, the switching cost is not that high.

As briefly mentioned before, a closer communication with internal team during the project creates the possibility for development of trust and interpersonal relationships. The more regular and constant engagement of the freelancer, the better is his understanding of the client's business and expectations, the easier is the communication and mutual understanding. Previous positive experience creates the higher confidence in freelancer and increases the level of trust. Nevertheless, it is worth mentioning that the notion of trust is defined and assessed subjectively, and the cultural aspect cannot be ignored when determining the meaning of trust for a client (see section 6.1).

When working with a freelancer on a project basis, the client often plays a role of project manager, who settles the conditions, targets and limitations and relies on the freelancers in terms of project execution.

*My role is to ensure that the brief is properly followed once we received it from a client. I am a project manager who manages the freelancers and ensures that they are in line of the expectations of our agency. (D)*

In turn, the freelancers' aim is to reach the goal within given settings. The cooperation can often be described as a back and forth process with relatively high involvement of the client. The client tends to participate and monitor the work of the freelancer providing frequent feedback. The constant communication is necessary to ensure that the standards of quality are met, otherwise there is a threat that after dozens of working hours, the delivered outcome can be disappointing and then both parties face a problem. The role of freelancer in the process is to integrate his skills and expertise into the client requirements. It means that he should not always blindly follow the orders. In the most cases the client does not expect it either, thus opinions and recommendations are highly appreciated as far as they are aligned with the purpose. The main motto of this type of cooperation sounds like "to work out the best solution together".

*I would expect from them to come up with new ideas, ways of doing things and not just like a tool that's going to perform some tasks, but also sometimes adding value and bringing in new ideas and methodology. (D)*

Summarizing the freelancer as an expert concept, in few words it can be described as the bringing extra talent and skills in house to work on a project together. The more regular and interactive engagement is, the higher is the level of trust and understanding between parties. Further, the client's perception of a freelancer can transform to the next level discussed in the next chapter when a freelancer is considered as a team member of the company.

### **6.1.3 Freelancer as a team member**

Freelancer as a team member is the level of cooperation that refers to a very close involvement of the freelancer in the client's activities compared to the previous types. The interviewees were asked if they perceive a freelancer as an outsider or a team member and all participants admitted that a freelancer can be perceived and can become a team member, however not every participant has such developed relationships with the freelancers in their company. Nevertheless, case F was used as a basis of this approach because the company is composed only of freelancers who work on a long-term basis in tight connection as a team. The business strategy of the company in terms of human resources makes case F an except among the rest, though some mechanisms and examples are supported by other cases (A, B, C, E).

The main distinction of freelancer as a team member lies in his constant or long-term work with the client. The long-term engagement can be caused by ongoing type of work or a regular need of the client the certain job to be performed. Thus, on the one hand freelancer as a team member concept is applicable for administrative positions in the company such as human resource manager, project manager, social media marketing manager, development manager, accountant, sales manager, etc. On the other hand, the second option is also possible, when a freelancer becomes a team member after repetitive and successful work with the client. This relationship can be described as a continuous project-based engagement and some interviewees mentioned examples of such cooperation when describing freelancers who they consider team members.

*“If it required somebody to be working like 10 hours a month... a virtual assistant... I consider that person part of the team, and I have a much different relationship with him than in case I just need something specific done and once the job is over than that's it. And if it happens to go back to them later that is great, if no then I just move on with somebody else.”*

*(B)*

*We have freelancers who are definitely team players, they've been around us for a long time. (D)*

*The ones that tend to be with me long-term, I consider them part of the team, and sometimes we need to bring in some extra talent and those are outsiders to us. But the difference between the outsiders and insiders is not like a number of hours, it is just who has been with us a longer. (E)*

*I have some freelancers who do more organizational or ongoing work, and I have some who do more project work. But with most of them we did more than one projects, with Slava, for example, now we started the third project. So, if we were in contact for one project, the changes are high to do another project. (F)*

In any case, the certain level of institutional knowledge piece by piece should be acquired by a freelancer to be perceived as a team member. It can be done only as the result of regular interactions with the client. Initially or through time, at some level of developed trust, the client should be ready to share more details about the company with the freelancer. If the freelancer gets access to internal information of the company, to customer contacts, to internal platforms, gets a corporate email, he is likely considered a team member (F). However, not every SME owner is willing to take that risk.

*If you are constantly opening the doors to a sort of different business experience you are going to fail. I think obviously depending on the industry that you are in, depending how sensitive some information is... (A)*

In such case, the clients mostly follow freelancer as a tool or freelancer as an expert approaches. For example, participant A mentioned that he mostly uses freelancers for a project-basis cooperation, but at the same time he said he wishes to use them more for full-time long-term engagement, for deeper and more knowledge-based tasks. He strived to find a way moving from hiring to partnering.

*"I think the big thing for me is stepping outside of my comfort zone with freelancers. All times I use them on sort of point by point basis... I am a project manager on every single task, on every single project and I shouldn't be... maybe it is part of me as well not being fully comfortable to open my doors... maybe I should expand into a larger partnership with someone specifically and start to explore those horizons." (A)*

Ongoing type of work requires freelancer to carry out a wider variety of work compared to a certain task outsourced to freelancer as a tool or to work on the project outsourced to freelancer as an expert.

*"I have a virtual assistant and she just do whatever I tell her to do and just makes sure to work 40 hours a week. There are no specific milestones, because in the middle of her doing some task I might suddenly have a different task for her, that is more urgent, she needs to stop what she is doing and start working on something else. I have web developer who works in a similar way." (E)*

The participant did not mention that full time freelancers are more independent, but it looks that they should be more available for the client who provides them with a full-time contract. In addition, ongoing freelancers seem to be more flexible in the scope of work they are ready to complete. Meaning that freelancers hired for a specific task, do only that task, while others hired for an ongoing position should be ready to accomplish any task that they are capable of and asked for. It affects the required level of skills needed to get an ongoing position. Freelancers obviously should have a high level of skills in a core field they are hired for, but at the same time they should have enough knowledge to complete tasks that might suddenly arise. In other words, it can be assumed that their skill and knowledge volume should be more diversified compared to a very specialized expert freelancer.

