

THE RELATIONSHIPS OF WORK FOR ORGANISATIONS USING CONTRACTORS AND THE IMPACT ON EMPLOYEE PERFORMANCE

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Abstract

Whilst non-standard workers continue to exert a growing presence in the workforces of many western nations, research on the impact and HRM implications of utilising them is still relatively scant. Practitioners, policy makers and organisations need to know more about how the presence of non-standard workers affects other employees and, in particular, how they affect organisational effectiveness. This latter concern is made even more pertinent by the fact that moves to using non-standard labour are generally explained as being employer driven in the quest for organisational flexibility and cost containment (see for example deRuyter & Burgess, 2000; Feldman, 1992; Gallagher & McLean-Parks, 2001).

Over a decade ago, seminal papers by Davis-Blake and Uzzi (1993) and Pearce (1993:1082) focussed specifically on contractors and these works are developed in our investigation of the working relationships of contractors, co-workers and managers within one organisation. While our results provide no evidence of the common assumption that contractors are less committed than employees, we do find support for the presence of contractors decreasing employee trust in the organisation.

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THE RELATIONSHIPS OF WORK FOR ORGANISATIONS USING CONTRACTORS AND THE IMPACT ON EMPLOYEE PERFORMANCE

Tui McKeown & Glennis Hanley

INTRODUCTION

Whilst non-standard workers continue to exert a growing presence in the workforces of many western nations, research on the impact and HRM implications of utilising them is still relatively scant. In Australia, one in every three workers is employed under non-standard arrangements (ABS, 2004). Further, predictions are that such arrangements will become even more common (Watson et al, 2003). Practitioners, policy makers and organisations thus need to know more about how the presence of non-standard workers affects other employees and, in particular, how they affect organisational effectiveness. This latter concern is made even more pertinent by the fact that moves to using non-standard labour are generally explained as being employer driven in the quest for organisational flexibility and cost containment (see for example deRuyter & Burgess, 2000; Feldman, 1992; Gallagher & McLean-Parks, 2001). Further, “the ‘conversion’ of employees to independent contractor status by employers seeking to minimise employment costs and obligation” has been a long a concern in the labour law and industrial relations literature (Bowden, 2003; Creighton, 1994; Greene, 2000:183).

Seminal papers by Davis-Blake and Uzzi (1993) and Pearce (1993:1082) focussed specifically on contractors as an increasingly important aspect of the workforce already identified internationally as a “growing presence in many organizations” (Osterman, 1988; Pfeffer & Baron, 1988). The focus on contracting is continued in the results presented in this paper where we investigate the working relationships of contractors, co-workers and managers within one organisation. The specific themes build directly from the Pearce’s and Davis-Blake and Uzzi’s 1993 studies as well as incorporating some more recent research from within the construction industry (Jennings & Holt, 1998; Kale & Ardati, 2001; Ofori, Leong & Pin, 2002; Soetanto & Proverbs, 2002). The aim is to provide a comparison between the psychological involvement and the effects of the presence of contractors on the attitudes of their employee co-workers and the managers responsible for supervising both groups.

These dual themes of involvement and the effects of presence require clarification of a number of factors. The first is an understanding of why organisations utilise contractors. Generally, contracting arrangements result for reasons of:

- Capacity – coping with periods of peak demand or providing cover for short term absence of regular employees
- Specialisation – access specialised skills unavailable in-house, deal with one-off tasks or access to specialised equipment unavailable in-house
- Reduction of labour costs – from a straightforward reduction of labour costs to being cheaper than in-house staff or avoiding government regulations and charges and
- Other reasons – such as being a way around staff ceilings and recruitment problems, enabling greater temporal flexibility, increasing job security for permanent workers, reducing union influence to worker preference for contract work

(Adapted from Holmes, 1986:79).

Further, contracting itself can take a variety of forms, from being for a fixed project or time period which may or may not be subject to renewal and where pay can range from being by the job to hourly. Derived from the above, the second area examined in this study is reasons why individuals are contracting and the kind of work or task assignments they receive as contractors.

