

A desk audit into the data and research on micro-business profiling in Australia

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Summary Findings

Background:

An understanding of the independent contractor/ micro business owner/ self employed sector is crucial for anyone wanting to interact with such complex individuals and we suggest that the responses of this group to the economic situation we find ourselves in will be a critical litmus test for the whole of society. Moreover the success or otherwise of this group has direct implications for the collection of taxes, for the repayment of loans, and via a traditional 'multiplier effect' there may be implications for many larger businesses. This report sets out to present a multi-layered view of the independent contractor/ micro business owner/ self employed person important in terms of this group as:

1. Workers - in that they work for a living but they are not employees, and no amount of reclassification for taxation purposes, superannuation purposes, labour law purposes can change the fact that these individuals think and act differently in relation to work and their business than the average employee.
2. Businesses - in that they engage in business, but they are qualitatively as well as quantitatively different to a large or even medium sized business.
3. Consumers - in that they buy, use and consume products and services but they are different to other consumers in that they also produce products/services; their choices reflect trade-offs and multi-purpose considerations (consumer and business person).

The aims of this project are twofold. The first is to clearly identify and summarise the key features of three of the largest databases and research resources available within Australia for profiling this complex sector. The second is to see what synthesis can be achieved between these three sources as resources and so develop a deeper understanding of this sector. The three databases and research resources we draw on in this desk audit align with the multilayered view of the independent contractor/ micro business owner/ self employed person as:

1. Workers –derived from the Australian Bureau of Statistics (ABS) 2008 Forms of Employment Survey and the 2009 Australian Labour Market report which specifically identified and reported for the first time on independent contracting;
2. Businesses –drawn from four reports by the Australian Taxation Office (ATO) into the micro business sector;
3. Consumers –drawn from both an analysis of the Roy Morgan Research Asteroid database as well as from a 2009 Roy Morgan Research report into the self employed in Australia.

Who are micro-business people?

This reports draws together three perspectives on this question. The first is the Australian Bureau of Statistics (ABS) report on independent contracting. In an Australian first, The 2009 Australia Labour Market survey (ALMs):

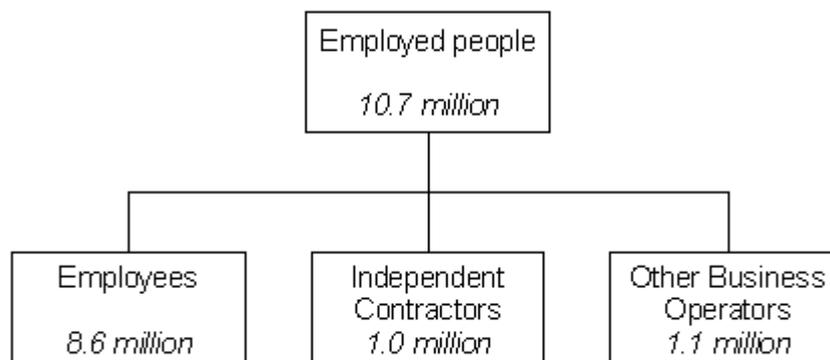
a) defines *independent contractors* as;

“those who operate their own business and who contract to perform services for others without having the legal status of an employee, that is, they are engaged by a client under a commercial contract, rather than as an employee under an employment contract. Thus, independent contractors have the same rights as their clients under common law to control the terms of the contract” (ABS, 2009a p.19).

b) reveals that the *Australian workforce* is made up of 2.1 million “independent contractors” and “other business people” and accounts for:

- 19% of total workforce
- 28% of private sector workforce

Figure 1: The ABS Conceptual Framework



The Australian Taxation Office data on micro-business adds further insight that the Australian workforce is made up of around 2.5 million small businesses, of which the largest group, 1 million are sole traders, contractors and consultants

c) *Age*

ABS data shows a clear domination by the 35+ age group, contradicting the common view of independent contracting as a young person’s option.

