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# Successfully Executing and Managing a Contingent Workforce Strategy

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## Introduction

Mastering the management of today's traditional worker is no simple task. As global priorities continue to shift and change, organizations are looking to make strategic financial and human capital decisions – and one of the most prevalent changes is an increased use of contingent labor to fill short-term gaps and specific labor segments. In the short term, contingent labor (depending on type) typically does not receive any benefits from the organization such as health care, and labor taxes are avoided, which can make using this type of labor attractive to organizations trying to cut labor/headcount costs. Looking forward, a prime motivation for hiring contingents will be a lack of skill/knowledge in the candidate pools of full-time workers. Hard to get skills may only be available from contractors/consultants. Generation Y'ers are predicted to make up a big part of the contingent pool in the next 15 years – their motivation is they want to be their own bosses. So growth of a permanent contingent labor workforce is almost guaranteed, and organizations need to have processes and systems in place to be able to adequately recruit and manage this workforce. Human resources (HR) practitioners' overarching responsibility for human capital demands that they maintain a keen awareness of the workforce itself, traditional and contingent workers alike.

In order to take advantage of contingent labor cost savings and balance the risks you need solid functionality in your enterprise software (HR, procurement, financials) to manage these workers. As you read this paper, you should take note of the business processes and systems you currently have in place that will help manage the use of contingent labor and begin to identify the gaps you will need to fill. Putting a process in place to manage the hiring, training, and managing of contingent labor will allow your organization to meet constantly changing business demands in the best possible manner.

Shifts in the economy, talent shortages in various industries and geographies, and seasonal talent requirements have accelerated our use of the contingent workforce and it is expected to increase to 40 percent over the next 10 years. This whitepaper is intended to help those organizations today looking to streamline the processes related to this talent segment.

## The Many Aspects of a Contingent Workforce

Use of contingent labor requires separate tracking – hiring, training, managing, and either exiting or potentially converting to a full time employee – and have different requirements than regular employees. There are many legal differences depending on the type of contingent hired and each difference must be tracked and managed carefully. Without a solid business process in place, organizations will not be able to take full advantage of the contingent labor cost savings. Nor will they be able to adequately mitigate the risks that come from hiring contingent labor. But from the contingent worker’s perspective, they need to simply be a part of the talent pool, and treated as such, alongside their full-time counterparts, so the systems must be uniformly applied to the entire workforce.

The term “contingent workforce” implies employees who fall outside the norm or whose employment is contingent on some additional condition. These are not the classic hourly or salaried permanent employees working a traditional 35- or 40-hour workweek that qualifies them for company benefits. Examination of all possible types of workers outside an organization’s four walls – temps, contractors and many more – yields a large group encompassing a broad range of categories which go by many names – temporary, part-time, interns, consultants, contractors, outsourced workers, and offshore workers.<sup>1</sup>

Temporary employees	When hired through an outside agency, temporary employees bring with them a management layer that is also contingent.
Part-time employees	These might or might not receive benefits, but fall outside the traditional category due to hours per workweek.
Interns	In paid and unpaid positions, interns work while receiving on-the-job training for a specified time period in a unique arrangement well outside the norm. They may be groomed for future positions within the company. College students are a good example of contingents in this category.
Consultants	This group is typically considered contingent. Usually knowledge-based, they are frequently part of a consulting firm or similar organization.
Independent contractors	This group is typically considered contingent. They often work as sole proprietors on an hourly basis.
Outsourced workers	These employees are paid and managed by a third-party that bills the organization, which in a sense hires the third-party directly and the employees indirectly. As with temporary agencies, the third-party itself is contingent.

Offshore workers	In some cases these might be traditional company employees, but in other cases they are not. Moving employees offshore takes them outside the four walls, and offshore status adds a unique communication layer to temporary, part-time, consulting and independent-contractor offshore workers. Offshore contingents might be the result of a buy-out, joint venture or partnership.
Persons of Interest (POI)	While not strictly a contingent worker, they are a type of person that needs to be tracked for compensation or benefit purposes.

**Definitions of the various types of contingent labor that may be employed**

A recent report by labor law firm Littler Mendelson predicts that contingent labor could rise to as much as 30 to 50 percent of the entire U.S. workforce, triple the average of 13 percent that a Staffing Industry Analysts survey estimated it to be in 2008. According to Vic Rapier of Examiner.com and Workforce Vision, several notable trends in contingent workforce management are in process including:<sup>2</sup>

