Entrepreneurship vs. Freelancing: What’s the Difference?

Ivona Hudek
Junior Researcher at the University of Maribor, Faculty of Economics and Business, Slovenia
ivona.hudjek1@um.si

Polona Tominč
University of Maribor, Faculty of Economics and Business, Slovenia
polona.tominc@um.si

Karin Širec
University of Maribor, Faculty of Economics and Business, Slovenia
karin.sirec@um.si

Abstract

The development of Internet technology (IT) at the end of the 20th century and its integration into the business sector has led to the emergence of digital labour platforms that provoke a reorganization of work arrangements by matching the demand and supply of goods and services, known as the “gig economy”. The “gig economy” stands for economic activities or work arrangements related to the performance of very short-term tasks facilitated by digital platforms and can include freelance work, temporary work, work on-demand and contract work. Our paper focuses on the new, growing workforce of freelancers. Freelancers belong to the self-employed category of entrepreneurial activity who do not employ workers, who pay their own taxes, work on projects, work for several clients, and work remotely, usually from home. According to various sources and findings, they are also referred to as entrepreneurs, solopreneurs, digital micro-entrepreneurs, hybrids of employees and entrepreneurs, enablers of entrepreneurship, potential entrepreneurs, etc. The purpose of this paper is to examine the relationship between freelancers and entrepreneurs. The paper will use a literature-review approach to highlight the similarities and main differences between freelancers and entrepreneurs and to find an answer to the question whether freelancers can be considered entrepreneurs or not. In addition, the paper provides insights into freelance work and highlights the benefits and challenges that freelancers face in the labour market.

Keywords: digital labour platforms, entrepreneurship, freelance work, gig economy

Introduction

Thanks to the Internet, people are able to compete for jobs and offer their knowledge and skills worldwide. In addition, business processes are becoming increasingly fragmented, so that work can be broken down into smaller components, so-called short-term projects (Friedman 2014; Stone & Deadrick 2015). The market
The second part is followed by conclusions. Differences between freelancers and entrepreneurs? Can freelancers be identified as entrepreneurs? What are the
following questions: entrepreneurs, regardless of whether freelancers are also
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the gig economy. Shevchuk and Strebbkov (2012) characterize freelance workers who work remotely as individuals with a higher entrepreneurial spirit and human capital, who provide creative and knowledge-intensive services and take advantage of the global Internet era while maintaining their work.

In the early literature on freelance careers, freelancers were initially described as borderless workers. The term was created in the mid-1970s through the initiative of career studies led by scientists in the Massachusetts Institute of Technology. The origin of this name lies in the fact that freelancers know no boundaries when it comes to fulfilling their tasks. Such an approach implies a shift from individuals relying primarily on career development organizations to individuals taking responsibility for their own career management and employability (Hall 2004; Rousseau 1989; Sullivan & Baruch, 2009). Due to the growth of technological development and globalization, traditional linear career development can no longer be used to adequately explain the reality of modern careers and thus the needs of the labor market. Individual knowledge, skills, expertise and adaptability are becoming more important than organizational commitment (Sullivan & Baruch, 2009). Accordingly, traditional working hours have been replaced by more flexible work arrangements and autonomy. Boundarylessness does not necessarily mean the complete absence of boundaries between different areas of life, but it illustrates weak to virtually non-existent area boundaries (Ezzedeen & Zikic, 2017). According to Donovan et al. (2019) and Utz (2016), in the business model, companies (clients) are looking for freelancers (providers) of services for a specific task through online labour platforms or other applications (intermediaries). Freelancers enter into formal agreements with companies to provide services upon request and receive financial compensation for the work performed.

The aim of this paper is therefore to study the entrepreneurial form of self-employment - the freelancers. In the first part of the paper we will give insights into freelance activity and highlight its advantages and challenges. In the second part, we will use the existing literature to examine the similarities and differences between freelancers and entrepreneurs, regardless of whether freelancers are also considered entrepreneurs or not. We will try to answer the following questions:

Can freelancers be identified as entrepreneurs? What are the differences between freelancers and entrepreneurs?
The second part is followed by conclusions.