While the external independence of freelancer as a team member must be lower (meaning they depend on one client more and cannot easily switch among clients), their internal independence increases. Internal independence here means that they have more power and knowledge to make decisions on what, how and why something should be done for the client.

*“The other important part is that they are independent. So they organise their stuff themselves, if they need a training to be completed, they should look for it. If they need someone else to give them information, they should ask for it. If they need to make a call with a customer, they should do it by themselves without being pushed again and again.” (F)*

The internal independence is supported by increasing trust. Freelancers who work with a client for a long time become reliable team members. The client has an opportunity to delegate the work without delay, to get help quickly, to save time and cost, and to have expectations met.

*“I know the work is done, done correctly and it frees me to do other things” (E)*

*“I don’t know what there, what her [HR manager, freelancer] points are, what she is looking for, but she is pretty good at finding good people” (F)*

The working process is closer to regular employment in organizations with flat structure. When describing the division of work, the participant F says “my part is mainly about data...” He acknowledges that he is the equal member of the team that consists of freelancers he hires, although the interviewed person is the owner of the company. When talking about his team members the participant F calls everyone by name and describes their roles in the company or projects precisely. It can be interpreted as a sign of well-established relationships. Then, he divides all team members on project-based and ongoing contributors based on work type they execute. However, he has long-time relationships with all contractors of both groups.

Due to established relationships and acquired institutional knowledge freelancers, who are perceived as the team members, are harder to replace. The client should spend time and money not only to find a new person with the same or better level of skills, but also to integrate him into the company and to teach internal policy, standards, expectations, etc. It makes the switching cost relatively high compared to freelancer as a tool or freelancer as an expert approaches.

*If the freelancer leaves the contract for some reason, everything he knows is gone. (F)*

To conclude, freelancer as a team member concept is characterized by long-term cooperation with the client and more tight integration into the client's company. High level of institutional knowledge, understanding of client's business and expectations together with high level of trust between parties gained through constant interactions make freelancer a team member. Although parties remain independent, they become less fungible for each other. In this sense this type of relationship is closer to employment.

It should be mentioned that the approaches to freelancing discussed above should be considered rather nominal than exact or strict distinction for the number of reasons. Firstly, each case is unique. Secondly, the approaches refer to personal judgment, thus can hardly be precisely measured and classified. Thirdly, the relationships between a freelancer and client are constantly changing. It progresses or regresses over the time and often can be placed in-between the types. Nevertheless, the suggested concepts describing the client's perception of freelancing should be useful both from practical and theoretical perspective. For practitioners, it provides an insight into the variety of relationships that can exist when collaborating with freelancers. Following a certain approach, the flexible workforce can be utilized in full to achieve the client's goals. From theoretical point of view, the suggested concepts are further used to answer the main research question since the chosen approach determine the value (co)-creation process and client's perceived value.

## **6.2 Two layers of value**

What has been considered the traditional notion of the company in 20<sup>th</sup> century has been disrupted in the 21<sup>st</sup>. Shifting of the paradigm towards the prevailing intangible assets over tangible, together with the growing impact of technological development made the role of location less significant. Knowledge and skills matter today much more than machinery and physical assets. Thus, since assets don't have to be placed in the same location anymore, the companies have an opportunity to utilize the best talents around the globe at the world market prices. The emergence and development of online freelancing makes access to these talents easier and faster. The situation at the market and working

process become more transparent resulting in almost unlimited choice for the SMEs in terms of the required skills and price range.

When discussing the role of freelancers in value-(co)creation process, the initial assumption of most participants was that the interview questions are about the value created for their end users rather than the creation of value for the clients and their own company. It was not specified on purpose to give participants the freedom to express their own ideas and thoughts related to their understanding of value. As a result, the value that is potentially consumed by a freelancer's client can be discussed from two standpoints, referred to in this study as direct value and returned value (figure 9). The direct value can be created as the result of direct interactions between an SME and freelancer (A), end user and freelancer (B), or an SME and end user (C). Conversely, the returned value is experienced by SME indirectly (D). It derives from the satisfaction of the end user by the work of freelancer and is only possible when direct interactions with the freelancer take place.

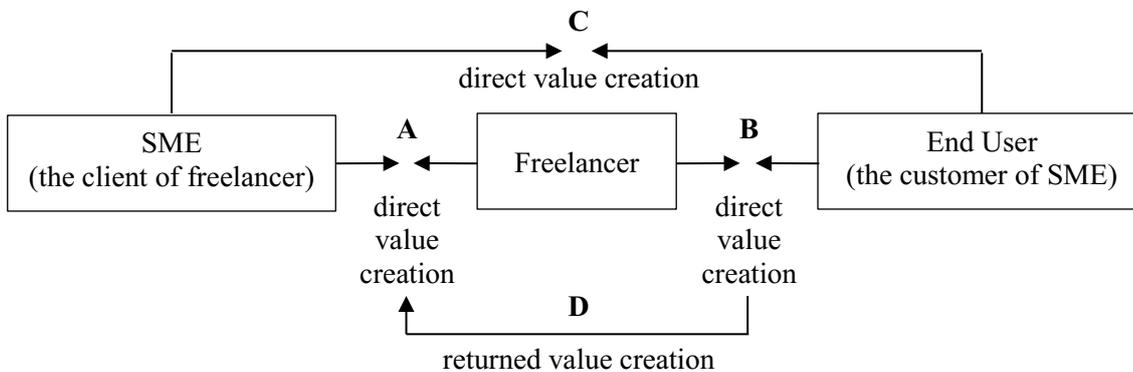


Figure 9 Direct and returned value creation

A direct value is the value that the client experiences directly in the result of a freelancer's engagement (figure 9, A). One of the most significant aspects here is the price component. Most interviewees mentioned that the cost-advantage is the most important reason to work with freelancers.