Figure 2: Independent Contractors by Age and Sex

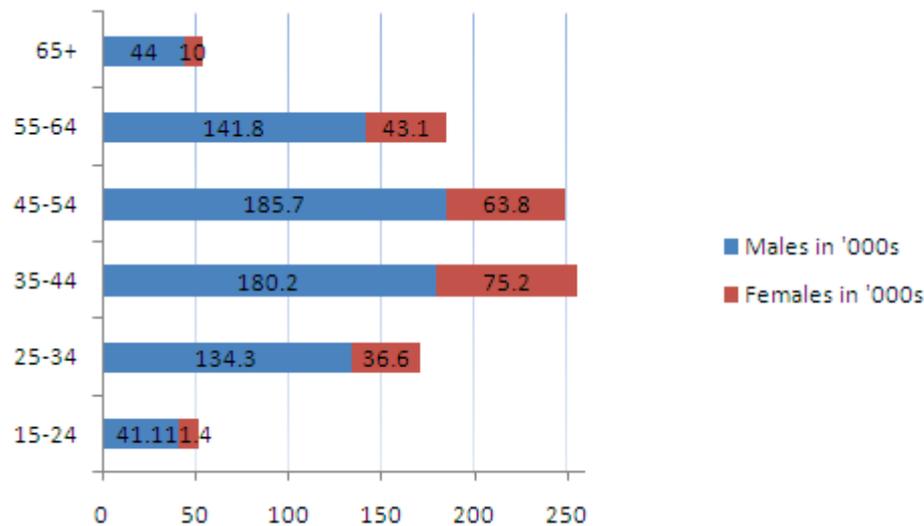
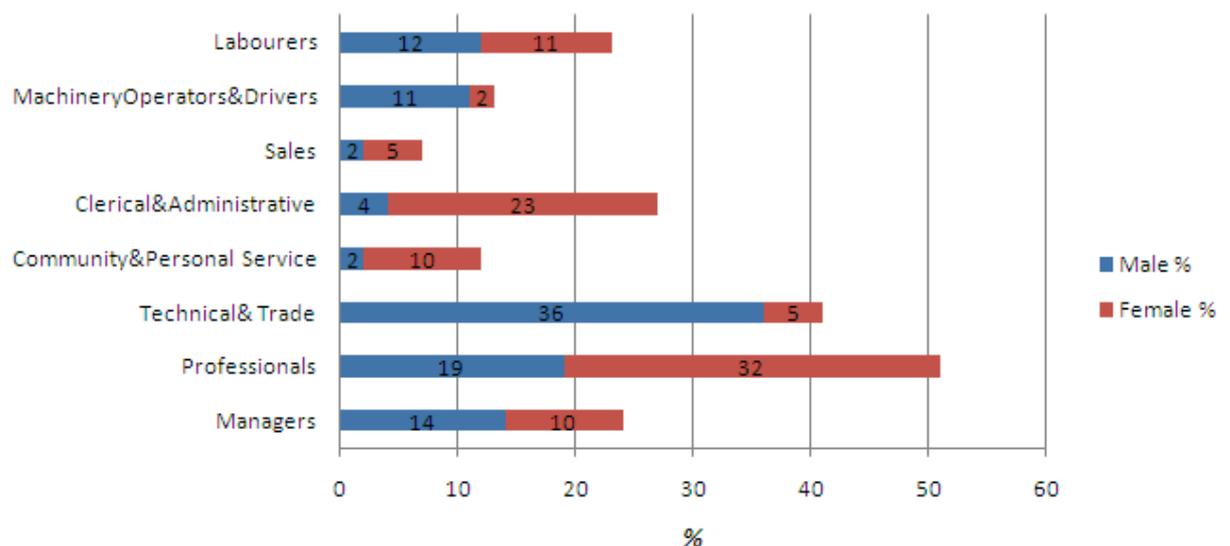


Figure 2 also shows that there were proportionally more men than women across all age groups. Further, around half of independent contractors (50% of men and 58% of women) were aged between 35-54 years.

d) Occupation

Contracting has typically been associated with the blue collar area but the ABS data shows the dominance of professionals followed by technical and trades workers within independent contracting. Overall, male independent contractors were most likely to be Technicians and Trades Workers, with over one third (36%) employed in this occupation followed by Professionals (19%).

