



Harry Franzheim—an HR/OD Practitioner for over 30 years—has published this newsletter to bring you careful insight into reducing costs and unlocking employee potential.

AT ISSUE

Staffing is a competitive business. Margins are already small. Be leery of the agency that is cutting its rates; it is probably taking a few shortcuts that you should know about.

The 7 Sinister Sins of Staffing Agencies



HR Fact:

“Co-Employment” is a legal doctrine that applies when two businesses exert some control over an employee’s work or working conditions. The “partnership” established between a staffing firm and a client is a great example of co-employment. The consequences of this can affect the client’s liability. What is your “staffing partner” not telling you?

For over 20 years, I was the HR Manager “partnering” with various temp agencies as part of our recruiting and talent building strategy. But I never really understood the “temp business.” Now, after 3 1/2 years in this business, watching how the game is played, I think it is time that HR and business owners get in on the inside.

First, let’s talk about a term that all employers that use temp agencies should know—“co-employment.” This term legally binds both the agency and the client to joint responsibility for most labor and tax laws. So why should you care? Take the March 2004 case of EEOC vs. Spherion (temp agency) and Sega (employer), in which the temp agency and the client were sued jointly by the EEOC for employment discrimination. The case was settled for \$600,000.

Temporary services that offer low rates are either taking shortcuts or will soon be out of business. Either way, you need to

know about their business practices.

SINISTER SIN #1

Underpaying their employees.

I had a client tell me that a competing agency was offering lower bill rates. I asked her what that agency’s pay rate was. She said she did not care: “All I care about is the cost!” Your “partner” can offer a killer bill rate if it pays a low employee pay rate. Temp services must follow the minimum wage laws.

Here’s how that game is played: I offer a pay rate of \$9 and a bill rate of \$13.50, which is a 50% markup. If a competing agency offers the employee \$8.55 and bills at \$13, its markup is 52% and it undercuts my rate by 50 cents an hour. More profit for the agency; less money for the employee! *Why should you care?*

It is possible to have two temps from two different agencies standing side by side doing the same job with different pay rates.

Because of co-employment, this can open the employer to legal problems—like unfair pay practices. You need to know both the pay and the bill rates.

SINISTER SIN #2

Cutting corners with insurance & taxes.

It is really easy to offer low bill rates when an agency avoids paying its taxes or files inaccurate insurance reports.

Temp agencies are required to withhold from employees and then pay their Social Security and Medicare premiums and any income tax payments. In addition, the employer must match the payment for both Medicare and Social Security (7.625% of wages). This is called payroll tax and is reported to the IRS using form 941. This is a huge cost to any employer. Some agencies will “pay cash” to avoid paying the taxes. This is illegal.

Another obligation the agency has is to

carry workers' compensation insurance on behalf of the employees. Some agencies will underreport the hours worked, misreport the classification of the work being performed, or not report at all. This, too, is illegal.

SINISTER SIN #3

Not paying overtime wages.

This is a sneaky practice that is both unfair and illegal. It works like this: An employee works at several locations during the week—16 hours here, 8 hours there, and 24 hours in your shop to end the week. The employee has worked 48 hours, but because it was not at a single location, the temp agency fails to pay time and a half for the 8 extra hours.

The temp agency just violated the Fair Labor and Standards Act. Why would you want a "partner" that steals from its employees?

SINISTER SIN #4

The "national account" trap.

National accounts may offer lower bill rates, but lower margins mean lousy service. Think about it. If you have two customers and one has a markup of 50% and the other at 35%, whom would you spend your time servicing?

The big, national employers have leveraged the big, national temp suppliers by offering lots of volume. So not only are the branches working harder, they are also making less profit. Here is the big secret: the branch manager and the agency employees are evaluated and receive bonuses based on their profitability. It makes sense that they would rather service the accounts with higher markups.

Avoid the national account trap!

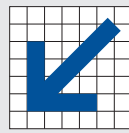
SINISTER SIN #5

Doing "personality based" testing.

Most agencies say they test all applicants. Some actually do. But many use a test

TIP FOR KEEPING

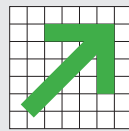
Costs Down.



It will save you money if you can find a staffing agency that understands the nature of work. Most people in the staffing world come from a sales background. Few have ever worked in a *factory*. Knowing the nature of work is key in making good placements. A "good placement" is a placement that takes just one person to fill the job. When the same guy or gal returns day after day after day, it is easier on your supervisors because training need be done only once. Ask your supervisors how much time they spend trying to train a revolving lineup of temps!

TIP FOR KEEPING

Productivity Up.



In reality, temps are just another form of "work." Someone has to "show the person around," provide safety training, and explain how to perform the job to a standard. All of this can drag down the productivity of your top performers or leaders. But it doesn't have to be that way. What if the temp employee showed up for work with an understanding of the expectations and how to perform the job? What if the temp employee showed up with a great attitude and a willingness to learn? You can add temp workers without losing momentum. It is possible.

that identifies only certain personality types, which can lead to overlooking otherwise capable and qualified people.

You should know what type of testing your staffing partner is using and ask to see the report showing the validity of its ability to predict success.

SINISTER SIN #6

Resumes only, no personal interviews.

I visited our competition and was appalled by the lack of warmth, dignity, and respect shown to applicants. One well-known agency had a plexi shield in front of the receptionist like you see at the movie theatre. The application was slipped under the window and returned the same way. The conversation took place through a hole in the plexiglass! Shocking!

Employees will treat your customers only as well as they are treated. Shouldn't your agency be treating your future employees with the same care as you treat your own employees?

SINISTER SIN #7

Offering unattainable benefits.

Temp agencies offering benefits is a ploy. Usually, the agency will set benchmarks for the temps to achieve. Yet the reality is, few temps will ever reach the unrealistic benchmarks, and most agencies bank on that.

Some agencies say they offer health insurance, but at a cost that is far out of reach for the income level of the employee.

Be Aware of the Policies and Practices of Your "Staffing Partners"

Temporary staffing is a highly competitive business. Employers that use a staffing service need to be aware that they can be held jointly responsible for the deceptive actions and sloppy practices that agencies will take in order to get or hold your business. Employers have the right and the responsibility to audit the practices of their staffing partners. **ne**



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