Exploring your Contingent Workforce Ecosystem

YOUR WORKFORCE IS BIGGER THAN YOU THINK!

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Introduction

In this white paper, we will dive deep into your contingent workforce ecosystem to uncover areas for improvement, and provide insights and recommendations for you to get a better handle on your growing contingent workforce.

First we begin by raising your attention to the fact that most organizations overlook how many contingent workers are truly active within their ranks.

With that in mind, three key focus areas are broken down:

1. Minimize Risk and Legal Exposure
2. Gaining Better Access to Talent
3. Cost Savings Strategies

We explain what you need to consider and provide concrete recommendations to help optimize your contingent workforce strategies.

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Your Workforce is Much Bigger Than You Think!

Today, up to 35% of the workforce in most organizations is contingent (temps, consultants, SOW and others), but you might never know it. Most businesses lack visibility on their non-permanent workers. And if you do not pay attention, your organization could face serious financial consequences, including the hefty cost of employee misclassification.

Project leaders, hiring managers and department heads in multiple locations – facilities, offices, branches and divisions – throughout the state, the country or even the continent are all doing their own thing to meet rising demand, fill skills gaps and replace Boomers reaching the age of retirement.

The traditional view of contingent workers sees them as temporary workers hired through staffing vendors to fill short to medium-term gaps in the workforce: replacements for maternity leave, sick leave, seasonal hires to shore up capacity in peak periods, etc.

When you start peeling back the layers and look beyond this traditional view, a very different image emerges. The contingent workforce is changing and, as a result, so must the way you account for your contingent workers.

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Hiding in Plain Sight

Today, the contingent workforce is made up of many faces and these faces are hiding in plain sight. They function inside your organization, or on the periphery, largely undetected by HR. These workers are your directly sourced temporary workers, interns, consultants, freelancers, SOW and contract workers, as well as independent contractors.

You'll find them in IT, technology, engineering, health care, transportation, retail, and more. According to recent estimates, the contingent workforce can represent as much as 35% of the total workforce in most organizations. Meanwhile, organizations consistently underestimate the size of the contingent workforce among their ranks.

The result is a general lack of visibility on contingent workforce headcount and spend. You can't manage what you can't measure, so this lack of visibility can lead to organizational inefficiencies, higher workforce costs and poor decision-making based on incorrect assumptions as to the true makeup of the organization's workforce.

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Increasing visibility into your contingent workforce to reduce exposure to misclassification and co-employment risks

Poor accounting and management of your contingent workers can have a very real downside that can far outweigh the value of using contingent workers. In fact, the consequences can be devastating to your business. At the same time, class action lawsuits by groups of workers who feel they have been improperly classified as independent contractors (think FedEx and Uber drivers) are becoming increasingly commonplace and can potentially threaten the very survival of your business. By some estimates, the cost for a single misclassified worker can reach $80,000. With contingent workers representing up to 35% of the workforce in the majority of organizations, the potential costs can reach into the millions.

One of the most overlooked aspects of contingent workforce accounting is the lack of insight into the potential risks associated with various classes of contingent workers. This is particularly true of independent contractors. Greater visibility leads to better governance and compliance with federal, state and local regulations.

Lack of contingent workforce visibility can potentially represent millions of dollars in needless overpayments and hidden rogue spend, as well as potential liability for misclassification and co-employment challenges by the various government agencies.

Throw in the risk of class-action lawsuits by contingent workers themselves and it becomes clear that getting a handle on the full extent of your contingent workforce is a strategic and urgent undertaking.

Here are three strategies you can combine or pursue individually, in order to significantly reduce your workforce risk exposure.

Consolidate and centralize - Put information on all your contingent workers in one place, regardless of their type and source. Build a central repository that consolidates all the various types of non-permanent workers across your organization.

Catalog, classify and validate – Create a comprehensive job catalogue of all non-permanent positions in your organization. Understand the nature of the work they do for you. Make sure they are properly classified and, if they are independent contractors, verify that they actually qualify to be classified as such. Not everyone who claims to be an IC is eligible to work as an IC.