*... because otherwise I will be priced out of market and I won't be able to work on stuff that ultimately could be worth a lot of money. (A)*

*...because the freelancers are overseas. They are overseas, so number one is their cost benefit. (E)*

However, at the same time the level of price directly affects other factors that contribute to the value experienced by the client. For example, the level of price is determined by the region and labour market prices the client is seeking a freelancer from. Low-price labour is often, but not always, obtained from countries with a relatively low level of education and income, thus lower level of skills and language. It determines the quality of work, the time spent on communication and monitoring, the time required to complete

the task, client's expectations and so on. For that reason, the main challenge of SMEs working with online freelancers today lies in handling the wide choice they face and in finding the right balance between cost and time, cost and quality, cost and skills, etc.

*I tend towards the low-cost option, although not the lowest cost option... again that is where you are trading off between price and time. (B)*

*You take care of quality whatever you need and, of course, you take care of the price, which something we have to find a balance in. (C)*

*If I have a critical task, the price level is not that important. Then I go for an expert level. (F)*

All participants were asked about their most valuable and disappointing experiences when working with freelancers. After data analysis several value-creating clusters were distinguished: are service-, quality-, and benefit-related components. The suggested components can also lead to a mirror effect, resulting in the destruction of value in case a negative experience emerges. A service-related cluster includes all categories the participants mentioned in terms of the communication with the freelancer, mutual understanding, freelancer's commitment and availability, thus refers to the experience of being a freelancer's client. In other words, it should determine how well the service is provided to the client. A quality-related cluster consists of the components that affect the results a freelancer delivers, for example, freelancer's skillset, experience, talent, knowledge, client's requirements and quality standards, etc. In other words, it determines how proficient a freelancer is in satisfying the client in terms of work quality. A benefit-related cluster composed of the gains or losses a client and his business can have as the result of the freelancer's contribution. It includes such components as cost advantage, gathered information and knowledge, flexibility, time savings, etc.

Nonetheless, as it was mentioned above, when speaking about value-creation process the participants often intuitively refer to the value that freelancers might contribute to the product or service that their company offers on the market. The interviewees start thinking about whether freelancers add value for their own customers or end users. Putting an end user into the centre of discussion can bring a deeper perspective on value-creation process between multiple entities, however it is out of the scope of this paper which is devoted to the value-(co)creation process particularly for the freelancer's client. Nevertheless, if it is assumed that freelancers contribute to the value creation for end user in one way or another (figure 9, B), its positive or negative reverse effect on the client's company cannot be ignored. In this paper it is called a returned value (figure 9, D) that occurs when a freelancer is engaged in a value co-creation for the end user on behalf of his client.

*That is really what sort of allowed me to have a lot of confidence in freelancers, because they made me look good at one of my day jobs [the interviewee utilised freelancers for the benefit of his own employer]. (A)*

*... we developed the website, it took several months to do and when it was a time to launch the freelancers has completely disappeared. Probably the worst experience. Because we were stuck with the zero source files, and we ended up losing the client for that reason. (D)*

*If they work in time with good quality, the customer gives a good feedback, that is what considered a good experience. (F)*

The client does not always expect a returned value though. In the example below a participant states that the freelancer's contribution in value co-creation can be minimal.

*Sometimes the value creation component for a freelancer is quite minimal because what they are doing is commodity work. I don't think the bookkeeping, for instance, to be creating any value, it is just a labour. (B)*

In the described example, a freelancer cannot affect the returned value because he is only involved in certain internal operations of the company. Nevertheless, a freelancer still should be engaged in direct value co-creation for the client, at least in terms of transaction cost theory perspective. Later in the interview participant B comes closer to the similar opinion stating that he considers that his time has a certain level of value and by delegating a piece of work to someone else he gets free for other things. He prescribes value to his free time and by taking on tasks that provide the business owner with it, is how a freelancer can be valuable for him. Thus, it is concluded that while returned value co-creation does not always take place as the result of freelancer's engagement, the direct value is always experienced by the client at some extent.

The participants clearly state and describe their own contribution in value creation. In some cases, they define their role as idea formator. They initiate the project, generate the idea, set a request and job description, give a brief to ensure a freelancer is in line with the expectations. Sometimes they go further playing a project manager role and leading the team of freelancers towards a goal. In other cases, they are more detached from a freelancer's work. They set certain goals or standards, letting the freelancer arrange the working process and giving him more freedom.

*"I try to be almost as involved as possible, almost like the project manager in a way." (A)*

*"Your job is not just to find people, it is the project management... component" (B)*

*"In my case it [a great value for money] is to have an idea and have this idea realized. Like the comic book I was talking about I have the idea for the comic book, I had the idea for the story, I wrote a story, I wanted to have the story illustrated, so the tangible or intangible asset which was created was in the end the comic book or video or some audio program. And the added value by the freelancer is of course what he does in kind of his craft... I would say freelancer is a person who is adding value or who*

*makes possible that value gets created, who makes it possible that the idea comes alive.” (C)*

*”I will tell them what the standards are and I expect them to meet those standards.” (E)*

*”The biggest part of the work is pretty independent, in our central tool we create task for the team members and they have to be completed. I know there are people who like to keep everything under control and monitor closely, but I don’t think it is an option. If you control everything you don’t need people to do their work.” (F)*

Consequently, the role of freelancer in value co-creation process varies as well. The minimal value creation takes place when the case is technical execution of well-predefined task that results in the creation of direct value only. In this case the client is closely engaged in freelancer’s work. He not only gives an idea about the task, but provides direct guidelines and carefully monitors how the work is processed. As a result, a client perceives that his own contribution in value creation is much higher than the freelancer’s role. On the contrary, much more value is added by a freelancer when the contractor is given more freedom and responsibility to decide what, how and why he should proceed. Firstly, it frees the client from a managerial role that results in time savings, and thus in higher direct value. Secondly, an idea generation is perceived as the significant part of value creation, thus if freelancer is capable to define own tasks on behalf of the client and meet set goals, his value increases. In addition, it stimulates the information and knowledge exchange since the freelancer brings his expertise to work. Thirdly, more independence in combination with the certain tasks gives the freelancer an opportunity to work directly with the end user, thus, to create a returned value for the client. Of course, in practice, there is no strict line between how work is arranged. Various middle steps across the spectrum are possible and can be determined by client’s business strategy and goals, task types, level of relationship with a freelancer, contextual factors, etc.