Figure 3: Independent Contractors by Occupation

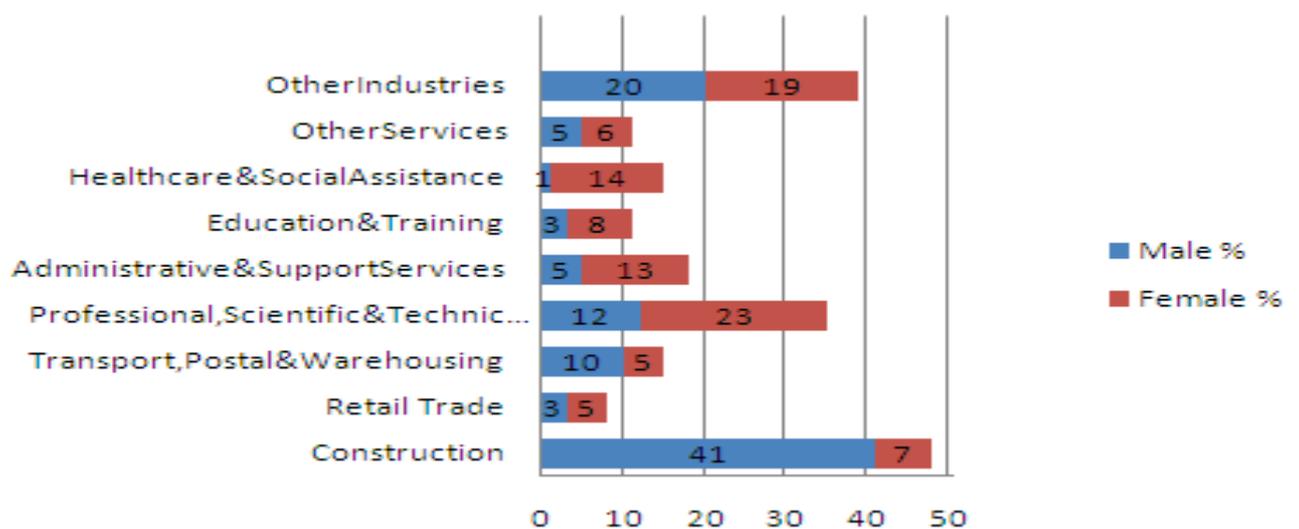


While technical & trades and professional occupations account for 55% of male independent contractors, clerical & admin as well as professional occupations account for 55% of females. The ABS (2009a, p.20) notes that the rate of 32% for female professionals in contracting exceeds the 24% found in this occupation amongst female employees.

e) Industries

The importance of the construction industry emerges in Figure 4 and also reveals that male independent contractors were most likely to be found operating in Construction, with 41% working in that industry.

Figure 4: Independent Contractors by Selected Industries



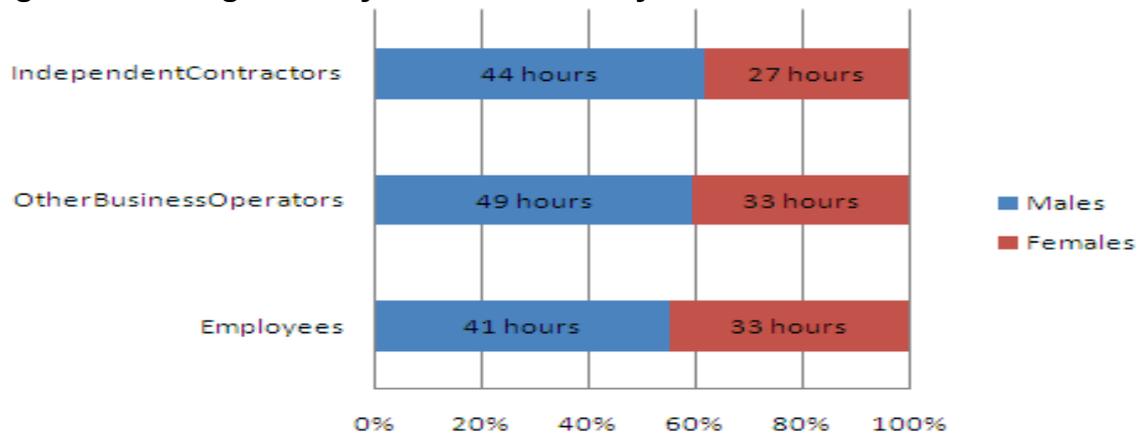
The great difference between the genders is shown also where the highest proportion of female independent contractors is found in the Professional, scientific and technical services (23%) industry. It is important to caution that the ABS (2009a) observes that the term industry used in FOES and ALMS of independent contractors reflects the industry of the independent contractors' business rather than the industry of their client.