The third area arises from the suggestions that contractors have different expectations and psychological attachment to employment than the standard workforce. One important

assumption is that employees are expected to have higher commitment and loyalty to the organisation than contractors (Gallagher, 2001). Couching this assumption in the language of the psychological contract, employees are expected to exhibit more relational or social characteristics whilst contractors are expected to be transactional and more calculated. As Pearce (1993:1083) suggests, there is a widespread presumption that the organizational commitment of employees and contractors differs and this hypothesis will be tested here.

As contractors are becoming more common in workplaces, both organisational practitioners and academics need to know more about how their presence affects on the core workforce and the bottom line of organisational performance. This paper further develops the notion of commitment from that above to examine it in terms of the effects that the presence of contractors has on the employees working alongside them. Based on Pearce's (1993) concept of 'quasi-moral involvement', the term is simplified here to focus on organizational commitment to examine whether employees have greater organizational commitment than contractors.

Taking the concept of commitment even further, the length of the relationship between an organisation and both employees and contractors has been shown to increase commitment and this is also investigated in the paper. Further, it has been suggested that the presence of contractors may decrease employee commitment, especially in relation to the perceived equity of the treatment between themselves and this peripheral workforce. As Geary's (1992) studies in Northern Ireland revealed, perceptions of organisational exploitation of peripheral workers can lead employees to question the organisation's fairness to themselves as well – leading to problems such as increased employee turnover and absenteeism. This study examines whether contractors, employees and management perceive the treatment of contractors as fair.

The answer to the questions above provides an indication as to what kind of work is most suited to contract labour as the effect the presence of contractors can have significant implications for the task assignments of the remaining employees. While the monitoring of contractor performance is an increasingly important HRM issue, there appears to be no attempt to decrease organizational dependence on non-standard workers in Australia and increasing concerns with the skills shortage indicate that such arrangements are likely to increase. This means that the neglected area of contractor supervision continues to be an important area for research.

THE STUDY

As with Pearce (1993), the contractors under investigation are limited to professionals (engineers in the original study and IT workers in this one) and this 'limitation' provides an important dimension. A feature of much of the extant literature on moves to non-standard work has been the potential for marginalisation and disadvantage for the individuals employed in these arrangements (see for example ACCIRT, 1999; Hall, Harley & Whitehouse, 1998). By moving to professionals, especially those in contracting arrangements, the concerns of marginalisation and disadvantage become almost mirror opposites where instead, professional contractors are generally typified in the literature as highly paid, highly independent and highly satisfied with working in these arrangements (see for example Bridges, 1995; Herriot & Pemberton, 1996; Rifkin, 1995). While these attributes tend to be largely anecdotal rather than empirically justified, research indicates contractors may perceive high levels of resentment from employee co-workers towards them and experience anxiety and estrangement (Kunda, Barley & Evans, 2002; McKeown, 2003; McKeown 2005).

Also, the selection of IT professionals' contractors represents an occupation where such employment has been a standard and accepted arrangement for several decades and, one which presents an accessible career alternative for an organization's employees (Board of Supervisors, 2001;Ho, Ang & Straub, 2003).

Data and Methods

One organisation provided the sample population for this exploratory study. Called CompEX to preserve anonymity, the organisation employs over 650 staff in total and is based within inner city Melbourne, Australia. CompEX is largely an insurance based organisation which dates back to the mid 1980s and has undergone a number of restructurings associated with it's move from the public sector to a quasi private sector status.

The IT department within CompEX has 55 staff, comprising of 4 managers, 23 employees and 28 contractors. Targeted surveys, differing on the wording of items for managers, employees or contractors were distributed to all 55 staff by one of the researchers as part of a project briefing at the weekly staff meeting. Participation was voluntary and anonymous and a response rate of 53% (29/55) was gained. Results from 3 of the 5 survey areas are presented here to provide two key areas for discussion.

The first area of investigation looks at the reasons why organisations use contractors and this is investigated from the comparative perspective of contractors, co-worker employees as well as from the managers of both these two workforces. This triangulated approach allows consideration of the question as to whether contracting arrangements in this organisation are seen to be the product of managerial manipulation, substituting them for permanent employment or, more positively, as providing opportunities for individual flexibility, are investigated.

