



Podcast Series – “About Managing Contractors and Vendors”

Episode 2 Transcript: Managing Employees Vs Contractors – essential differences

This episode helpful if you manage contractors or hands-on consultants, need to know how this differs from managing employees doing similar work, and how to get the best results. In our workshops and when working with clients, we are often asked, “Exactly how is managing contractors different from managing employees?”

So, in this podcast, we first look at five important areas of difference

1. Roles and expectations for employees and for contractors
2. How work is defined for each
3. Cost comparisons between contractors and employees
4. Agreements
5. How performance is measured

To complete the podcast, we'll look at three issues we often hear.

1. Frustration when simple things a contractor is asked to do turn out to be "extras"
2. Giving a contractor resources or information for their job, as for an employee
3. Working with former employees who now work onsite as contractors.

1. Roles and expectations

As an employee, you identify as being part of your own company, the function that you perform within your company, or with the role of your work group. You get satisfaction from helping your company be successful. You have an affiliation with your peers, your own team and work group, and your loyalty is expected to be to your manager and your company.

Employees in some companies are often expected to put in whatever extra time is needed, and don't always get paid extra. Employees often have some flexibility in their hours, and may be called on to do other work as needed.

An employee's tenure with a company is considered to be more or less permanent. Whereas for a contractor or vendor, the engagement is typically for a finite period of time, or set out with phases in a contract.

Now let's look at what it means to be a contractor, and possibly working at a client site. A contractor or consultant may be fully independent, or they may work through an agency. Or, they may an employee of a vendor company, as an on-site contractor, liaison or an account manager to your company. Even though they work mostly onsite at your company, they still see themselves as an employee, just not an employee of your company.

So, even though a contractor might be doing dedicated work for a single client like your company, they are more likely to identify either with their own employer (the vendor), or simply the sense of being an independent.

Their satisfaction comes from delivering a service that satisfies the client. A contractor's affiliation is with fellow contractors, or their own team back at the vendor organization.

An employed contractor, consultant or vendor employee is loyal to his or her own employer, the main vendor company, and may have to balance loyalty and responsiveness between your company and other clients.

2. How work is defined

For an employee, the work is defined by a job description, an organization chart, and day-to-day direction by their manager. For a contractor or employee of a vendor, it has all been negotiated and set out in the outsourcing contract or agreement.

With deliverables and standards, there is typically less flexibility with a contractor or vendor than for an employee. Initiative and risk-taking is usually outside the scope of the contract, and not encouraged. Performance is measured by how closely their work meets set standards and stays within the boundaries of the agreement.

The number of work hours put in by a person working under a contract, or their availability, is dictated by the original project or program agreement. Extra time for a vendor typically means extra hours billed, or an addendum to the original contract with increased pricing.

Employees work is directed by their manager as required, and the manager has discretion to give direction on a day-to-day basis, sometimes even how employees do their work.

Clients typically don't direct contractors' day-to-day work performance and behaviors, or how they do their work. It is about delivery standards and schedules and billable hours.

3. Cost comparisons

Many employees who manage contractors look at hourly rates, and feel it's more than what a comparable employee would be paid. True, the hourly rate for a contractor is often higher.

But to compare employee productive hours, you must back out all holidays, sick leave, personal time, training, company events, unproductive days, administration, computer issues, and time lost in job changes.

And the less obvious employee overheads also include recruitment costs, relocation, bonuses, liability, facilities, technology, technical support, administration, personal development, benefits and insurance, and taxes.

On the contractor side, it is the vendor who carries these extra costs. So, all of these, plus their own profit margin, have to be factored into the hourly rate paid to a contractor or vendor. Independent contractors have to spend unpaid hours running their business.

4. Agreements

For a contractor or vendor, requirements are set out in advance in a written contract - outcomes, milestones, deliverables, service levels and metrics. Changes are renegotiated and included in an addendum to the agreement. To this extent, it is more formal.

Employees have signed an individual employment agreement, including pay and benefits, conditions, a job description showing duties and responsibilities. They may only be terminated in accordance with employment law, for acceptable reasons. These include consistently failing to meet performance standards, unacceptable behavior, or when there is a reduction in the workforce.

An outsourcing contract may typically be terminated any time, with a payment for any agreed work performed, plus consideration for any losses or foregone revenue incurred as a result of committing to the contract.

5. Measuring performance

Work performance for an employee is measured against his or her achievement of objectives during a performance review cycle, how well he or she performs the overall job, fits in with the team, learns new skills, adapts to the work environment and contributes to the company. In some jobs, initiative and risk-taking are valued and rewarded. Reviews are conducted at set intervals, and include behaviors and skill development.

Work done by a contractor or vendor is performed or completed to standards set out in the formal agreement, and their time is measured against the project or program. For a contractor or vendor employee, the work is measured against milestones, service levels, or agreed deliverables as set out in the contract.

Now a quick look at those three questions.

I find it really frustrating when things I ask a contractor to do turn out to be "extras". It seems like all they care about is money. What should I do?

So why all the extras? Why were they not foreseen when writing the contract. Are you just asking for extras just because you can? Maybe you have been used to working out a plan as you go along and ask for things as you think of them, or adapt in a changing environment. It is easier to get away with this, when your resources are employees. Check back with the contract to see if some scope for extras is implied, either by inclusion, or simply because extras have not been excluded. Be careful about ruthlessly squeezing for extra work. If they are good at what they do and are valued in the marketplace, they may not want to work for you again._

Why should I collaborate with the vendor and give them information or resources to do their job better – isn't that what they are getting paid for?

If it means they will do a better job within the terms of the contract, then yes, by all means do so. The more you can collaborate and use the vendor to best advantage, the better results you will get. But don't do their work for them, or let them off the hook for what they have agreed to in the contract._

A former employee and peer is now a contractor. But they are back with us at their old desk doing the same work as a contractor. When they worked for us, they were willing to collaborate. Now they say it is not in the contract, or it will add more hours. They seem like a different person, so what's changed?

Your former peer is not a different person, he or she is just working to a different set of rules and an agreement. Even if they are doing the same work, they are now answerable to the outsourced vendor company as their employer. They are measured by and held accountable to a different set of standards. Your relationship with them is now against the agreed terms of the contract. If they tried to work in the same way they did before, they could be asked by their manager to stick to the contract._

I hope this has been helpful to you in getting to know more about how to manage contractors. As always, we welcome feedback and success stories, as well as questions you may have. In our Premium Extended Series we look at some of the decisions and strategies around why you would choose to use a contractor rather than an employee, or why you might outsource some projects and programs. And if you need our services, Think180 is available to provide training or experienced consultation. Please feel free to share this podcast with your colleagues. Our e-mail address for podcasts is podcast@think180.com.

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