Abstract

In this brief practitioner focussed report we review the literature on contractors with three aims. Firstly, we set out to succinctly document the lack of breadth and nature of the research and theory to date. Secondly, we explore the challenges and opportunities the contract workforce poses to both the academic and practitioner and thirdly, we begin the process of bridging the various bodies of literature on contracting to establish a shared basis for the study of the contract workforce in a way which not only brings it to the forefront of the interface between academic, practitioner and social debate but does so in a way that all those interested in this area can understand.

After a brief examination of the issues surrounding the definition of a contractor, we discuss the background to the new research questions raised in our study, briefly explain the methodology of the two-perspective approach we adopted in our exploratory research and outline the preliminary results. We conclude the report with a brief overview of future directions for both research and discussion.

Overall our aim in this exploratory study is to provide some clear directions as to the 'right questions to ask' and the 'right people to ask' in a way that will enhance our understanding of the nature of contract work, the relationship between individuals who work as independent contractors and organizations who engage their services.

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The Forgotten Workforce reports on research findings about the attitudes to work of independent contractors/independent professionals (IPros) and those that engage them.

The research has focused on face-to-face interviews with information technology contractors and an online survey of engager businesses.

A joint project of Monash University’s Social and Economic Interface Research Network (SEIRnet), Entity Solutions and Independent Contractors of Australia.

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THE FORGOTTEN WORKFORCE

INTRODUCTION

Alternative forms and new arrangements of work are growing rapidly throughout the world yet many of the institutions, management and expectations of work seem to remain firmly entrenched in traditional notions of standard employment. While most seem accepting of the fact that the workforce is increasingly made up of an array of non-standard and often dynamic arrangements we also seem to be able to simultaneously accept the homogenising language of HRM that productivity, creativity and the value of the workforce is to be found within notions such as commitment and engagement – and the belief that these can only be found and developed within the traditional arrangements of work. Further, while there is an increasing literature questioning the values of such concepts, even for the traditional worker, the dominant view still seems grounded in the belief that an organisation leverages the most out from a workforce where HR practices can be applied (see for example Bolton & Houlihan, 2007; Capelli, 1999; Connelly & Gallagher, 2004).

What then are the implications for the world of the non-standard worker where most of the traditional HRM policies and practices such as training and development and performance management are generally applied very differently of or even not at all? (Stewart, 2002; Ashford, George & Blatt 2007; Kunda, Barley, & Evans, 2002). The work arrangement of contracting adds a further dimension to the notion of HR oversight or neglect in that here the concern generally focuses actually on ensuring that no possibility of legally establishing an employment relationship exists (McKeown & Hanley, 2009; Stewart, 2007).

Thus, whilst the growth of non-standard employment as a whole poses new challenges for management as well as the individuals choosing to work in this manner, we suggest that the very ‘non-employment’ based nature involved in the arrangement of contracting provides an even more complex and challenging dimension to both the nature of work and workers. Within the academic community, it is a challenge which mirrors calls from researchers such as Shamir (1992), Feldman, Doerpinghaus, and Turnley (1994) to a Broschak and Davis-Blake (2006) to investigate work beyond the borders of the organisation to better understand the lives of those who working outside of these settings. Despite this, remarkably little seems to have been done. As Ashford et al (2007:69) suggest it seems overdue that we begin to see those who have moved outside of the organisational norms “as people take their careers into their own hands, construct their identities as professional and entrepreneurial, and view organizations in an increasingly negative light.”

This brief section provides a very broad brush overview of the larger academic perspective on some of the key themes about contracting. There are however, important contextual features to contacting – particularly that of independent contracting, in Australia and so we also provide a brief background to these.

CONTRACTING IN AUSTRALIA: A BRIEF OVERVIEW

Many of the key benefits organisations derive from the use of non-standard workers arise from the fact that they fall outside of the normally accepted provisions and protections associated with employment (ACIRRT 2005; Burgess and Campbell 1998). Following on from this, the ability to differentiate between employee and contractor has been contentious within both Australian State and Commonwealth jurisdictions for decades. Until recently, the debate focussed on establishing independence within the employment relationship to separate employer, worker and contractor and required the common law to provide guidance. While the key test dates back to 1880, defining the master/servant relationship, focussing on the legal definition of control, modern technology and the diversity and complexity of working arrangements means that this can be difficult to determine in any consistent and rational manner (Stewart 2007). Legal response to the increasing complexity
saw increasingly complex tests of ‘true’ independence and the ‘economic reality’ of the relationship emerge – concerns reflective of practices such as the reclassification of formerly permanent workers to contract status (Hall 2006). Perhaps it is no wonder then that organisations engaging contractors have generally focussed on managing the legal aspects of the contract rather than the human side of the contractor?