The second area of the study examines the notion that contractors have different expectations and psychological attachments to employment than standard workers. More specifically, the organizational commitment of employees and contractors differs and, related to this is the assumption; employees are expected to have higher commitment and loyalty to the organisation than contractors. As with Pearce's (1993) study, organisational commitment is assessed in this study with the short form of Mowday, Steers, and Porter's (1979) Organizational Commitment questionnaire (the OCQ). The form was modified to provide a number of comparative ratings. Contractors rated both their own and co-worker commitment, co-workers rated both themselves and contractors while managers rated both groups of workers. A seven point Likert scale, where 1 is 'strongly disagree', 4 is 'neither agree nor disagree' to 7 as 'strongly agree', was used.

The third area examined the effects that the presence of contractors has on the employees working alongside them through perceptions of equity and fairness in terms of earnings, standard of work, roles and treatment by the organisation. The comparative focus is retained with contractors, employee co-workers and the managers of both providing their perspective on these same items. Again, a seven point Likert scale, where 1 is either 'very poor' or, not at all important' 4 is the neutral midpoint and 7 indicates 'extremely well' or 'extremely important'.

RESULTS

This section provides begins with an overview of research participants and then proceeds to outline the findings in terms of the three major themes outlined previously. Due to the small nature of the sample size, no tests of significance are used in the analysis of the results and discussion remains at the descriptive level.

As Table 1 shows, 29 of the 55 staff in CompEX, including all 4 of the managers, 10 of the 23 employees and 15 of the 28 contractors returned completed surveys. No differentiation has generally been made in the results between the four managers to try and preserve some anonymity within such a small sample. However, there are some important distinctions that should be noted as one manager was the organisations CIM (chief information manager) and the other three all reported to him. These three covered the areas of operations, research and development (R&D) and thirdly, support. The fact that contractors outnumber employees is reflected in this response rate as is the domination of the department, and the IT profession in general, by males. Again though, this is not claimed as a substantive argument for the generalisability of these results beyond CompEX.

Table 1: Profile of Participants

		Contractors (n = 15)	Employees (n = 10)	Managers (n = 4)	Total N = 29
GENDER	Male	13	7	4	24
	Female	2	3	0	5
AGE	Under 24	-	1	-	1
	20 - 24	-	-	-	-
	25 - 29	1	1	-	2
	30 - 34	5	3	-	9
	35 - 39	5	1	1	8
	40 - 44	3	2	2	6
	45 - 49	1	1	1	2
	50 - 54	-	1	-	1

Table 2 below reveals that the majority of CompEX contractors (60%) are relatively recent to contracting in that they have worked this way for less than 5 years. There appears to be some support for findings from an earlier study (see McKeown, 2003) of contracting as a professional norm in the IT industry in the 4 individuals who have been working this way for 8 to 15 years. Most of the contractors (80%) and employees (60%) have been working for 10 or more years.

The second segment of Table 2 reveals the apparent current dependence CompEX has on contractors may be a relatively recent phenomenon as none of the contractors reported working for the organisation for more than 5 years. It may also be indicative of the often transitory nature of contract work so a follow up phone call to the CIM was used to clarify the meaning of this result.

The explanation given was that the use of contractors accords with both the semi-privatisation of the organisation five years ago and the rapid growth of the IT department as a direct result of the new tasks and responsibilities then undertaken by CompEX. It was also noted in this follow up call that the spread of contractors is even over the three areas of support, R&D and operations.

Table 2: Work Related Details of Participants

		Contractors (n = 15)	Employees (n = 10)	Managers (n = 4)	Total N = 29
YEARS CONTRACTING (& WORKING)* WORKING**	Under 1	1	-	-	1
	1-2	3	-	1	4
	2- 5	5	-	-	5
	5 - 7	2	-	-	2
	8 - 10	3	-	3	7
	10 - 15	1	(9)	1	1 (9)
	15+	-	(3)	5	5 (3)
	missing	-	(3)	-	- (3)
YEARS WORKING FOR COMPEX	Under 1	2	-	-	2
	1 – 2	4	-	-	4
	2 – 5	8	1	1	10
	8 - 10	-	3	1	4
	10- 15	-	1	1	2
	15+	-	5	1	6

* for Contractors ** for Employees and Managers

Why CompEX uses contractors

As Table 3 reveals, there are variations in the reasons the three participant groups gave for the use of contractors in CompEX. However, unlike the two subsequent themes of results, this is one area where the managers are not just reporting their perceptions of an issue but are actually explaining why they have bought in contractors. Their opinion can thus be seen as the expert view and provides a benchmark for the accuracy, restricted to this section only, of the perceptions of both employees and contractors. Again, it is important to remember that one manager has a larger view than the other three as he heads the Department.

