

Self-Employment in the Victorian Construction Industry: Working Lives and Employment Practices

**Elsa Underhill, David Worland and Maree Fitzpatrick
Victoria University of Technology**

Self-employment has long been an integral form of employment in the housing sector of the construction industry. As in other industries, however, self-employment has spread increasingly into traditional employment areas. This paper analyses responses of focus groups and a survey of self-employed workers carried out in the Victorian construction industry in 1997. It looks at factors influencing the growth of self-employment, why small businesses prefer to hire self-employed workers, why these workers became self-employed, factors influencing their level of job satisfaction and dissatisfaction, and their occupational health and safety (OH&S) experience. The paper concludes by highlighting some of the longer-term implications of the growth in self-employment for the construction industry.

Introduction

Self-employment has long been accepted as the norm in the housing sector of the construction industry, but not in the commercial sector. Union concerns about the gradual shift towards self-employment, and especially contract labour, in the commercial construction sector led to union policies and practices being implemented in the 1980s to limit the growth of contract labour (Underhill, 1990). In the mid-1990s, following an industry union-employer overseas study tour, which included exposure to the unprecedented growth of self-employment in the British construction industry, concern about the potential impact of the growth in self-employment was acknowledged by employers and unions alike. A major study into self-employment in the Victorian construction industry was commissioned, and this paper provides an overview of the findings of that study. The paper begins by providing a description of the methods used to establish the views of self-employed workers in the industry. Factors seen as contributing to the growth of self-employment are then explained, including changing industry level pressures and the attitudes of self-employed workers operating very small businesses towards hiring other self-employed workers. The reasons why workers became self-employed and factors influencing job satisfaction and dissatisfaction are explored next, followed by an overview of their OH&S experience. The conclusion highlights some of the longer term implications of a continued expansion of self-employment for the construction industry.

Method

The empirical evidence is drawn from two sources: focus groups of 27 self-employed, and a telephone survey of 88 self-employed construction workers. These workers were drawn from a random sample of construction industry 'non-employing subcontractors (non-companies)' registered with Incolink, the industry body which manages, inter alia, the Victorian Building Industry Redundancy Fund and the Portable Sick Leave Scheme. Initially all empirical evidence for the study was to be drawn from focus groups, but it soon became apparent that focus groups were an inappropriate method for accessing the views of self-employed construction workers. Workers were reluctant to attend focus groups after working all day, and often those who confirmed a willingness to attend failed to appear. After two months, five focus groups and a response rate of approximately 10 per cent, a telephone survey was developed to replace the focus groups. The telephone survey drew a much stronger response rate, with approximately 95% of those contacted agreeing to participate. Typically telephone calls were made in the early evening, and lasted approximately 25-30 minutes.

The Incolink list of self-employed workers enabled us to survey a spread of occupational groupings, and a mix of different aged workers (details are provided in Underhill, Worland and Fitzpatrick, 1997: 8-12). Thirty-three percent had less than 5 years experience as self-employed, 38% had more than ten years experience with the remainder coming in between. Just over one-third of the sample worked only in the commercial sector, 25% in the domestic sector and 40% in both, enabling the data analysis to distinguish between the experience of those working in the traditionally unionised, commercial sector from those in the non-unionised sector. Thirty-one percent surveyed were labour-only contractors, ie. did not supply plant or equipment, nor hire employees or other self-employed workers. Others either normally hired employees (19%), hired other self-employed workers (30%), or supplied equipment as well as their own labour (17%). These latter groups are more likely to be operating very small businesses than working as contract labour.

Explanations for the growth in self-employment in the construction industry

There is a perception by construction industry participants, especially unions, that self-employment has continued to expand into traditional employment areas since the mid-1970s. Statistics on the level of self-employment, however, are problematic. The ABS statistics on 'own-account' workers indicate that self-employment in the Victorian construction industry peaked at 40% of the workforce in 1992, but fell back to 29% in 1996 (ABS, 1997). An alternate source of data is worker registrations with the Construction Industry Long Service Leave Board. These statistics indicate that self-employed workers have comprised around 25% of the workforce since the early 1990s, employees around 60-62% of the workforce with the remainder being employers. Both sources indicate a higher proportion of self-employed workers in the mid-1990s compared with ten years earlier, but the ABS data suggests a sharp decline in 1996 (Underhill et al, 1997: 41-46). This decline may, in part, be due to a shift in industry practices whereby sole-traders are being encouraged to incorporate and thus legally become employees of their own company. From a union perspective, however, labour-only contractors have the same industrial implications irrespective of whether they are employees of their own company or not.