Advantages and Challenges of the Freelance Activity

Since the business environment is very dynamic and market demand is changing rapidly, freelancers represent the
external resources for new solutions. In order for companies to respond quickly to market changes, they rely on hiring freelancers who can do a job that no one else in the company can do. Moreover, freelancers are usually specialists in their respective fields and are occasionally suitable for niche tasks (Brinkely, 2016).

The most common reason for hiring a freelancer is cost efficiency. Freelancers work remotely, usually from home, and companies are not obliged to provide them with space and equipment for their work. Additionally, freelancers are usually paid by the hour for their work, and the company that employs them does not pay health insurance, pension benefits or other contributions (O’Donnell, 2020). This is followed by risk mitigation, as the cooperation can be terminated relatively easily if the freelancers do not perform according to the expectations of the companies.

Freelancers generally require a low level of supervision, mentoring and guidance through work. This saves time for many companies as they can concentrate on other tasks. In order to provide added value, the freelancer must be willing to take the initiative and do the best possible work (Kirk, 2020). Many freelancers claim that freelance work is hard work, although it allows freelancers to work from the comfort of their own homes. Success in freelance work requires great communication skills, lots of learning, determination, perseverance and self-discipline (Dam, 2019). Freelancers must market themselves because they are the only ones responsible for finding their next client (Artisan, 2017). In this way they are able to deliver work of high quality. Hiring a freelancer also gives the company a global reach in talent selection for the work to be done. Finding talent through online labour platforms has never been easier.

Furthermore, many authors find that people are motivated by push and pull factors to become a freelancer. The former represents unemployment and underemployment (Bertram, 2016, p. 24; Block & Hennessy, 2017; Coyle, 2017; Tran & Sokas, 2017), while the latter represents extra income and flexibility as well as interaction with clients and interest in entrepreneurship (Anderson, 2016; Carboni, 2016; Webster, 2016). Furthermore, Sapsed et al. (2015), divide freelancers’ motivation into three factors: aspirations, pay, and necessity. Aspirations are the realization of one’s own ideas and the flexibility of work, pay is, of course, earning money, and necessity is the reasons for engaging in freelance work, such as dismissal and the inability to find a steadier job. According to Van den Born and Van Witteloostuijn studies in 2012, the main motive for workers to participate in the gig economy is flexibility, followed by autonomy and money. Also, according to the results of the First European Freelance Study (2019) 76.6% of participants were involved in the freelance work by choice. The main reason is flexibility, followed by the other reasons shown in Figure 1.

The main obstacles identified by respondents were finding customers (57%) and monthly or weekly income fluctuations (46%) (Malt & EFIP, 2019).

With regard to the other challenges, competition is high. In order to be successful, the freelancer must constantly work on his skills, knowledge, communication abilities and

**Figure 1. First European Freelance Study – reasons to become a freelancer**

The role of freelancers in the 21st century British economy

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Consequently, 63% of respondents still believe that they should be better recognized and supported by policymakers to maximize their potential (Malt & EIPF, 2019). There is still a lack of institutional recognition, although existing European and other international research suggests that it is one of the fastest-growing forms of contemporary employment arrangements. There are still no agreements on the definition and classification of gig workers. Mould et al. (2013), find that the lack of information and empirical data on freelancers explains the lack of government support. A global official register for such a new workforce does not exist, and for this reason the classification of freelancers varies from country to country or does not exist at all. Freelancers are often identified as entrepreneurs rather than being perceived as the unique economic entity, which will be discussed in the next section.

Discussion on Entrepreneurship vs. Freelancing

As mentioned in the previous section, there are still different classifications of gig workers. Many authors have examined the differences between a freelancer and an entrepreneur and have developed different approaches.

