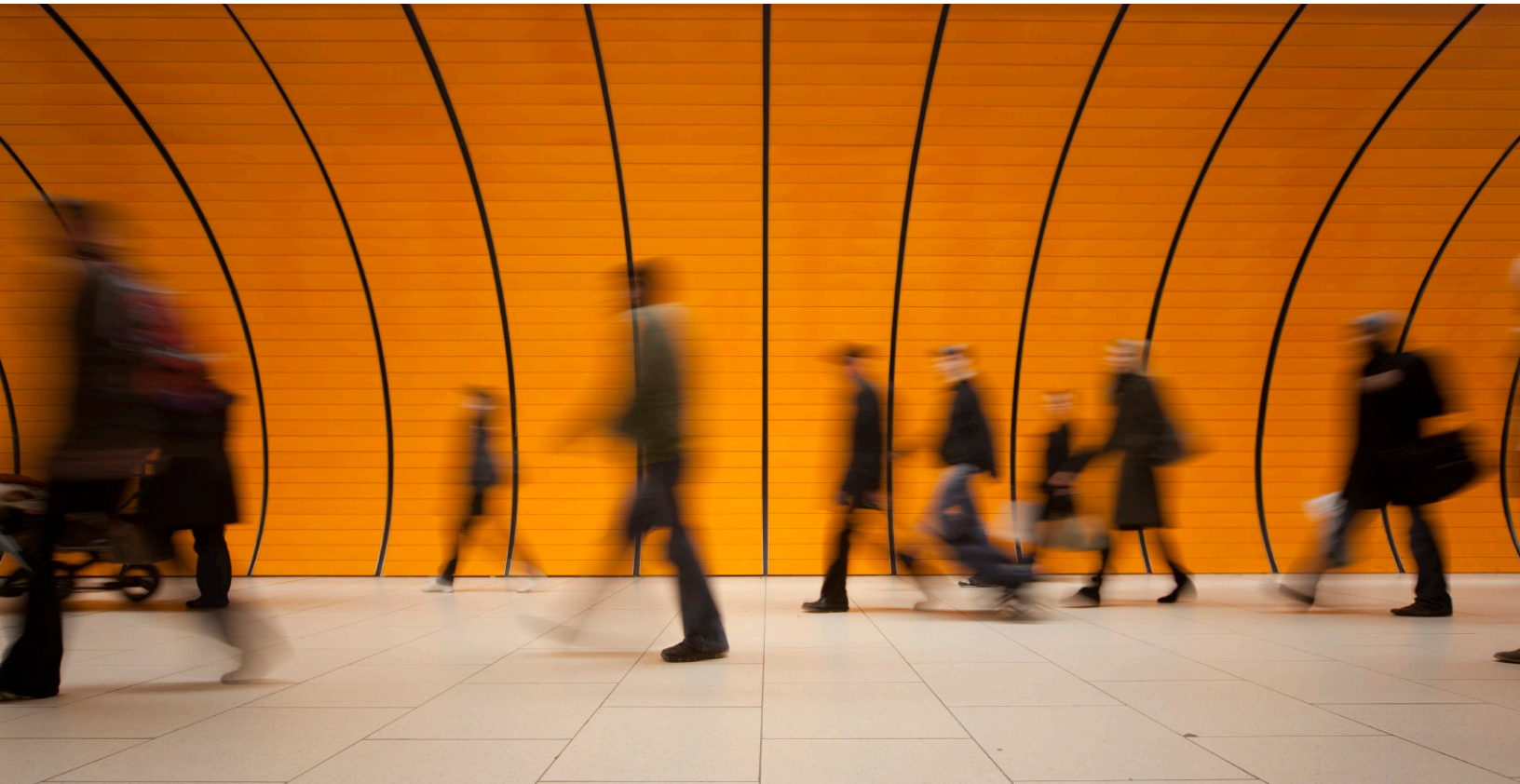
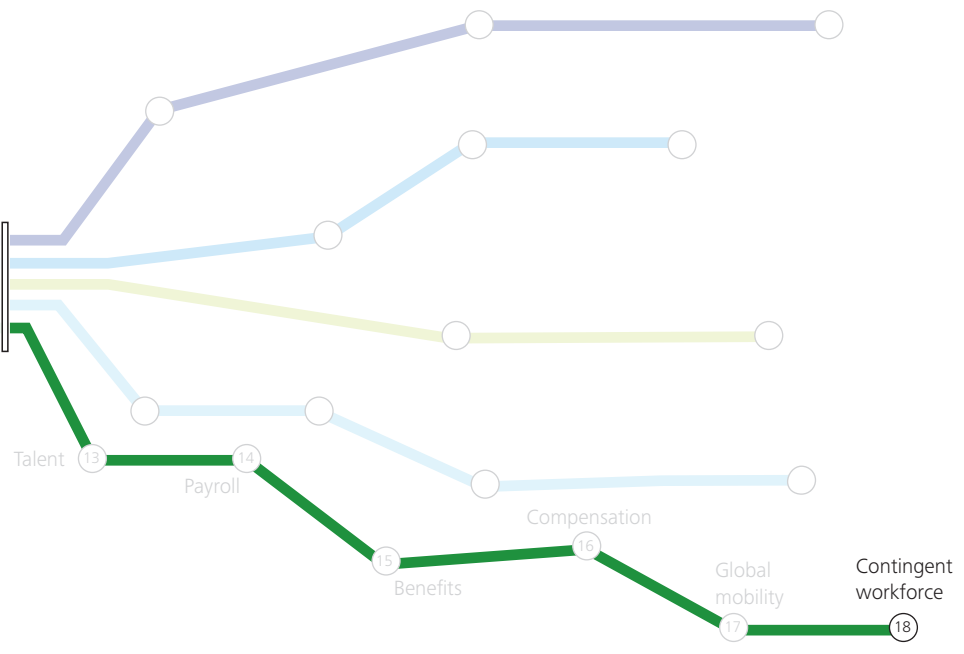


