

WORKING WITHOUT AN EMPLOYER: ESTABLISHING A MODEL OF INDEPENDENT CONTRACTORS' WELL-BEING

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ABSTRACT

In the context of a trend toward the hiring of workers on fixed-term contracts, this study was undertaken for the purpose of finding what, if any, impact working as an independent contractor has on their well being. The study design was based upon in-depth interviews with independent contractors working in the information technology (IT) sector in Victoria, Australia. The interview findings suggest that not only are there a variety of reasons why people work as independent contractors, but there is also considerable variation among contractors over the extent to which fixed-term contract work is viewed as stressful. The interview results point strongly to the role of personal traits (e.g. positive affectivity, self-efficacy, and internal locus of control) as important variables in understanding worker comfort in working outside of the more traditional employer – employee relationship. It is also concluded that understanding worker well-being in the context of fixed-term contracting may be more complicated than what has been offered in the context of existing stress-related research.

BACKGROUND

As noted in both the theme of the World Congress of the International Industrial Relations Association and in Track 5 (New Forms of Work), there has been a significant trend in most industrialized countries towards a restructuring of the employment relationship. Most notably, an increasing number of employer organizations are moving away from providing “standard” or ongoing employment relationships and towards an increased reliance on contractual work arrangements which are more contingent or fixed-term in nature (Smith & Neuwirth, 2009; Bergstrom & Storrie, 2003; Connelly & Gallagher, 2004; Kalleberg et al., 2003). This growing strategic interest by organizations in employing workers on a contingent basis consists largely of making labor more of a “variable” rather than a “fixed” operating cost. Fixed-term contracts also align with an organization’s ability to hire and discharge workers on the basis of which skills best match current staffing needs (Reilly, 1998), with little attention to seniority or organizational tenure. There is also debate over the extent to which the increased use of

fixed-term contracts represents an employer's response to national labor laws which place legal limitations or costs on the ability to terminate traditional or on-going employment contracts (Brewster et al., 1997). Contingent or fixed-term contracts are often associated with organizational reliance upon the services of temporary-help services staffing firms to provide workers on an ad-hoc basis.

INDEPENDENT CONTRACTORS

One form of contingent employment which is becoming increasingly visible is the organizational hiring (and at times, termination and rehiring) of workers as "independent contractors." Broadly characterized as individuals who sell their services or skills to a client organization for a specified number of hours or on a per-project basis, many independent contractors are working in occupations requiring significant levels of training and education. In the popular press, independent contracting is often championed as a positive development offering greater worker control, flexible working schedules, work-family balance, and income potential (Pink, 2001). However, others suggest that independent contracting has a dark side. Barley and Kunda (2006) reported work-related stress from the pressure to continually secure clients as well as the need to regularly update skills in order to retain employability. Instead of flexibility in their schedules, independent contractors may, in fact, find it difficult to control how their time is spent and it is even questionable as to whether it is the individual or the organization driving the decision to move from "employee" to "contractor" status. Within the Australian context, precariousness and marginalization are identified features of the independent contractor workforce (McKeown, 2005; Underhill, 2006).

OBJECTIVE

Building upon prior research in the arenas of industrial – organizational psychology and workplace stress, our study explores the work-related experiences which may impact upon the physiological and psychological health or "well-being" of individuals working as independent contractors (DeCuyper et al., 2005; Quinlan & Bohle, 2004). Since most research on occupational health has been developed in the context of workers employed in an on-going employment relationship with a single employer, this research project will also seek to identify the factors which are inherent in independent contracting that may either positively or negatively affect contractor well-being. Our research will not only seek to identify the various stressors which can be present in independent contract work, but we will also consider the personal and contractual factors which may moderate workers' reactions to such stressors. This research paper will primarily be based upon the interview data derived from 25 independent contractors working within the information technology sector in Victoria, Australia.

THE DYNAMICS OF CONTRACTING

The task of seeking to understand the potential consequences (positive and negative), of independent contracting on worker well-being requires some consideration of the demand and supply-side characteristics of contracting work, as well the contexts in which the work may be performed.

From the perspective of the employing or "client" organization, the hiring of contingent independent contractors, rather than more permanent "employees," may often reflect the client organization's interest in securing, on a limited-term basis, workers with the

necessary skill set to contribute to the completion of a particular project. Client organizations may utilize independent contractors to support the efforts of permanent employees and/or to provide specific skills which are not readily available within the organization. In other cases, reliance on independent contractors might be reflective of a client's interest in avoiding the responsibilities associated with more formal and on-going employer – employee relationships.

