Nonstandard and Contracted Work Arrangements

Data from the 2020 Annual Business Survey and Analysis of 2021 10-K Filings

October 20, 2022

Objective

To examine available data on

- companies' use of nonstandard work arrangements (temporary, on-call, part-time) and certain contracted work arrangements; and
- their reported effects on topics such as workplace safety, wages, and access to benefits.

While comprehensive data on these arrangements may be limited, this briefing provides preliminary observations from our analysis of

- the 2020 Annual Business Survey (ABS) of approximately 300,000 companies which had about a 68 percent response rate; and
- a generalizable sample of 80 annual reports (2021 Form 10-Ks) submitted to the Securities and Exchange Commission (SEC) by companies on the S&P 500 Index.

Summary

- Of companies that responded to the 2020 ABS, 33 percent reported using contractors, subcontractors, independent contractors, or outside consultants.
  - Fifty percent reported using part-time workers.
  - The information sector had the highest proportion of companies reporting the use of contracted workers (57 percent) among sectors we examined.[1]

- Our review found that most S&P 500 companies mentioned the use of contractors in their 2021 10-Ks.
  - We estimated that 89 percent of the 10-Ks of S&P 500 companies mentioned their use of some type of contractor arrangement.
  - An estimated 65 percent of the 10-Ks of S&P 500 companies mentioned their use of contracting arrangements for services such as IT support, human resources, or maintenance.
  - In many cases, the reported information was not detailed enough to determine whether the contractors being discussed were individual or firms, were contracted to provide goods or services, or had other characteristics.

[1]The information sector as defined in the 2017 North American Industry Classification System encompasses internet publishing and broadcasting and web search portals; telecommunications; data processing, hosting, and related services; motion picture and sound recording industries; radio and television broadcasting; newspaper, periodical, book, and directory publishers; news syndicates; software publishers; and publishing industries.

Introduction

- As we previously reported, the nature of the workforce is changing and millions of U.S. workers hold nonstandard (temporary, on-call, or part-time) jobs or work in the gig economy.[2]
- Some studies indicate that employers are increasingly contracting out business functions that were once managed internally, contributing to concerns about contract workers receiving lower pay and reduced access to benefits.[3]
- Policymakers and other stakeholders have interest in knowing the number of workers in nonstandard and contracted arrangements, and understanding reported effects on topics such as workplace safety, wages, and access to benefits, in part because
  - some of these workers may not have access to certain workplace protections or benefits; and
  - information on these types of work arrangements can assist in determining whether government policies support full employment (given federal policy goals of maximizing employment).

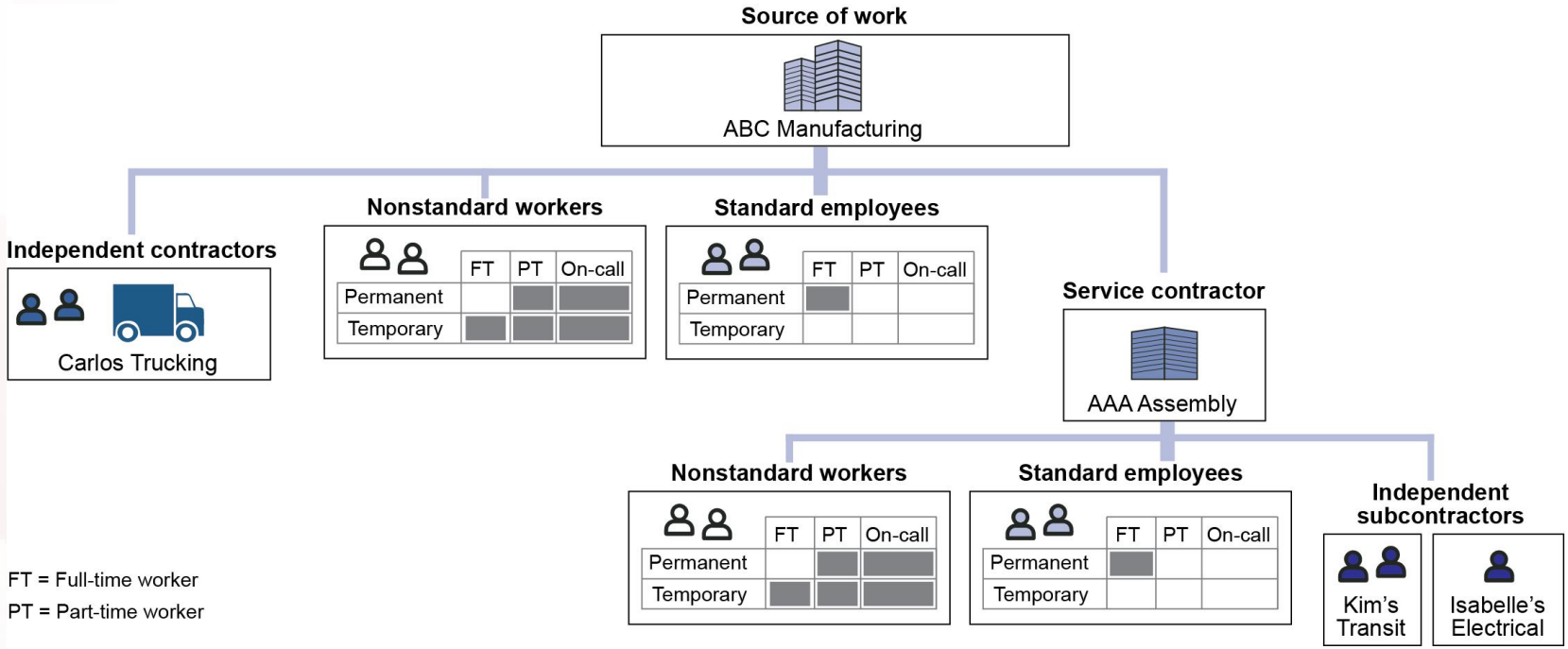
[2]The Bureau of Labor Statistics defines electronically mediated employment as work obtained through mobile applications and websites that connect workers with customers and arrange payment for tasks; others more broadly call it gig employment. GAO, *Contingent Workforce: BLS Is Reassessing Measurement of Nontraditional Workers*, GAO-19-273R (Washington, D.C.: Jan. 29, 2019).