Document, educate, propagate - Success depends on managing change. Make sure your managers understand the value of centralizing the management of your contingent workforce. Demonstrate the positive impact on the business. Lastly, roll out best practices across the various departments, divisions and locations.

Should your organization lack the internal expertise to accomplish this, many specialized workforce advisory firms, such as HCMWorks, are available to help.

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Access to Talent - Putting in Place a Strategic Contingent Workforce Sourcing Strategy

A disparate hiring process also leads to greater difficulty in gaining access to talent and a longer time to fill. For starters, you must be able to readily access the best possible talent for the job you have to fill. Otherwise, you will always be scrambling at the last minute to find qualified talent and, as a result, pay far too much for the workers that you retain.

According to the Wall Street Journal, it takes an average of 25 days to fill a position, as procurement typically sifts through 250+ resumes of mostly poor quality candidates in the hopes of finding one or two quality resources that fit the bill. The more specialized the worker – in engineering, nursing and IT, for example – the more time it takes to fill the position.

Poor talent quality has the added consequence of extremely high turnover rates: on average, as much as 359% according to the American Staffing Association. So after spending too much time filling a position, you have the extra challenge of managing an under-performing employee.

You also need to utilize the right resources at the right time to access your talent. Obviously, you pay a hefty premium when you source through your supply base. Staffing vendors in the North America typically charge anywhere from 30% to well over 60%, and even much higher on niche skills.

Consider these three options below to give your current talent management and acquisition strategy a boost.

A solid internal talent attraction strategy: Internally sourced candidates are usually your best hires because employees will generally only refer someone with a solid work ethic who is a good fit for your organization. Internally sourced workers are also your most cost-effective hires. If you have a solid attraction strategy – one that includes referral bonuses for staff who refer quality candidates – you're going to end up with better talent and save the cost of vendor markups, not to mention a host of sourcing costs.

Use Predictive Insights

Your own internal talent pool: This central database will contain people who have previously worked for your organization. These are tried and proven people who have the skills, experience, and work ethic that you're looking for and are ready to hire. They have previously been interviewed, screened, vetted, on-boarded, and have demonstrated their ability to produce results for your business.

Your talent pool will also include high-value candidates such as referrals from employees or people you know.

Better workforce planning: To manage your workforce strategy more efficiently, you need to identify the workloads coming up in the near future and ramp up the hiring process well in advance of the planned start date. Contingent workforce requirements need to be mapped to the business plan using predictive insights to manage your sourcing strategy.

Using this strategy, you're able to communicate to your internal talent pool that a major project will start in a few months. You can then find out in advance who is interested and available rather than scrambling to procure talent at the last minute.

Contingent Workforce Cost Savings Strategies

Better contingent workers accounting can help you clearly identify your total contingent spend and reduce the number of staffing vendors you deal with. By consolidating your spend amongst a handful of best-of-breed staffing companies, you can more effectively negotiate rate cards, margins and volume discounts.

Creating healthy competition within this handful of quality vendors will help drive down costs and simplify the management of the procure-to-pay process.

A lack of visibility on Non-Permanent Workforce spend and headcount

Perhaps the greatest challenge faced by most organizations using various forms of contingent workers is proper accounting of these resources. Why? Because these resources are often retained directly by hiring managers: rogue hiring and spend that escapes traditional accounting and control.

Not only does the time to fill stretch out far beyond the acceptable norm, but the entire procure-to-pay process, from “req to check” as the expression goes, becomes bogged down and convoluted because of too many fingers in the HR pie.

Rogue recruitment and spend is by definition highly inefficient since hiring managers are generally venturing into unfamiliar territory. Additionally, poorly managed contingent workforce accounting is prone to costly time sheet data entry and reporting errors, on top of a slow and cumbersome recruitment process. It's marketplace chaos that your organization can ill afford.

When hiring managers in different branches/locations of your organization engage contingent or non-permanent workers on their own, these workers function unseen, under the radar of your HR department.

Poor contingent workforce visibility presents serious challenges for your organization

As the saying goes, you can't manage what you can't measure. So a lack of visibility of contingent workforce headcount and spend can translate into some significant challenges for an organization.