*”They [freelancers] give their own opinion, and it is not just an opinion because they are excited about giving an opinion, but to give a opinion because they are really knowledgeable in this field, that can bring value.” (D)*

For sure, giving more freedom and independence to the freelancer together with an access to internal company’s information imposes additional risks to a client. Without proper monitoring a freelancer can perform ineffectively or deliver poor low-quality results. Moreover, with access to the information the freelancer can act in his own interest and do harm to the client for his own benefit, for example, at some point a freelancer can agree with the end customer to work directly with him taking the client out of the chain. Consequently, the clients tend to let the freelancers in the company to a certain extent sacrificing the potential extra value to risk hedging. Besides, the clients try to find a right

balance for their companies between value layers. It can be the maximization of direct value along with cost-cutting strategy, the maximization of returned value that is aligned with strategic sourcing strategy, or the combination of those.

In this chapter the main empirical findings were introduced. It is suggested that SMEs can utilize three approaches towards freelancing. The chosen approach determines the relationships between parties and their roles in value co-creation process. Additionally, two layers of value perceived by the clients are distinguished. Further discussion of the findings and integrated conceptual framework are presented in the following chapter. The framework is built on the received data and supported by existing academic literature.

## 7 SYNTHESIS

The following chapter presents the study results that combine both empirical and theoretical blocks of the paper. The suggested conceptual framework displays the main conclusions of the study that are explained and argued further. The next sections are dedicated to the theoretical and managerial implications of the conclusions. In the final section, the limitations of the study are reviewed.

### 7.1 Conceptual framework and conclusions

The conclusions of the study are presented in the form of conceptual framework that integrates the reported empirical findings with existing academic literature. The aim of conceptual framework (figure 10) is to answer the main research question of the study: how freelancers being a temporal workforce co-create value with their clients.

Firstly, it should be noted that based on collected and analysed data it can be concluded that the value co-creation indeed takes place. Through the services provided by the freelancers their clients experience value-in-use that corresponds to the service-dominant logic perspective (Vargo and Lusch 2004). It means that both freelancers and their clients contribute to the creation of value. According to the model suggested by Grönroos (2011, 283), a period of working arrangement frames the value co-creation process. Hence, the co-creation starts when the client hires a freelancer and finishes when the work is completed, however it does not always mean that the clients immediately stops experiencing value. They can continue using the outcome of freelancer's work (for example, the developed website) and acquiring further value-in-use. During this period, the client is the only value creator because he decides how to use the outcome of freelancer's work in his own interests; the developer is not engaged in the work anymore. Further, the client can hire an SEO expert to improve the website meaning now they co-create value while working on improvements.

Thus, the value co-creation period is defined as a time of direct client's collaboration with the freelancer. Although the client is the only one who assesses and absorbs the value, the freelancer's contribution cannot be ignored because only due to the freelancer's engagement, the consumption of value becomes possible. This is supported by the empirical data because the participants of the study acknowledge the role of freelancers though the incorporation of their operant resources. Further, the conclusions of the study and how they are reflected in the conceptual framework are discussed.

