Benefits of hiring either permanent or temporary staff

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The need to meet demand is the driving force of the labor market, Every company needs to mea adequate preparations for the periods in time when the demand is expected to rise so as to meet the demands of the consumer while still keeping the prices of the product low. The only way to achieve this is to keep the cost of production at a reasonable minimum. Labor is one of the factors that tilt the cost of cost of production because it is a factor o production. To hire extra staff, there are two options to consider, whether the company would require more permanent or economic staff to meet the desired volumes of production.

Executive summary

The company should hire new workers to handle the increased demand for Huawei modems because it is cheaper in the long run. This increased demand has been caused by a growing telecommunications market in the growing markets. A void has been evident due to the increase in production without a corresponding increase in the workforce. This is because continuously hiring temporary workers has an effect on the quality of the products. The high labor turnover is not good for a company that deals in wireless internet hardware.

Definition

Whether to hire employees on a permanent or a temporary basis is something that affects the overall performance of the company. Job turnover is an issue that affects all companies because of the variance between labor turnover of temporary and permanent employees. Temporary employment is where an employee is hired on a non-permanent basis. This must be contractual and time-limited, meaning that it must have a clear timeline of the duration of the entire contract and the contractual basis. Companies hire extra staff on a temporary basis when it is anticipated that the demand of a product will increase (Moses, 1999, pp8). Compensation can either be segmental or after the completion of the contract. They can only be paid the amount dictated in the terms of contract.

New workers or workers on a permanent basis are those skilled and no skilled employees who are hired on a permanent basis, meaning that their duration of time is not limited or contracted. They have permanent jobs within the company all year round, the state forces of demand and supply notwithstanding. Compensation is mostly monthly or quarterly in some situations. They are accorded full allowances and must be paid full terminal dues if their work is terminated. Excess demand is the situation in a market where the quantity of a product demanded by the customers exceeds the products supplied in the market. It is where the customers need for a product is greater than what is currently available in the market (Jansen, 2006, pp 45). It is estimated as a factor of the elasticity of demand of a product. This elasticity is the change of consumer demand in the market for a product due to changes in price or the wages. The technology market is elastic.

Factors and costs

The factors affecting whether to hire temporary or permanent employees to meet increased demand include the skilled labor available, the ratio of increased demand to normal or average demand, the turnover of the company and the positions created by increased demand. This can be divided into implicit and explicit factors. Implicit factors are those factors that are dependent on other factors within the company. They are opportunity factors and costs that a company experiences not as a direct result of its actions. They are imputed or implied factors. These factors include opportunity costs, the skilled labor available in the market, the wage rate for unskilled labor prevailing in the market

Explicit factors and costs are those factors that are independent and are not implied. They are the factors and costs that a company has actual control over. They include the remuneration rates, the production levels, costs of production, and the mount of labor opportunities available within the company. The high cost of skilled labor and the underlying costs of labor turnover are the two costs that will adversely affect decision making about whether to hire temporary or permanent.

The demand for skilled labor is determined by the needs of all the competitors for skilled staff. If this demand is high, the wage rate rises too and it is impossible to employ many more people to meet the demand gap.

Opportunity costs refers to the cost of the next best foregone opportunity when only one item or decision is made from several mutually exclusive choices. It is the implicit cost incurred by the employee deciding to pick one job opportunity over another or the company picking one employee over an equally skilled and qualified applicant.

Measurement

The amount of labor turnover in the company¿½s branch in the United States is 100 employees per year from a total workforce of 500. This represents a fifth of the total labor force. The current figures indicate that 150 of the total number of employees working for the company are on 6 months to 1 year contractual basis. The company¿½s production levels rose from 1, 202, 876 in the three quarters of 2010 as compared to 994, 567 units in the same period in 2009. This significant growth caused a strain on the workforce because only 300 employees work in the main production line. The estimated output of the company with an optimum labor force is 2, 000, 000 units in 9 months without taking into account any increased demand of the modems or any increases in the efficiency of the production line (Schiff, & Andrew, 2010).

Product estimates are that to produce an extra employee is required to produce 1, 000 units above the optimum. Labor generally accounts for 60% of the total cost of production. Temporary employees are paid about 10% less than the permanent employees

This rise in growth means that there was a huge labor deficit in the previous three quarters that has to fill given that demand is expected to increase by double the margin in the next three quarters. Demand is the desire to acquire an item, a modem in this case. It is the combining of the ability to pay for the product with the willingness or desire to buy it at a specific point in time. It is the opposite of supply, which is the ability of a company, such as Huawei Technologies in this case to meet the demands of the consumer.