Overall, the most active area of legislation in day-to-day dealings with contractors has been that of taxation (Moran 2002; Underhill 2006). This is most clearly reflected in Australian Government moves to clarify independent contractor arrangements in relation to taxation with the introduction of the Alienation of Personal Services Income Act 2000 (PSI). This ensured those essentially in an employment relationship continue under the Pay As You Go (PAYG) system, rather than as a business and at a lesser rate with more access to deductions in the PAYG instalment system (Moran 2002; Productivity Commission 2006). These moves represent a shift from the employment relationship to the commercial nature of contracting - a move more fully recognised in the Workplace Relations Legislation Amendment (Independent Contractors) Bill 2006 (DEWR 2005). Phillips (2005) suggests that this legislation places Australia internationally at the cutting edge as the key feature of the commercial contract is that of a contract of joint control - where each party exercises equal legal rights to control the terms of the contract. Such ‘cutting edge’ claims are supported in the vote taken at the International Labour Organisation (ILO) conference on 15 June 2006 effectively endorsing the status of independent contractors by declaring that employment law should not interfere with commercial relationships (ICA 2006). This development reverses previous ILO contentions that the definition of employee/independent contractor was confusing and that the alleged existence of "dependent contractors" created justification for pulling some independent contractors into employment regulations.

The refocus onto commercial rather than employment arrangements appears to mirror the reality of the use of contractors in Australia - where it has been largely opportunistic and unplanned, reacting to the need to meet unexpected peaks being common practice in both white-and blue-collar sectors (Campbell, Watson and Buchanan 2003; Hall 2002 and 2006). However, while there is strong evidence of the historical importance of contractors in Australia, actual statistical information has really only available from the Australian Bureau of Statistics (ABS) in a broadly consistent and comprehensive way since 1998 from the Forms of Employment survey (FOES). Using this data, Waite and Will (2001) estimated that, in 1998, between 26 per cent and 41 per cent of the .8 million self-employed contractors met the criteria for dependent contractors. ABS (2004) FOES data revealed that self-employed contractors were the second largest group (24 per cent) of non-standard workers, followed by fixed-term employees and labour hire employees (both at around 9 per cent). More precise data gathering since November 2006 now suggests that, of the 1.5 million people employed on a contract basis, 1.1 million were employees (ABS, 2006). Self-employed contractors thus form the second largest of the non-traditional forms of employment, with around 0.8 million persons or 8 per cent of all employed persons in 2004. Potentially added to this group are labour hire employees numbered about 0.3 million in 2004, representing 3 per cent of all employed persons. Furthermore, this form of non-traditional work increased in both absolute and relative terms between 1998 and 2001 (ABS, 2006). Overall then, despite incomplete knowledge as to actual numbers what is clear is that the independent contractor workforce is an increasingly important sector of the Australian workforce.

**THE PRESENT RESEARCH**

Our current program of study consists of two complementary approaches: an online survey of organizations that engage independent contractors, and a series of 25 in-depth interviews of practising independent contractors¹ concentrated within the IT sector. Both online survey participants and interviewees were accessed through the website invitations from the two industry partners in this research, Entity Solutions (a contract management company/Professional

¹ *Note that the term contractor in the rest of this paper to refer to independent contractors
Engagement Services Company) and ICA (the Independent Contractors Association of Australia). More detailed explanations as to methodology will be available shortly. In the meantime, we present the preliminary findings of these studies to provide insights into who the contractors are, who is best-suited to contracting, and how contractors should be managed. We then present a series of recommendations for contractors and managers.

Who are the Contractors and the Firms that Engage their Services?

It is immediately apparent from our online survey results presented in Figure 1 below that although contracting is a widespread phenomenon, it is more highly concentrated in certain industries. Of our 87 respondents, 11 (just under 13%) were in the Communication Services industry. This largest group was followed closely in size by the Manufacturing, Finance & Insurance and Property & Business Services industries (just under 10% each). The other represented industries are Mining; Electricity, Gas & Water; Construction, Wholesale & Retail Trade; Transport & Storage; Education; and Recreation.

Figure 1: Industry of Online Survey Respondents

The 25 contractors interviewed were from a much more homogeneous grouping with Communication Services and Contractors accounting 22 or 88% of the contractors.