[3]For example, see David Weil, "Understanding the Present and Future of Work in the Fissured Workplace Context," *Russell Sage Foundation Journal of the Social Sciences*, vol. 5, no. 5 (2019): 147-65; National Academies of Sciences, Engineering, and Medicine, *Measuring Alternative Work Arrangements for Research and Policy* (Washington, D.C.: The National Academies Press, 2020); and Katharine G. Abraham and Susan N. Houseman, "Contingent and Alternative Employment: Lessons from the Contingent Worker Supplement, 1995–2017," prepared for the Department of Labor, Chief Evaluation Office (October 2020).

Introduction (cont.)

As depicted in figure 1, workers may have various relationships to the source of their work. They may be direct employees, independent workers who contract their services, or workers employed by a company contracted to perform services for another company. As companies seek efficiencies by contracting out noncore business functions, more workers may be associated with companies (such as temporary help agencies, janitorial services, or transportation companies) that provide contracted services to another company.

Figure 1: Selected Types of Standard, Nonstandard, and Contracted Work Arrangements



Sources: GAO analysis. | GAO-23-106212

Note: Nonstandard work arrangements include temporary, on-call, or part-time workers.

Introduction (cont.)

For this report, we use the terms

- **nonstandard work arrangements** to refer to work of fixed duration or work without predictably scheduled full-time hours. Nonstandard arrangements include temporary, on-call, or part-time work.[4]

- **contracted work arrangements** to include independent contractors, electronically mediated workers (those who find short-term jobs through websites or digital apps that connect them with customers and arrange payment for the jobs), and contract firms that employ or contract with workers to provide services.

[4]According to Bureau of Labor Statistics' data, part-time workers represented an estimated 3.3 percent of workers in August 2022. Individuals may work part-time voluntarily or involuntarily, or for economic reasons (e.g., inability to find full-time work or unfavorable business conditions), noneconomic reasons (e.g., family or personal obligations, school, or training), or both.

Methodology

2020 Annual Business Survey

- The ABS provides information on selected economic and demographic characteristics for businesses and business owners, including information collected on certain nonstandard work arrangements and contractors, and for workers who do not receive a W-2.[5]
- The 2020 ABS sampled approximately 300,000 (nonfarm) employer businesses operating in 2019 and about 68 percent of the sample responded to the survey. [6]
- We obtained the publicly available 2020 ABS—which covers 2019 data—and analyzed the types of workers (e.g., full-time, part-time, temporary, contractor) by sector, as measured by two-digit 2017 North American Industry Classification System codes.

[5]The ABS is a joint effort by the Census Bureau and the National Center for Science and Engineering Statistics within the National Science Foundation. Census has administered the survey annually since 2018.

[6]Information reported on various business and owner characteristics in the ABS—including types of workers (e.g., full-time, part-time, contracted)—is not generalizable to all U.S. companies, partly because Census considers it supplementary to key survey statistics and does not adjust it for nonresponse. Census adjusts key statistics in the ABS (e.g., number of firms, receipts, payroll, and employment by sex, ethnicity, race, and veteran status of the business owners) for nonresponse and regards them as generalizable. ABS does not collect information on workers' pay or access to benefits.

Methodology (cont.)

2021 10-K Reports

- Federal securities laws require publicly reporting companies in the United States to disclose information on an ongoing basis. Domestic companies must annually submit a report on Form 10-K, which provides an overview of the company's business and financial condition, and includes audited financial statements.[7]
- A section of the 10-K called "Risk Factors" (Part 1-Item 1A) requires these companies to include information about the material factors that make investment in the company speculative or risky.
- Companies are generally **not** required to report specific information on nonstandard or contracted work arrangements in their 10-Ks. However, a section of the Form 10-K (Part 1-Item 1) generally requires the companies to include a description of their human capital resources, including the number of persons they employ and any human capital measures or objectives on which they focus in managing the business to the extent this information is material to the understanding of their business.[8]

[7]See 15 U.S.C. §§ 78m, 78o(d).

[8]SEC's Division of Corporation Finance issued a Compliance and Disclosure interpretation stating that in industries in which registrants' general practice is to hire independent contractors rather than employees to perform the work of the company, this disclosure should indicate the number of persons retained as independent contractors, as well as the number of regular employees. See 17 C.F.R. § 229.101(c)(2)(ii).