f) Hours worked

The working hours of independent contractors are much more variable when compared to the other two forms of employment. It is well known that individuals who operate their own business tend to work longer hours than those who are employees and this comparative view is the focus of the ABS in their presentation of independent contractor data. As Figure 5 shows, the working hours of independent contractors are much more variable when compared to the other two forms of employment. While the average weekly hours of male independent contractors was 44 hours per week, female independent contractors worked an average of only 27 hours. Thus, while male independent contractors work less than other males business operators,

(who work 49 hours on average), they work more than male employees (who work 41 hours on average).

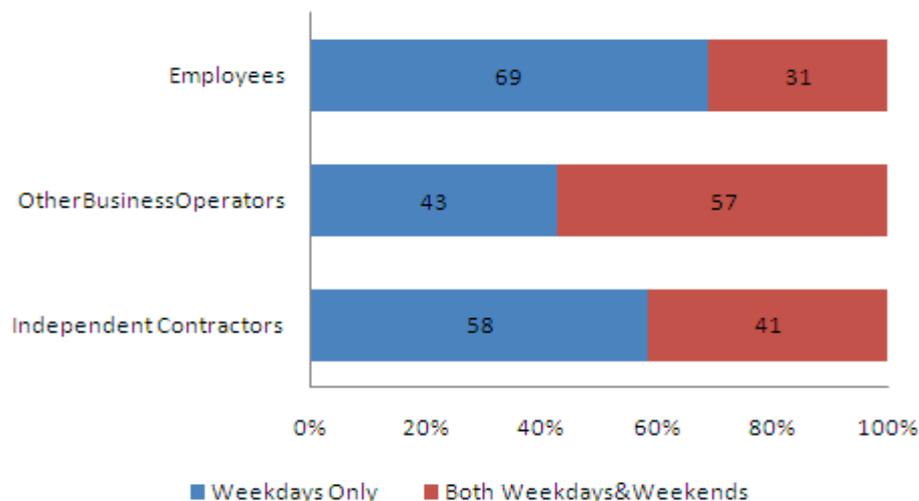
Figure 5: Average Weekly Hours Worked by Males & Females



The 27 hours female independent contractors work in an average week however, is less than the 33 hours worked by both female employees and other business operators. This result suggests that the profile and possibly the motivations of females in independent contracting may be quite distinct from other forms of employment.

Continuing the theme of variability within independent contracting noted in the section above, the number of hours worked also varied from those engaged in other forms of employment. Figure 6 shows that while over 55% of male independent contractors worked ‘weekdays only’, this compared unfavourably with over two thirds (69%) of employees but favourably with less than half (43%) of other business operators worked ‘weekdays only’.

Figure 6: Days of the Week Worked



Behaviours/motivations – the ATO view

As with the ABS data, the perspective from the ATO is a macro one of the segment they identify as micro-business. The focus of the ATO is on the individual as a client/taxpayer rather than as a form of employment, and the language of micro business rather than independent contractor is a clear move away from the lengthy, legal history of taxation and the vexed question as to who has the liability to pay. It is worth noting that in most Western nations it is the dual, and often related, areas of occupational health and safety (OH&S) and taxation that generate the largest academic and practitioner literatures on independent contracting.