Analysis

The increase in demand has caused a significant strain on the production line. It is clear that it would have been possible to meet the demand of the modems in the last three quarters if the labor force had been increased. The steady growth of the market for the modems has increased the demand for the product and will most likely double it by next year. The company needs to be adequately prepared to produce more units in the next three quarters to meet the demand. This increase in supply must be done to increase the sales volumes and the profit turnover. Supply refers to the total amount of product that a company is willing to avail to a customer at a specific point in time. It is the ability of the company to meet the desires of the market by having the product in the market.

The supply of a product is not the only driving factor for the increase in workforce numbers. The prevailing market prices of the product determine the amount of revenue generated. Market prices refers to the established prices of a produce tin a free-market economy with due respect to the market forces of supply and demand. This exists because the technology market is a perfect competition market. There is no influence on the prices of the products and no legislation exists to warrant such price ceilings of price floors. The price of the product id basically at the whims of the market forces of demand and supply.

These forces are controlled by the law of demand and supply which states the unit price of a product or item in a free market economy will change until the system reaches a point where the supply will equal the demand at the prevailing price. This point is known as the economic equilibrium. It affects the company¿½s production in the following ways:

¿½ An increase in demand with no increase in supply, the price at equilibrium will rise as the quantity of the commodity decreases.

¿½ A decrease in supply with no change in demand will increase the price of the product and lower the quantity in the market.

To stop the rise in price levels in this elastic market, Huawei technologies must increase the number of hired employees to levels that are close to or meet the estimates of growth. Although hiring a temporary employee costs less than hiring a new permanent employee, its overall costs are higher because of the high turnover rate. This turnover rate relates the number of employees leaving the company within a financial period. Its underlying costs are opportunity costs and the cost of training new staff to take over the duties of the former employees. Temporary employees are also not obligated to give a month¿½s notice as are permanent employees. This notice of resignation or retirement is meant to give the company enough time to hire a replacement and give the leaving employee a chance to train his or her successor. This does not exist with temporary employees because they are hired on contractual basis and their departure can be sooner than the full length of the contract, with dues only paid to the last day of work or as agree upon in the contract (Beattie, 2010, pp43).

Prices must be kept relatively constant if the company is to maintain the customer base. This elastic market means that any non response to change in demand would result in an increase in price and this would cause the loss of customer base. This is an undesirable effect because it means a loss in profit margins that would reflect negatively on the company¿½s overall performance. This factored does not exist where permanent employees are concerned because they must give a month¿½s notice of resignation and must be paid their terminal dues and all other allowances before their employment can be terminated (Beattie, 2010, pp78).

It is on this basis that I would hire more permanent staff and less temporary labor because the former has more benefits in the long run. I would hire at least 100 more permanent employees as a measure to try and meet the rising demand of the modems in the market. Although this number¿½s pay is equal to the pay of 150 temporary employees quarterly, it is the most viable because the growth of the market is exponential and implicit to the growth of the rest of the technology sector (Mansfield et al, 1993, pp67).

Summary

The observations of the analysis are that to adequately make profits and meet increasing demand, it is vital that the company hires more permanent staff. While temporary employees are more economical at prevailing labor rates, the overall cost and the high labor turnover associated with them. Permanent employees are less likely to change jobs in the year as compare to temporary employees and the attached opportunity and replacement costs might harm or alter negatively the profit levels of the company.

With an added workforce of about 100 skilled and qualified personnel, 75 on the production line and 25 in the rest of the company, especially the sales department, Huawei technologies can meet the increasing demand for the product. It is possible for the company to meet the estimated rise in demand to around 2, 000, 000 every 9 months, a total of around 2, 200, 000 units every financial year. This would change if the replacement cost was not a high as 30% of the wages of the employee. If this was around 10%, then hiring temporary employees would be the better choice because it would be cheaper to hire them as opposed to permanent employees. Another factor world is the turnover rate. If the rate was less than a fifth of the total employees, say, one in fifteen of the total employees, it would be better to employ half temporary employees and half permanent because the turnover rate and subsequent opportunity cost would be less and the cost to meet the extra demand can be divided across the two market segments.

Conclusions and recommendations

It is important to view the economies of scale as dependent on the labor force used to produce a certain quantity of product. Where the conditions are prevalent, the company should keep long-run costs low. An increase in demand should also be viewed as a positive sign and where the company is still not at optimum production levels, these economies of scale should be viewed as major drivers for increasing the labor force to enhance production and meet demand.

I would recommend a factor cost approach to choosing which hiring between temporary and permanent employment of staff meets the overall objectives of the company. Coteries Paribus, Huawei technologies should consider employing more permanent staff to meet the rising demand as opposed to employing temporary staff for those periods when demand is high.