# How human resource systems adjust to the shift toward contingent workers

*The dramatic increase of workers who do not have strong ties to their employers, such as temporary workers and consultants, has caused corporations to make major institutional changes in their human resource systems; the net result has created benefits as well as costs*

Richard S. Belous

The human resource systems at many American corporations have experienced vast change in recent years because of increased competitive pressures. A key part of this change has been the dramatic growth of the "contingent" work force, which consists of workers who do not have a long-term attachment to their employers (for example, temporary, part-time, and subcontracted workers).

Corporations have responded to the competitive pressures by making employer-employee relations more flexible. In the 1980's, employers have generally used three methods to increase human resource flexibility. These shifts in employer behavior represent major institutional changes:

- They altered compensation systems, tying wages and benefits more to corporate economic realities and less to customs and traditions.
- They made the employment relationships more flexible and dependent upon corporate economic factors (a growing percentage of workers no longer remain with one employer).
- They made long-term relationships with employees more flexible and based on corporate economic conditions by changing job ladders (career paths and structures), allowing flexible work assignments, more reassignments, and so forth.

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## Elements of human resource systems

*Strategic choices.* A few years ago, discussing strategic choices and labor costs at the same time would have sounded pretentious. Strategic choices that influence the entire direction of a company were made in departments such as finance and marketing. The personnel department was not involved in strategic thinking—its staff created and designed forms, recruited and hired workers, assisted in skills development, and processed workers' separations. The staff also helped plan and form compensation policies that complied with government regulations. While all of this was very important to the life of a corporation, it was often viewed by some as administrative work and even as bureaucratic.[1]

But, because of flexibility and the growing numbers of contingent workers, corporate managers have discovered that human resources provide a vital and effective strategic lever. In fact, in certain cases, it may be the most important control mechanism that management has in the short run, given that management often can treat labor as a variable cost while other costs usually are fixed.[2]

*Common threads.* While the situations experienced by each corporation are unique, there are several common concepts in the labor-related choices that all companies face. The recent shifts to contingent workers in the human resource landscape become quite clear when one examines these common concepts. One involves affiliation, or the degree to which workers will be associated with a specific employer. One end of the affiliation spectrum is represented by a model of lifetime employment. In this model, workers spend their entire career with one company. (See exhibit 1.) The model has often been compared to a marriage in which both partners make a commitment to each other and have significant responsibilities in the course of the ongoing relationship.

The other end of the affiliation spectrum is represented by the day-laborer model. In this model, neither the worker nor the employer makes a commitment. While workers under the lifetime employment model tend to have a strong identity with their company, the day-laborer model workers place their identity in the occupation, rather than the employer.

The lifetime employment model, of course, represents very strong affiliation with a corporation, and the day-laborer model represents weak affiliation. Both models have benefits and costs for an employer, employees, and society. The primary benefit from a weak affiliation system is that employers leave their future options open in the realm of human resources and labor costs. In many cases, an employer may value the added flexibility generated by a weak affiliation system. The primary cost of a weak affiliation system is that workers may not have a strong common identification with an employer or a firm's long-term goals.[3]

Flexibility can provide workers with an increased sense of freedom. But often the new freedom can come at the expense of lower wages, no fringe benefits, and no prospects for job advancement.

A second common concept all companies face in the area of human resources involves stakeholders—that is, the legal, moral, political, and economic claims groups can make on a corporation. All employers function within a specific legal and cultural framework, but have significant discretion in establishing the stake employees have at work. Many employers are in the process of shifting the stake workers have in specific establishments. Workers may not be viewed as part of a corporate entity.

*Core and contingent workers.* The two concepts—affiliation and stakeholders—fashion the general type of human resource system used by a company. There are two very general types of workers: core workers and contingent workers. Core workers are part of the corporate entity. They have a strong affiliation with an employer and are treated as if they have a significant stake in a company; they show long-term attachment with a company and have a real measure of job stability; and they have an implicit contract with their employers that, if they follow certain rules and norms and meet certain standards, their employers will provide job security and some measure of advancement.[4]

In contrast, contingent workers are not part of the corporate entity. They have a weak affiliation with a specific employer and do not have a significant stake in a company. Also, they do not show long-term attachment with a company, and do not have job stability. Employers most often do not make implicit contracts with contingent workers. In forming a human resource system, a corporation can use both core and contingent workers. It appears that in recent years, many employers have altered their basic systems to reduce their core work force in favor of contingent workers.