The changing attitude of the ATO to the micro business/independent contractor sector is reflected in the strong methodological blend of qualitative and quantitative research.

1) Debt

This revealed that those with debt were not comfortable with any form of debt but especially tax debt. This finding has relevance for those dealing with micro business as a client and indicates that such dealings will be positive.

New businesses, those in operation for under a year, over-represented among debtors

2) Business life cycle and behaviours not static

The potential to change in perceptions as well as the actual behaviour of micro business owners is an important contribution to understanding them

The quantitative results from one of the ATO reports found consistent differences amongst micro business within the six industry segments and often apparently linked to life cycle stages with more established businesses “generally more likely to have a current or recent debt”. This contrasts with the results of the quantitative study which found new businesses, those in operation for under a year, over-represented among debtors (ATO, 2008 p. 70).

3) Business competency

The finding that most micro-businesses (79%) reported having an accountant working for their business and that many (43%) also had a bookkeeper. (ATO 2008a, p.46) is generally indicative of a high level of professional support

The view of micro business being quite well organised accords with ABS results from Part 1 of this desktop audit and is further advanced in the ATO findings that only 14% of micro businesses had no software

Very clear willingness of most micro businesses to conform and do what is “right” as far as tax issues.

The emphasis moves to focus on “the relationship between tax competency and the business owner as opposed to the business itself”

4) *Large Organisations dealing with micro-business people*

The results from these two tables clearly indicate that a “one size fits all” approach will not create either competency or attitude change. A defining factor of micro business is the fact that it is run by individuals who expect to be treated as such but may not necessarily understand ATO concerns and communications

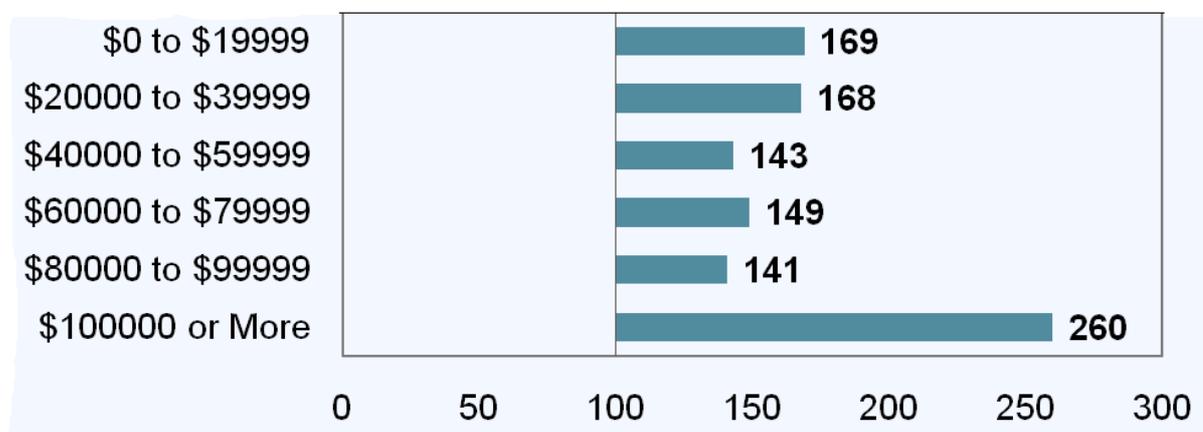
Behaviours/motivations – the Roy Morgan view

Roy Morgan data provides a unique market research/consumer perspective to this desktop audit of the micro-business sector within Australia. While the view they provide is explicitly from a marketing context, taking the perspective of the self employed as a consumer, the richness of the questions Roy Morgan asks provides the basis for a multi dimensional perspectives. The results indicated the value of this source is the ability to generate a much greater understanding and appreciation of the group they categorise as self employed.