With this in mind, the managers nominated only five of the fifteen possible explanations. The lack of ability to develop appropriate IT skills inhouse as well as the need to departments needs to be able to effectively deal with changing workflow, staff numbers, increased work demands or budget issues all reflect an operational focus on the use of contractors. Not only are they generally of a short-term nature but are also essentially reactive.

Table 3: Explanations for the Use of Contractors in CompEX

	Contractors N = 15		Employees N = 10		Managers N = 4	
Cope with periods peak demand	8	53%	8	80%	2	50%
Cover short term staff absence	4	27%	5	50%	3	75%
Access specialised skills n/a inhouse	11	73%	5	50%	4	100%
To deal with one-off tasks	10	67%	7	70%	-	-
Access specialised equipmt n/a inhouse	-	-	1	10%	-	-
REDUCE LABOUR COSTS	1	7%	1	10%	-	-
Cheaper than inhouse staff	2	13%	1	10%	-	-
Avoid Govt regulations & charges	2	13%	2	20%	-	-
Way around budget & staff restraints	8	53%	5	50%	3	75%
Enable work outside normal hours	-	-	1	10%	-	-
Increase job security permanent staff	1	7%	1	10%	-	-
Overcome recruitment problems	8	53%	5	50%	1	25%
More productive than permanent staff	7	47%	-	-	-	-
Reduce union influence	1	7%	1	10%	-	-
Workers prefer to be contractors	2	13%	3	30%	-	-

Using the managers' responses as the benchmark we find that contractors generally have a more accurate assessment of the reasons they are being utilised than employees do. Employees responses ranged over fourteen of the possible fifteen options whilst contractors selected thirteen. One interesting item nominated by contractors but not the two other groups was the perception that contractors are more productive than employees – a result which indicates contractors attribute not only purposive but possibly strategic intent to the organisation in using them. The fact that this is not supported in the managers complete failure to nominate this reason and indeed, managers focus on 'filling the gaps' is at odds with the contractors perceptions.

Overall, both employees and contractors appear to ascribe greater organisational planning in the use of contractors than managers actually demonstrate – shown most clearly in both employees

and contractors groups consistently selecting the need to deal with ‘one off’ tasks while none of the four managers gave this reason.

Overall, reasons of capacity and specialisation dominate responses for all three participant groups but are different in that contractors generally ascribe more positive and strategic intent to management than do employees. The effect of these perceptions and that of the presence of contractors has in workplace is examined in the next section of results.

The Organisational Commitment of Employees and Contractors in CompEX

While much of the literature on non-standard workers, such as contractors, still advocates that they will have lower levels of commitment to the employing organisation than employees, this is not borne out in the results presented in Table 4. Instead, as with Pearce’s (1993:1089) study that also used the short form of Mowday, Steers and Porter (1979) OCQ, the levels are very similar and, in this study, are rated as nearly identical across all three participant groups. While slightly higher than the mean of 3.4 reported by Pearce, it should be noted that a rating of 4 accords to the neutral point of ‘neither agree or disagree’ – hardly an outstanding result for an organisation such as CompEX with a fairly large and sophisticated HRM department.

Table 4: Ratings of Organisational Commitment

RATERS				
		CONTRACTORS	EMPLOYEES	MANAGERS
RATEES	CONTRACTORS	3.9	3.9	3.8
	EMPLOYEES	4.1	4.3	4.2

Taking this result a step further however, produces some interesting variations and, despite the small sample size precluding quantitative analysis, there are indications that a larger scale study would produce statistically significant differences.

As Table 5 shows, contractors rated their willingness to put in a great deal of effort for CompEX as well above that ascribed to them by either employees or managers as well as being higher than the same willingness they ascribed to employees. Further, while contractors are less willing to take on the wider public relations role for the organisation suggested in the items 1 and 5 than are employees (means of 3.9 & 4.3 for contractors compared to 4.9 and 4.8 for employees), managers under rated this item for both sets of workers. On the other hand, managers over rated the strength of attachment of both groups to CompEX, which underlie item 3, for contractors in items 7 and 9 and from employees in items 4 and 8. This over rating in terms of what managers saw as commitment from contractors is tempered with an underestimation of the depth of the longer-term attachment expressed by contractors in item 8. This is generally seen as a feature of the relational psychological contract of employment expected from employees and this is reflected in the difference in managers ratings of contractors and employees for this item.