HR functional perspectives



18 Contingent Workforce

Businesses have dramatically increased their use of contingent workers over the past decade as they struggle with rising labor costs and the need for a workforce that can quickly adapt to market conditions. Contingent workers are people who are not on the company payroll but provide services to an organization, such as contractors, consultants, temps, and advisers.

Even in today's job market, there is a shortage of workers with critical skill sets. This has resulted in a steady, year-over-year growth in the size and cost of the contingent workforce. As the baby boomer generation (about one-third of the U.S. workforce) is starting to retire, companies are bridging the critical skills gap with more contingent workforce. Clients regularly report that the contingent workforce is increasingly being used for strategic reasons, such as supplementing internal talent capabilities as well as for operational reasons such as increasing the flexibility and responsiveness of the workforce. Some large companies estimate that up to 30 percent of their procurement spend goes toward contingent workers.

Other organizations have seen the ranks of contingent workers swell so much that they may represent a larger percentage of the workforce than "regular" employees. Some of these organizations are overspending to use contingent workers in roles that they could fill at a lower cost with qualified talent elsewhere in the marketplace. The challenge organizations face here is understanding what skills and services contingent workers provide and helping managers make the applicable/specific fact-based decisions on whether to fill a role or skill need with a contingent worker or a full-time employee.

Different cohort, different approach

Although the contingent workforce segment is growing in importance and its size, many organizations may not be skilled at managing it effectively. Major challenges include the lack of an integrated workforce management strategy, ad hoc (and at times high-risk) managerial behavior, poor data management, and inadequate technology. These shortcomings can expose companies to significant business, financial, and public relations risks. Additionally, the lack of an integrated solution across these areas can inhibit an organization's ability to make decisions about what type of talent to deploy where.

Contingent workforce

As more companies understand the issues associated with contractors and manage them well, they can benefit from improved operational performance, lower labor costs, informed staffing decisions, more organizational flexibility, and stronger HR alignment with business objectives. This gives them the ability to source and procure contingent workforce talent that is high-quality, aligned to the specific business needs, and available “on demand” to meet immediate talent needs. Managers can make good talent decisions at the time of need, and the processes and systems are in place to manage and mitigate the risk of contingent worker administration across the worker lifecycle.

Conversely, poor management of contingent workers can negate many of their potential benefits. One risk can be legal and regulatory challenges when governments pursue companies that misclassify contingent workers. This can lead to significant penalties, fines, and legal costs. Another potential downside is when managers use the contingent workforce to work around headcount and labor spend controls, driving increases in baseline costs with no discernible increase in value.