A range of factors appear to have contributed to the growth of self-employment in the construction industry. The influence of the production processes and product markets, the nature of the labour market, and cost considerations upon the growth of self-employment have been explained elsewhere (Underhill, 1990) and will not be detailed here beyond those that have seen most change in the 1990s. Three are important here. First, cost considerations have compounded in the 1990s. The volume of non-residential construction work in Victoria fell dramatically in 1991 has been relatively stagnant since (ABS, 1996a). Victorian building prices experienced negative growth in 1991, and have increased at less than the CPI since then (Construction Economic News, 1997). Company profits have grown at a slower rate than in other industries (ABS, 1996b). The majority of commercial construction work is won by tender, and in an environment of a falling volume of work, tender prices may cover overheads but not include a profit margin (Sash, 1993). Instead, cost savings, such as placing pressure on sub-contractors to reduce prices, are sought during construction. Sub-contractors may, in turn, respond by hiring less costly contract labourers rather than employees. Hiring labour-only subcontractors results in significant labour on-cost savings. Even if the hourly rate of pay is equivalent to the award rate, the financial incentives of avoiding Workcare, superannuation, payroll tax and the like are substantial. Second, the composition of work in the Victorian construction industry has shifted towards non-housing residential work, which increased from 15% of the value of all construction work in 1985 to 20% by 1995 (Underhill et al, 1997: 58-59). Much of the production process for this work is similar to that of the housing sector - many small, sequential tasks, such as installing 200 rangehoods in an apartment block, which are most conveniently performed by small sub-contracting operators. Housing sector traditions of self-employment may be spreading into commercial scale non-housing residential

projects located in the traditionally unionised, collectively regulated and employee based central business district. The third industry level change has been the growth in small businesses in the construction industry (BIE, 1994). Small businesses are more likely to turn to contract labour to cushion the effects of volatility and cost pressures. They are less able to maintain permanent employees and much more likely to hire workers when the volume of work demands it. According to Chin and Mills (1995) 74% of major Melbourne builders surveyed in 1995 employed less than 50 employees, notwithstanding an annual turnover of more than \$1 million for 92% and more than \$10 million for 37% of the firms surveyed. The increasing cost pressures, exacerbated through competitive tendering, the shift in composition of work towards projects bearing characteristics similar to housing construction, and the growth of small firms are all likely to have contributed to the growth of self-employment in the 1990s.

Our survey of self-employed workers explains further why very small businesses prefer hiring other self-employed workers rather than hiring employees. Of those hiring other self-employed workers, the clear majority (85%) preferred self-employed workers over employees, with only 3% preferring to hire employees. The main reasons why these small businesses preferred to hire self-employed workers are given in Table 1.

Table 1: Reasons for small businesses preferring to hire self-employed workers, by construction industry sector location of the small business

Reason	Commercial % of small businesses	Domestic % of small businesses	Both Sectors % of small businesses
Administrative ease	27% (3)	33% (6)	33% (4)
Cost less	45% (5)	25% (4)	25% (3)
Work harder	27% (3)	17% (2)	33% (4)
Can fire at short notice	-	33% (6)	17% (2)
Can hire at short notice	-	25% (4)	17% (2)
Like-minded	8% (1)	-	17% (2)
More reliable	18% (2)	-	-
Provide expert skills	-	8% (1)	-
Provide expert equipment	-	-	8% (1)
Provide better quality work	-	-	8% (1)
Other	27% (3)	25% (4)	17% (2)

Source: Telephone survey, multiple responses given, n=11 Commercial; 12 Domestic; and 12 Both sectors.

Administrative ease associated with hiring self-employed workers is an important consideration across both the commercial and housing sectors of the construction industry. Many of these workers completed administrative tasks in the evening after a full days' work on building sites. The additional paper work associated with employees was a strong deterrent to hiring. Cost considerations appear relatively more important in the commercial sector, whilst the ability to hire and fire at short notice is especially relevant to the housing sector. Self-employed workers are also attractive because they are seen as working harder than employees. Underlying this preference for self-employed workers is a profound sense of uncertainty concerning regularity of work and the ability to sustain sufficient work to hire permanent employees. This is the 'catch-22' of employment practices in the construction industry. Large firms subcontract to smaller organisations who in turn are under pressure to subcontract parts of their work. Thus the industry is characterised by a large number of very small firms, very few of which can sustain a permanent workforce.