Methodology (cont.)

2021 10-K Reports (cont.)

- We selected and reviewed a generalizable random sample of 80 10-K reports from 2021 submitted by S&P 500 companies.
- We used a data collection instrument to record (1) companies' mention of specific types of nonstandard or contracted work arrangements; (2) information about human capital, or nonstandard or contracted work arrangements included in the Risk Section of the 10-K filing; and (3) information included on workplace safety, wages, access to benefits, and other topics related to these arrangements.[9] The results in our sample are generalizable to S&P 500 companies filing Form 10-Ks in 2021.
- All estimates have a margin of error of plus or minus 10 percentage points at the 95 percent level of confidence, unless otherwise indicated.
- Because companies are generally not required to report specific information on nonstandard or contracted work arrangements in their 10-Ks, our review provides insights on what companies disclose in their 10-Ks but does not provide a measure of their actual practices (including information on workers' pay or access to benefits), or comprehensive information about them.

[9]In our review, we considered "contractor" to include third parties, third-party service providers, service providers, contractors, subcontractors, or contract providers.

ABS: Measures of Types of Nonstandard Work Arrangements

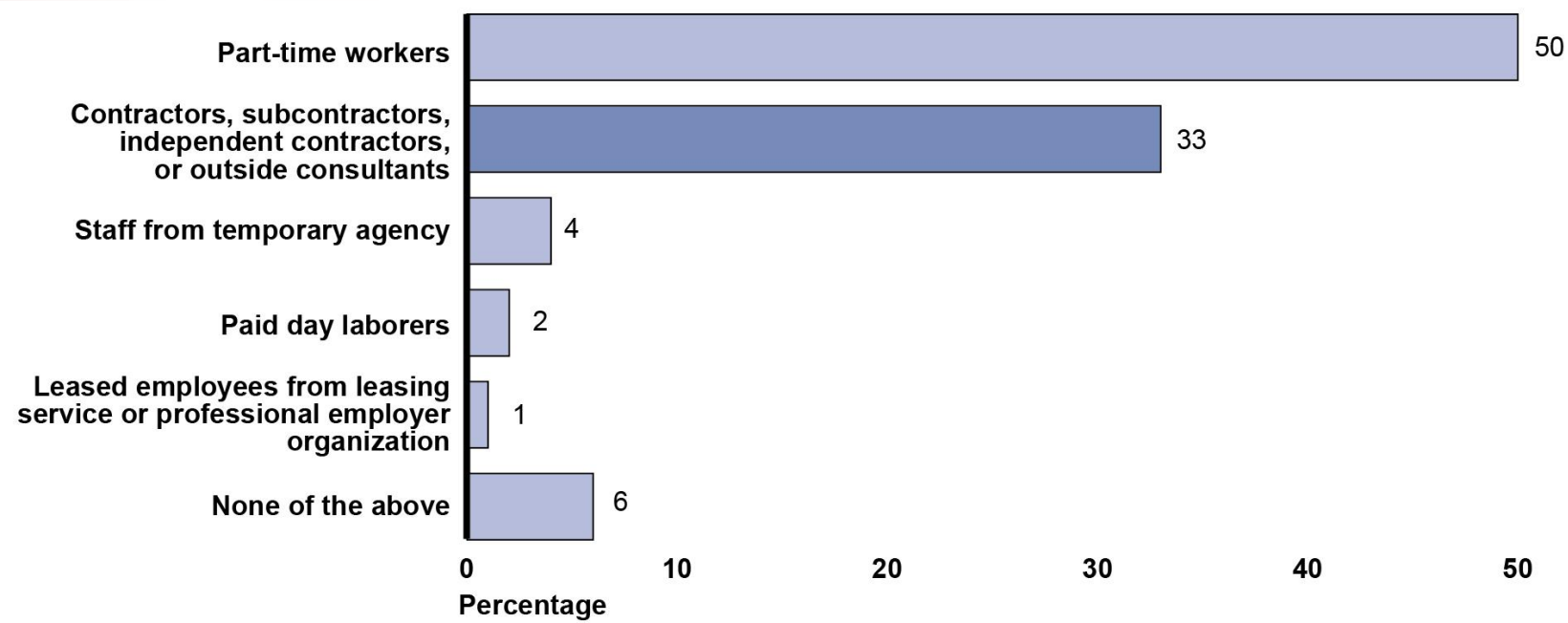
The 2020 ABS asks about companies' use of various types of nonstandard work arrangements to include

- part-time workers;
- paid day laborers;
- temporary staff from a temporary help agency;
- subcontractors, independent contractors, or outside consultants; or
- leased employees from a leasing service or professional employer organization.[11]

[11]As previously mentioned, the ABS does not collect information on workers' pay or access to benefits.

