

Compensating Contract Workers

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The entrepreneurial landscape is replete with contract workers, as is the case at my company, Creative Courseware, Inc., which I founded in 1984 and which develops customized training materials, instructional multimedia and software documentation for major corporations and other organizations. I had done that type of work for three employers before deciding to strike out on my own.

Once I set up shop in my home – and cut myself loose from a salary and benefits – I needed to learn how to be compensated, which was itself a challenge. Indeed, I made a lot of mistakes. Sometimes I was asked to accept a fixed rather than hourly rate, which put me behind the monetary eight ball if I spent more time than I had anticipated. In the beginning, I neglected to add a 10 percent markup for incidentals, and I was sheepish about putting in for travel expenses.

The moral was that as a contract worker, I had to learn how to charge for my service. Now that my company works with contractors – I have used freelancers since the early days of my business, increasingly since the mid 1990s, and currently have about 20 who work on a project basis – I need to manage their compensation.

On Being a Contract Employer

In the course of doing so, I'm not unlike a host of other entrepreneurial companies, especially those engaged in project work, that rely largely or at least in part on contract labor. These people aren't employees – you don't pay for their overhead, such as office, equipment, and supplies, nor can you provide benefits or even a formal performance review.

Instead, you pay them according to what the federal government calls a 1099 – a flat sum

of money against which it is up to them to deduct taxes and other monies owed. You pay more per hour for contractors than employees. However, the arrangement is ideal for entrepreneurs who need a work force to mesh with the ebb and flow of the work itself.

The trick for prime contractors, such as our company, is to compensate intelligently. What that means, I have come to learn, is that we must be smart about the amount of money we pay, while realizing that money isn't everything. Indeed, our "compensation," so to speak, also includes non-cash items such as monthly lunches, training, and informal education, especially for newcomers.

Getting the Money Right

For entrepreneurs embarked upon the same journey, therefore, our experience could be a model. The first step is getting the money right. We pay on an hourly basis, matching the sum with the person's level of experience and skills. Usually, we ask the person to name his or her price, and if it is out of line, we negotiate.

A person with only a few years experience, for example, would get far less than one with 20 plus years. An individual able to navigate the job of putting materials onto a client's Web site is worth more than one who merely develops them. The area in which we are least likely to come to terms, if a rate is out of line, is that in which a worker has a lot of experience but in a related field, such as writing for corporate communications. If the worker isn't experienced in our specialty, we aren't able to justify a higher rate.

From my days as a contract worker, I've learned not to ask our contractors to accept a fixed bid. Instead, I will ask them, even before I put in our own bid to the client, to estimate the amount of time they expect to take. Then I will negotiate for those hours in our contract with the client.

In addition to the right amount of pay, we at Creative Courseware are sensitive to the fact that we must pay contractors in a timely manner, even when our own payments are delayed. Indeed, we send payments every other Friday. It's easier for workers to concentrate on their projects if they aren't struggling with the gnawing uncertainty of when they will be paid. In our own margin to our clients, we build in a sum to account for us assuming the risk of delayed payment, and we also keep open a line of credit.

Getting Everything Else Right

Working, even as a contractor, isn't only about money, and it's up to the entrepreneurial company to account for the other-than-cash needs of the 1099 work force. At the heart of our strategy is to pair contractors with the right assignments, taking into account not only skill and experience level, but also work requirements. Many, for example, need to limit their hours because of family responsibilities.

Once past that hurdle, we go further. When I was a contractor, I was surprised by the degree to which I missed adult interaction during the day. Sensing the same among our

contractors, we began about four years ago hosting monthly lunches to which all are invited. The discussions include what people are currently working on, and often lead to valuable sharing of information that benefits our clients. Personal issues are also often a part of the talks.

In 2000 and 2001, we also sponsored weeklong training sessions on software development tools from Macromedia, which we use regularly on our projects and with which few of our contractors were familiar. Many of our local contractors attended at least part of the sessions, even though they weren't able to bill us for that time.

When working with new contractors, I also take it upon myself to sketch out for them the difference between employment and contract work, such as the need to account for their own taxes and benefits. I just don't want people to misunderstand.

Getting to Know Each Other

It helps for a company to realize that contract workers want to be treated like people. One tradition we've had ever since the beginning has been an annual social gathering at my home in January for our contractors and our four employees. A tradition is for everyone to bring a little gift, which we pile in the center of the room. Each guest chooses a gift, trying to guess the identity of the giver. Amid a chorus of "a-has," we hear from the giver who selected the item, and we learn something about that person.

While showering our contractors with a fair amount of money, a means for them to be a part of a professional community, training, and camaraderie, we are careful not to cross the line in which these workers could be considered "employees." In fact, we would probably do more for them if that were not an issue.

Contract workers are the backbone of many entrepreneurial organizations. The goal of companies that rely on this labor should be to treat them not like ships passing in the night, but rather as valuable workers who must be compensated fairly, both in terms of money and other considerations.

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