5) *The self employed as consumers*

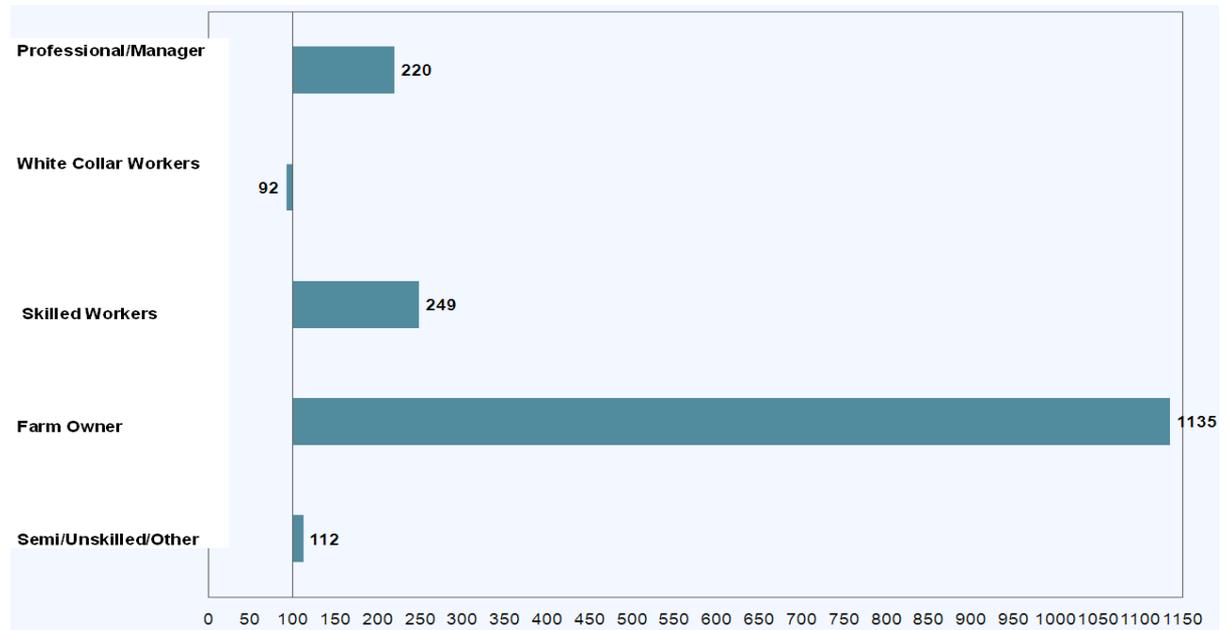
The index chart presentation which is a feature of Roy Morgan Research reports shows that the self employed are at least 41% more likely to earn more than the average Australian for each of the income levels.

Figure 7: Income by Index Chart



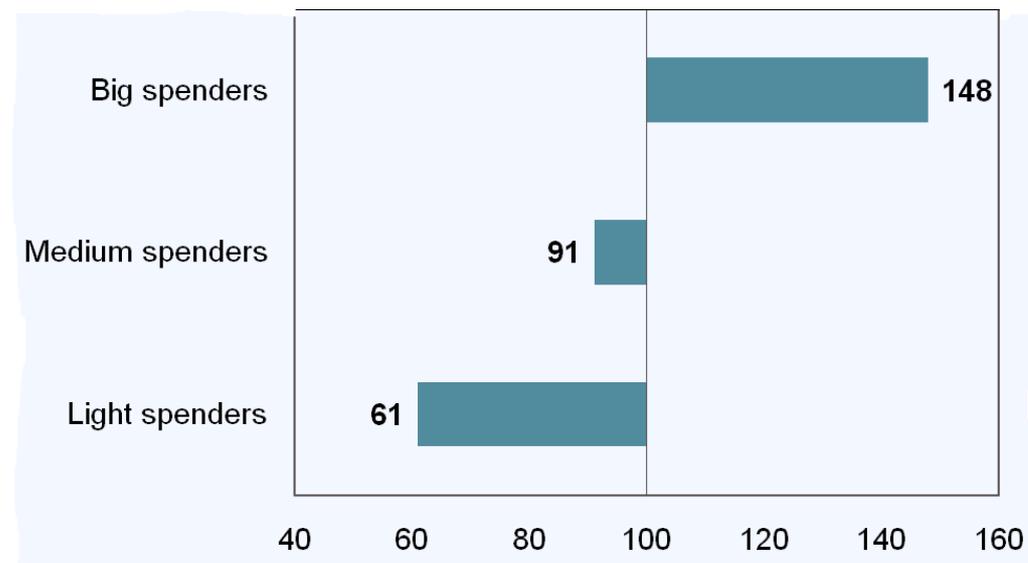
Professional/manager and skilled worker occupations emerges strongly and dismissed the notion of self employment as a low skill option.