ABS: Companies Commonly Use Contracting and Part-Time Work Arrangements

Figure 2: Percentage of Companies in the 2020 Annual Business Survey That Reported Using Part-Time, Contract, or Other Types of Work Arrangements

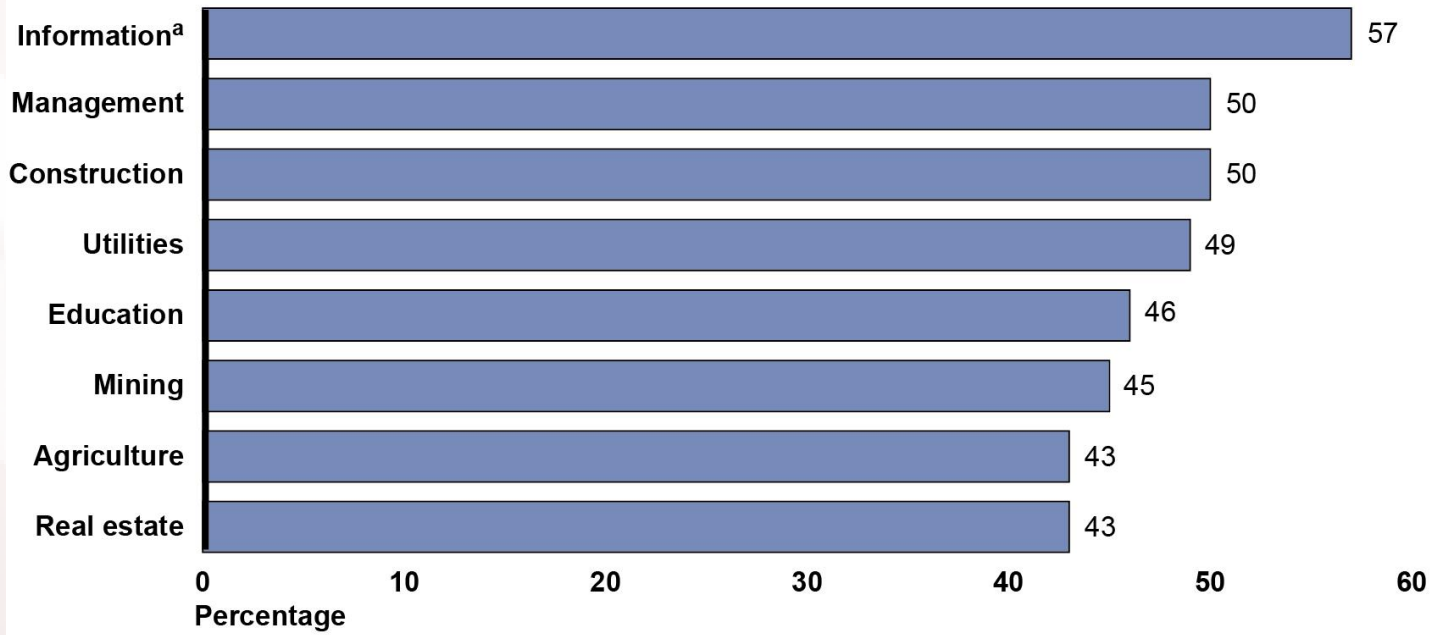


Source: GAO analysis of Census Bureau data. | GAO-23-106212

Note: The Annual Business Survey (ABS) describes contractors, subcontractors, independent contractors, or outside consultants as workers who receive a Form 1099 or payment from another company. Generally speaking, when a business pays an independent contractor, the business must report annual payments of $600 or more on a Form 1099. In the survey, companies could select more than one type of worker. The category “none of the above” may include seasonal or nonpaid workers.

ABS: Information Sector Had the Highest Proportion of Companies Reporting Use of Contractors

Figure 3: Percentage of Companies That Reported Use of Contractors in the 2020 Annual Business Survey, by Selected Sector