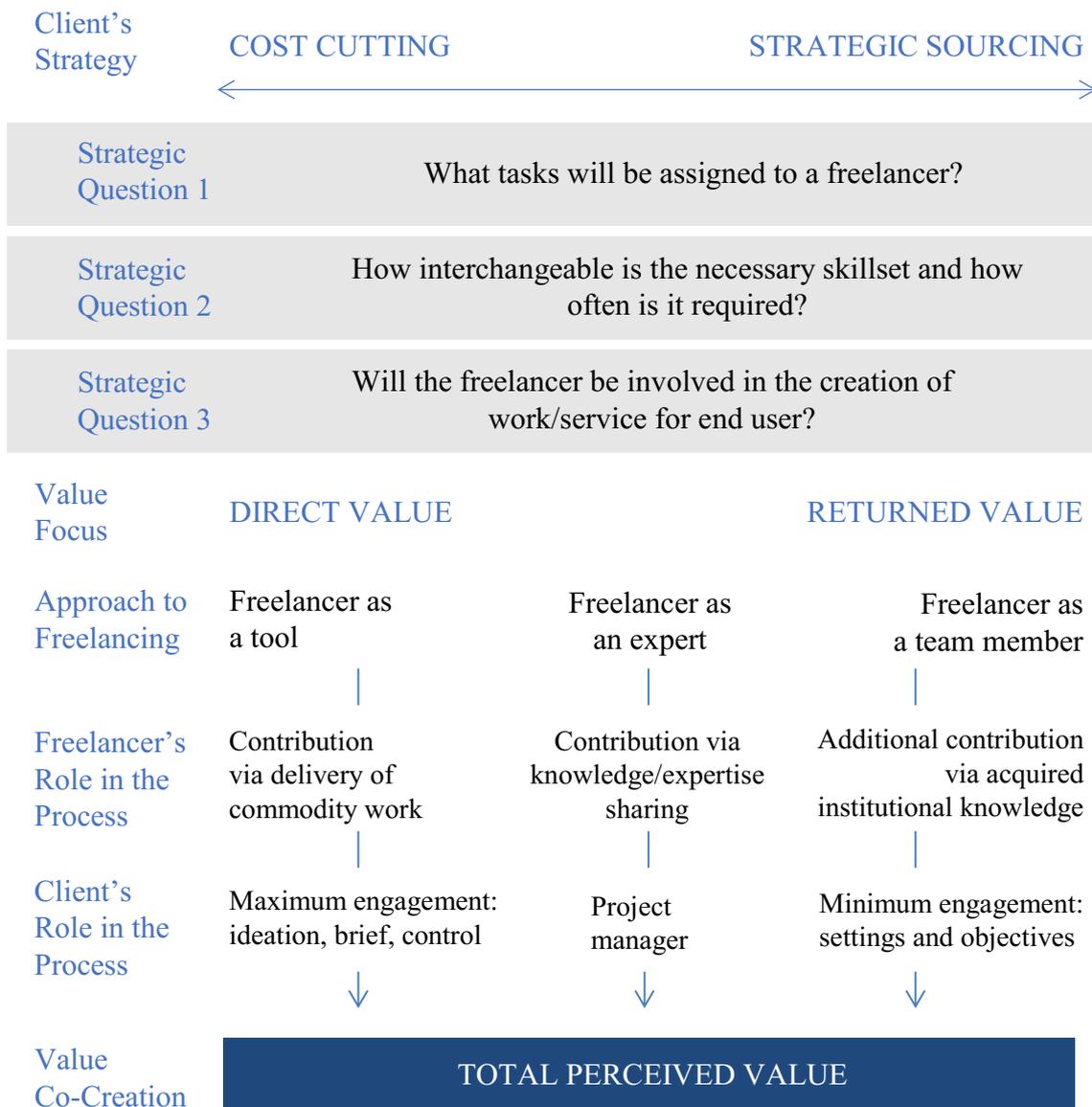


Figure 10 Integrated conceptual framework

*Conclusion №1 – The client's business strategy and value focus*

The client is the starting point of any emerging relationships with contractors since he defines the need for external workforce, sets the requirements for it, and holds expectations. In addition, as it was mentioned before, a client is only one who can evaluate the result of such relationships, thus, consume value. The main strategic question the client faces corresponds to the one intensively studied in outsourcing field – what should be outsourced (see 3.2.1). Thus, the client should decide which tasks should be externalised, thus, assigned to freelancers. The chosen for externalization tasks prescribe the answers to additional strategic questions SMEs owners or managers face: how often the company has a need for this specific skillset and whether the freelancer will be involved in the creation of work/services for the end user. By answering these strategic questions, the

SME defines its further strategy towards freelancing. If a freelancer is utilised by SME for relatively easy and straightforward one-time task for internal needs of the company, its strategy can be defined as cost-cutting. On the contrary, if the company serves its clients in one way or another with the help of freelancers, and the relationships with the freelancer can be characterized with a long-term and complex engagement, the client's strategy is close to strategic sourcing. This distinction corresponds to the relational value spectrum suggested by Möller and Törrönen (2003, 113) (see 4.3) who used the relational complexity and time orientation as determinants of value production.

Further, it is suggested that the chosen business strategy of the client determines the focus on value layer he expects to maximize as the result of freelancer's engagement. Thus, a pure cost-cutting strategy agrees with the maximization of the direct value when the client looks for the direct monetary or non-monetary benefits for the company. Conversely, the strategic sourcing is complemented by returned value focus, when a freelancer is engaged in the value creation process of the client's customer. If the freelancer's work directly and positively affects the end user satisfaction, it brings additional value to the hiring company. In a similar way, Stauss and Jedrassczyk (2008, 22) introduced direct and indirect mechanisms to explain the customer value, while Möller and Törrönen (2003, 110) used direct and indirect value functions to classify the supplier value. However, when the client is not willing to or has no opportunity to engage a freelancer in the creation of value for his end user, the returned value cannot be expected in the result of freelancer's activity.

Thus, from the strategic perspective, an SME decides how the freelancer will serve the company. The client can use the external workforce for the maximization of direct value expressed in a cost advantage or other personal or company benefits. On the contrary, an SME can engage freelancers in the creation of services or products for its customers where returned value takes place and plays a more important role. Nonetheless, in this case the cost-advantage is not eliminated either. The discussed strategies and value focus are the opposite and extreme cases, different combinations are possible to allow for balance in the company's goals.

*Conclusion №2 – Three approaches to freelancing and firm's strategy and value focus*

This conclusion was made as an attempt to conceptualize the relationship between the client's strategy, its value focus, and the company's approach to freelancing. Three approaches to freelancing were distinguished and conceptualised based on the received empirical data: freelancers as a tool, as an expert, and as a team member. There is no clear evidence that the client's value focus determines his approach to freelancing, however, the client's strategy was discussed as one of the factors affecting the way freelancers are utilised by the SME (chapter 6.1). It was noted that the delegation of work in attempt to reduce cost refers to freelancer as a tool concept, while filling the gap and building a team refers to freelancer as an expert and as a team member respectively. Further, the second

strategic question of the suggested conceptual framework connects the company's strategy and its approach to freelancing. It refers to the freelancer's interchangeability and the constancy of the SME's need for this skillset. This question helps a client to figure out the possible longevity of the emerging position, thus pre-defines the SME's approach towards freelancing along with other factors discussed in chapter 6.1.

As discussed above, the direct value focus corresponds to the cost cutting strategy while the returned value focus matches the strategic sourcing. In this case it can be concluded that SMEs seeking a direct value maximization should make their choices and utilize freelancers based on 'as a tool' approach. On the contrary, SMEs that are willing to maximize the returned value should utilize freelancers from 'as a team member' perspective. Freelancer as an expert lies in-between these extremes, when an SME tries to trade off the cost and level of service. Potentially, it can be the most common way to deal with freelancers for the companies. By connecting the clients value focus and approach to freelancers it can be argued that since companies vary in their expectations, they choose how to utilise freelancers to achieve the value they expect.