Figure 8: Occupation by Index Chart



Linked closely to the notion of socio economic status above is the notion of disposable or discretionary expenditure. The result that comes through strongly in Figure 9 is the fact that self employed dominate the Roy Morgan Big spender category.

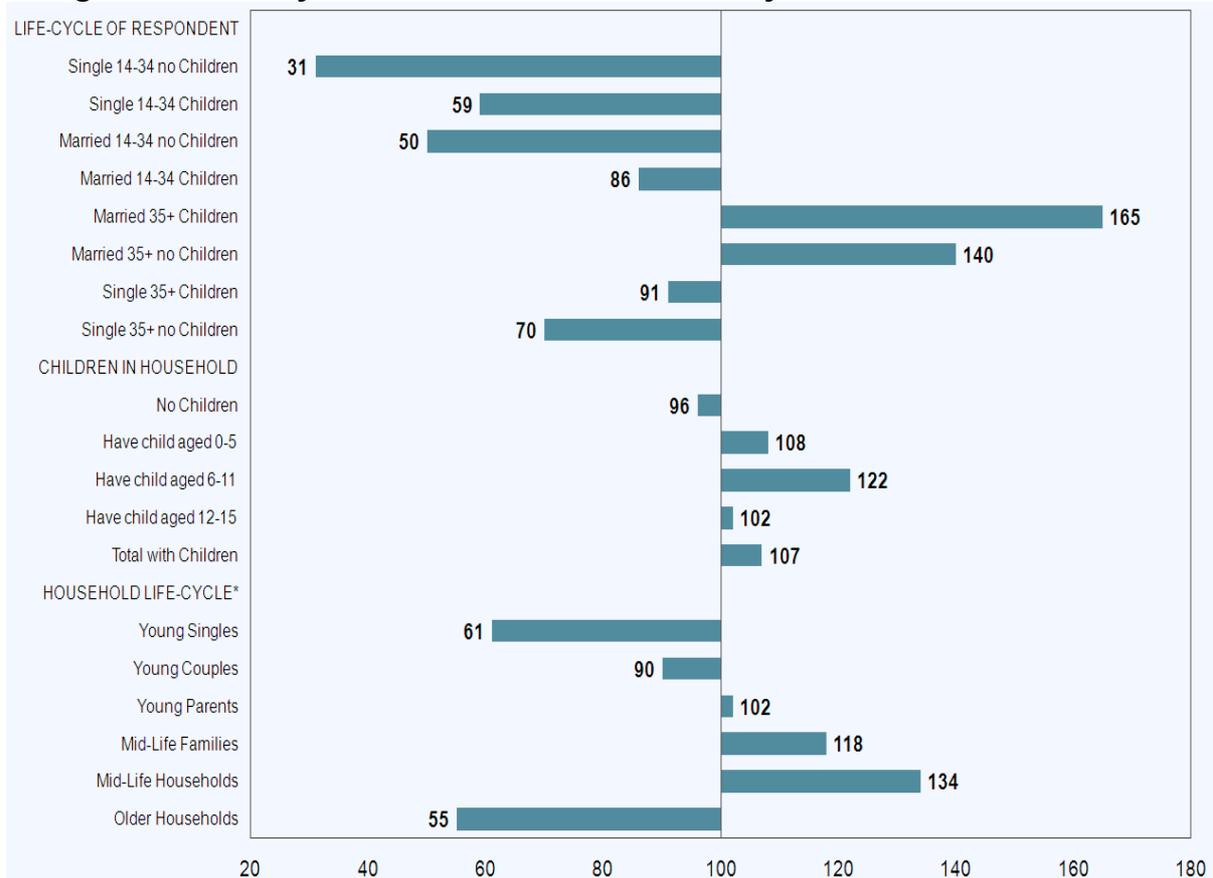
Figure 9: Discretionary Expenditure by Pie Chart, Table & Index Chart