## Some evidence of change

As noted earlier, employers use three basic methods to increase the flexibility of their human resource systems: compensation systems based more on economic factors and less on tradition, more contingent and flexible employment relationships, and more flexibility in long-term

**Exhibit 1. The employer-employee affiliation spectrum**

| Lifetime employment model (strong affiliation) | Day-laborer model (weak affiliation) |
|---|---|
| Workers spend their entire career with one company. | Workers and employers make agreements that cover a very short period. |
| Workers and employers make a deep commitment to each other, and have long-term responsibilities to each other. | Workers and employers retain a very high degree of flexibility and freedom in the long run because of the lack of commitment to each other. |
| Workers link their future to the fate of a company, and they have a strong identity with the company. | Workers build up a strong identity with their occupation (and not their employer) because they do not link their future to the fate of any specific employer. |
| Employer has a strong incentive to make significant human capital investments (for example, skills development, training, and education) in a worker | Employer does not have a strong incentive to make significant human investments in a specific worker. However, employer may support a system that provides human capital investments. |
| Example of lifetime employment model: employer-employee relationships at many Japanese companies. | Example of day-laborer model: employer-employee relationships in some agricultural markets. |

relationships. Data from many surveys show evidence of these human resource changes.

For example, a survey of leading American employers, conducted by The Conference Board, examined the relative importance of factors used to set corporate wage objectives.[5] The data show major shifts in compensation practices between the 1970's and the 1980's. In 1978, employers said "industry patterns" were the most important factor in setting wage objectives, while "productivity or labor cost trends in this company" ranked fourth. (See exhibit 2.) However, in 1983, the same employers placed "productivity or labor cost trends in this company" at the top of the list, and "industry patterns" fell to fourth place. The Conference Board's survey data indicate that "corporations have switched their wage-setting policies from imitation of other companies' wage increases toward internal criteria. Under growing competitive pressures, companies now base wage changes on labor costs per unit of output, and on expected profits."[6]

Other evidence indicates shifting employer attitudes. For example, area wage survey data collected by the Bureau of Labor Statistics indicate a growing deviation in area wage patterns. To illustrate, consider tool-and-die workers in Detroit. In the 1970's the wage levels for this occupation were very similar among firms in the area. However, in the 1980's the wage levels have varied significantly. In many local labor markets, wage patterns that were once quite narrow have become very wide.[7]

Besides compensation flexibility, many American employers have slashed the size of their core work forces and increased their use of contingent workers.[8] According to private industry estimates, between 1979 and 1983, roughly 700,000 managers and professionals (who had been employed at a firm for 3 years or more) lost their jobs; in the 1985-86 period, an additional 600,000 middle and upper level executives lost their jobs, despite improved business conditions.[9]

The result of these changes has been a dramatic reduction in the percentage of the labor force that is employed by the largest U.S. corporations. For example, in 1970, the Fortune 500 corporations represented 18.9 percent of American civilian employment; however, by 1986, they represented only 12.2 percent.[10]

## Benefits and costs

The shift towards increased human resource flexibility and a contingent work force has altered labor market behavior and has created various benefits and costs.

Among the benefits, in theory, are:

- The potential for employers to lower their labor costs.
- The potential for employers to increase their competitiveness in product markets as a result of reduced labor costs.
- The increased security of remaining core workers and an increase in job opportunities for contingent workers.
- The ability for the economy to sustain economic growth and not rekindle high levels of inflation.
- The ability of many workers to be active in the world of work, family, and other areas, while traditional full-time employment would block the potential to be active in all of these areas.
- The increased ability of jobless workers to find a job.

Major costs of increased human resource flexibility are:

- Many contingent workers are economically insecure because their chance of obtaining various employee benefits—such as health insurance and pension coverage—are less than that for traditional core workers.
- Contingent workers may be paid less than core workers for working at similar types of jobs.
- The level and rate at which unemployment rises in a recession could be increased because of the growing use of flexible human resource systems.
- There may be a tendency to underinvest in human capital development (that is, training, skills development, and education) with a system that uses more contingent workers, because employers may not be willing to make the same investments in contingent workers that they would be willing to make in core workers.
- There may be a reduction in the chance that affirmative action goals will be met.

## Estimating contingent workers

Measuring the contingent work force is quite difficult, but there is evidence that it has experienced significant increases in recent years. For example, there has been growth in the variety of contingent workers including part-timers, temporary workers, subcontractors, consultants, "life-of-project" workers, and leased employees ("rented" long term from an agency). While there is no official government measure of contingent workers, various data sources can be used to construct an estimate.

