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## Best Practices: Getting the Work Done – Employee vs. Contractor?

Both nonprofit organizations with staff and those that are all-volunteer periodically face the issue of reorganizing their human resources to adjust to new challenges and increase effectiveness.

### Your organization might consider hiring a staff person or contractor if:

- Your volunteer board is committed to the cause, but they are burning out (red flags: attendance at meetings declines, people attend meetings but only a few people do the work).
- You are offered an opportunity to expand programs, or the demand for existing programs has exceeded what volunteers and existing staff are able to provide.
- Special expertise is needed that is not represented among current board members and/or staff.
- Staff are overwhelmed with their work.
- The organization suffers from high turnover of employees.
- Job responsibilities are changing and current staff are having difficulty adjusting to their new roles (executive director shifting from program to administrative and fundraising work).

### Which do you hire—an employee or a contractor?

IRS rules dictate the difference between an employee and a contractor.

- Employees receive instructions on how to accomplish the work, may be given training, and may or may not receive benefits.
  - Pros: Person likely to become dedicated and loyal to the organization; employee can do many different types of tasks for the organization; easier to coordinate projects with consistently present people.
  - Cons: Organization has to raise the money to support the position; overhead and benefits costs; coordination and supervising the employee takes a lot of time and effort.
- Independent contractors likely cover many of their own business expenses and work for more than one entity, have independence in determining how they do their work, and do not receive benefits.
  - Pros: Flexibility; incurs less overhead than an employee; likely to have highly-specialized skills; the organization doesn't have long-term responsibility to provide a paycheck; consultants bring an outside perspective and can often handle tricky issues in a more neutral way than by someone within the organization.

- Cons: Lack of control over individual; no fixed pay rates; your organization is liable for employment tax and interest if you make an error in classifying them with regard to taxes, coordinating and supervising multiple contracts may be challenging.

#### **Things to consider when you hire a contractor:**

- Communicate frequently and well, and clearly define roles and responsibilities of the board and the contractor.
- State explicit expectations to contractors to ensure that your organization gets the product you want.
- Include a clause in the contract that documents and/or other products resulting from the contractor's work are the property of the organization.

#### **Things to consider when you hire a first employee:**

- Communicate frequently and well, and clearly define roles and responsibilities of the board and the employee.
- Founding board members often clash with the organization's first employee(s) due to "ownership" issues, resulting in unhappy staff.
- When a first employee is hired, the board will need to share power and decision-making with that person. Be clear about the type of position the organization wants to hire:
  - Executive Director (E.D.) – can be expected to take on a leadership role; board can/should step back and support the E.D. in assuming a high level of responsibility.
  - Coordinator – higher level of board involvement than with an E.D.; job is to coordinate board activities and keep committee work moving.
  - Administrator – follows board direction; less likely to take a leadership role.

#### **Resources:**

- Basic Guidelines for Reorganizing a Current Organization (Free Management Library): <http://www.managementhelp.org/orgnzing/basics.htm>
- Employer's Supplemental Tax Guide (Internal Revenue Service): <http://www.irs.gov/pub/irs-pdf/p15a.pdf>
- Independent Contractor or Employee... (Internal Revenue Service): <http://www.irs.gov/pub/irs-pdf/p1779.pdf>
- The Great Debate: Employee vs. Independent Contractor (Your Guide to Small Business Information): <http://sbinformation.about.com/cs/laborlaws/a/contractor.htm>
- Why Hire a Consultant? (Southern New England Nonprofit Consultant Directory): <http://www.sneconsultant.org/why.asp>