

# Now you see me ...



## now you don't

Lack of visibility presents employers with one of the single greatest challenges when managing contractors, say Paddy Faisandier and Pat Dunn. They explain how to mitigate the risks involved in managing a contingent workforce.

**T**he CEO of a large and well-regarded New Zealand corporation recently asked for a report detailing the number of contractors currently engaged. Six weeks later a very sheepish manager delivered the answer: “We’re still not exactly sure.”

The contractor workforce—or contingent, as it is more commonly known—forms an integral part of the total workforce in many organisations, and it continues to grow both locally and internationally. In our view this growth can be attributed to several main reasons.

With organisations constantly striving to be more efficient, and permanent headcount often representing the single largest cost centre, staffing costs are generally in the sights of senior management as they seek to achieve savings. When managed appropriately, contingent labour can provide a cost-effective method of complementing the permanent workforce in delivering both frontline and back office services.

Management can take advantage of the flexibility this dynamic workforce offers as resources can be ‘turned on and off’ when required, mirroring the ebb and flow of the organisation’s workload. While some may bemoan the high pay rates required to attract contractors, this flexibility can prove invaluable as staffing demands subside—not to mention the reduction in long-term employment-related costs associated with permanent staff. And contractors can, by and large, be sourced and engaged in a shorter time frame than permanent staff.

Using contingent labour can also ensure that highly paid, skilled specialists who may otherwise be out of reach to an organisation can be engaged for short periods to deliver specialised services to meet project requirements.

In addition to these corporate drivers, individuals are choosing contracting over permanent positions as a genuine career option.

Many feel it provides them with some sense of control over their careers as they can pick and choose which engagements they take and when. Contracting can also provide role diversity, flexibility and, in the main, higher financial rewards. Job security is another bonus as skilled contractors with solid reputations will be immune to tight job markets. In fact, there is some evidence to suggest many contractors will thrive in such environments. In saying that, however, contracting is not for the faint-hearted and many individuals struggle to self-promote.

### **Robust strategies**

Contingent workforce growth is not just a local phenomenon. Following its annual North American survey of some 200-plus corporates, the *Aberdeen Report* (May, 2012) states that nearly 26 percent of the average organisation’s total workforce is considered contingent or contract-based.

It says that the contemporary contingent workforce has undergone an evolution over the past five years, one that has forced companies across the globe to enact robust strategies and solutions for driving value and gaining visibility into aspects beyond ‘classic’ temporary labour—such as statement of work (SOW) based projects, services and independent contractors. With corporate attention around SOW-based projects and services, companies must enhance their processes to avoid compliance gaps, mitigate contractor risks, and link projects and services to true operational growth.

The Aberdeen research also found that as few as 14 percent of the 200+ organisations surveyed felt they had high visibility of their contingent workforce. It is this lack of visibility that presents employers with one of the single greatest challenges when managing

contractors. It is impossible to effectively manage that which cannot be seen, and it is this inability to manage effectively that exposes organisations to risk.

It is no surprise that improving visibility into all facets of contingent workforce management and reducing the associated risks have polled among the top priorities in the last two Aberdeen Reports.

The increased corporate focus on the specific attributes of the contingent labour umbrella translates into an organisational need for visibility: visibility into spending, visibility into compliance aspects, and visibility into all company-wide projects and services that currently utilise SOW-based labour, independent contractors and, of course, consultancies.

While increased visibility in itself improves the management of this workforce type, it also clearly enhances an organisation's ability to assess their workforce as a whole in order to make future decisions based on the type of skill-sets in place today, and the skill-sets required to meet tomorrow's business requirements.

Over-spending may seem an obvious risk and an area which management has constantly refined through innovative systems and processes. Nonetheless, with a tide of change in the manner in which business objectives are performed through contingent labour, traditional management methods are not necessarily the right fit.

Tax and employment risks are real and present through worker non-compliance and misclassification. Leveraging contingent workers to complete short-term and project-based work often seems like a cost-effective and flexible way of achieving business objectives, however, non-compliance of the contractors, misclassification of the contractor and corporate relationship, and health and safety events can result in costly regulatory consequences and subsequent reputational risk.

As with many trends, New Zealand often tracks slightly behind the world's larger economies. Our findings suggest this is certainly the case with regard to the management of the contingent workforce. While some New Zealand organisations have a real handle on the issue, it would seem that this is the exception rather than the rule.

Contingent workforce management methods are more mature in the northern hemisphere and we have much to learn from markets such as the US. The *Aberdeen Report* lists the following advantages that 'best-in-class' performers hold over their peers:

- 83 percent higher increase than all other organisations, in total organisational efficiency, as a direct result of improving contingent workforce programmes;
- 70 percent higher average cost savings on contingent labour spending;
- 56 percent higher frequency of SOW-based projects and services meeting or exceeding predefined and communicated goals and objectives;
- 42 percent higher rate of compliance to regulatory policies concerning contingent labour and independent contractors.

### Outsourcing the management

The contingent workforce continues to increase in size and influence. In addition, effective management of this dynamic group is complex and incurs a significant administrative burden. For these reasons it has been common practice in the mature markets to outsource the management of contractors to achieve optimal solutions.

Managed service providers (MSPs) and vendor management systems (VMS) solutions remain the top two offerings currently used by best-in-class organisations year after year. These can be engaged either as a full or partial outsource solution.

MSPs bring a consultative approach to contingent workforce management and assist organisations make day-to-day operations more efficient. MSPs also offer expertise in handling the nuances of the contingent workforce umbrella, including risk mitigation.

VMS solutions are an automated solution traditionally used by organisations in managing recruitment agencies and third party vendors used for temporary labour. These systems have evolved in recent years and have become a vital solution in managing all aspects of the contingent workforce. They can assist organisations to streamline processes related to sourcing, engagement, management, paying and measurement of contractors.

For those wanting a DIY solution, the following points may provide some guidance:

- Implement an internal review process for evaluating independent contractor relationships and gauging compliance;
- Standardise all processes related to management of SOW-based projects and services;
- Centralise management of all sub-categories of contingent labour;
- Leverage VMS technology to gain visibility to enterprise-wide SOW-based projects and services;
- Utilise data analytics and business intelligence systems;
- Look to MSPs to enhance workforce processes and centralise management of all contingent labour;
- Align contingent labour activities and processes with the goals and objectives of the greater organisation;
- Increase the use of independent contractor engagement specialists to improve the management of independent contractors.

Regardless of whether you opt for a full outsourcing solution or a DIY-approach, variations of the aforementioned story will surely be repeated many times over unless effective and appropriate management methods are used to manage this dynamic workforce. **et**

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