On the supply side of the equation, worker motivations for pursuing a career as an independent contractor can be multiple and complex. In a study of independent contractors in Australia by McKeown et al (2008) it was found that the top reasons reported by independent contractors for their interest in contracting were higher earnings, work-life balance / flexibility, and stimulating work. The survey also found that, for a significant number of workers, independent contracting was an option borne out of necessity due to the fact that many organizations were offering work primarily on the basis of fixed-term contracts. This observation ties in well with much of the broader research on contingent work which draws a distinction between workers who “voluntarily” or “involuntarily” (lack of alternatives) pursue non-permanent work arrangements.

The McKeown study also reaffirmed the expectation that there are a variety of means by which independent contractors secure work. In particular, most contractors noted a considerable reliance upon “networking” among colleagues and “word of mouth” referrals as means of access to client contracts. Equally important in the search process was the use of contracting agencies or intermediaries which directly assisted in the matching of clients and contractors. Such arrangements not only represent a form of the “triangular” employment relationship, traditionally found in the temporary help services industry, but introduce a third party with potential contractual and reporting considerations into the fixed-term employment relationship.

A further situational factor which may further our understanding of worker responses to the independent contracting experience deals with the very question of “independence.” In particular is the issue as to whether or not the contractor has the right and opportunity to exercise independent authority or is, for all intensive purposes, just another employee of the organization who happens to be on a fixed-term contract. The challenge of drawing a distinction between “contractor” v. “employee” has been a common topic of concern in Australia, Canada, and the U.S., since the definition of contractor has been based on similar common law principles. Ironically, the criteria for “true” independence in all three countries has relied heavily upon interpretation of local taxation laws. Most notably, “independence” is classified in part by questions such as: authority to exercise control over how the work is performed; ownership of tools and equipment; and the opportunity to not only earn a profit but the risk of sustaining a loss. These tax issues have illustrated their relevance in situations where employees have been terminated from employment only to be rehired by the same organization as “independent contractors” (e.g., Microsoft). Within Australia, Waite and Will (2001) estimated that between 26 and 41 percent of self-employed contractors should more properly be classified as “dependent contractors” for reasons of not being outside the level of management control found in permanent or traditional employment arrangements. This possibility is also even more likely in those circumstances where the “independent” contractor is exclusively contracted with a single client organization. In contrast, true independent contractors may operate in an environment where they are simultaneously contracted with multiple clients (Gallagher & McLean Parks, 2001). In practical terms this

might open the door to the possibility that a significant number of independent contractors might not only lack the personal control which they may have sought through such working arrangements, but also be heavily reliant upon maintaining a relationship with one or a few client organizations.

STRESS AND WELL-BEING

The issues of work-related stress and well-being have long captured the interest of industrial psychologists and organizational behaviorists as well as medical researchers. As noted by Jex and Crossley (2005) and Vandenberg et al., (2002), since the 1960's a number of theoretical models have been developed to guide research in better understanding the sources and consequences of occupational stress. As part of the evolution of this research, attention has also moved to a more positivist orientation to factors which promote worker well-being. Although models of occupational well-being (and stress) differ in their levels of complexity and focus, there are a number of "categories" of "groupings" of variables. In many models of well-being, to varying degrees, attention is focused on the sequential relationship between the following broad groupings of focal variables.

