The Increasing Usage of Professional Contingent Workers: A Review

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ABSTRACT

In recent years there has been phenomenal growth in the market for a temporary, or contingent, labor force in the United States. While total employment in the labor market during the ten years between 1986 and 1996 grew by 1.7 percent, in the same period, employment in temporary services grew 10.3 percent. Furthermore, the growth among professional contingent workers (PCW) has been rapid. Evident from the growth of payroll among the technical, managerial, and professional segment of the temporary service industry, the payroll share of PCW has increased significantly, both in absolute size as well as proportionally, relative to all other segments.

Keywords: Contingent Workers, Temporary Job Market, Profession of Workers.

INTRODUCTION

The growth of PCW has been on both the demand as well as the supply side of the sub-market. On the demand side, many scholars point to a greater need for corporate flexibility (Handy, 1989; Harrison and Kelly, 1993; Abraham and Taylor, 1996; Hill and Matusik, 1998). Synthesis of globalization and competition among rival corporations facilitated by technological advances in communication is the impetus for demanding the flexibility that will entail savings in the costs of production. By extension, to achieve flexibility firms have chosen to contract and utilize the services of professionals in the contingent labor market. Many contend these professionals possess advanced knowledge and skills that are either impossible or extremely costly for firms to duplicate and preserve in the long run (Christensen; 1991; Hill and Matusik, 1998).

The flexibility and knowledge arguments, while having a sound logical and plausible foundation alone do not sufficiently explain why the contingent labor market for professionals has grown so dramatically in the past few decades. They provide only a partial explanation. Supply issues are equally important and must be investigated. However, many studies on the supply side have confined their analysis to the individual employee. For example, Kunda, Barley, and Evans (2002) explain why individual contractors are attracted to the contingent labor market.

In this paper, supply-side characteristics are observed and analyzed in aggregation within the organizational function of staffing firms. Unlike the traditional system, these firms are formed to conform to and comply with specific motivations and work habits of PCW to achieve independence for its members from the traditional work arrangement. Here, the relationship between the staffing firm and the professional is interdependent and long lasting. But the professional does not work for the staffing firm. To the contrary, it is the staffing firm that works for the professional. The primary function of the staffing firm is to locate projects and assign professionals in groups to those projects. In return, PCW support the staffing firm in aggregation and in the long run. This paper contends that the by-product of such work arrangements has been the
enhancement of value creation potential of PCW for client firms. As such, PCW from staffing firms are contracted to complement the existing internal work force in the client firm. Thus the decision to outsource professionals is driven mainly by the special group work characteristics of PCW formed within staffing firms. The conclusion is that contracting a PCW staffing firm is a calculated, strategic decision that greatly enhances the competitive advantage of the client firm.

**LITERATURE REVIEW**

**Contingency in the Labor Market and its size**

Audrey Freedman first introduced the concept of "contingent" employment arrangements in 1985. Subsequently, other concepts such as "temporary workers," "nonstandard" and "alternative" employment, all of which correlate with contingency, have also been introduced. In general, contingency in the labor market conveys a "conditional and transitory employment relationship ..." associated mostly with part-time jobs and job instability (Carnoy et al., 1997).

Scholars agree there has been a rapid rate of growth in contingent employment in the U.S. with in the past two decades. According to Cappelli, since 1984, 20 percent of new jobs created in the labor force have been in the temporary job market (Cappelli et al., 1997). The General Accounting Office reported total temporary employment at 4.4 million, or about 3.4 percent of total employment (GAO, 2000).

While these and other estimates are sufficient to document the general growth in the contingent labor market, their level of generalization and relevance must be interpreted with an abundance of caution. This problem stems from differences in the levels of aggregation in defining contingent work. The Bureau of Labor Statistics, with the most widely inclusive definition, estimates that 13.3 percent of workers are employed in a contingent arrangement. This estimate includes workers who "do not expect their employment to last," are "self-employed or independent contractors" who are "incorporated or unincorporated," and "expect to work for customers to whom they were assigned for one year or less" (Cohany et al., 1998).

**Evolution of Contingent Employment**

At some point, "contingent" or "temp" implied certain characteristics associated with the profile of "underclass" workers, similar to workers in the secondary labor market (Segal and Sullivan, 1995). Some research has found workers in temporary work arrangements were mostly young, less educated women, or minorities with lesser skills. Cohany (1996) found a significant correlation between these demographic characteristics and workers in a low-quality temp market. She found that 30 percent of workers between the ages of 16 and 24 are in temporary, nonstandard jobs, as opposed to 18.2 percent in standard job arrangements. She also reported that a disproportionately large number of workers in nonstandard temporary jobs do not have high-school diplomas.

Recently the view of the contingent labor market as an exploitative entity has been challenged. The focus of research has moved in two distinct but closely connected directions: One stream examines the underlying economic reasons for growth and evolution of the contingent labor market. The second investigates productivity and overall contributions of workers employed in nonstandard jobs. However, the major premise of more recent studies is that employers and workers mutually share benefits from contingent work arrangements.

Historically, the majority of workers supplied by staffing firms has been composed of blue-collar and lower-level clerical workers. However, the fastest growth rate in recent years has been among the
highly skilled and technical workers. Two important attributes of highly skilled professionals are important to note: One is their detachment from permanent jobs, and the other is an understanding of the high rate of obsolescence naturally associated with their skills.