Why do construction industry workers choose to become self-employed, and what offers them job satisfaction and dissatisfaction?

The literature identifies a range of circumstances which could account for workers being enticed into self-employment or alternatively, persuaded to leave the wages sector. Workers are encouraged to change their status from the traditional employer-employee relationship to that of self-employment for a number of pecuniary and psychological or personal reasons. Bogenhold and Staber (1991) argue that self-employed workers are more likely to satisfy their desire for self direction through a greater opportunity for discretionary decision making. Initiative may be stifled somewhat in the traditional employer-employee relationship. Other non-pecuniary factors such as life, family and self-satisfaction imperatives could also influence the decision (Thompson, Kopelman and Schriesheim, 1992). Self-employment is seen as a convention within some industries, limiting opportunities for more traditional modes of employment. A related point is that self-employment may provide workers with the opportunity of enhancing work continuity which may otherwise not be available (Crittall, 1996; Wolfe, 1996). In some sectors, according to the ILO (1997), self-employment might be the only available avenue to employment. Another important determinant is the possible financial benefits derived from self-employment. Wolfe (1996) and Katz (1993) both discuss potential financial gains - either through reaping greater financial rewards in boom times, or through taxation benefits. There is also a dynamic dimension to self-employment. A worker who becomes self-employed with some trepidation is likely to adjust to that mode over time, and overseas evidence suggests the longer a worker is self-employed the greater the likelihood of them remaining self-employed (Blanchflower and Meyer, 1994).

Disadvantages also arise from self-employment. Fevre (1994) argued that non-standard employment, of which self-employment is but one form, carried a number of disadvantages. These include the likelihood of lower gross income, less predictable income levels, the likelihood of non-standard work being found in the least attractive jobs (harder, more unhealthy and more dangerous), and workers finding they received fewer benefits when they were out of work than in the past.

The results of the present study are consistent with prior research on the attitudes of self-employment towards their mode of employment. The reasons why Victorian construction industry workers, participating in the telephone survey, become self-employed are given in Table 2.

Table 2: Why workers became self-employed

Reasons for becoming self-employed	Responses	
	Number	%
Financial rewards	33	38%
To be own boss	20	23%
Only work available	20	23%
Choose own work	19	22%
Choose own hours	7	8%
Personal ambition	7	8%
Family tradition	6	7%
Dislike previous employment	6	7%
Use variety of skills	3	3%
Use initiative	3	3%
Provide expertise	2	2%
Other	13	15%

Source: Telephone survey, multiple responses given, n=79.

Of the reasons given for deciding to become self-employed, those mentioned most were the expected financial rewards (38%), the promise held out for individuals to be their own boss (23%), and the freedom to choose their own work (22%). Twenty three percent switched to self-employment as it was the only viable work option at the time. Only 7% of the survey suggested family tradition was a major reason for choosing self-employment. Interestingly, six percent moved from employment because they were dissatisfied with their then current employment relationship and were not, as such, drawn to self-employment but were rejecting employment.

An issue raised in interviews with both union officials and principal contractor representatives was whether perceived taxation savings, through income splitting and the ability to claim extensive work related deductions, was an important consideration for switching to self-employment. This is a complex issue, in part because it turns on questions of family and business arrangements. The tax arrangements associated with self-employment, especially the potential for income splitting, are presently the focus of attention within the Australian Tax Office (ATO, 1997). There is also evidence that the financial incentive often originates with the employer rather than with the worker, flowing from the considerable savings in labour on-costs and other liabilities which are attached to employees but not the hiring of self-employed workers.

The advantages and disadvantages attaching to self-employment, as reported by workers who participated in the telephone survey, are shown in Table 3 and Table 4 below.

Table 3: Aspects of self-employment that offered workers most satisfaction

Factors contributing to satisfaction with self-employment	Responses	
	No.	%
Choosing own work	31	36%
Control over work	31	36%
Choosing own hours	28	32%
Pride in job	24	28%
Financial rewards	19	22%
Initiative	8	9%
Like the work	8	9%
Use of skills	5	6%
Expert advice	3	3%
Other factors	7	8%

Source: Telephone Survey, multiple responses given, n=79.