#### *Conclusion №3 – Roles of parties in value co-creation*

The client's approach to freelancing influences the roles of parties in value co-creation process. The higher level of relationships and trust is, the more independence is given to a freelancer, the more important his opinion and expertise are, thus the more significant his role in value co-creation that is acknowledged by the clients. Following this logic, when the client uses freelancer as a tool, he keeps all the power in his own hands. In this case, the client is responsible for the generation of ideas, briefing, and further close monitoring of work. Consequently, the client believes that his own role in the process is crucial, while a freelancer does not add significant value because he only does simple work. The contractor does exactly what he was told to do, thus his contribution is perceived by the client as minimal. As stated above, the client strives to achieve a direct value in this case, meaning decreasing his labour costs by using temporal workers.

The other approach, freelancer as an expert, implies the more significant role of the freelancer in value co-creation process. It is acknowledged that in this case both freelancer and the client contribute to the value creation but have different functions. Often a client has the role of coordinator or project manager. He organizes the work, assigns tasks and monitors the progress, however, in the field of freelancer's expertise he relies on the freelancer's opinion and knowledge. This is caused by the greater complexity of the task and often by lack of necessary expertise inside of the organization. The participants acknowledge that when this cooperation takes place a freelancer contributes to value co-creation by integrating his skills into a project that can be arranged for exclusively internal company's needs or for a company's client. It is reasonable, when by means of temporal workforce, the company aims to achieve better flexibility and/or quality of service, thus it expects to receive a combination of direct and returned value.

At the next level, freelancer as a team member, the client's managerial role partly or entirely moves to a freelancer. Freelancer as a team member is characterized by a long-term engagement, thus with acquired institutional knowledge and high level of trust, a service provider gets more freedom to make necessary decisions and work independently. By freeing a client from the managerial role and completing the work of any complexity independently or with minimal client involvement, a freelancer as a team member is considered an essential value co-creator for the client. The client in this case focuses on returned value and overall better company's performance in long-term.

*The value focus and control paradox*

It seems reasonable to assume that the engagement of the client should be higher in case of strategic sourcing and returned value focus. The following supports this assumption: if the value is created by a freelancer for the end users, the hiring company should monitor the freelancer's work more closely and be more engaged because it should take care of its relationships with end users, reputation and service level. However, according to received data, constantly trading off between price and quality, the clients tend to put quality first when focusing on the returned value and strategic sourcing, thus they choose freelancers based on their expertise and reputation. The price in this case plays a less significant role. By choosing freelancers of an expert level, a client either monitors their work playing a role of the project manager or relies on their expertise completely. The latter requires a high level of trust between parties that is possible to achieve only through long-term collaboration.

On the contrary, when the client is cost-cut oriented and looking for a freelancer primarily to maximise the direct value, the price factor becomes crucial in his choice, meaning that the client tends to sacrifice quality by choosing freelancers who are competitive, not because of their expertise, but due to the offered price. It often creates a situation where close control is required. Another factor enforcing the level of control relates to the client's understanding of what exactly and how the work should be done. It results in his high involvement starting from the generation of ideas, to briefing, monitoring, feedback, quality assessment and so on. Through close control the client tries to ensure that the contractor does exactly the prescribed job to avoid any additional spending. Comparing to the first example, when the value is creating for SME's customer, the hiring company cannot be completely sure that its interpretation of the end user's expectations is correct. It means that having an intermediate between the end user and work executor can create unnecessary assumptions and misinterpretations. Since if there is a chance that freelancer can understand the customer's requirements better, it makes sense to let him work more independently and rely on his judgment and experience as long as a certain level of trust and confidence in his skills are reached.

The suggested conceptual framework and discussed conclusions aim to answer the main research question of the paper. It was intentionally formulated to remain less biased

regarding the role of parties and value co-creation process in general. Thus, the answers to research questions are as follows:

*Main research question: how do online freelancers being a temporal type of workforce (co)create value for or with their clients?* The results of the study confirm that indeed both freelancer and the client contribute to the value co-creation of value, since the value emerges as an outcome of their collaboration. Nevertheless, it is concluded that the client is always a value creation initiator, and he determines the further roles and potential contribution of parties in the process. Any relationships with the contractor start only if the hiring company realizes the need for services that are reasonable to externalize. However, since it is possible to externalize almost any process at lower cost, the decision what to outsource refers to the firm's strategy and remains crucial in terms of online freelancing as well. The company's strategy frames its further value expectations and, thus, determines how the value will be co-created by means of online freelancing. Hence, *subquestion #1: How can online freelancing be explained and integrated into the hiring company?* In organizational management, freelancing can relate to HRM and outsourcing. Being a specific employment group that combines the features of temporal workforce and external service provider, theoretical grounding of both these fields should be considered. It means that freelancers form a sector in the labour market and at the same time, comprise a part of a company's network, i.e. service suppliers. It is important to consider because the empirical data illustrates that in practice the way how clients work with freelancers varies, and these approaches reflect some intermediate position of freelancers between employees and outsourcees. It is concluded that the client can use freelancer as a tool, as an expert, or as a team member and it is determined by the client's strategy and value focus. Each approach is characterized by the following attributes: work type, required level of skills, primary client's strategy, longevity, and the level of trust. In addition, personality and cultural differences should be taken into consideration. Addressing a certain approach to freelancing frames the working process and roles of the parties, thus, lead to the answer for *subquestion #2: How do online freelancers and their clients contribute in value (co)creation in practice?* When freelancer as a tool approach is utilized the client is involved with the execution of each task starting from the creation of an idea, to close monitoring of freelancer's performance. In this case, the perceived value of freelancer's contribution is relatively low because he only carries out a prescribed task. The client, however, still experiences a direct value through cost or time savings. In case of freelancer as an expert approach, a contractor co-creates value by integrating his skills and knowledge and embodying the idea of the client. The client's role in the process can be described as a project manager. Hence, although the client also participates in working process through regular interactions, provides instructions and feedback, he tends to willingly acknowledge the freelancer's contribution in value co-creation. Finally, if the client follows freelancer as a team member approach, a contractor is given much authority in

decision-making that frees the client from close monitoring. The freelancer is given access to company's internal information, allowed to define the scope of work, and communicate with end users. In this case the high level of trust should be established between the client and a contractor. With the acquired institutional knowledge the freelancer is recognised as an essential value co-creator by the client.