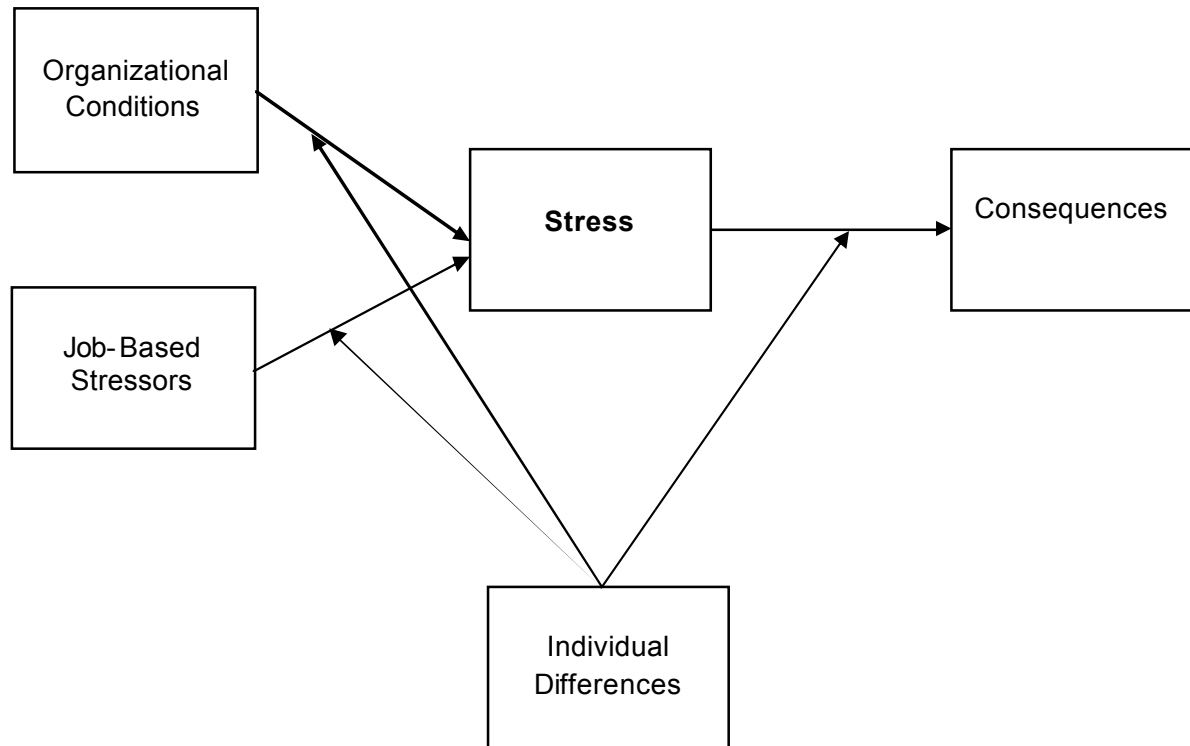
- *Organization Conditions & Support* (e.g., values, communication, co-worker relations, etc.)
- *Job Based Stressors* (e.g., role clarity & overload, demands, decision latitude, etc.)
- *Individual Characteristics / Differences* (e.g., experience, skill, personality)
- *Consequences / Outcomes* (psychological, physical, and behavioral)

It is reasonable to suggest that research in the past half century, pertaining to worker stress and well-being, has led to findings which are of value to the practitioner community. However, the major pretext of this immediate study has been to undertake an investigation of the extent to which the existing theoretical frameworks pertaining to worker well-being are applicable to the context of contingent, and most notably, independent contractors and our adaptation of what believe may be an appropriate model is presented in Figure 1.

Structurally, it is our belief that existing models of worker well-being place an implied emphasis on the concept of "the" employer organization, "the" job, and "the" co-workers. Such underlying assumptions fit well within context of the 20th century model of on-going employer – employee relationships. Less clear are questions pertaining to the extent to which serial, fixed-term contracts and movements between organizations create stressors and sequential impacts on a contractors' well-being.

In short, similar to the strategy used in Barely & Kunda's (2006) study of independent IT contractors in Silicon Valley of California, our study turns to first person impressions of the presence or absence of stressors as experienced by independent contractors in the IT industry in Victoria, Australia.

Figure 1: Simple Causal Model



METHODOLOGY

Through the assistance of both an independent contracting association, and contracting firm, an initial group of 25 workers who classified themselves as independent contractors volunteered to participate in our advertized study of the experiences of independent contractors in the IT profession. Semi-structured interviews were conducted by the principle investigator and were based upon a set of pre-determined questions dealing with the respondent's personal experiences and impressions concerning independent contracting work. With permission of the subjects, the interviews were recorded and processed into a written transcript. Eighty percent of the interviewees were male. The contractors had an average of 21 years of work experience with an average of 8 years experience as independent contractors.

PRELIMINARY FINDINGS

Our review of the interview transcripts revealed an interesting and diverse patchwork of individual experiences working as independent contractors. One immediately observable finding was the diversity of reasons as to why people took on the role of independent contractor. In most cases, individuals had started their employment careers in more permanent or "on-going" employment arrangements and subsequently transitioned into independent contracting. The change to independent contracting work was, in some cases, a deliberate career adjustment while in most other cases a result of circumstances such as job loss, financial motivations, and even visa restrictions which limited employability on a long-term basis.

With a few exceptions, most contractors reported working for a single organization at a time. There was a good deal of diversity with regard to the duration of current contracting arrangements. In many cases, the subjects were employed on fixed-term contracts which extended as long as 6-12 months, with possibility of renewal. Interviewees who were on shorter term contracts tended to express greater concern over the task of lining up subsequent clients.

