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# Making 'Cents' of Temps: The Costs and Benefits of Contingent Workers

## **Abstract**

[Excerpt] Increased adoption of contingent labor strategies serves as proof that the benefits of hiring contingent workers outweigh the costs, at least from an employer's perspective. Three such benefits are explored in the paragraphs that follow: the reduction of fixed costs, increased flexibility, and increased productivity. Since accompanying each of these benefits are actual and potential costs that pose a real threat to human resource professionals if not carefully managed, a brief discussion of costs is also included. In response to the increasing popularity of contingent workers among businesses, tips for effective tracking of costs conclude this analysis.

## **Keywords**

temporary workers, contingent workers

## **Comments**

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# CORNELL HR REVIEW

## MAKING ‘CENTS’ OF TEMPS: THE COSTS AND BENEFITS OF CONTINGENT WORKERS

*Chelsea E. Vandlen*

In the past year, seasonally adjusted temporary employment in the United States has grown by an average of 25,000 jobs per month, as businesses exercised greater caution in post-recession hiring.<sup>1</sup> Research suggests that this increase in temporary employment is anything but temporary. In a recent survey conducted by the Economist Intelligence Unit, 67 percent of 479 senior executives plan to maintain “leaner” organizations by outsourcing work or hiring contract workers.<sup>2</sup> Moreover, labor law firm Littler Mendelson predicts that contingent labor—a broader term which includes independent contractors, employees leased from a staffing agency, seasonal workers, and part-time employees—could eventually comprise up to 50 percent of the U.S. workforce.<sup>3</sup>

Increased adoption of contingent labor strategies serves as proof that the benefits of hiring contingent workers outweigh the costs, at least from an employer’s perspective. Three such benefits are explored in the paragraphs that follow: the reduction of fixed costs, increased flexibility, and increased productivity. Since accompanying each of these benefits are actual and potential costs that pose a real threat to human resource professionals if not carefully managed, a brief discussion of costs is also included. In response to the increasing popularity of contingent workers among businesses, tips for effective tracking of costs conclude this analysis.

### *Fixed Costs*

All things being equal, it is cheaper for organizations to hire one additional contingent worker than to hire one additional full-time worker because they are not obligated to provide benefits to employees in the former category. In a 2005 Bureau of Labor Statistics study, only 18 percent of contingent workers had employer-provided health benefits, compared to 56 percent of regular workers; only 12.4 percent of contingent workers were included in pension plans, versus 48 percent of regular workers.<sup>4</sup> Leased workers are employees of the staffing agencies from which they are sourced, so the agencies shoulder the burden of paying for employees’ benefits. Furthermore, staffing agencies absorb the costs associated with recruiting, screening, hiring, disciplining, and firing workers. This is especially attractive to human resource professionals seeking workers for short-term projects, as they can immediately capitalize on workers’ specialized skills and knowledge without heavily investing in them.

Although the reduction of fixed costs is often seen as a benefit of hiring contingent workers, businesses incur other costs when they utilize the services of staffing agencies, such as commission or finders’ fees. Moreover, if the job descriptions that human

resource departments provide agencies are not accurate or explicit, it is difficult for agencies to fill positions with the right candidates. The costs associated with lost productivity while miscommunications are resolved may partially offset the benefits of using agencies in the first place.

Employers should also be concerned about the legal ramifications of misclassifying permanent workers as temporary to save on benefit costs and taxes. For example, in 2000 Microsoft Corp. settled for \$97 million when a group of long-term independent contractors claimed they were entitled to the corporate stock-purchase plan because they did the same work as permanent employees.<sup>5</sup> The “distinction line” between permanent and temporary workers may be fuzzy, but one thing is crystal clear: the line is costly to cross and one that HR cannot ignore.