Recruitment practices for organisations wishing to engage contractors are shown in Figure 2 and reveals that this occurs from a variety of sources, in several different ways. Of the 87 respondent organisations, most rely on a blend of traditional, formal methods – such as recruiting and the use of Agencies together with more informal means such as work networks, word of mouth and the recommendations of others. Interestingly, former employees also appear to be an important source of contractors; these workers were recruited either by having the employer contact them or when they contacted their former employer.
Figure 2: Online Survey - Methods for Recruiting Contractors

Figure 2A adds another dimension to these results with an indication of the importance of these sources examined using a 1 to 7 scale on the Y axis reflecting a 7-point Likert scale where 1 is ‘not at all important’ through to 7 which is ‘extremely important’. Here we see the that while an organisation may have preference for a particular set of recruitment sources over others, whatever methods they do employ are generally seen as very important – with the one exception of prior employees contacting which rated only a moderate level of importance, perhaps due to the unpredictable nature of this as a reliable means of recruiting.

Figure 2A: Online Survey - The Importance of Methods for Recruiting Contractors

Preference for more informal methods, particularly based on networks and word of mouth were an important theme of the contractor interviews – with a very, very strong focus on the need for the individual contractor to work on their ‘reputation’ (with over half of the contractors actually using the term reputation explicitly in their interviews). It is a finding which resonates well with George and Chattopadhyay’s (2005) research on contractors self identity where they found that organisational
identification develops through both impersonal means, such as the organisation's reputation, as well as through personal interactions. While it has accepted that personal interactions are key aspects in the meaning and the value of work to an individual, a study by Blatt and Ashford (2006) suggests that those physically not part of the organisations, such as independent contractors use different mechanisms – such as own self-knowledge and available cultural meanings. These seems appropriate to many of the contractors we interviewed where the networks and word of mouth which dominated their ways of finding work were often the explanation for their current contract. As contractor T4.A explained:

The first contract I took I just phoned up a friend, you know, I 'phoned a friend Eddie', so I knew about that and I sort of just did it. The other contracts I was at an interest group meeting and I heard someone say they were looking for people, I happened to be looking at that point in time. When this one comes to expire, I will probably be looking the month or so before.

The value of word of mouth from having a good reputation was also explained by another contractor as "word of mouth is a very good, is a very effective way because you are sort of almost 80% there, you have probably almost got the job". (T12.G)

A very strong, general dislike of Agencies as a means of finding work pervaded the contractor interviews exemplified by 14J.T experience of searching for work:

the last one was through an agency which was the worst experience of my life. Why was that? The interview process was so mismanaged that I had to take time off my current job to travel to Melbourne to come for the interview and I would get there and they would say, oh yeah, that was cancelled, they called us at 8 am this morning.

This moves us to the next item of the survey where, as Figure 3 reveals there is diversity in reasons why contractors are pursuing this type of employment arrangement. According to the organizations that we surveyed, there are several reasons apart from the simple financial benefits often seen as the key motivator. Interestingly, contractors’ individual preferences such as desire for a flexible lifestyle, work-life balance, more stimulating work were rated highly as well but were still seen as less important than contracting being an employer requirement. While higher earnings do dominate, clearly engaging organisations see contracting is a desirable arrangement for several reasons.

Figure 3: Online Survey - Views of Why Contractors Contract
Each of these factors is again on a 1 to 7 scale on the Y axis reflecting a 7-point Likert scale where 1 is ‘not at all important’ through to 7 which is ‘extremely important’. Figure 3A shows that while the traditionally accepted motivation of higher earnings now clearly dominates, followed by employer requiring it and an industry/professional norm, engaging organisations also see contracting as a desirable arrangement for several reasons related to contractor preference, flexible lifestyle and it actually being a career.

Figure 3A: Online Survey – Importance of the Reasons for Contracting

The contractor interviews provided a rather different view. Here, while higher incomes were mentioned, after some questioning and often towards the end of the interview, by 23 of the 25 contractors, it certainly did not feature as the most important or only reason – and the factors of flexible lifestyle and stimulating work were often discussed in the same sentence.

The next online survey item directly on the issues difference in views. Here, as Figure 4 reveals, the engaging organisation results seem to shatter the myth of the ‘in control’ freelancer – both are completely contradicted with engaging organisations rating both the control and choice contractors exercising over work as moderate (as again, this was measured on a 7 point scale from 1 being ‘no control/choice’ to 7 being ‘total control/choice’). These results arguably call into question the flexibility explanations above as well.