By joining a staffing firm, PCW achieve many seemingly conflicting goals. First while they work fulltime, they are not tied to the rigors of a full-time job schedule. This is the hallmark of a professional job in which they are not tied to the rigors of a full-time job in which they can redistribute allocation of time between work and leisure according to their individual tastes. Second, they can choose to accept or reject a project or client, thus maintaining control of both the type of project as well as the corresponding financial reward. Third, they achieve skill independence and the ability to stay marketable. By working with a small group of professionals, PCW remain at the cutting-edge of their profession’s technology. Finally, through special financial arrangements with the staffing firm, they achieve relative security that would have been impossible had they remained independent contractors in the contingent labor market.

Camoy (1997) contends that growth in the contingent labor market stems from a major shift in industrial labor relations caused by intense competition. Companies are competing in a new environment fueled by high-speed invention and innovation. Now, according to Carnoy (1997), enterprises must also become flexible in production in order to compete and survive. However, required flexibility is not just confined to product market production and sales. Firms are also in dire need of flexibility and reform in resource employment. They have, as recently as the early 1970s, begun to minimize the costs associated with screening and maintaining a permanent employment force. These include search, training, insurance, and health-care costs. Limited by the slow progress in technological advances in the short run and labor law protection clauses, firms struggled to minimize labor costs by way of capital labor substitution. Consequently, they faced the quandary that long-term commitments to traditional, permanent employees had become costly and formidable.

The path to cost minimization tilted toward finding flexible skills and know-how. No one denies the value of a highly skilled and knowledgeable permanent employee contributing to the core competency. The issue is a make-versus-buy argument. It centers on the relative size and cost of internal development and maintenance of highly skilled employees, as opposed to using the external market. Many studies, including work by Davis-Blake (1993) have reported increasing demand by firms for outsourcing labor in response to needed flexibility. Thus the growth of the contingent labor market on the supply side is not a coincidence. Rather, it can be viewed as an opportunity to achieve "free agency" status (Pink, 1998) and employment flexibility by labor.

At the individual level, there has been a significant rise in home-based and part-time work, self-employment, and subcontracting. Many scholars, such as Davis (1998) and Bridges (1994), suggest free agency is an opportunity for self-actualization, especially for highly skilled workers. For these workers, the line between "career" and "job" is somewhat blurred. Contingency, for PCW, is a vehicle to achieving self-realization through strong reliance on their skills and crafts.

Staffing Firms and their Functions and Growth

Staffing firms are private businesses that employ, process, and supply temporary workers to client firms. Like any other enterprise, these firms also take advantage of the business opportunities created in an age of flexibility. They are involved "in the trade of flexible workers" (Peck and Theodore, 2001). The number of temporary help agencies has doubled twice between 1982 and 1997. Traditionally, these agencies provide the following services: match workers with employers, provide temporary workers, and supply long-term contract service workers to client firms.
The earlier Standard Industrial Classification (SIC) system allocated the SIC 736 category to represent personnel supply services. The four-digit North American Industry Classification System (NAICS) 7363 category now represents "help supply services." This category encompasses a combination of temporary help services and employment agencies, including employee leasing services and staffing firms.

The success of these agencies as brokers of temporary labor services can be attributed to their ability to efficiently allocate workers and provide mutual economies for all parties involved. Client firms enjoy the benefits of non-contractual labor pools, screening and qualitative assurance, quantitative allocation, and supply reliability. Contingent workers, on the other hand, benefit from time and location flexibility, job search support, low-cost training and self-improvement, employment choice, and relative security.

The driving forces behind the proliferation of the temp market and staffing firms have been studied in detail. It is generally agreed in the literature, that changes on both the demand and the supply sides of the market have prompted this growth. In explaining why client firms use temporary workers and hire them through supply firms. Segal and Sullivan (1995) present an excellent analysis. On the demand side, they cite the scale economies from which client firm’s benefit by using supply firms. These include "lower hourly wage rates and benefit levels, increased flexibility and lower adjustment costs, support for dual internal markets, opportunity to preview workers, and economies of scale and workers specialization" (Segal and Sullivan, 1995).

They also explain why workers choose temporary help supply firms as their primary job search medium. Segal and Sullivan (1995) describe "flexibility, compensating wage differentials, support during an extended job search, and opportunity for training and experience" as major motivations.

Many studies maintain that temporary workers either voluntarily choose to be in the temp market, or they are forced into it. Generally, if workers switch to nonstandard jobs in search of an employment advantage, they are considered temps by choice (Cohany, 1996). It is essential to realize that in many circumstances, particularly in the case of PCW, this classification lacks clarity. What if a worker switches to a temporary job to boost income? Unless we point to individuals with targeted income, a desire to elevate earnings can result from seizing an opportunity as well as expanding earnings potential.

Structural changes in the employment of PCW market are likely to be the main force behind the growth of alternative work arrangements and the proliferation of PCW supply agencies. A professional contractor with a work arrangement at the level of an individual has come to the realization of an eye-opening problem. While emancipated from the chores of traditional employment, they are missing the pecuniary economies of group work as well as the social benefits of working with peers. The solution to this problem is redirecting professionals to reorganize group employment with the help of staffing firms.

REFERENCES