## 7.2 Theoretical contribution

Figure 1 (p 12) illustrates the theoretical positioning of the study and a gap in academic literature. The main relevant theories for this study including freelancing, SMEs behavior, and value co-creation are explored. Further, the theoretical contribution of the study results is discussed in relation to these fields.

*Freelancing.* Extensive literature devoted to the subject is examined in theoretical part. By critically analyzing existing academic sources the definition of online temporal workforce is elaborated upon and the main characteristics of freelancing are determined. Further, based on the presented literature the self-regulatory market mechanisms of freelance labor market are introduced. It is concluded that freelancers comprise a specific employment type that combines characteristics of both employees and entrepreneurs. The empirical data supports this statement and demonstrates that SMEs use the range of approaches when integrating freelancers in their operations: from the straightforward delegation of work to strategic partnering. Thus, taking into consideration the above, the study contributes to the theory dedicated to examining online temporal workforce through the concepts suggested and conclusions made. Additionally, the current paper explores freelancers from their client's perspective that has not been sufficiently studied by researchers thus far.

*SMEs behavior.* First, the study examines how SMEs can acquire additional operant resources from two perspectives: human resource management and outsourcing. By combining these theories, the SME's reasoning to utilize freelancers is explained. Further, based on the received empirical data the possible strategic choices SMEs face are introduced. Thus, the study strives to expand the theoretical understanding of SMEs behavior in relation to freelancing.

*Value co-creation.* The current paper introduces a conceptual framework that explains the value co-creation mechanism as the result of freelancer-client relationships from a customer-centric perspective. Broad scope of literature devoted to value co-creation is analyzed and the existing concepts related to value such as value-in-use, value-in-exchange, value as all-encompassing process, value as an experience, etc. are considered in the context of freelancer-client relationships. It is claimed that the client always phenomenologically consumes and subjectively assesses the received value. He is always the

value creation initiator, but still a co-creation takes place and the role of the contractor cannot be overlooked. Two layers of value are introduced in the study highlighting the multidirectionality of the phenomenon. Further, the layers are integrated into the conceptual framework as value expectations, or value focus that derives from the client's strategy. The possible roles of parties in value co-creation together with its time frame are introduced. Thus, the study attempts to conceptualise the value co-creation process from a customer-centric perspective and can contribute to further theorization of the concept of value.

### **7.3 Managerial contribution**

The current paper explores the working process of an SME with freelancer and examines how online temporal workforce can be utilised by the companies to bring value. The strategic choices a client faces which further determine company's value focus and approach to freelancing are presented. It is worth considering that mismatching strategy and approach towards freelancing, i.e. how the freelancer is integrated into the company and treated, can result in an imbalance between value focus and actual received value. It means that the client's expectations are not met not due to a freelancer's performance, but due to inappropriate methods of collaboration. Hence, the practitioners can use this study to clearly define their strategy and value focus, then based on these create the conditions for further successful contribution of the contractor. The perceived value from freelancer as a tool and freelancer as an expert contribution varies, thus the expectations and goals should be set accordingly.

One of the challenges uncovered by the interviewees is how to cope with an existing and growing choice the online freelance market offers. Constantly facing a price vs. quality dilemma, the companies should strive to find a right balance that is appropriate for its business model and marketing strategy. The study suggests the strategic questions that owners and company managers should answer before making any arrangements with contractors. Further, the current paper illustrates how online freelancing can be integrated into SME's operations. The discussed practices can be implemented by entrepreneurs, SME owners or managers.

Online freelancing usually relates to intercultural A2A relationships, meaning that such factors as cultural differences, language and personality should be taken into consideration by both hiring managers and freelancers. Good communication and mutual understanding are crucial for successful work in general, but in case of partnering between people who have never meet – it is vital. Many things can hardly be predicted and may go wrong, thus the parties should be able to talk to and understand each other. For the clients, it refers to the challenge of the right choice discussed above. For freelancers,

the study demonstrates the necessity to develop communication skills along with the expert skillset they rely on. It refers and supports the concept of value co-creation through experience by highlighting that not only skills, but personality and level of communication matter.

The study exposes the client perspective of freelancing that can be a useful source of information for online contractors. Self-marketing and networking form a significant part of freelancer's activity. They put much effort in the development of their personal brand and offering. Thus, looking at the existing practices and methods which are utilised by their clients should be beneficial for contractors. It helps them understand how to position themselves and co-create value with the clients. Besides, freelancers can utilise the current paper to define their relationships with various clients and ensure they meet their goals and expectations.

#### **7.4 Limitations and further research**

The following limitations of the study should be acknowledged. The empirical data was collected among the users of an online platform that facilitates the relationships between freelancers and the companies. The platform has its own policy and regulatory mechanisms. Thus, in case of other online arrangements the applicability of suggested conceptual framework should be further investigated.

Abduction is an approach to reasoning that fits the grounded theory, thus it was utilised in the current paper. Since abduction relies on empirical data and pre-existing theories in finding or inventing the best possible explanation of a certain case or set of data (Thornberg and Charmaz 2014, 2), it means that the endless number of explanations can exist. The researcher aims to offer the most reasonable explanation that is worth further investigating. Then, when the additional data is collected and analysed, the researcher rejects, modifies or supports the explanation based on new received data. Thus, abduction depends on the scope of received data and researcher's previous knowledge about the subject. This study is limited in the scope and timeframe; thus, the suggested framework is claimed to be the first attempt to conceptualise the value co-creation when the SMEs hire freelance labour. Further investigation and modifications of the concept are recommended based on the newly collected empirical data. It refers also to the offered approaches to freelancing. Further research in this direction should be conducted that helps to elaborate on a more grounded and reliable typology of online freelancers.