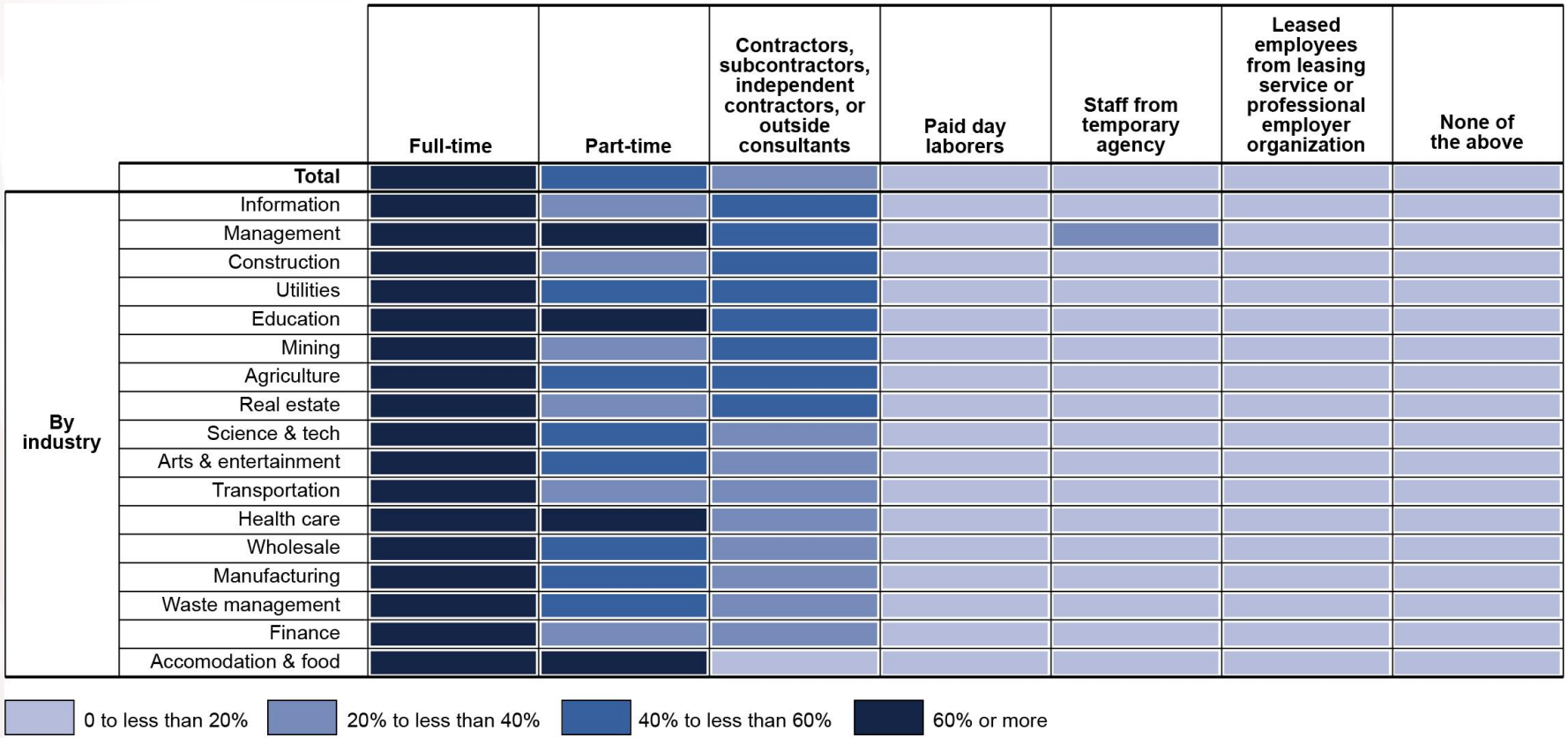
Source: GAO analysis of Census Bureau data. | GAO-23-106212

Note: The Annual Business Survey describes contractors, subcontractors, independent contractors, or outside consultants as workers who receive a Form 1099 or payment from another company. Generally, when a business pays an independent contractor, the business must report annual payments of $600 or more on a Form 1099.

[a]The information sector—as listed in 2017 North American Industry Classification System codes—includes internet publishing and broadcasting and web search portals; telecommunications; data processing, hosting, and related services; motion picture and sound recording industries; radio and television broadcasting; newspaper, periodical, book, and directory publishers; news syndicates; software publishers; and publishing industries.

ABS: Companies Reporting Use of Nonstandard or Contracted Workers, by Selected Sectors

Figure 4: Percentage of Companies in 2020 Annual Business Survey Reporting Use of Nonstandard or Contracted Workers, by Selected Sectors



Source: GAO analysis of Census Bureau data. | GAO-23-106212

Note: The Annual Business Survey describes contractors, subcontractors, independent contractors, or outside consultants as workers who receive a Form 1099 or payment from another company. Generally, when a business pays an independent contractor, the business must report annual payments of $600 or more on a Form 1099.

10-K: Nonstandard or Contracted Work Arrangements

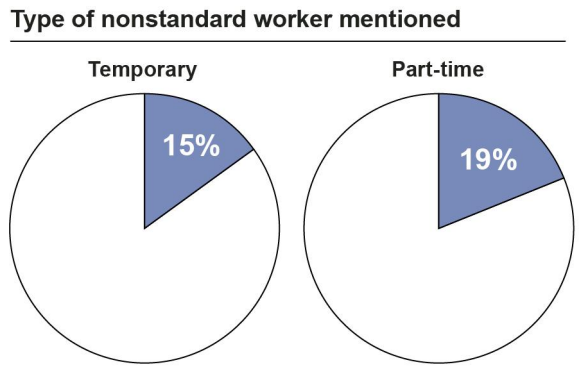
We reviewed 2021 10-K filings, some of which discuss

- nonstandard work arrangements (such as temporary workers, on-call workers, or part-time workers), or
- contracted work arrangements.

10-K: S&P 500 Companies Mentioning Nonstandard or Contracted Workers

Figure 5: Estimated Percentage of S&P 500 Companies Mentioning Selected Types of Nonstandard Workers in Their 2021 10-K Reports

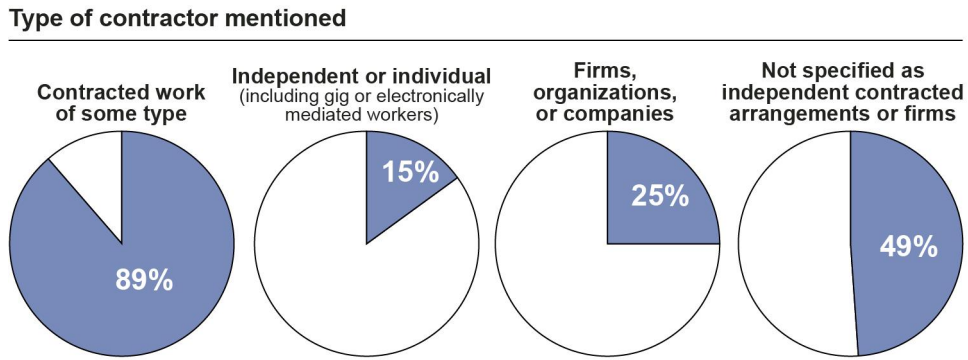
Note: We use nonstandard work arrangements to refer to work of fixed duration or work without predictably scheduled full-time hours. Nonstandard arrangements may include temporary, on-call, and part-time work. Companies may have mentioned more than one type of work arrangement (e.g., contractors, nonstandard workers) in their 2021 10-K reports. All estimates have a margin of error of plus or minus 10 percentage points at the 95 percent level of confidence, unless otherwise indicated.



