How To Properly Classify Personnel As Either Contract Workers Or Employees

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Introduction

This research examines the classification of personnel within organizations as either formal employee of the organization or as contract workers. Contract workers frequently are referred to as contingent workers. The thesis of this examination is that employers classify individuals as contract workers or formal employees on the basis of short-term economic imperatives, as opposed to a formal classification protocol.

Recent Trend in Contract/Employee Classifications

The trend over the past 20 years in the classification of personnel within American organizations has been in the direction of increased levels of classification as contract workers at the expense of traditional formal, usually full-time employment. The structure of work in the American economy has been in a period of transition since the mid-1970s. Externally, both international and domestic pressures demand increased productivity from organizations. Internally, employees demand greater participation in the organizational decisions that affect their lives. Contract workers are in a less secure employment-status position; thus, organizations feel more confident in ignoring their demands, as opposed to those of formal employees of the organization.

Employer Motivations

Zeytinoglu (489) pointed-out that most literature indicates that motivations for employers to contract services from individual workers, as opposed to hiring such individuals as formal employees are wage savings and cost savings related to employee benefits. Another benefit for employers of using contract workers is gaining greater flexibility in the scheduling work. The desire by employers for greater flexibility in the scheduling of work is consistent with efforts to improve organizational productivity. Productivity is defined as a measure of the rate at which output flows from the use of given amounts of the factors of production. When the factors of production are used in an efficient manner, a greater output is derived from a given level of inputs. Therefore, productivity increases. By contrast, when the factors of production are used in an inefficient manner, a lesser output is derived from the given level of inputs. In this latter instance, productivity will fall.

A growing number of employers are finding that the ability to have flexibility in the scheduling of work leads to improved organizational productivity, and that an increase in the proportion of contract workers within an organizations leads to greater flexibility in the scheduling of work (Lever-Tracy 210). It is also easier for an organization to place some workers in a part-time status when those workers are contracted as opposed to being hired as formal employees of the organization. Kahn and Lang (661) that more than 45 percent of employees in American firms claim that they are constrained from working as many hours as they would like. Employers tend to for contract employment to satisfy their corporate performance imperatives (Zeytinoglu 498).

Linking Performance and Reward

A strong organizational motivational strategy promoted in contemporary management and organizational literature is the linking of performance and reward (Anderson and Fenton 72). The underlying assumption of the linking of performance and reward is that the key to motivating an individual to remain in and perform well in an organization lies not in urging an individual to remain or perform, but, rather, in the developing within that individual a strong commitment to the organization. The rewarding of performance is seen as a strong factor in the development of such commitment to the organization. From such a commitment will flow the desire to remain in and perform well in an organization. Organizational commitment is manifested as a strong desire to remain as a member of a specific organization, willingness on the part of an individual to exert high levels of effort for a specific organization, and belief in and acceptance of organizational values and goals by an individual (Porter 126).

The linking of performance and reward places an organization and its employees in an exchange relationship wherein each party expects to receive something from the other party and wherein each party expects to give something to the other party (Anderson and Fenton 74). In such a relationship, each party makes demands on the other, and each party provides something in return. Thus, employees exchange job performance for a reward from the firm within an organizational structure. There are several types of reward; however, compensation is usually considered to be the primary reward for performance, and certainly the reward providing the strongest motivation for both the development of organizational commitment and performance at above average levels.

Hipple and Stewart (22) noted a generally held perception that contingent jobs pay low wages and offer few benefits, such as health insurance and pensions. “Economic theory does not offer much guidance on whether to expect the earnings of contingent workers to be higher or lower than those of noncontingent workers do. Neoclassical economic theory predicts that workers will have to be paid compensating differentials if some aspects of the job are less desirable. This means that if workers prefer more stable jobs, then they have to be paid more for the additional risk of contingent employment arrangements. On the other hand, dual labor market theories argue that markets are segmented into a good job’ sector and a ‘bad job’ sector. Low pay, poor working conditions, few benefits, and poor prospects for moving into the good job sector characterize jobs in the bad job sector. In addition, workers in the bad job sector may not have the ‘clout’ to negotiate higher wages or employer-provided benefits” (Hipple and Stewart 22). In fact, contingent workers’ median weekly earnings in 1996 were $285 versus the permanent employee weekly median average of $416. “Contingent workers’ economic value to employers is further enhanced by the low rates of health insurance and even lower rates of pension plan participation” (Hipple and Stewart 22).

The Influence of Downsizing

Downsizing creates another motivation for the use of contract workers for many organizations. Downsizing is the planned elimination of positions or jobs within an organization (Kets de Vries, and Balazs 11). While relatively recent in origin, downsizing has become a pervasive business practice among large troubled corporations. Starting with factory closures in □unset industries during the recession of the early-1980s and continuing as an after-effect of merger and acquisition mania, downsizing, according to its proponents, □as turned into one of the inevitable outcomes of living in a global world where continual adjustments to products, services, and the price of labor are needed to remain competitive” (Kets de Vries and Balazs 11).

During the 1990s, almost all of Fortune 1000 firms have engaged in downsizing (Kets de Vries and Balazs 11). Further, the trend appears to be continuing, and many analysts contend that □developments in management indicate that downsizing is here to stay. A major contributing factor has been the increasing popularity of global benchmarking. Finding one□ overhead costs wanting compared to not only domestic but also international competitors has turned into a convincing argument to take large numbers of employees off the payroll” (Kets de Vries and Balazs p. 11).

While downsizing holds to potential to create outcomes (higher profits) that will please stockholders, downsizing almost always is perceived as creating adverse outcomes for employees (Schwind 55). Employees either are downsized out of a job, or surviving employees are forced to assume greater organizational responsibilities. When downsizing does cause operations to become more productive, such productivity improvement is attained at the expense of an often extensive reorganization and employee discontent (Schwind 55).

One of the problems with the process of downsizing is that the functions of the jobs downsized are not themselves downsized (Schwind 55). If a work requirement in a company was important enough to be assigned to a particular worker, most of the time the work was necessary. While downsizing can make the requirement appear to be unnecessary on the organization chart, the reality more often than not is that the work requirement is shifted either within the company or onto an outside vendor. In most instances, surviving employees end up being saddled with an unmanageable workload. This type of work environment increases stress and the pressure to perform for surviving employees. Another outcome of this type of situation is deterioration in the levels of customer service provided by the company (Schwind 56).

The general tendency is to perceive downsizing in the context of significant personnel reductions and organizational restructuring throughout an organization. In actual practice, however, downsizing, while almost always involving formal restructuring seldom addressed the effect of the informal restructuring that shifts work requirements from the downsized employees to the surviving employees. This failure to address formally and effectively the changes that are introduced into the functioning of surviving employees poses major problems for the human resource managers in organizations. Valued employees (and presumably those employees who survive a downsizing program are valued by the organization) seldom complain formally. What such employees do typically is nurse their discontent until they can obtain a new position outside their present company. When these valued employees leave, the downsizing organization is faced with even greater difficulties.

One of the most common occurrences in a downsizing situation is the re-employment of individuals forced out of formal employee status as contract workers. In this situation, the employer retains the skills, and gains scheduling flexibility and reduced labor costs.

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