Figure 4: Online Survey Respondents Views of Control & Choices

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<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
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<tbody>
<tr>
<td>Choice over wk</td>
<td>85</td>
<td>3.21</td>
<td>1.048</td>
</tr>
<tr>
<td>Control over wk</td>
<td>87</td>
<td>2.77</td>
<td>.985</td>
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</tbody>
</table>

Moving to the contractor interviews however and the perceptions of choice and control over work were generally seen as a key reason as to why they were there. As one contractor said:
The advantage of contracting is you have exceptionally more control of your activities. Especially if you are more experienced you get to pick and choose a lot more of what you want to do. So you can, when your contract ends you have the ability to reassess your employment whether you want to stay there, which is ironic because they think they are employing you but you are employing them all the time. (T12.G)

In fact, the overwhelming theme from all 25 interviews was that, even for the two cases where the contractors actually expressed some dissatisfaction with their current contract/s, all were very happy overall with the bigger picture they seemed to have of life – and where there current work situation fit into this.

It is this apparent contradiction that leads us to the area where there was very strong agreement – what makes a good contractor?

Who are the Best Contractors?

Our surveys and interviews both underscored several attributes of successful contractors. On one hand, as Figure 5 below illustrates all of the 87 organisational respondents reveal strong real focus on the importance of the transactional nature of the contracting relationship; contractors will only do well if they have the ability to deliver high quality work on time and possess technical skills. However, we also see the importance of “softer” skills such as confidence, social skills, motivation, and negotiation skills. Contractors need to exhibit all the attributes of an entrepreneur, while simultaneously providing the technical competence in order to fulfil the contractual requirements. These independent and self-contained individuals place few personal and relational demands on the organisation, while contributing to the organization’s success.

Figure 5: Online Survey - Views of ‘Good Contractors’

A similar picture emerged from our interviews. Although technical competence is certainly a necessary condition for successful contracting, the contractors who we spoke to who had the highest levels of satisfaction with their work and their lifestyle had high levels of two very specific qualities - emotional stability and an internal loci of control. We look briefly at each of these two in turn and provide evidence for their importance with excerpts from the interview transcripts from the contractors.
**Emotional Stability**

This personality trait can be described as the extent to which an individual is calm, self-confident, and secure. This trait has been generally linked to higher levels of performance in most occupations, including those with a higher orientation towards providing a service (Kichuk & Wiesner, 1998). Our interviews provide further evidence of how this personality trait is important to contractors’ success:

“I used to think that it was a skill set that they were after, a particular amount of knowledge, but now my understanding is that they are more after someone who can handle a high pressure situation and be confident throughout the situation.” (T1: Z2).

It is further important to note that contractors’ emotional stability may be especially crucial in that it may help them to withstand the usual stresses of job instability. Contractors not only face deadline and resource-related demands as they complete their assigned tasks, but they also need to cope with the possibility that they may be terminated at any time.

“... any contractor can have their contract cancelled with whatever notice that it says in your contract and you can be shown the door just as any permanent employee so you have to make sure that situation may arise, and how you cope with it. If you are so stressed about thinking of the worst case scenario all the time it may be that it is not right for you” (T2: Z3)

**Locus of Control**

This personality trait explains the degree to which an individual believes that he or she is in control of his or her own fate. People are generally divided into two types: people with internal loci of control, who believe that they control their own destinies, and individuals with external loci of control, who believe that their lives are largely determined by outside forces, such as luck or chance. Generally, workers with internal loci of control are more highly motivated, receive higher wages, and are more satisfied in their jobs. These patterns are especially true when the working conditions require the worker to learn complex tasks, when the work requires high levels of autonomy and independence, and when added effort is likely to be rewarded financially. It follows then, that contractors with internal loci of control are more likely to be satisfied and successful.

“I have got a colleague actually who has just started contracting down at a different project, and he and I worked together for many years for a banking company here, and we kind of agreed there are two, broadly, two types of people. There are the people who don’t get stressed about their job and they come in and they will do what they are told and if it goes pear shaped well it is not their responsibility, and there is the other people who are the project based typical fraternity that are task-based, project-based, perhaps more entrepreneurial (may not be but you know), they take responsibility for what they do and if it does go belly up they move heaven and earth to make whatever they are doing work.” (T4: A)

We see from these comments that the ideal contractor may therefore have a combination of different personality traits. For example, a contractor who is emotionally stable but overly passive may be less successful than a resilient individual who takes a more active role in managing contacts and deliverables. We set out in Figure 6 a view of how these may fit together do begin the process of establishing a profile of the ‘good contractor’.
**Figure 6: Summary of What makes a Good Contractor**

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<thead>
<tr>
<th>Internal Locus of Control</th>
<th>External Locus of Control</th>
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<tr>
<td><strong>High Emotional Stability</strong></td>
<td>Most Successful Contractor</td>
</tr>
<tr>
<td><strong>Low Emotional Stability</strong></td>
<td>Moderately Successful Contractor</td>
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A similar matrix can also be produced for the locus of control.

