

Managing Employees vs. Contractors



When differences are important

By Jim Everett and Jane Dixon – Think180™

Companies are using more contractors and consultants to perform specialized roles, or supplement their workforce for varying workloads. Vendors (or more accurately, “service providers”) increasingly influence outcomes and play a crucial role in the success of many activities.

The differences are clear when distinct work is outsourced to an external vendor. When a contractor or member of a vendor company works with a team, the distinction between them and an employee may be less obvious.

Key Differences

As managers, we must understand those key differences between employees and vendors or contractors, and what it means to manage them. Listed on the following page are 16 key areas that should be taken into account and may require different management approaches depending upon whether you are working with an employee or a contractor.

Some of the differences may determine the latitude or limitations you as a manager have in directing another person’s work. Here are two examples:

Compensation: When you manage an employee, you may have influence over what he or she is paid or at least, the grade or level of the position. You may be able to work with Human Resources to increase a salary or lobby for a position to be re-evaluated. As their manager, you typically perform the evaluation and make a recommendation on a salary increase. You can discuss salary issues with the employee, and act on their behalf, if warranted.

With a self-employed contractor, you agree on the contractor’s hourly rate if it fits your project budget and the rate falls within company guidelines for contractors.

Where a contractor employed by a vendor, typically any hourly rate is established as part of an overall contract negotiated between your company and the vendor. The contractor’s compensation is agreed upon between the contractor’s manager and the contractor. As the client manager, you have no influence over what a contractor is paid.

Direction: With an employee, you may directly oversee his or her work and manage by reviewing work product and watching their performance of tasks and activities. The employee may need to adhere to established office hours, perform specific company procedures (such as filling out a timesheet), and attend company activities as part of the job.

With a contractor, you manage by reviewing outcomes and results of their work rather than managing the day-to-day activities or their performance. Contractors typically focus on achieving contracted outcomes or results without needing to adhere to specific company procedures and attend company meetings.

The other key aspect to understand and apply is how the IRS defines an Independent Contractor and an employee. There are major legal implications in classifying a worker when that person does not qualify for Independent Contractor status set out by the IRS. *See the summary of IRS requirements at <http://think180.com/Pages/RIPs/contractordefinition.html>*

16 Key Areas of Difference

Area	Employee	Contractor
Compensation	Established by manager & company	Established by vendor
Work Definition	By job description	By contract
Work Measurement	By achievement of objectives for review period	By milestones or service levels established in agreement or contract
Terms & Conditions	Set out in ongoing employment contract	Set out in agreement or contract for specific work
Benefits & Taxes	Paid by company	Paid by vendor
Timeframe	Permanent work, not time bound	Engaged for period of time or phase
Negotiation	Around role, career, responsibilities, growth, salary	Around deliverables, standards, timing, cost
Authority	By delegation	Granted and authorized in writing
Liability	Company assumes	Vendor carries
Direction	Provided by manager as required	Provided by client, per contract
Performance Review	Performed periodically on role, includes behaviors & skills	Performed upon delivery, against milestones or services levels
Learning/ Training	Is part of the job	Expected to be proficient; learn at own cost (or vendor cost)
Commitment	To the company	To project or program
Responsibility for Performance	Manager shares responsibility for poor performance or failure. Company assumes liability	Vendor responsible to deliver according to agreement. May be legally liable for failure
Bonus	Manager has discretion	Specified in contract with requisite conditions
Termination	In accordance with employment law and for acceptable reason(s)	Subject to requirements of contract

Summary

Use this list to assist you in determining the level of management you will need to provide to a contractor or consultant before you bring them on to a project. Discuss with the vendor or contractor how you will manage them, then establish your role and style of working early in the relationship.

Your understanding of these differences will assist you in managing appropriately and delivering the results you are seeking.

Also listen to Jim Everett's episode on this topic on iTunes in our Managing Vendors podcast.

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Think180™ (formerly Endeavour Business Learning) is based in Los Angeles and works on enhancing effective and productive client-vendor relations. Our primary focus is on building competencies for the Delivery Managers in the client company, who must manage the vendor relationships, and get the best results.

We work with companies, large and small, on both sides of the equation – those who are using vendors, consultants and contractors, and those who want to enhance the services they provide to clients. Think180 provides workshops and consulting on “Managing External Resources” and “Creating Effective Partnerships”.

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