As it was mentioned above, the researcher's previous knowledge of the subject affects the abductive reasoning in the study. It can be helpful in finding a good explanation for the received data, however, it can hinder a researcher from being a completely open-minded and cause some subjective judgements. Since a researcher has been working as a

freelancer for four years, it could create some biases although the number of preventive methods were implemented (see section 5.3). Thus, this limitation is worth considering.

Further research is suggested for the deeper investigation, elaboration and modification of the value-creating or value-destructing components mentioned in section 6.2. Due to the scope of current paper they were not paid enough attention. Nevertheless, it is assumed that the value components perceived by the client deserve further research since their exploration can explain the mechanisms of value co-creation. Additional interesting direction for further research could be the influence of personal values of the client when he consumes and assesses the freelancer's contribution. Working with freelancers always takes place through actor to actor interactions, thus, the role of values of the individual who works with a freelancer, be that the owner, the hiring manager, the project manager of the company, or someone else, should not be underestimated. Personal and cultural characteristics of both client and a freelancer (see section 6.1) can determine the freelancer's choice, working process, and the perceived value.

Considering the growing popularity of online freelancing as a type of employment and the benefits it brings to SMEs in terms of cost savings and flexibility, one of the most vivid challenges in this area is how SMEs can handle the huge offering that is collected all over the world. This paper suggests that the client's primarily strategy and value focus frame this choice. However, it is also worth looking closer at the selection process and developing a framework of how SMEs can reach the required talents better and faster. One more suggestion for further research refers to futurology. Since more and more work is based on operant resources and technologies becomes developed enough to hire and monitor workers around the globe, it would be reasonable to explore how it can affect the traditional perception and definition of the firm. Moreover, since every company potentially can access cheaper labour and the competition only becomes fiercer the question is how it can affect the welfare societies with a relatively high level of income.

Finally, it would be interesting to discuss the value co-creation from the end user perspective when the service provider utilizing freelancers is involved. In this case, both the company, being a service provider, and a freelancer, if the direct interactions with the end user take place, should contribute into the value perceived by the end user. This approach is complex because it includes multiple actors while the value is always bi-directional and subjectively perceived by each actor. Nevertheless, taking this complex approach can help to explore the full value experienced by each participant of the relationships including indirect, or suggested in this paper returned, value.

## 8 SUMMARY

The current paper is devoted to the co-creation of value that takes place when small and medium enterprises turn to online freelance labour market. Being a growing employment trend in modern society, freelancing is worth the attention of both researchers and practitioners. However, the phenomenon remains insufficiently studied and lacks conceptualization in academic literature. The challenge of this study is enforced by the complexity and high level of abstraction intrinsic to the notion of value.

The existing academic literature was examined and analysed critically to develop a coherent pre-understanding of the phenomenon of freelancing, to explain it from the company's perspective, and to determine the value co-creation in this context. The qualitative data was collected through semi-structured open-ended interviews and analysed using grounded theory methodology. Thus, adopting comparative and abductive methods, the presented theory is built on the empirical data and supported by existing academic research. The criteria of research evaluation are deliberated, and weak parts of chosen methods are considered to ensure the quality of the current paper and prevent the reader from possible misinterpretations.

The results of the paper are presented in the form of conceptual framework that is the first attempt to conceptualise the value co-creation between the freelancers and their clients. It is concluded that the co-creation of value indeed takes place and the contribution of freelancers should not be ignored. However, it is argued that the client is always an initiator of value creation, the main creator of value, and the only value consumer and estimator. It is aligned with and supports a customer-centric view on value co-creation.

The client develops his business strategy that pre-determines his further value focus and approach towards freelancing. It is suggested that the client can focus on getting the maximum direct value, maximum returned value, or on a right balancing between these two. Respectively, he chooses between three approaches towards freelancing: freelancer as a tool, as an expert, or as a team member. The chosen approach defines the roles of parties in the working process and in the creation of value. The freelancer operates within the given conditions and contributes to value co-creation via delivery of commodity work, via knowledge or expertise sharing, or via one or two previous approaches in a combination with the acquired institutional knowledge.

Further research is recommended to overcome the limitations of the current study. The elaboration of the presented conceptual framework is encouraged along with the other directions for future research. Nevertheless, the results of the current paper contribute to the theoretical understanding of freelancing, SME's behavior, and value co-creation. For practitioners, it explores the working process of an SME with freelancer and suggests how the latter can be utilised by the company to bring value.

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## APPENDIX - CASE INTERVIEW SAMPLE

### Introduction

- Name of the participant
- Role and position of interviewee in the company
- Company's age, size and industry
- How often does the company utilize freelancers?
- What are the main current goals of the company?

### Theme 1: Freelancing for the company

Q1.1 How do you understand the concept of freelancing in general?

Q1.2 What kind of freelancers are the most typical you work with?

- Location, price range, experience, online

Q1.3 If you could characterize "a freelancer", what animal would it be?

- Why?

Q1.4 Would you rather describe a freelancer as the team member or "an outsider"?

- Why?

Q1.5 What do you value when working with independent contractors?

### Theme 2: Value (co)creation

Q2.1 To what extent are freelancers useful in achieving the goals your company pursues?

Q2.2 How would you describe the process of cooperation with freelancers? What are the roles of parties?

Q2.3 How do you evaluate or measure outcomes of work with the freelancer?

Q2.4 Could you give an example of the best and/or the worst experience working with a freelancer?

- Tell a story

Q2.5 In the ideal situation, how would you characterize the most desirable experience of working with a freelancer? Anything is possible.

- How would you act?
- How the freelancer should act?