"If you are on a short term contract you are always thinking about the next job or is it going to get extended or not so you are always sort of chasing that sort of situation. If you have got a long term contract well obviously that goes out the window and you don't worry about that. I guess that is probably the key thing, making sure you are always in employment. That is probably the main thing for me."

"No I don't find it more stressful, as I said, the only stressful aspect is about your next job if you don't know where it is coming from, the actual work itself, no I don't, I think it is good."

"Well, that's it, so, there are times when it is extremely difficult. A couple of weeks ago I went four, four a half weeks without any work and that made life very, very difficult, and I sort of do, you know I keep wondering about what else to do ..."

It was interesting to note that few of the interviewees expressed a great deal of concern about stressors which might be associated with working for client organizations. In part, this appeared to reflect the fact that more experienced independent contractors have identified "preferred" clients and have tended to avoid those with which they had negative first hand experiences or were referenced with caution on the informal contractor networks. There was also a bit of a sense that more experienced contractors were more willing to endure, take it as part of the business and avoid the organization in the future.

"I would say there is less respect for your employer, you don't feel any sense of honour for the employer at all. Generally, as a full-time employee, if things get bad, you tend to stick it out and wait until the very last minute before you are ready to break all ties, whereas with a contract, you just go 'well, I'll go now'. Most of the contracting positions I have had, if I have a problem, I move on by up (departure date) to 2 weeks"

However, it might also be argued that organizational-based stressors may be more problematic for contractors with limited experience and options. In addition, there was considerable interview-based reporting which suggested that, as a result of past permanent work experiences, the contractors were very comfortable with organizational – personal relations. Furthermore, in contrast to the conventional wisdom of contingents as being isolated, most subjects in this study were either non-concerned or felt accepted. To some degree this might also be reflective of the fact that a number of contracting assignments were with familiar past employers and colleagues. However, access to organizational support was not universal.

"... because you are not a permanent employee, training, where they will send their employees on training courses, they are not going to invest that money in you. ... if I want to do I have to pay for it myself."

With regard to job-based stressors, the interviewees disclosed little information that would suggest that they have experienced situations where the job demands exceeded

their expectation or skill level. Again, this observation may be closely correlated with experience, such that contractors are able to appropriately match-up job requirements and their own skills. In many respects, seasoned contractors were very secure about their skills relative to the required responsibilities.

“It does require a bit more work and also requires people to be a lot sharper. You have always got to know what is actually happening and how to deal with something because they look to you for the knowledge.”

“Organizations hire people on a permanent basis for what they can potentially do; they hire a contractor for what they can do now.”

The most compelling impression which has been derived from this initial-interview based inquiry relates to what we perceive to be the importance of personality based characteristics of independent contractors.

Distinctly stated, the interview transcripts led to the observation that both success as an independent contractor and the avoidance of stress and negative well-being is mediated by personal characteristics. Most notably, our review of the interview data leaves us with the impression that personality characteristics are key. As well established and crossing over with academic literature on entrepreneurship, we believe that psychologically based characteristics noted below, reflect the importance that “positive affectivity,” “self-efficacy” and “internal locus of control” have upon well-being aspects of working as an independent contractor. As evidenced below:

“ . . .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 if the situation may arise how to cope with it. If you are stressed about thinking of the worst case scenario, it may be that it (contract work) is not right for you.”

“I used to think it was a skill set 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.”

“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.”

CONCLUSION

For our research team, these interview transcripts led to a number of anticipated and conversely surprising impressions. Most centrally, regardless of the reason which projected workers into the world of independent contracting, those who we interviewed were satisfied with their current status. Without any doubt, we have been left with the impression of the importance of networking (aka finding the next job). Most independent contractors in this study felt financially secure, which was an important factor in reducing economic stress. However, as noted, personality factors appear crucial in terms of survival in the world of independent contracting.

On a positive, but perhaps critical note, we believe that the interview results associated with independent contracting may be heavily biased by what we call the “*survivor effect*.”

Simply stated, absent from the pool of subjects are those who have pursued and abandoned the career of independent contracting. As a result, survey research maybe be biased in terms of sample profiles. Furthermore, these first-person interviews have resurrected a broader research question pertaining to the development and testing of research hypotheses. In particular, the design of a quantitative study, which might have been based upon existing literature and theory may have missed the mark.

In short, we believe that research focused on the understanding of independent contracting is much more complicated than initially expected. There is both a dark-side and a bright-side. For many workers the why, process, and resulting impacts of independent contracting might be more complex than what is offered in the context of existing stress and well-being related research.

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