Source: GAO analysis of Securities and Exchange Commission data. | GAO-23-106212

Figure 6: Estimated Percentage of S&P 500 Companies Mentioning Selected Types of Contracted Work in Their 2021 10-K Reports

Note: We use nonstandard work arrangements to refer to work of fixed duration or work without predictably scheduled full-time hours. Nonstandard arrangements may include temporary, on-call, and part-time work. Companies may have mentioned more than one type of work arrangement (e.g., contractors, nonstandard workers) in their 2021 10-K reports. All estimates have a margin of error of plus or minus 10 percentage points at the 95 percent level of confidence, unless otherwise indicated.



Source: GAO analysis of Securities and Exchange Commission data. | GAO-23-106212

10-K: An Estimated 89 Percent of S&P 500 Companies' Reports Discussed Their Use of Contractors, but Often in Limited Detail

We estimated that 89 percent of S&P 500 companies mentioned their use of contractors in their 10-K filings for 2021.[12]

- Companies used multiple terms that could refer to contract relationships: third parties, third-party service providers, service providers, contractors, or subcontractors.
  - In many cases, 10-Ks were not sufficiently detailed to determine the type of contract arrangement—for example, whether the contractor was an individual or a firm or if it provided a service for the company.
  - Only 25 percent of the filings referred specifically to a contract with a firm and 15 percent referred specifically to independent contractors.
  - In multiple instances, we could not determine if a contractor primarily worked for the filer or multiple parties or worked on- or off-site (or both).[13]

[12]Companies are generally not required to report specific information on nonstandard or contracted work arrangements in their 10-Ks.

[13]We coded any mention of a contractor in the filing as "contractor, any type." When sufficient context was provided, we coded these arrangements with more specificity–for example, as independent contractors, contracting firms, or service contractors.

10-K: An Estimated 65 Percent of S&P 500 Companies' Reports Discussed Their Use of Contractors Providing Services

- We estimated that 65 percent of the 10-Ks discussed companies' use of contracting arrangements involving performance of services such as IT support, help desks, human resources, or maintenance.
  - Some 10-Ks also referred to suppliers contracting with a business to deliver goods or provide materials as part of the supply chain process.

- An estimated 15 percent discussed the use of temporary workers; an estimated 19 percent discussed the use of part-time workers.

10-K: Companies' Reports Discussed Human Capital in Risk Section

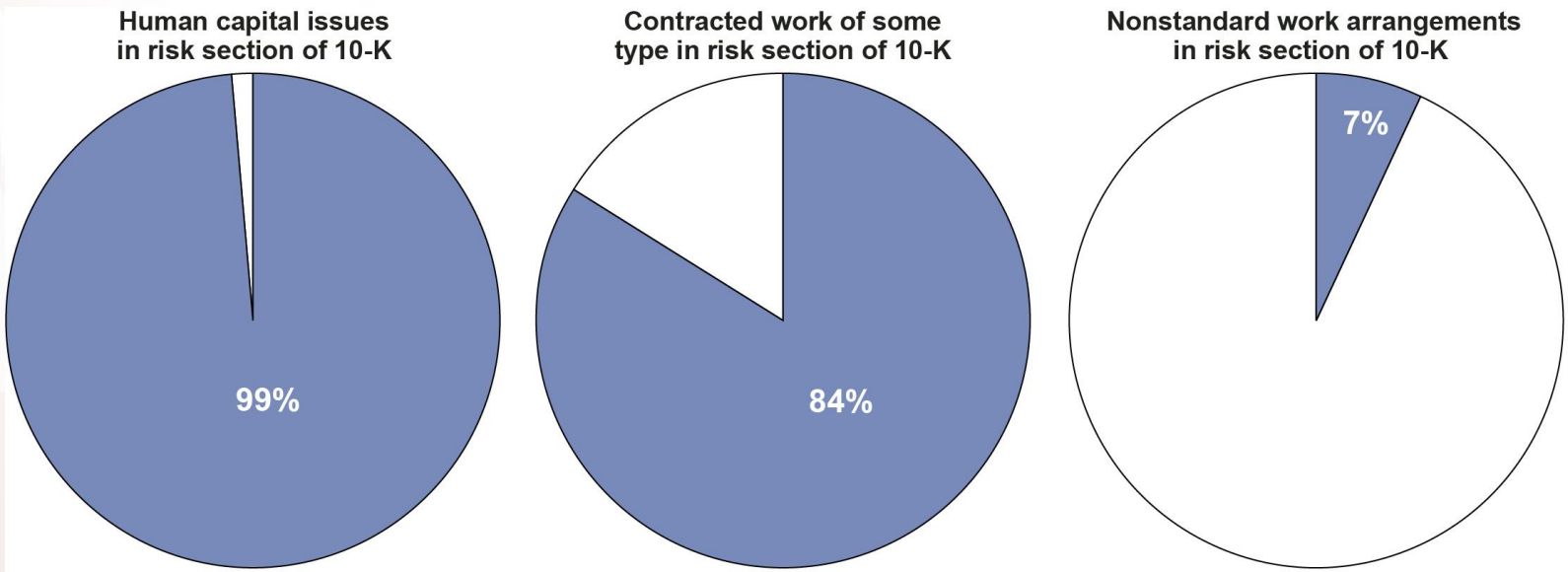
- In the "Risk Factors" section of 10-K reports, we estimated nearly all filings (99 percent) discussed human capital—or issues related to their employees, workers, or labor.
  - For example, companies identified topics such as attracting and retaining skilled labor, increased workforce costs, labor strikes, absenteeism due to COVID, and other labor factors as material risks to their business.

