



*Building the Best Organizations in the Insurance Industry*

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## WHY AREN'T COMPANIES HIRING?

By: Top Echelon Contracting

The recession supposedly ended two years ago. Corporate investments and profits are up. But unemployment remains around nine percent and many companies that do have job openings are taking forever to fill them.

So what gives? If companies are making and spending money, **why aren't they hiring?**

Countless experts and major news outlets have weighed in on the issue and no one can offer a simple answer. Rather, there appears to be a number of factors that have come together to create the perfect storm - - **a jobless recovery**. There is no easy fix, and the result of these combined factors could be a permanent shift in American hiring.

But we're getting a little ahead of ourselves. First, let's analyze why a jobless recovery is happening. While we can't possibly explore every reason that may be holding employers back, there do appear to be a few root causes perpetuating this jobless recovery that are worth discussing.

### **Reason #1: Uncertainty in the economy and in Washington**

The official end of the recession was in the summer of 2009. But the so-called recovery has been so slow, it's hard for many people, especially those still on the unemployment lines, to decipher the difference between now and the thick of the recession. Every time there seems to be a little spark in the economy, something (natural disasters, high gas prices, the debt ceiling debate, etc.) quickly snuffs it out.

Meanwhile, the current administration in Washington is anything but employer-friendly. New laws and "crackdowns" on existing regulations are making hiring increasingly more expensive and complicated. And then there are the unknowns. For example, how will budget cuts in the wake of the debt ceiling deal affect businesses? What will the still-to-be-enacted provisions of the healthcare reform do to already astronomical insurance premiums?

All these factors have some economists talking about a "double-dip" recession. With that fear lurking, you can't really blame employers for being cautious. After the devastating layoffs of the Great Recession, the **last thing anyone wants to do is hire employees they will eventually have to lay off.**

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### **Reason #2: Companies learned to run lean**

Another thing the recession taught employers is that **they can do more with less**. In previous recessions, employers were reluctant to make deep cuts to their workforces, so they kept more workers than they needed and productivity fell. Not so in this recession. Companies cut to the bone, and American workers were just expected to work harder.

Now that companies know they can run lean, they are reluctant to add to their overhead, even as their business picks back up. Every candidate that is hired direct (perm) adds a huge payroll expense, plus they have to figure at least 40 percent or more for employer taxes, workers' compensation, unemployment, medical, dental, and vision insurance, etc. So a \$100,000 direct-hire now costs an employer at least \$140,000.

And as technology advances by leaps and bounds, it's getting even easier to get more done with fewer people. When companies finally reach the breaking point where they have no choice but to hire, they are only hiring as much as they absolutely have to, which brings us to the next issue.

### **Reason #3: The candidate dilemmas**

Even when companies say they are hiring, it's taking them forever to do so. You probably already know this and won't be surprised to learn that **it is taking hiring managers up to four times longer to fill open positions**, according to *The Wall Street Journal*.

Why? Well, with all of the people looking for jobs, some hiring managers figure it's a buyer's market and are not willing to settle for anything less than the "**perfect candidate**." Even when a recruiter brings a hiring manager a great prospect, it's not uncommon for the hiring manager to ask for more candidates.

There is a different candidate dilemma in sectors like healthcare and technology, where there appears to be a true skills shortage. *The Wall Street Journal* stated that, although there are **4.68 unemployed workers for every job opening**, companies say **they can't find the people with the right skills** they need at wages they can afford in those areas.

### **The result: A 'fundamental change'**

The fact of the matter is that every company that stays in business will at some point have to hire again. But that doesn't mean they have to commit to direct hires. **Many instead are utilizing contractors** to get the additional help they need while **maintaining flexibility**. As a result, contract staffing has been one of the few bright spots in the recovery. In August, temporary/contract staffing



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revenue rose 16 percent over last August, and temp-to-hire revenue rose 19 percent, according to Staffing Industry Analysts.

That's nothing new. If you've lived through previous recessions, you've probably seen for yourself how temporary/contract staffing typically increases following a recession as companies test the hiring waters. But as Adecco CEO Tig Gilliam stated in a recent CNN interview, this time it's different.

"We're seeing more of a fundamental change," Gilliam said. "This recession was so tough, companies are very much more focused on flexibility going forward, and I think they are going to be looking for increasingly flexible work environments in the economy as we get this recovery going."

David M. Sgro of True North Consultants, Inc., has been recruiting since 1988 and specializes in information technology, insurance, financial services, accounting, system security, compliance, and sales. He has noticed evidence of this "fundamental change" on his own desk, where he works both direct and contract job orders.

"My clients are calling me with contract job orders that I didn't even solicit," Sgro said. "Some of the clients have special projects that need to be completed. Other clients have budget restraints and can't pay a direct recruiting fee, so they utilize a contractor and simply pay a monthly invoice."

This is no shore-term fix. Results of a recent study published in *The Wall Street Journal* show that 58% of employers expect to hire more part-time, temporary, or contract workers, not just over the next several months or year, but **over the next five years.**

### A new workforce model

So what we are seeing is more of a permanent shift where **companies are maintaining a core of direct employees and supporting that core with a larger outer ring of contractors.**

The new workforce model can help them navigate around the issues we've discussed by:

1. Allowing companies to remain lean because they can quickly bring in just the amount of help they need and just as quickly reduce their workforce when business slows.
2. Eliminating the fear of devastating layoffs because contractors know from the get-go that their assignments are for a specific period of time.
3. Limiting companies' overheads because there are no employer payroll taxes, benefits premiums, or administrative costs with contractors.



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4. Allowing companies to “try-before-they-buy” because if they are not sure they have the “perfect candidate” or question a candidate’s skill set, they can engage them in a contract-to-direct arrangement.

**The harsh reality**

Business has always been challenging, but for many companies, it’s getting harder to make money than ever before. There are more government regulations, taxes, and more types of insurance. There are more attorneys waiting to pounce when a business makes a mistake. Technology has increased the pace of everything. Competition has increased. Margins have decreased, etc., etc.

Many of these challenges are not going away even when the economy improves. The harsh reality is that, even if the economy bounces back better than ever, more companies are pursuing candidates through contracting first versus a direct hire.

Companies are changing the way they’re doing business to survive in this new economy. To survive as a job seeker, you may also need to change the way you’re doing things by considering a contract position while you pursue a permanent position.