Although freelancers are often referred to as entrepreneurs, solopreneurs (Fitz, 2019), digital micro-entrepreneurs (Malaga, 2016), etc. some authors clearly distinguish between freelancers and entrepreneurs. Other authors offer a more balanced view of a freelancer compared to an entrepreneur. They find that freelancers can be seen as a hybrid of employees and entrepreneurs. They find that freelancers are similar to employees in that they are typically hired by large companies to use their professional knowledge for a certain period of time, as opposed to entrepreneurs who sell tangible products to customers. However, they also argue that freelancers are entrepreneurs because they work at their own risk, work for themselves without organizational support, and use their capabilities to create value (Van den Born & Van Witteloostuijn, 2013). This is why they are so often considered to be entrepreneurs themselves when they take risks.

On the other hand, the authors, who make a clear distinction between freelancers and entrepreneurs, claim that freelancers are unique economic entities that promote and enable entrepreneurship. With regard to the category of employment, they state that freelancers belong to the category of self-employed with zero employees, who use their potential to apply for temporary jobs or projects. In addition, they pay their own income taxes, have full control over where they work (usually remotely), do not receive benefits from companies, usually work with several clients and projects at the same time, and set their own rates, whether they charge by the hour or by project (Darlington, 2014). In contrast, they state that an entrepreneur is someone who owns a small business, aims to run and develop a business, has employees, i.e. hires people, and buys resources (products) from others to sell them profitably (Nation 1099, 2020). This means, for example, if a furniture designer sells his skills to a furniture company, the designer is clearly a freelancer as long as he designs the furniture himself. Only when the designer stops outsourcing construction activities and hires people to make the furniture is the designer no longer a freelancer and becomes an employer (Van den Born, 2009; Kazi et. al 2014).

In terms of the promoters of entrepreneurship, Burke (2012), in his report The role of freelancers in the 21st century British economy summarises four effects that occur when companies turn to freelancers: capability, productivity, reduced risk and competitiveness. These effects are explained in more detail in Table 1 below.

<table>
<thead>
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<th>Table 1. Hiring freelancers - economic added value</th>
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<td><strong>CAPABILITY</strong></td>
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<td><strong>PRODUCTIVITY</strong></td>
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<td><strong>REDUCED RISK</strong></td>
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<td><strong>COMPETITIVENESS</strong></td>
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Source: Burke, 2012.

Burke (2012), points out that companies can improve their own efficiency and thus their performance through these effects. The availability of freelancers lowers entry barriers and thus increases competition and economic efficiency. In this way, freelancers can play a significant role in the development of a start-up or a company, and a team could consist of a mixture of employees and freelancers. Other authors also point out that freelancers are the focus of attention, with the aim of enriching our understanding of the contextualization of entrepreneurship (Ucbasaran et al., 2001). Consequently, they are also perceived as enablers of entrepreneurship. They enable entrepreneurs to give up impure risks and thus generate more entrepreneurial activity.
(encouraging innovation). One of the characteristics of successful entrepreneurs is their ability to avoid risk by spreading the risk across a portfolio of projects and ventures (Burke et al., 2010). Freelancers create more opportunities for entrepreneurs and companies to adopt these strategies. Instead of having to tie themselves to long-term contracts to secure workers from a new company, companies can employ freelancers on short-term contracts. The risk is transferred from the entrepreneurial venture to the freelancer, since freelancers are usually paid for the output of their work and not for the input, so they take on general business risk. They also free companies from the constraints of their internal resource base and enable them to take advantage of exceptional talent that would otherwise not be economically viable with employment contracts (Burke, 2012).

In most cases, freelance work serves as the basis for entrepreneurship, and entrepreneurship drives economic innovation and job creation (Kazi et al., 2014). Moreover, the Global Entrepreneurship Monitor, best known international research on entrepreneurship states that gig workers are also an interesting pool of potential entrepreneurs (GEM, 2019).

Burke and Van Steel (2011) provide the approach that defines freelancers as unique economic entities. Table 2 below shows the labour force in a 2x2 matrix based on the double distinction of whether a person is employed or self-employed and whether he or she is a manager or worker. The table shows that while freelancers are self-employed, their unique function is not that of a business owner. They are primarily workers on their own account.

<table>
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<th>Table 2. Labour Force Functional Categories</th>
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<tr>
<td>Manager</td>
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<tr>
<td>Employed Executive</td>
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<td>Self-employed Entrepreneur</td>
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Source: Burke and Van Steel, 2011.