Life Cycle and Number of Children of the Self-Employed

The social context of the self employed is illustrated in Figure 10 below and adds to the view we already have from the ATO data of self employed generally being 35+ and often with children in the mid life cycle.

Figure 10: Life Cycle and Number of Children by Index Chart



This particular dataset is worth analysing further for the explanation it may offer for the reduced working hours of females in self employment to see if the primary care-giving duties widely offered the academic literature suggests are the substantiated here. Reasons for female moves into contracting is that they are likely to be quite distinct and to be strongly motivated, possibly by childcare and caring for dependents.

Overall the view which emerges from Roy Morgan is that the independent contractor/ micro business/ self employed are largely a highly self determined group of people who look to themselves first and tend to be mistrustful of authority.

SUMMARY

We set out to undertake this desk audit in the belief that there is an important group in the market and society who are uniquely defined by their 'Micro-Business' owner status, and a plethora of values, choices, needs and expectations that go along with that.

To this end, we have successfully reconciled three distinctively oriented sets of research and databases - namely the ABS view of the contractors as workers; the ATO view of micro businesses as businesses and Roy Morgan Research into the self employed as consumers. While the language and terminology of each of the three source organisations has been different, the individuals they focus on are essentially the same. The common interest has been the smallest of small businesses—that is, the people who genuinely work for themselves as self-employed persons.

While the international debate and argument amongst academics, lawyers and statisticians over who comprises the group and how many people are in it, we have been able to actually prove that the terms 'micro-business', 'self-employed', 'independent contractors', and 'non-employees' are all interchangeable and are collectively and individually appropriate terms to describe the sector. The defining essence of their work life is that their individuality is their business.

When these groups (individuals/partnerships/companies/trusts) are brought within the definition, the ABS statistics indicate that the sector constitutes around 20 per cent of the Australian workforce—that is, some 1.9 million people.

Further, in beginning this task of reconciling the views provided by the ABS, the ATO and Roy Morgan Research sources to profile individuals within this sector as a worker, business and consumer. While the constant crossovers in behaviours and attitudes between the categories was implicit in both the ABS and ATO data – as for instance in the intertwining of the ATO micro business numbers, they are made explicit in the Roy Morgan Research in which they sit as they are, simultaneously, businesses, family people and consumers. What has emerged is that their needs in each of these categories is constantly intermingled and that they impact one on the other in ways that do not occur with traditional employees or consumers, for example. Their lives involve perpetual trades-offs, compromises and priority-resetting. Their behaviours and attitudes reflect this.

Further Research Needs

Through building on official sources such as the ABS and ATO, sources which are essentially orientated toward producing findings that would support prevailing public policy settings, but then blending these with the consumer and marketing oriented view of Roy Morgan Research, we move into a deeper understanding of who and what this group are. While our research appears to be a world first in that it has made the pivotal importance of the groups' commercial contract status as is the starting point for a proper understanding of the group.

Having substantiated the compatible nature of the three sources and the unique contribution each makes, we have a strong base to delve deeper into a more sophisticated analysis. The richness of the Roy Morgan data has only been skimmed and the Asteroid database provides fertile ground for more targeted work, directed by the data from the ABS and the ATO. Further, the qualitative research initiatives begun by ATO and the profiles developed also provide the potential for further research.