The following tabulation illustrates the growth of several components of the contingent work force. Data are from the Bureau of Labor Statistics—the estimates for temporary, self-employed, and part-time workers are from the household survey; the estimate for business services workers is from the establishment survey:

| | *Number (millions)* | | *Percent change* |
|---|---|---|---|
| | *1980* | *1987* | |
| Temporary workers | .4 | .9 | 125 |
| Part-time workers | 16.3 | 19.5 | 20 |
| Self-employed workers | 8.5 | 9.6 | 13 |
| Business services workers | 3.3 | 5.1 | 55 |
| Civilian labor force | 106.9 | 119.9 | 12 |

Between 1980 and 1987, these components of the contingent work force all increased at a faster rate than did the entire labor force. For example, part-time employment climbed 20 percent, while the total civilian labor force increased roughly 12 percent. However, in using this approach to measure the size of the contingent work force, there are two serious problems: double counting and undercounting.

*The upper boundary.* If all of the various contingent worker components are added together, an upper boundary can be obtained. If this is done, then there were 35.1 million contingent workers in the United States in 1987. However, there is a problem with this estimate—it double counts. For example, suppose a person is a temporary worker and also works in the business services industry. Given the definition of the contingent work force, this person would have been counted twice (as a temporary worker and as a business services employee).

*The lower boundary.* The lower boundary tries to eliminate double counting. However, in doing so, it overadjusts and excludes some workers who should be counted. Thus, the lower boundary undercounts. For example, BLS household survey data show that about 40 percent of temporary workers are part-timers. Thus, instead of counting 900,000 temporary workers as contingents in 1987, a conservative estimate would count only 40 percent, or 360,000. The remaining temporary workers already would be counted in the part-time worker totals. It is not possible to make the same type of adjustment for business services workers. A very conservative estimate might assume that all business service workers are already counted in the part-time, temporary, or self-employed worker group. Under this conservative definition, the lower boundary on the contingent work force was 29.1 million in 1987. The following tabulation gives some rough idea of the upper and lower boundaries of the contingent work force in 1987:

| | *Number (millions)* | | *Percent change* |
|---|---|---|---|
| | *1980* | *1987* | |
| Upper boundary | 28.5 | 35.1 | 23 |
| Lower boundary | 24.8 | 29.1 | 17 |

The upper boundary double counts some workers and the lower boundary undercounts. Hence, the real size of the contingent work force would appear to be somewhere in between the upper and lower boundary estimates.

Suppose that the upper boundary estimate is the correct size of the contingent work force. If this were the case, then the following would have been true during the 1980–87 period:

- about 29 percent of the labor force would have been contingent workers;
- the contingent work force would have grown at a rate about twice as fast as the civilian labor force; and
- about half of the labor force increase would have been among contingent workers.

**Exhibit 2. The relative importance of factors used to set wage objectives in corporations in 1978 and 1983**

| Rank | 1978 | 1983 |
|---|---|---|
| 1 | Industry patterns | Productivity or labor trends in this company |
| 2 | Local labor market conditions and wage rates | Expected profits of this company |
| 3 | Expected profits of this company | Local labor market conditions and wage rates |
| 4 | Productivity or labor cost trends in this company | Industry patterns |
| 5 | Consumer Price Index increases | Consumer Price Index increases |
| 6 | Influence of this settlement on other wage settlements or nonunion wage levels, or both | Internal (company) wage patterns (historical) |
| 7 | Potential losses from a strike | Influence of this settlement on other settlements or nonunion wage levels, or both |
| 8 | Internal (company) wage patterns (historical) | Internal (company) benefit patterns (historical) |
| 9 | Internal (company) benefit patterns (historical) | Potential losses from a strike |
| 10 | Major union settlements in other industries | National labor market conditions and wage rates |
| 11 | National labor market conditions and wage rates | Major union settlements in other industries |

NOTE: The sample comprised 197 major U.S. corporations which, in both 1978 and 1983, ranked factors used in settling company wage objectives, with 1 being the most important factor and 11, the least important.

SOURCE: Audrey Freedman, *The New Look in Wage Policy and Employee Relations* (New York, The Conference Board, 1985).