In addition, the expanding use of contingent workers can expose companies to competitive risk from the loss of trade secrets, intellectual property, and organizational knowledge. When these workers support business critical functions and interact with customers, the lines between employees and the contingent workforce blurs.

The contingent workforce issue is particularly timely given current market and regulatory conditions. The dynamic nature of marketplace conditions and the talent market are leading organizations to rapidly increase their use of contingent workers so they will have the flexibility to

respond as market conditions quickly change and to help secure talent that is otherwise challenging to source. Additionally, the global regulatory environment is tightening: Governments are investing more in regulatory and investigatory efforts to crack down on companies that may be improperly categorizing workers from a tax perspective or exploiting the “grey space” in labor regulations.

Vision for getting it done

Managing these risks and truly taking advantage of the opportunity requires an enterprise-wide approach based on broad collaboration across the company, with programs targeted to specific business audiences. Leading businesses today are adopting these kinds of broad strategies. They generally involve creating standardized, cross-functional business processes, policies, and roles across business units and regions, supported, where possible, by a single information technology platform. By involving the various internal and external stakeholders in the HR-driven management of this workforce, organizations can mitigate the risks and create the applicable model for ownership and accountability. These internal stakeholders include HR, talent, strategic procurement, finance, IT, security, and real estate, while the external stakeholders may include HR outsourcing, contingent worker firms, and external advisers or consultants. Companies can design their approach to bring transparency to their contingent workforce spend and management and use the internal processes and technologies in place within the organization.

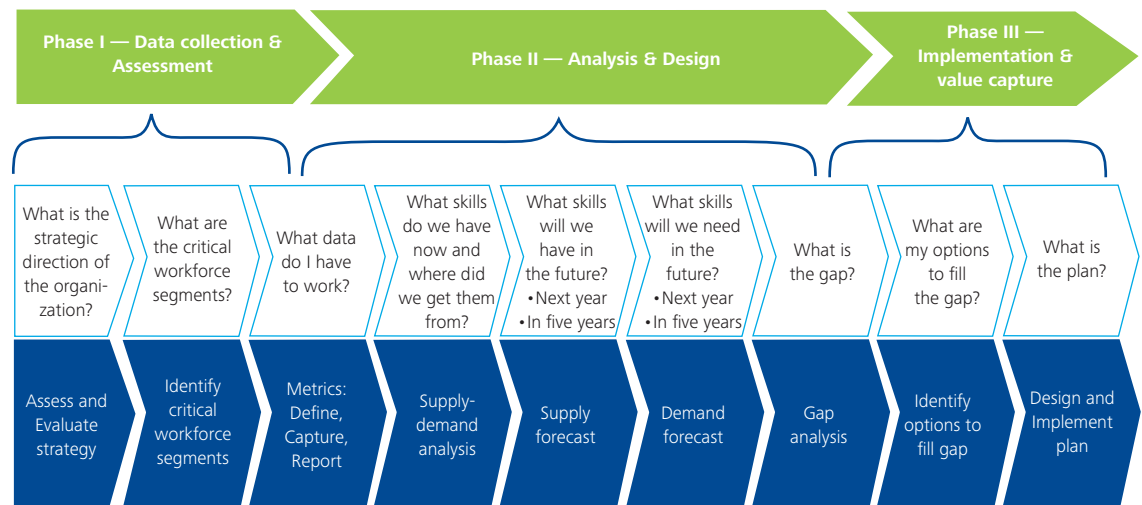
Contingent workforce

In order to achieve these objectives, organizations can follow a three-phase approach that moves from *data collection and assessment* through *analysis and design* to *implementation and value capture*. This process focuses on creating:

- A business-aligned workforce composition that makes the highest-value use of contingent workers
- A contingent worker operating model supported with integrated processes, technology, and roles and responsibilities across the key stakeholders of HR, finance, procurement, risk, and the business

The effective management of contingent workforce can help the workforce mix support both business strategy and the overall talent management program. Select outcomes for talent include increased capabilities around:

- **Demand and workforce planning.** Protection for core employees and increased flex labor based on business needs
- **Sourcing and selection.** Reduction of “maverick” hiring of contingent workers by clarifying gaps in talent and driving contingent workforce sourcing activities through established channels to meet these needs
- **Retention and development.** Promotion of knowledge transfer from skilled contingent labor to FTEs and retention of contingent workforce talent with different and desired skills for in-house capabilities