Workers gain satisfaction from a number of factors related to autonomy and freedom perceived to be associated with self-employment. Table 3 indicates that satisfaction was derived from a range of personal feedback mechanisms. Factors such as pride in the job, doing better quality work, choice of work, interesting work through greater variety, self-reliance, the opportunity to use professional expertise, the opportunity to see a job through to the end and control over their own destiny were all well represented. The suggestion that self-employed were financially better off was not universally shared by the self-employed survey participants. Many spoke of the bad debt problems that they had experienced, the periodic lack of work and the denial of non-wage benefits available to wage earners as factors resulting in them having a lower level of financial rewards. A persistent view from telephone survey respondents was the extent to which financial rewards were diminishing relative to a decade or more ago. This was especially the case for older self-employed workers.

Table 4: Disadvantages of self-employment

Disadvantages of Self-Employment	Responses	
	No.	%
Chasing debts	29	33%
Dissatisfying hours of work	15	17%
Irregularity of work	13	15%
Administration associated with work	13	15%
Loss of family/social time	8	9%
Problem clients	7	8%
Working in poor weather	4	5%
Lack of financial rewards	3	3%
Occupational health and safety	3	3%
Other	15	17%

Source: Telephone Survey, multiple responses given, n=79.

The most clearly articulated negative aspect of Self-Employment, in both the telephone survey and within the focus groups, was the problem of debt control. Other negative aspects of Self-Employment were the extended hours of work, variability of hours and the impact of this on the family, the uncertainty surrounding how new work was won, and the time spent in administration, including tendering for new work. Whilst workers identified burnout as a serious problem for self-employed workers, it was not one that had directly affected them.

The issue of impact on family did not seem to be a strong negative factor, although the focus groups produced a limited number of comments like:

Your family suffers. If you had brought our wives here tonight, you would have got a mouthful.

Occupational health and safety experience of self-employed workers

Studies have consistently highlighted the increased OH&S risks associated with Self-Employment (see for example Mayhew, Quinlan & Bennett, 1996; James, 1995). Self-employed workers in this study were asked a range of questions concerning their perceptions of on-site OH&S, their experience of OH&S training, and the incidence of injury experienced over the past twelve months. The majority of focus group participants believed that OH&S responsibility was up to the individual. They considered that self-employed workers had the experience, or common sense, to judge if a job was safe. Typical responses included:

You can't afford not to think about safety

Others, however, acknowledged that safety had at times been compromised, driven by time and cost considerations:

Some instances you know that you are doing the wrong thing, but you do it - like wearing the right gear, safety glasses, vacuuming dust etc. You don't always have time.

Yes, I've compromised myself. A rush job. I lifted a hot water service up 40 steps. As an employee, I would not have entertained the idea. I would have got another bloke.

The housing sector is generally recognised as having lower OH&S standards than the commercial sector, with the concept of OH&S self-regulation being poorly understood resulting in small scale, self-employed builders facing greater hazards (James, 1993; Mayhew, Quinlan & Bennett, 1996; Mayhew and Gibson, 1996). The majority (66%) of survey participants in this study considered OH&S standards to be lower in the domestic sector, although only 32% believed self-employed workers were more vulnerable to injury than employees. Of those who had worked in both the housing and commercial sectors, 39% attributed the difference in OH&S standards between the sectors to larger builders taking more responsibility, 26% considered the lack of union enforcement in housing resulted in poorer standards, and 13% attributed the difference to less government enforcement of standards in the domestic sector. Some focus group comments illustrate the difference in standards:

On big sites it's better, but on housing estates they're not so aware

There's a big difference between sites, on domestic sites you can sweet talk, no one really checks

Asked whether they believed OH&S requirements were well enforced to provide a safe working environment, those working in the commercial sector were mostly likely to agree that they were (69%), whilst only 37% of those working only in the domestic sector thought so.

A clear majority of survey participants (78%) believed OH&S training helped prevent injuries, yet their experience of OH&S training highlighted the limitations of its present form. OH&S training in the commercial sector for these workers typically took the form of a site induction session. There were mixed attitudes towards these programs. Some were supportive whilst others felt that they provided only very basic information.

