



Engineering & OSP: Advantages and Disadvantages of Full Time Employees versus Contractors

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Nearly every telecom organization has more work to do than internal staff can handle, but is the answer always to hire more full time employees? The most popular alternative to hiring additional full time employees is hiring contractors or the “Staff Augmentation” model. Both have pro and cons, so let’s explore the advantages and disadvantages of both methods of expanding an organization’s bandwidth.

Ebb and Flow of Work Load

As we are all aware, nothing is more unpredictable in the telecom industry than customer demand. A new technology is introduced, work load increases. Winter hits, the ground is frozen, work load drops off. Regardless of which segment of the telecom industry in which you work, the ebb and flow of your work load is unavoidable. The question is—how do you best approach dealing with it?

Hiring full time employees (FTE’s)

There are some definite advantages to hiring FTE’s; you take the time to find the exact right fit for your organization, you know what skills the person comes in with and you are willing to train them on other skills because you are making a long term investment in an employee. Companies typically do not go to the trouble and expense of hiring an FTE with the thought of firing them after a short period of time. An organization ends up with a resource that is trained “their way” and can help manage the work load going forward. But what if the work load goes away? You now have employees sitting on the bench at a high cost to your company.

Hiring Contractors

Typically this is the preferred method of handling the ebb and flow of an organization’s workload. I have seen organizations give away millions in profit because they were using mostly FTE’s and could not respond quickly to a downturn in work load. By using contract labor, an organization can respond quickly to a change in work load and keep their work force “right sized” based on customer demand.

Recruiting

The work load is increasing and decreasing, sometimes from month-to-month or quarter-to-quarter. You know in order to remain profitable you need to respond quickly, but you need to decide how. Another factor you must consider is your ability to recruit qualified individuals.

Recruiting for FTE’s

There are essentially two methods of recruiting for FTE’s; your company has an internal recruiting organization or you pay a fee to an external recruiter. Even though an internal recruiting team may exist within your company, this still represents a cost for finding resources. Some companies will “charge” your organization with the cost of recruiting a resource which will impact your profitability. Paying an external recruiter can cost upwards of 25% of the employee’s annual salary, so this can also adversely impact your profits. Both methods can be every expensive so there is a very large

investment in bringing on an FTE. Only by keeping a resource for a long period of time is the expense typically worth it.

Recruiting for contractors

The cost of recruiting a contractor is absorbed by the vendor. Though the cost is realistically part of the hourly rate, the customer is only paying the market price for a resource and will not feel the burden of a lengthy recruiting process. Since the expense of recruiting is built into the hourly rate and therefore recaptured over a long period of time, the customer can adjust headcount quickly and not bear the burden of the full cost of recruiting.

Managing Operating Expenses

In every company, every organization, it really comes down to one thing: the bottom line! After everything is said and done, how much cash we made and contributed to the business. One of the biggest impacts on profitability is the cost of employees. An organization that is not correctly sized for current customer demands can lose millions quickly (as I said before, I've seen it happen!). How can a manager respond quickly, *and effectively*, to a change in market demand?

Having a majority of FTE's

When times are good and work load is big and steady, having an organization full of well trained, highly skilled, loyal, dependable employees is a wonderful thing! What manager wouldn't want to have that!?! Unfortunately, it is inevitable that work will taper off or customer demand will change. Sometimes it is predictable, like seasonal changes, and can be planned for, but many times it is unexpected. If your organization is built around FTE's, you now face the challenge of right sizing which brings with it tough decisions (who to keep, HR concerns and the like) and very likely a lot of expense. Right sizing can negatively impact morale, employee loyalty and quality as much as it can hurt your profitability.

Having a mix of FTE's and contractors

Another way of saying this might be Flexibility or Agility. By having a mix of FTE's and contractors, a manager can now adjust for market conditions swiftly and still keep a core of highly skilled FTE's working productively until conditions improve. Ultimately your FTE's will appreciate that their employment is not threatened every time there is a shift in the market. Though contractors would rather work than not, they understand the temporary nature of their position and usually command a higher salary to compensate for the fact they don't know how long an assignment will last. By being able to respond quickly managers can keep their most costly operating expense, employees, under control and remain profitable, regardless of market conditions.

Following Your Customers' Growth

In many cases you must be able to support your customers on a local level. Your team needs to be in the same city, state or region that your customer is in so that you can provide them with your product or service in a timely and cost effective manner. Your customer may be taking a chance in a

new market or perhaps they are expanding an existing market. Often, however, a forecast of business is non-existent or sketchy at best. How do you partner with and support your customer with a minimum of risk?

Add FTE's

As covered previously, there are some advantages to using FTE's in order to support your customers' growth. In the short term you can travel FTE's to a new area or possibly hire locally. Either way, however, there is a lot of cost involved and you take on a lot of risk, should the customer change directions or shift their strategy.

Add contractors

There are a couple of ways to go about using contractors to support customer growth while keeping your risk low. One option is to hire all contractors to meet the customer's additional needs; however this may also add risk since you may not know exactly what to expect from a group of new contractors. Often I will suggest a mix of FTE's and contractors to support the new customer demands. You can hire a mix of both to support the customer's growth, but in order to decrease the "unknowns" associated with hiring a lot of new employees, I typically suggest using contractors to backfill for existing employees and using those FTE's, if only temporarily, with a mix of contractors to support new areas of business. The exact mix of new and current FTE's and contractors will fluctuate depending on the size and riskiness of your customer's growth, but the overall strategy remains the same.

Summing It All Up

This is by no means meant to be an exhaustive list of everything to consider when deciding between hiring full time employees and contractors. However, I believe it will serve to make you aware of some of the things to be considered and options that exist for deciding how to make adjustments to your work force. In the end it is a balance between responding to the ebb and flow of your customers' needs while managing the risk and profitability of your company. While the response to every shift in the market is not to use contractors, contractors have increasingly given managers the flexibility to remain profitable and create and retain strong organizations that can support their customers', long term.

About the Author

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Chuck Thon joined CHR Solutions in July of 2012 to oversee business development and operations for Tier 1 and Tier 2 clients. For nearly a decade, he has held a variety of Services related roles including Sr. Quality Auditor, Program Manager for BellSouth, Program Manager responsible for TPS-India operations and Senior Manager leading an Outsource Services organization overseeing more than 200 employees.

Mr. Thon's more than 25 years of industry experience includes 16 years in telecommunications engineering. He also has held various positions focusing on internal quality as well as ISO/TL9000 certification.

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About CHR Solutions

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