10-K: An Estimated 84 Percent of Companies' Reports Discussed Use of Contractors in Risk Section

- We estimated that approximately in 84 percent of the 10-Ks, S&P 500 companies discussed use of contractors of some type in the Risk Factors section.
  - For example, the 10-K of an IT company stated it uses contracted third parties to develop, design, or manufacture products and their components, as well as to perform certain operations like IT, repair, distribution, and engineering services. By outsourcing more of these operations, the company described having less direct control over these activities, which could affect sales and profits.
  - In another 10-K, a wood products manufacturer stated it depends heavily on contracted third parties for logging and transportation. Its Risk Factors section stated it could be significantly and negatively affected by any increase in the cost of, or disruption in, these services.

10-K: Human Capital, Contracted, and Nonstandard Work Arrangements Discussed in Risk Section

Figure 7: Estimated Percentage of S&P 500 Companies That Discussed Human Capital, Contract Work, and Nonstandard Work Arrangements in Risk Factors Section of Their 2021 10-K Reports



Source: GAO analysis of Securities and Exchange Commission data. | GAO-23-106212

Note: We use nonstandard work arrangements to refer to work of fixed duration or work without predictably scheduled full-time hours. Nonstandard arrangements may include temporary, on-call, and part-time work. Companies may have mentioned more than one type of work arrangement (e.g., contractors, nonstandard workers) in their 2021 10-K reports. All estimates have a margin of error of plus or minus 10 percentage points at the 95 percent level of confidence, unless otherwise indicated.

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10-K: Companies' Reasons for Considering Nonstandard or Contracted Work Arrangements as Risks

Companies provided a range of reasons in their 10-K narratives for considering nonstandard (temporary, on-call, or part-time) or contracted work as risks. These included

1. **Operational risks** they associated with reliance on contractors, such as
   - critical components of business activities (e.g., product testing, IT support, maintenance, and transportation); and
   - decreased oversight, poor performance, security breaches, or other factors that could affect a company's costs, product quality, outcomes, timeliness, reputation, or service delivery.

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10-K: Companies' Reasons for Considering Nonstandard or Contracted Work Arrangements as Risks (cont.)

2. **Changes in worker classification** that could increase labor costs.
   - Four companies in our sample described changes in worker classification as a risk that could lead to higher workforce costs and threaten financial viability.[14]
   - For example, one company stated that if its independent contractors were determined to be standard employees, it would be required to provide employee benefits, workers' compensation, and unemployment benefits, and would face increased exposure under various federal and state tax, labor, employment, and tort laws.

[14]Changes to worker classification could result from statutory or regulatory changes or from employee misclassification where employers improperly classify workers as independent contractors instead of employees.

GAO

10-K: Companies' Reasons for Considering Nonstandard or Contracted Work Arrangements as Risks (cont.)

3. **Higher costs for in-demand, temporary labor.**
   - During the COVID-19 pandemic, one health care company's filing we reviewed cited increased costs resulting from worker shortages and the need to hire temporary workers and pay wages above standard compensation.
4. **Shortages of contract and temporary labor.**
   - Five companies in our sample cited the inability to attract and retain additional personnel in nonstandard or contracted work arrangements as a risk to meeting consumer demand or managing their business.

10-K: Conditions and Outcomes for Nonstandard or Contracted Workers Mentioned in 2021

We reviewed company mentions of work conditions and outcomes for nonstandard or contracted workers (as compared with permanent full-time employees) for the following topics:

- **Health and safety**: Any mention of workplace injury or near misses; access to health and safety training; access to workplace health and well-being programs; or other health and safety topics not otherwise classified.
- **Wages and workforce costs**: Average, median, or mean wages (hourly, weekly, monthly, or annual); and workforce costs or salaries (or both).
- **Labor practices and conditions**: Access to benefits (health care, retirement plans, paid sick leave, paid annual leave, unemployment); access to flexible work arrangements (remote, flexible hours); and/or access to training and professional development activities.
- **Workforce turnover**: Retention or turnover rate; workers who transition between standard employees (full-time, permanent) and individuals with nonstandard or contracted work arrangements; general workforce turnover; or not otherwise classified.[14]