Table 5: Ratings of Organisational Commitment on Individual Items

		RATERS		
		Contractor Mean (n = 14)	Employee Mean (n = 10)	Manager Mean (n = 4)
1. Great deal of effort for organisation	<i>Ctr</i>	5.8	4.2	5.0
	<i>'ee</i>	4.7	5.7	5.3
2. Talk up organisation to my friends	<i>Ctr</i>	3.9	4.9	3.5
	<i>'ee</i>	3.7	4.9	4.3
3. Accept almost any job to keep working	<i>Ctr</i>	2.2	2.7	3.5
	<i>'ee</i>	2.8	2.6	3.8
4. Similar values as organisation	<i>Ctr</i>	4.0	3.8	3.8
	<i>'ee</i>	4.1	4.0	4.5
5. Proud to tell others wk for organisation	<i>Ctr</i>	4.3	4.6	3.5
	<i>'ee</i>	4.5	4.8	4.0
6. Organisation really inspires performance	<i>Ctr</i>	3.5	4.3	3.3
	<i>'ee</i>	3.4	3.8	3.0
7. Glad chose organisation over others	<i>Ctr</i>	3.8	4.7	4.3
	<i>'ee</i>	3.9	4.8	4.8
8. Really care about fate of organisation	<i>Ctr</i>	4.9	4.4	4.0
	<i>'ee</i>	4.9	4.8	5.3
9. Best possible of all organisation	<i>Ctr</i>	2.9	3.3	3.5
	<i>'ee</i>	3.4	3.3	3.0

Ctr = contractor *'ee* = employee

Overall, both employees managers consistently rate employees commitment slightly higher than contractors whilst contractors consistently rate themselves as very similar to employees. More importantly, in terms of actual work effort, contractors actually rate themselves well above employees while employees hold the reverse perception. While this result is common to many studies of commitment, it may be an indication here of potential for conflict between contractors and employees and one which the managers of CompEX are unlikely to perceive as they rate both groups as very similar on this item. This introduces the third area addressed by this paper, the effects that the presence of contractors has on the employees working alongside them.

Effects of the Presence of Contractors

This is examined through perceptions of equity and fairness in terms of earnings, standard of work, roles and treatment by the organisation. The comparative focus is retained in Table 6 with contractors, employee co-workers and the managers of both providing their perspective on these same items. Again, a seven point Likert scale, where 1 is either 'very poor' or, 'not at all important' 4 is the neutral midpoint and 7 indicates 'extremely well' or 'extremely important'.

The first item in Table 6 looks at pay and shows that, while contractors rate the amount they earn as 'quite good', managers and employees are more impressed and suggest that it is 'very good'. Research by Kunda et al (2002) notes that such discrepancies between contractor and employee ratings over an issue like pay can indicate the potential for conflict and this potential may well be intensified in an environment such as CompEX where contractors outnumber employees.

Table 6: Equity and Fairness in the Treatment of Contractors & Employees

	Contractor mean N = 15	Employee mean N = 10	Manager mean N = 4	Total mean N = 29
The amount ctrs earn is...	5.3	6.3	6.3	5.8
The standard of ctrs work is ...	4.7	5.3	5.3	5.0
The hours ctrs work is ...	4.4	4.9	4.8	4.6
The orgn treats ctrs ...	4.5	5.3	5.0	4.8
The orgn treats employees...	4.5	4.5	5.0	4.6
The ctrs role in this orgn is ...	5.5	5.2	5.3	5.3
The employees role in this orgn is...	5.5	5.0	5.3	5.3

The other items which heralds this same potential are the two which cover the way in which the organisation treats contractors and employees. Here, although managers and contractors both see the two groups of workers as being treated as 'average' to 'quite well', employees themselves actually rate the treatment of contractors higher than the treatment they receive. This may be similar to the lack of trust in the organisation found in Pearce's (1993) study rather than the negative result of perceived poor treatment of contractors found in Geary's (1992) research.