Now, suppose that the lower boundary is the correct size of the contingent work force. Then the following would have been true during the 1980–87 period:

- about 24 percent of the American labor force would have been contingent workers;
- the contingent work force would have grown at about a 40-percent faster rate than the civilian labor force; and
- about 33 percent of the labor force increase would have been among contingent workers.

Thus, using this concept of contingent work, we can make the following assertions:

- the contingent work force is growing at a faster pace than the entire labor force;
- nearly one-fourth, or more, of the labor force is now in the contingent work force; and
- a significant number of the jobs created in the 1980's have been for contingent workers.

## Compensation of contingent workers

What do we know about the compensation of contingent employees? There are extensive data concerning compensation of core workers, but not for contingent workers.[11]

As indicated earlier, the largest segment of the contingent work force is part-time workers. The following tabulation, based on data from the Bureau of Labor Statistics, shows median weekly earnings in 1987 for various occupations for both full-time (35 hours a week) and part-time (20 hours a week) workers:

| | *Full-time workers* | *Part-time workers* | *Percent difference* |
|---|---|---|---|
| Professional | $518 | $166 | 212 |
| Clerical | 308 | 114 | 170 |
| Service | 234 | 83 | 182 |
| Blue-collar* | 308 | 99 | 211 |

*Unskilled labor, crafts, and operatives

In all of the occupational groups, full-time median weekly earnings are much higher than part-time median weekly earnings. Even for clerical workers, the group with the smallest earnings difference, full-timers still earned 170 percent more than part-timers. However, given that part-timers work fewer hours per week than do full-timers, one would expect their earnings to be lower.

If a comparison of compensation levels of full-timers and part-timers is to be made, then a more useful statistic would be median hourly earnings. However, government survey data do not include median hourly earnings by occupation; nevertheless, some indication of the full-time/part-time differences can be obtained by making two assumptions. Assume that full-timers work an average of 35 hours a week, while part-timers work an average of 20 hours a week. The following tabulation, based on Bureau of Labor Statistics data and using hours of work assumptions, shows estimated 1987 median hourly earnings of full- and part-time workers:

| | *Full-time workers* | *Part-time workers* | *Percent difference* |
|---|---|---|---|
| Professional | $14.80 | $8.30 | 78 |
| Clerical | 8.80 | 5.20 | 69 |
| Service | 6.69 | 4.15 | 61 |
| Blue collar* | 8.80 | 4.95 | 78 |

*Unskilled labor, crafts, and operatives

The hours of work assumptions contribute to a narrowing of the differences between full-time and part-time compensation levels. However, the median hourly earnings of full-timers are still much higher than those of part-timers.

*Benefits.* While our knowledge of contingent worker earnings is limited, our knowledge of contingent worker benefit levels is even more limited. Sar A. Levitan and Elizabeth Conway have provided some basic estimates in this area.[12] (See table 1.) Their research shows that employers of part-time workers often do not pay for such employee benefits as health insurance coverage. More than three-quarters of individuals who worked full time, full year received health insurance coverage from their employers, compared with roughly one-third or fewer of part-time workers.

**Table 1. Percent of full- and part-time workers with pension plan and health insurance coverage, 1985**

| Benfit | Full time, full year | Part-time — For noneconomic reasons | Part-time — For economic reasons |
|---|---|---|---|
| **Health insurance** | | | |
| Covered by: | | | |
| Own employer | 78.6 | 26.2 | 34.8 |
| Other's employer | 7.0 | 34.3 | 17.3 |
| Other nonemployer | 6.3 | 21.4 | 17.4 |
| No coverage | 8.1 | 18.1 | 30.6 |
| **Pension plan** | | | |
| Men: | | | |
| No plan | 35.8 | 72.2 | 73.0 |
| Plan exists: | | | |
| Covered | 59.7 | 17.3 | 19.6 |
| Not covered | 4.6 | 10.5 | 7.7 |
| Women: | | | |
| No plan | 34.4 | 71.3 | 69.6 |
| Plan exists: | | | |
| Covered | 57.9 | 15.5 | 17.9 |
| Not covered | 7.7 | 13.2 | 12.5 |

NOTE: Estimates are based on Current Population Survey data from the March 1985 supplement. See Sar A. Levitan and Elizabeth Conway, *Part-Time Employment: Living on Half-Rations* (Center for Social Policy Studies, George Washington University, 1988), Working Paper No. 101.

However, many of the part-timers who did not receive health insurance directly from their employers were covered in some other plan. Such plans included those of another employer (for example, a part-time worker may be covered by a spouse's plan). Also, many part-timers are covered under nonemployer plans. Nevertheless, these estimates indicate that many part-timers have no medical coverage.