Source: Deloitte

Contingent workforce

Key challenges and practical advice

The key challenge many organizations face as they navigate the contingent workforce landscape is finding the appropriate balance. On one hand they need to manage and limit risk, while on the other they must maintain the ability to flexibly and proactively respond to business needs. Organizations are facing particularly difficult situations around the following areas:

Contingent worker technology. There is no shortage of options in the marketplace for tracking and administering contingent workers. These options range from the traditional ERP human resource management system (HRMS) vendors who provide the capability to store information on contingent workers to vendor management system providers who provide specialized solutions to other new entrants, such as SaaS-based HRMS providers that provide integrated solutions. There are a number of practical considerations when deciding what technology to consider, and much depends on the number of contingent workers, how distributed the administration is, the tolerance for leveraging providers, and what level of analytics and decision support capability the organization needs to provide to managers. Tracking and administering contingent workers in a single integrated system is a critical foundational element of any contingent workforce strategy. The exact “right” technology will depend on the organization’s broader technology strategy, service delivery model, level of outsourcing, and a series of other drivers.

Vendor consolidation. Organizations are also faced with deciding the appropriate mix of vendors and how to balance vendor strength with the need to manage labor costs and geographic footprint. Each contingent worker sourcing provider brings different strengths and capabilities. Again,

organizations need to consider practically what their current and future needs are for the contingent workforce, then develop a strategy that can scale to the future needs at a cost that provides ongoing value to the business. It helps to use a “short list” of vendors that are carefully aligned to specifically defined talent needs and to source contingent workers through vetted and approved vendors that have defined accountabilities for supporting the organization’s risk and cost management practices.

Ownership and accountability. Organizations are also finding the need to assign accountability for the contingent workforce where previously ownership for pieces of the overall contingent workforce lifecycle tended to be distributed. The key decision is whether one function can or should own the overall process. Practically, it may be better for one organization to be accountable, with specifically defined responsibilities for parts of the lifecycle. An effective model depends on HR to drive the charge given the workforce and talent component. However, this requires careful integration and ownership with finance, procurement, risk, legal, and the business. Managers need to be empowered and held accountable for the workforce decisions they make and practices they employ. Finance needs to take ownership for cost and budget controls. Procurement needs to own the vendor strategy, contracting, pricing, and supplier evaluation components. Risk and legal need to provide specific direction regarding the processes and practices. HR should carefully integrate contingent worker processes, policies, and guidelines into the existing HR service delivery model and systems where appropriate.

In order to make decisions on these particular components, it is critical for the organization to develop a strategy for the contingent workforce and how the administration should be operationalized to deliver results to the business.

Contingent workforce

Examples and case studies

A large public utility wanted to achieve several operational improvements. Specifically, it wanted to allocate contractor costs to specific work orders, obtain correct contractor headcounts, forecast future contractor expense, and compare contract labor rates prior to payment. To accomplish these goals, the company developed an end-to-end, enterprise-level solution addressing people, process, and technology. The results:

- Improved work planning and cost visibility
- Reports that assess contractor performance
- Improved cash flow by forecasting needed financial commitments
- Automatic cross checking and assessment of contractor rates
- Realized savings in the range of \$35 to \$85 million per year

A global financial services organization wanted to increase the transparency of its spending on contingent workforce, manage risks associated with contingent workers, and establish a method for tracking data and measuring performance. It developed an enterprise-wide approach to management, reporting, and risk, with a new technology solution to support these efforts. The results:

- More efficient processes
- Improved procurement influence
- Mitigated tax liabilities associated with coemployment
- Centralized platform with reporting guidelines

Conclusion

The contingent workforce is an increasingly important component of an integrated workforce strategy. In terms of both spend and headcount as a percentage of the total workforce, this category continues to grow under business and talent market pressure. With increased regulatory pressure and enforcement, leading organizations are moving quickly to get ahead of this trend by managing the inherent risks in bringing nonemployee talent into the organization.

Leading organizations are making targeted investments to develop the operations capability they need to support this population of talent with integrated cross-functional processes, well-developed technology integrated with other existing technologies, and aligned stakeholders across functions and the business to drive accountability for this workforce. With these investments, organizations are able to take the next step in maturity. This allows the business to have access to specific resources, from particular sources, to meet the applicable needs — and all in a cost rationalized and risk managed manner.