DISCUSSION

The first area of investigation looked at the reasons why CompEX uses contractors and there where some marked differences in the comparative perspective of contractors, co-worker employees as well as from the managers of both these two workforces. While no evidence was found for CompEX using contracting arrangements as the product of managerial manipulation, substituting them for permanent employment, neither was there evidence for it being used more positively ways such as providing opportunities for individual flexibility. Instead, managers nominated reasons generally reflected concerns of a short-term nature were essentially reactive. This accords with the use of contractors to reduce the fixed or ongoing cost associated with employees with the resulting effect that the wage bill appears to be reduced (Greene, 2000:189).

The second area of the study examined the notion that contractors have lower commitment and loyalty to the organisation than employees. This was not supported in the aggregate results from the ratings of the nine-item OCQ where no discernible differences between contractor, employee or manager ratings were found. These results appear to accord with Davis-Blake and Uzzi's (1993:218) findings that organisations that largely externalised their independent contractor workforce can destabilise the core workforce. In the case in CompEX, where contractors and employees work side, the internalised nature of the relationship appears to produce more harmonious results.

However, when we desegregated the results there were some clear areas that may be indicative of the potential for conflict. Most importantly, contractors demonstrated a much greater willingness to exert extra effort to ensure organisational success and affinity with the fate of the organisation than either their co-worker employees or managers thought them capable of. These findings directly contradict the predictions of the hypothesis that employees will be more committed and raise the question as to why either co-workers or managers of the contractors are aware of this. One explanation for the stated willingness to expend extra effort may be that the contractors here are professionals and part of their identity is linked with commitment to the profession rather than any individual organisation. While the ability of professionals to hold dual commitment, both to an organisation and a profession is beyond the scope of this study, it also

suggests that the future development of this pilot study should incorporate such aspects. A second explanation may be found in the psychological involvement factors developed by Millward and Brewerton (1999) and this also suggests that the next phase of this study should use the length of contract tenure with as a variable of analysis. While the small sample size here precluded statistical analysis, it should be noted that over half of the contractors had worked for the organisation for two to five years. This may be an important explanation for the convergence of employee and contractor willingness to expend greater than normal effort in ensuring organisational success. If this finding is substantiated in later research, there are clearly important implications for organisations using contractors – with the corollary that longer contracts may be a tool to be employed where greater work effort is seen as desirable.

The third area examined the effects that the presence of contractors has on the employees working alongside them. Levels of pay arose as a key area where there may be perceived inequity by employees. This appears to be borne out in the fact that employees rated the organisations' treatment of contractors as better than that which they themselves received. These results are disparate from those expected in that, rather than employers being negatively affected by the perceived poor treatment of contractors; any negative attitudes towards the organisation may actually be the result of the perceived preferential treatment of contractors. Again, the fact that contractors outnumber employees, are very highly visible as they work side by side with their employee coworkers and are likely to work at CompEX for some time, may be both an explanation of these results as well as an indication that conflict is not an issue. Clearly, future development in this project needs to incorporate a more comparative focus so employees can assess their satisfaction with their own pay levels as well. Incorporation of a recognised and established job satisfaction scale could replace many of the items used here.

While there is still a substantial body of data yet to be processed from the survey the findings discussed here offer evidence of an organisation which appears to have integrated its' contractor and co-worker employee workforces.

CONCLUSION

The results of this study were not consistent with the assumptions that employees have greater organizational commitment than contractors, nor did their managers see employees as more cooperative than contractors. As in Pearce's (1993) study, it seems that the project based nature of the work under investigation means that contractors quickly become part of a team and integrate into being good team members. Again, as with both Pearce (1993) and Davis-Blake & Uzzi's (1993) studies, there was some support for the hypothesis that the presence of contractors is associated with less employee trust in the organisation. While restricted to the factors of contractor pay and perceived treatment, these can have major implications as research has shown these negative perceptions do lead to reduced levels of performance, absenteeism and job satisfaction (Drake, 2000; Paulin, 2000; VandeHeuvel & Wooden, 1997).

In summary, the findings from this project to date indicates some key areas for further research into the effects of the presence of contractor and other peripheral workers have on employee, manager and overall organisational performance.

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