### *Flexibility*

One of the most touted benefits of hiring contingent workers is that it enhances workforce flexibility. Few companies have emerged from the recent recession unscathed, and employers are hesitant to hire permanent workers because they do not want to lay off new hires should the economy recover more slowly than anticipated. Contingent workers can act as a buffer for businesses in this situation, as they are the first to be hired following a recession and the first to be released in times of trouble. Cyclical industries and businesses that call for seasonal workers also benefit immensely from having this numerical flexibility.<sup>6</sup>

Human resource professionals also have the flexibility to transition high-performing temporary workers to full-time positions, but they have no contractual obligation to do so. If it is discovered that a contingent worker brings new knowledge or specialized skills to the company, it may be beneficial for HR to establish a more stable employment relationship with the worker. Contrarily, if the contingent worker’s skills become obsolete or are only needed for a short period of time, the relationship can be easily ended.

However, temporary employees also reap the benefits of workforce flexibility, often at a cost to their employers. Just as companies “audition” contingent workers for full-time positions, the contingent workers also assess organizations with a critical eye. An exceptional temporary worker who had an unpleasant experience during his/her short stint with a company will be more difficult to attract and retain. In addition, businesses risk losing contingent workers’ knowledge and expertise when they leave, which may be costly or impossible to replace. Even worse, firm-specific knowledge might be disseminated out to competitors.<sup>7</sup> The potential costs associated with lost expertise may be difficult to quantify, but they merit attention as possible downsides to the oft-praised flexibility argument.

## ***Productivity***

As for the effects of contingent labor strategies on workers' productivity levels, the jury is still out. One study found that temporary workers who have opportunities to transition to standard employment arrangements actually outperform their permanent counterparts.<sup>8</sup> Although it may seem counterintuitive, temporary workers may exert exceptional effort in hopes of securing a full-time position, whereas permanent workers are less incentivized to demonstrate their worth to the business. Contingent workers also jump between jobs and employers more frequently, so they may not have sufficient time in any one job to become as burned out as permanent workers. In businesses where increased productivity leads to greater profitability, this body of research may help to validate the benefits of contingent workers.

Unfortunately for human resource professionals, research highlighting the negative effects of hiring contingent workers is much more prevalent. Some scholars argue that temporary workers do not feel the same level of dedication or possess the same depth of knowledge as permanent workers, lowering their productivity.<sup>9</sup> Plus, contingent workers are not the only population to worry about. Negative effects on permanent workers' productivity may also prove costly. Permanent employees may be less productive if they must regularly train temporary employees. If permanent employees are constantly afraid that their own positions are no longer secure, the problem will only be compounded.

A host of other issues that directly impact workers' well-being may also indirectly impact their productivity. The lack of job security—coupled with the potential for social isolation—is a significant source of stress for temporary or contract workers, putting them at greater risk of developing mental health problems.<sup>10</sup> Research also finds that the presence of temporary employees in the workplace leads to lower level of job satisfaction among permanent employees.<sup>11</sup> Some permanent employees resent skilled contingent workers who are paid more or win better projects.<sup>12</sup> Any productivity gains associated with contingent labor strategies can be quickly lost if either subset of workers is unhappy, stressed, or compelled to seek work elsewhere.

## ***Tracking Tools***

The use of contingent labor is on the rise. Does this mean that every business should adopt a contingent labor strategy rather than invest in permanent hires? Absolutely not. Human resource professionals must undergo careful analysis to weigh the benefits against the costs for their respective companies, particularly with regard to fixed costs, flexibility, and productivity. Fortunately, for companies who already engage in the hiring of contingent workers, vendor management systems can help track the volume and costs of these employees, as well as ensure compliance with all regulations. They range from simple tools that focus on process automation to sophisticated systems that help companies learn more about their temporary labor force. For example, IBM's workforce analytic software can be used to monitor the performance of contingent workers and track their tenure.<sup>13</sup> Once HR is armed with a closer approximation of the costs of contingent workers, they will be better positioned to make decisions about who to hire. ✕

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