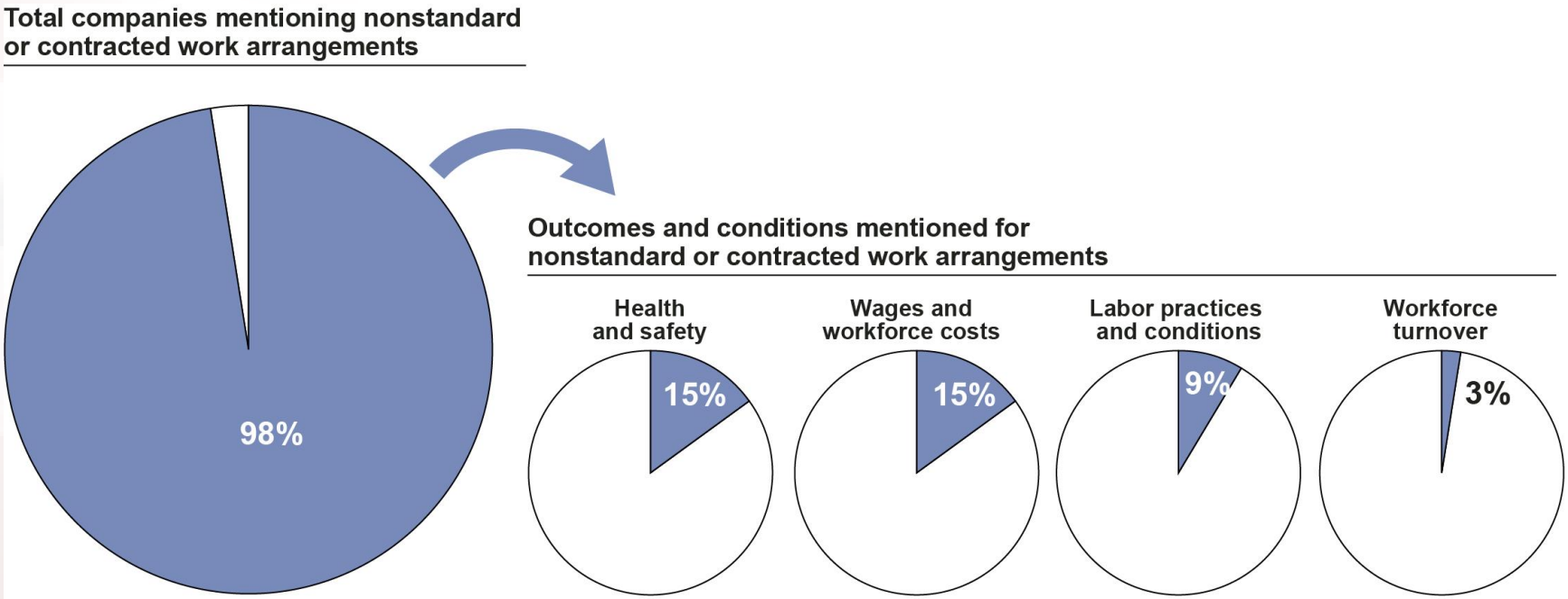
[14]We selected these categories based on findings from a review of studies on nonstandard or contracted work arrangements, as well as human capital disclosure topics from frameworks produced by the Sustainability Accounting Standards Board and Global Reporting Initiative. Information on workplace safety, wages, and access to benefits and other topics were reported from the employer's perspective.

10-K: A Small Percentage of S&P 500 Companies Expressly Mentioned Conditions and Outcomes for Nonstandard or Contracted Workers in 2021

- We estimated that 15 percent of S&P 500 companies' 2021 10-Ks mentioned the use of nonstandard workers (temporary, on-call, or part-time) or contractors of some type in relation to
    - health and safety,
    - wages, or workforce costs.
- An estimated 9 percent of 2021 filings expressly mentioned nonstandard or contracted workers in discussing labor practices and conditions, such as access to benefits, flexible work arrangements, or training and professional development.

10-K: A Small Percentage of S&P 500 Companies' Reports Expressly Mentioned Conditions and Outcomes for Nonstandard or Contracted Workers in 2021 (cont.)

Figure 8: Estimated Percentage of 2021 10-Ks for S&P 500 Companies That Expressly Mentioned Conditions and Outcomes for Workers with Nonstandard or Contracted Work Arrangements



Source: GAO analysis of Securities and Exchange Commission data. | GAO-23-106212

Note: We use nonstandard work arrangements to refer to work of fixed duration or work without predictably scheduled full-time hours. Nonstandard arrangements may include temporary, on-call, and part-time work. Companies may have mentioned more than one type of work arrangement (e.g., contractors, nonstandard workers) in their 2021 10-K reports. Health and safety included workplace injuries or near misses; access to health and safety training; or access to workplace health and well-being programs. Wages and workforce costs included average, median, or mean wages; and workforce costs or salaries (or both). Labor practices and conditions included access to benefits (health care, retirement plans, paid sick leave, paid annual leave, unemployment); access to flexible work arrangements (remote, flexible hours); and access to training and professional development activities (or both). Workforce turnover included retention or turnover rate, and workers who transition between standard (full-time, permanent) work, nonstandard, or contracted work arrangements. All estimates have a margin of error of plus or minus 10 percentage points at the 95 percent level of confidence, unless otherwise indicated.

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