It's so different everywhere. You can't absorb everything easily. Induction tells you nothing.

Induction courses are just telling you about the basics of a job

Sixty seven per cent of participants received OH&S training or induction on commercial sites, but only 5% on domestic sites. Whilst there is a general perception that such induction is compulsory on commercial sites, two focus group participants claimed they had not received induction on a large commercial site and another claimed not to have received induction on two major construction projects in Melbourne. In one instance a focus group participant said it was compulsory to attend a two hour induction for a major commercial project, in his own time. He found the induction of little use and it created additional time pressures to complete the job. Whether the self-employed worker or the principal contractor paid for the OH&S training time appeared to depend, to some extent, on the degree of experience in the industry.

The more established 'street-wise' self-employed workers insisted that the principal contractor bear the cost. Of the self-employed workers who hired other self-employed, 95% claimed to provide information on potential OH&S problems to those self-employed, predominantly in the form of a short site induction chat. Maintaining OH&S standards depends not only upon site specific induction courses, but on maintaining a knowledge of OH&S requirements. The most common means of keeping up to date with OH&S requirements by the survey respondents was through literature (46%), followed by word-of-mouth (29%). Thirty-two percent overall said they did not keep up to date, with 60% of those working in the housing sector stating this to be the case.

When asked about their personal work injury experience, the majority surveyed (82%) stated they had not experienced a workplace injury in the previous twelve months. Of those who had, 64% responded that the injury required time off work. Three of the participants claimed to have taken 1-2 days, whilst three required several months. Two of the latter reported an on-going injury which had occurred prior to the past twelve months, felt the injury was permanent and it would require further time off work. The following comment from one of the focus groups reflected an overall attitude towards taking time off for illness/injury.

Self-employed people keep working, even if they are sick. You have to get the job done.

When asked if they thought an employee would take time off for the same injury, a majority (85%) believed they would. Nevertheless, the general perception was that their wage earner counterparts did not share the same attitude toward being sick and consequently took more time off for illness and injury.

Friends who are employed, if they have a sniffle, have a few days off, or a weeks holiday. Not for us. You have to be there. You can't be sick.

Self-employed workers do not have the same access to workers' compensation as employees, raising questions about income support if they become injured on the job. Forty-four percent of survey respondents claimed to have private insurance and 17% were covered by Workcare, however 31% had no form of income support in the event of a workplace injury. A number mentioned that accident insurance was unhelpful, as it only paid income after at least one month of lost earnings. This was seen as inappropriate for minor injuries requiring one or two days off work. The general perception could best be described by: *No work, no dough. A sole trader has no work cover.*

Conclusion

Union concern over the growth in Self-Employment has been a feature of industrial relations in the Victorian building industry for many years. As the practice of hiring self-employed workers rather than employees spreads further, some employers and their representatives are also beginning to question its overall impact on the industry and the individual workers concerned. The evidence presented here suggests the practice is unlikely to abate in the foreseeable future, as industry cost pressures, magnified through the tendering process, continue to intensify the pressures on smaller sub-contractors to cut costs. The evidence presented here suggests that in the commercial sector, where employment and union regulation has been strongest, smaller sub-contractors are turning to hiring other self-employed primarily to reduce costs. Other factors are also important for these smaller sub-contractors, most commonly the administrative ease associated with the commercial arrangement of hiring a worker to perform a task compared with hiring an employee.

The majority of workers surveyed in this study chose to become self-employed, although a considerable number had no other option. Workers were drawn to Self-Employment because of the expectation, often not borne out, that Self-Employment offered financial rewards not available to employees. Non-pecuniary rewards were also an important inducement to becoming self-employed, and these ultimately become the most satisfying aspect of being self-employed. Whilst self-employed workers clearly disliked the long working

hours and uncertainty of when work would become available, they strongly believed that they have a degree of 'freedom' not exercised by employees.

The lower standards of OH&S often associated with self-employed workers were supported by the self-employed surveyed in this study. The housing sector, traditionally reliant on self-employed workers, was regarded as much less safe, and the majority of workers in this sector did not keep up to date with OH&S requirements nor participate in OH&S training. Whilst self-employed workers saw themselves as being individually more safety conscious, a significant number acknowledged the overriding role of large builders and unions in maintaining a safe building site.