To name just a few:

- **Poor decision-making** – Incorrect information can lead to bad decisions across multiple areas, including workforce rationalization. Businesses that gain full visibility on their contingent workforce pay rates can generate significant savings, often without reducing headcount.
- **Poor forecasting** – The cause of last-minute scrambles to fill positions as demand fluctuates from season to season or project to project. This kind of poor planning leads to costlier sourcing options, like staffing vendors, to fill urgent and unplanned needs.
- **Paying inconsistent rates** – It's common to find organizations paying vastly different rates for the same category and level of resource from one department to another.
- **Paying above fair market rates** – Lack of visibility leads to waste. Many organizations don't have a clear picture of fair market rates for a given category of worker. Better visibility on your current pay rates and the fair market rates for a given class of worker can lead to substantial savings.

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Based on past experience, organizations who applied these two strategies outlined below, have benefited from significant and measurable cost reductions.

Rate Card Management

Most organizations think of cost management as negotiating staffing vendor markups. But this is not enough. Here are two reasons why:

First, in our experience, most organizations don't have an accurate view of the going market rate for the various categories of non-permanent workers they retain. As a result, they may be consistently paying far more than the prudent rate for their contingent talent. Even though the differences may appear small on an hourly basis, they can easily add up over a one-year contract to tens of thousands of dollars for each resource.

With this in mind, the starting point of a rock-solid cost management strategy is to focus on the rate card. How?

Develop a comprehensive job catalog.

This will be a holistic view of your contingent workforce program that should include for each and every position:

- **The Job title**
- **The job description**
- **The average, low, and high rates currently paid for these positions**

The next step is to evaluate these rates to determine if they are in line with the going market rates for similar positions. When building a rate card, we always like to use two objective external data points from independent organizations that monitor market rates, in addition to our own extensive market knowledge.

The rate card then serves as the cornerstone of your negotiation with staffing vendors. Instead of simply holding vendors to a fixed markup – and paying too much because the rate is above fair market – you can make sure that the marked up rates are in line with what the position truly commands.

The negotiated rate card should then be published throughout the organization and steps should be taken to ensure compliance by every hiring manager.

Value Engineering for a Strategic Contingent Workforce

When you examine the amount of time and energy spent by hiring managers, internal recruiters, as well as Finance and Procurement on contingent workforce management, it's not hard to see a lot of inefficiencies in the process.

Among them:

- **Scrambling at the last minute to find resources; reaching out to multiple staffing vendors in hopes of finding a qualified candidate.**
- **Qualifying of resources, which usually includes screening, vetting and interviewing – a time-intensive and costly process.**
- **Time wasted on on-boarding, setting up ICs as vendors for payment, not to mention the ensuing flood of invoices and payroll activity.**

A value engineering strategy analyses all the activity generated by the contingent workforce management process and finds ways to offload non-productive tasks to a third party.

This third party will typically handle the entire sourcing function, manage job requisitions, execute on-boarding and off-boarding, and provide a single consolidated invoice for all non-permanent workers that is properly coded and reported in a way that is meaningful to the organization.

Value engineering is really a structured approach to freeing up the highly valuable time and resources of HR and enabling Procurement and Finance to do more important things.

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Conclusion

Set up a structured and comprehensive Contingent Workforce Management program that will ensure your contingent workers accounting is accurate. Be sure to include the necessary policies, processes and infrastructure needed to consolidate and standardize the hiring process, streamline staffing-vendor relations, drive out errors and ensure fair market rates and markups.

Pay particular attention to executive buy-in and change management. With C-suite backing and a solid adoption model, you can ensure that your contingent workers accounting program will gain traction as you deploy it across the organization.

Don’t know where to start? Get outside help from a Contingent Workforce Advisory Specialist, such as HCMWorks, who have the experience, as well as the right tools, processes and people to support you in designing and implementing a successful contingent workforce management strategy.

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HCMWorks is the leader in total workforce management solutions. We simplify the acquisition of independent contractors and temporary resources, optimize value with vendor management, and provide insights to your current and future contingent spend so you can make better decisions.

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