Taking into account freelancers as a unique economic entity, Van den Born and Van Witteloostuijn (2013) have developed a model of freelance career success, which provides a basis and insight for further research directions. Their model is developed on the basis of an intelligent career framework (Parker, Khapova & Arthur, 2009), and a protean career model (Hall, 1970; Hall, 2004). The protean career model represents a career orientation in which the main success criteria are subjective. The intelligent career model was developed for intelligent firms, and it is suitable for the career of freelancers, because they sell their knowledge and skills. Due to the fact that a freelancer is self-employed, the self-employed drivers are seen as the result of entrepreneurial performance and entrepreneurial success. According to the literature on entrepreneurship, a considerable amount of research has been devoted to identifying personal traits and other characteristics associated with entrepreneurial performance and success. The results show that personality traits, motivation, human capital, and social capital characteristics are generally associated with above-average performance and what it takes to be successful in the entrepreneurial profession (Sorensen & Chang, 2006). These constructs should therefore be considered for a future research model. This approach overlaps with the intelligent career model, in which personal traits reflect knowing why variable, human capital reflects knowing how variable and social capital reflects knowing whom variable. The model combines the individual characteristics of the entrepreneur. The intelligent career model considers the intrinsic factors of the entrepreneur but ignores the effect of the external environment in which an individual freelancer works. We believe that these factors must also be identified and included in the analysis.

**Conclusion**

Given the assumptions of the paper, our aim was to provide insights into the growing number of new workers: freelancers. Freelancers are part of the gig economy, which has come to the fore in recent years due to the growing number of online labour platforms offering remote work worldwide through non-standard work agreements.

Freelancers are an external source of knowledge and skills for companies and therefore offer many advantages. Freelancers are self-employed with zero employees. Their unique function is not that of business owners. They work primarily for their own account. Since they are self-employed and to a certain extent responsible for finding their own work, they take risks and participate in risky projects, and for this reason are often identified with entrepreneurs. In the entrepreneurship literature, however, they are recognized as promoters and enablers of entrepreneurship. Hiring freelancers can improve the performance and productivity of companies, reduce risk and increase their competitiveness, and influence innovation and efficiency.

One disadvantage in their profession is that they are still not sufficiently recognized and protected by society and government to receive support for developing their potential. Consequently, as limitations of the paper, there is not much literature and empirical research that would reveal statistical differences between entrepreneurs and freelancers, e.g. in personality traits or even in entrepreneurial orientation or risk-taking, as is usually practiced between entrepreneurs and managers. But for some further research such an aspect of research can be considered. For future research directions,
statistical analysis could be carried out on the sample of labour force categories with regard to some research aspects (characteristics) in order to determine the clear distinctions between them. Developing a framework for the freelance career success model based on the career and entrepreneurship literature would provide a better insight into the specifics and challenges by evaluating the empirical results for specific factors. Some evidence suggests that the work characteristics of freelancers are related to entrepreneurial skills. By identifying and analysing certain constructs that would be used as preconditions, it is also possible to develop the entrepreneurial predictors that influence the motivation of freelancers for a future entrepreneurial career. Accordingly, future research should consider a study with a larger sample of freelancers to imply a model of career success and a sample of entrepreneurs to assess the differences between them. To assess whether the freelancers are potential entrepreneurs, long-term research is also considered.

References


Podjetništvo in freelancing: Kakšna je razlika?

Izvleček

Razvoj internetne tehnologije ob koncu 20. stoletja in njeno vključevanje v poslovni sektor sta privedla do pojava digitalnih delovnih platform, ki povzročajo reorganizacijo delovnih dogovorov z usklajevanjem povpraševanja in ponudbe blaga in storitev. Freelancerji pripadajo samozaposleni kategoriji podjetniške dejavnosti, ki ne zaposluje delavcev, plačuje lastne davke, delajo pa na projektih za več strank in na daljavo, običajno od doma. Poleg tega prispevek ponuja vpogled v samostojno delo ter poudarja prednosti in glavne izzive, s katerimi se freelancerji srečujejo na trgu dela.