What are the longer term implications of the growth in Self-Employment for this industry? First, the evidence presented here suggests that some self-employed workers work very long hours and endure a high level of economic uncertainty. This would be expected to become more widespread as competition between a greater number of self-employed workers intensifies. Second, unions play an important role in maintaining OH&S standards and this role may be diminished if the growth in Self-Employment undermines union membership and regulation. Third, those self-employed who operate small businesses are unwilling to hire employees and this unwillingness extends to their attitude towards hiring apprentices (Underhill et al, 1997: 103-106). The growth in Self-Employment is likely to contribute to future skill shortages in the industry. Self-employed workers nevertheless experience substantial job satisfaction from being their own bosses, having greater control over their work and taking pride in their work. The dilemma for the industry is how to organise work in such a way that workers can experience these aspects of job satisfaction without the negative effects of Self-Employment.

References

- Australian Bureau of Statistics, 1996a, *Building Activity Statistics*, Catalogue 8752.0, various issues.
- Australian Bureau of Statistics, 1996b, *Company Profits*, Catalogue 5651.0, various issues.
- Australian Taxation Office (1997) *Tax Agents Portfolio*, Canberra.
- Blanchflower, D., & Meyer, B., (1994) 'A longitudinal analysis of the young self-employed in Australia and the United States', *Small Business Economics*, 6: 1-19.
- Bogenhold, D., & Staber, U., (1991) 'The decline and rise of Self-Employment', *Work, Employment & Society*, 5 (2): 223-239.
- Bureau of Industry Economics (1994) (BIE) *Job Growth and Decline: Recent Employment Changes in Large and Small Business*, Bureau of Industry Economics, Occasional Paper 21, AGPS, Canberra.
- Chin, T.S., and Mills, A., (1995) *An analysis of contractors bidding decisions: A study of competitiveness of construction companies*, Melbourne University Construction Research Group, Department of Architecture, Building and Planning, University of Melbourne.
- Construction Economics News*, (1997) Australian Institute of Quantity Surveyors, Victorian Chapter, June 1997.
- Crittall, J., (1997) 'Agency-hire labour in the building industry', Griffith University, (unpublished paper).
- Fevre, R., (1994) 'Emerging alternatives to full-time and permanent employment', *Poor Work: Disadvantage and the Division of Labour*, Open University Press, 56-70.
- International Labour Office, (1997) *Contract Labour: Report VI(1)*, from the International Labour Conference, 85th session, Geneva.
- James, C., (1993) 'Occupational injuries amongst building workers in Queensland', *Safety in Australia*, 8-11.
- Katz, J., (1993) 'How satisfied are the self-employed: a secondary analysis approach', *Entrepreneurship Theory and Practice*, 35-51.
- Mayhew, C. Quinlan, M., & Bennett, L., (1996) 'The effects of subcontracting/outsourcing on occupational health and safety', *UNSW Studies in Australian Industrial Relations No 38*, University of New South Wales, Sydney
- Mayhew, C. and Gibson, G. (1996) 'Self-employed builders: factors which influence the probability of work-related injury and illness', *Journal of Occupational Health and Safety - Aust. NZ*, 12 (1): 61-67.
- Sash, A., (1993) "Factors considered in tendering decisions by top UK contractors" in *Construction Economics and Management*, Vol. 11.

- Thompson, C., Kopelman, R., & Schriesheim, C., (1992) 'Putting all one's eggs in the same basket: a comparison of commitment and satisfaction among self- and organizationally employed men', *Journal of Applied Psychology*, 77 (5): 738-743.
- Underhill, E., (1990) "Unions and contract workers in the New South Wales and Victorian Building Industries, in Bray, M., and Taylor, V., (eds.) *The Other Side of Flexibility: Unions and Marginal Workers in Australia*, ACIRRT Monograph No.3, University of Sydney, 115-142.
- Underhill, E., Worland, D., and Fitzpatrick, M. (1997) *Self-Employment in the Victorian Construction Industry: An assessment of its impact on individual workers and the industry*, A Report Prepared for the Redundancy Payment Central Fund Limited (Incolink), Melbourne.
- Wolfe, M., (1996) 'That's not an employee, that's an independent contractor', *Compensation & Benefits Review*, 28 (4):61-64.