**RECOMMENDATIONS**

Although certain personality traits may be associated with more successful contracting, it is important to keep in mind the fact that these personality traits are stable over time. We therefore turn our attention to those skills that contractors or can potentially develop further, in order to be more satisfied and effective within this employment arrangement. One “soft skill” in particular, self-efficacy, may be especially useful for contractors.

Self-efficacy can be defined as an individual’s belief that he or is able to perform a specific task. Whereas “confidence” is a broader attribute that applies to individuals’ beliefs about their abilities in all situations, self-efficacy deals specifically with the matter at hand. When presented with a challenging task, people with higher levels of self-efficacy will persist longer in trying to solve any difficulties, they are more motivated, and they are more resilient in the face of negative feedback. It is perhaps not surprising, therefore, that the contractors who we interviewed demonstrated high levels of self-efficacy.

“...they would then turn around because they couldn’t fill the job and go, okay we will give you this job as a contractor because w know you can do the job, yet we will give you twice as much money. That is the reason too, people hire people on a permanent basis for what they can potentially do, they hire a contractor for what they can do and I could do the job, so they hired me and they gave me twice the money so I was happy to stay.... I have a belief that job security doesn’t come from a contract, an employment contract, it comes from the strength of your CV. So, ultimately, if you have got a strong CV then you have high job security. Other people don’t share that belief and so they are willing to pay a premium in a reduction in their pay to actually have another sort of security which is the employment contract. Because my belief is that ultimately job security is from the strength of your CV, I am willing to go into positions that forward that.” (T10: J).

Self-efficacy can be increased in four ways: (1) through a successful track record, by (2) observing others who are successful at the task, (3) by being persuaded that one can complete the task, and (4) by reducing the physiological stress response. Although the physiological stress response may be largely affected by the personality traits described above, and although each contractor will ideally develop a successful track record over time, the remaining factors may be affected through effective mentoring. Unfortunately, contractors may not always have access to these opportunities. As one contractor notes:

“There is no one, someone with you to say you should look at this technology, look at this technology and we will put you on a training course, see you there. If you don’t, if you don’t have a goal where you want your career to go, as a contractor you could be stuck, you could actually be stuck in one job as a full-time person effectively. No one will come up to you and say, why don’t you learn this, why don’t you learn that. You just do the same job day in and day out.” (T8: T).
CONCLUSIONS

Relying upon a preliminary examination of on-line survey of organizations which utilize contract workers and 25 interviews with persons employed as independent contractors, this report offers a broad overview of some of the issues which are a part of the phenomenon of independent contracting. To this point, it is reasonable to suggest that organizations that engage contractors as well as the contractors themselves are not always in agreement about key issues. For example, there is little agreement as to the appropriate level of control which independent contractors are free to exercise over “how” the contracted work is performed or the types of jobs to which they are assigned by an organization.

Based heavily on an initial evaluation of the interview data, the findings clearly suggest that independent contractors’ attitudes toward the contracting experience is strongly related to both personality traits (e.g. emotional stability, and an internal locus of control), and the individual contractors’ assessments of their own abilities (i.e., self-efficacy). The interviews also revealed that there was considerable variation among independent contractors concerning the degree to which they believed that contracting did in fact provide them with the freedom or flexibility that they believed should be inherent in contract-based work.

From this overview, it can be suggested that two lines of future investigation should be pursued as it relates to the performance of work on an individual contract basis.

- The first broad issue is the need to better understand the functional arrangements which can contribute to the professional skills and self-efficacy among individual contractors. Most notably, in occupational areas where procedures, methods, and requisite skill sets are frequently changing, what are the methods by which contractors can acquire the necessary knowledge to keep themselves viable in the labour market? In an environment where the “employing” organizations legally maintain an arm’s length relationship, the question shifts to what role and through what mechanisms can human capital improvements (e.g., training) be made for contractors through contracting agencies, contracting management organisations and/or professional contractor associations.

- Secondly, there is a need to further recognize that independent contractors are not a homogeneous community of professionals. At the individual contractor level, there appear to be important differences among contractors in terms of their motivations to use this type of employment arrangement, their ability to obtain a continual series of contracts, their desire and capability to deal with organizational politics, as well as their concerns about the impact of less structured work hours on their quality of life and work-life balance. In essence, the need exists to more systematically identify the personal characteristics and work experiences that affect the attitudes of contract workers. This analysis will ultimately contribute to a continued attachment to the career path of contracting, as opposed to exiting in search of more traditional or permanent working arrangements.
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