A smaller percentage of part-timers are included in the pension plans of their employers, compared with full-time workers. For example, while almost three-fifths of all full-time, full-year workers are included in their employers' pension plan—when one exists—well under one-fifth of part-timers are included in their employers' pension plan. Also, a much higher percentage of part-timers than full-timers work at establishments that do not have a pension plan.

## Social welfare—a related system

In dealing with human resource flexibility, public decisionmakers, business executives, and labor leaders will soon discover that they are working with two related systems. One system is the labor market, which represents the vast number of ways employers demand, and workers supply, labor services. The other system is the social welfare system, which represents a combination of programs and policies in both the private and public sectors. Social security and unemployment insurance are two key public sector programs of the social welfare system. Pensions, health benefits, savings plans, and so forth, represent major areas of the private sector's growing role in the social welfare system.

Prior to the 1980's, there was a high degree of rigidity in both the labor market and the social welfare system. However, in the 1980's, labor markets became more flexible. Yet the same degree of change has not been experienced within the social welfare system. Thus, while labor markets often may be flexible, the social welfare system often is not. For example, the worker-related problems most often cited deal with the loss of such benefits as pensions and health coverage. As a worker shifts from core to contingent status, the worker may experience a significant loss in the value of his or her pension. The worker also may not be eligible for other types of benefits.

While labor markets have become much more flexible and now incorporate both core and contingent workers, the social welfare system, in many cases, still incorporates only the traditional core worker. This could cause difficulties for some workers.

One solution would be to move labor markets away from flexibility and back towards rigidity. However, this would create many new labor market regulations under which employers would have to function. The major problem with this solution is that it assumes that labor markets can be both rigid and competitive. Given current international conditions and other factors, this assumption could be quite wrong.

A second solution would be to increase the flexibility of the social welfare system. If both the social welfare system and labor markets were flexible, then a shift from core to contingent work systems would have a much smaller potential for hardship. Examples of increased social welfare system flexibility include prorated employee benefits and portable pensions. Several major corporate employers have chosen this solution to potential equity-related issues.

Also in terms of equity issues, a few employers—who have increased their contingent work forces—have been concerned that these changes not alter commitments to equal employment opportunity. These employers have taken steps to see that affirmative action goals are still obtained under a more flexible human resource environment.

As public decisionmakers become more interested in these issues, corporate executives and labor leaders will find that they must relate to the Congress, the courts, and the media on numerous contingent worker and flexibility-related questions. □

*FOOTNOTES*

[1]Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie, *The Transformation of American Industrial Relations* (New York, Basic Books, Inc., 1986), pp. 21–46.

[2]Lawrence Schein, *Current Issues in Human-Resource Management* (New York, The Conference Board, 1986), pp. 3–17.

[3]Richard S. Belous, *Flexibility and American Labour Markets: The Evidence and Implications* (Geneva, International Labour Office, 1987), pp. 5–27, Working Paper No. 14; and *Flexibility in the Labour Market* (Paris, Organization for Economic Cooperation and Development, 1986) pp. 9–38 and 90–122.

[4]Sherwin Rosen, "Implicit Contracts," *Journal of Economic Literature*, September 1985, pp. 1144–75.

[5]Audrey Freedman, *The New Look in Wage Policy and Employee Relations* (New York, The Conference Board, 1985), pp. 1–14.

[6]Freedman, *The New Look*, p. iv.

[7]Richard Belous, *Wage Restraints in the 1980's: A Turning Point in U.S. Labor Markets?* (Washington, Congressional Research Service, 1984), pp. 31–34.

[8]Audrey Freedman, "A Fundamental Change in Wage Bargaining," *Challenge*, July-August 1982, pp. 15–17.

[9]Susan R. Sanderson and Lawrence Schein, "Sizing Up the Down-Sizing Era," *Across The Board*, November 1986, pp. 14–23.

[10]Estimates based on data from *Fortune's* statistical department.

[11]Data on wages and benefit of temporary and permanent employees in the temporary help supply industry are provided in Harry B. Williams, "What temporary workers earn: findings from new BLS survey," *Monthly Labor Review*, March 1989, pp. 3–6.

[12]Sar A. Levitan and Elizabeth Conway, *Part-Time Employment: Living on Half-Rations* (Center for Social Policy Studies, George Washington University, 1988), pp. 11–13.