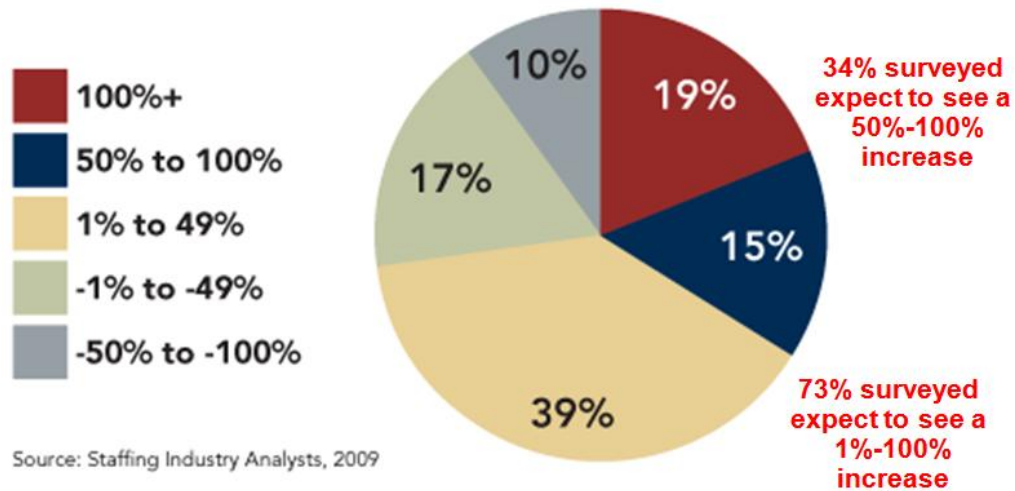
- Nontraditional employment arrangements are on the rise. As has been the trend for decades contingent labor models are going to increase, however over the next few years and coming decades this trend will increase rapidly.
- Organizations will likely hire temps over permanent workers, especially during times when an economy is in recovery mode. However, this might also be a long term trend. Temporary workers insulate businesses from fluctuation in demand, and it might be a long while until all sectors of the economy stabilize. Contingent labor will become a major component of the U.S. (and global) labor force.
- If the future of the economy involves wide use of temporary workers, it is inevitable that professionals will join the ranks of the contingent workforce as well. Contingent labor is moving from administrative and light industrial positions to being commonplace amongst professionals.

As organizations increasingly rely on contingent labor, many are finding it a challenge to manage this critical component of the workforce. Some specific challenges faced by organizations include confusion in responsibilities between procurement, which is concerned with price and volume; and HR, which focuses on quality of hire. Moreover, in many organizations, individual hiring managers manage their own contingent workforce needs, resulting in multiple, redundant vendor relationships, non-uniform pricing, and tremendous overall losses in time and money.<sup>3</sup>

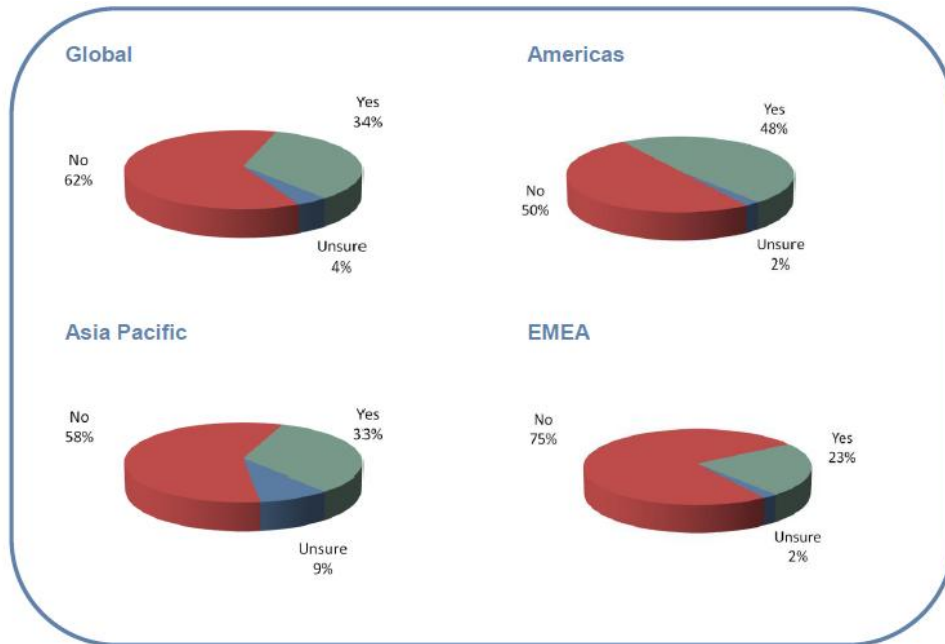
### Where Do Staffing Analysts See This Trend Heading?

In a recent study by Staffing Industry Analysts, 73 percent of employers queried anticipate some level of increase in their contingent workforce by late 2010, with nearly 35 percent planning increases of 50 percent or more.<sup>4</sup>

#### WHAT INCREASE IN CONTINGENT STAFFING LEVELS DO YOU ANTICIPATE BETWEEN NOW AND 2010?



Additionally, a recent global study by Manpower, Inc. surveyed more than 41,000 employers in 35 countries and territories. The results reveal that the majority of employers (over six in 10) surveyed worldwide do not view contingent workers as being key to their organization's workforce strategy. However, a significant 34 percent of employers did respond that this segment of their workforce was, in fact, an important piece of their overall strategy. A regional comparison reveals employers in the Americas (48%) most felt contingent workers were key to their workforce strategy, followed by those in the Asia Pacific (33%) and Europe, Middle East and Africa (EMEA) (23%) regions. In contrast, EMEA employers (75%) most often indicated they did not believe contingent workers to be a critical element of their strategy, followed by those in the Asia Pacific (58%) and the Americas (50%) regions.<sup>5</sup>



Use of contingent workers as a key element of workforce strategy – Manpower survey November 2009

### What Are the Benefits of Utilizing a Contingent Workforce?

There are a multitude of benefits to utilizing a contingent workforce. A few of them include:

- May have faster ramp-up times than individuals completely new to the job or industry, as they already have many of the skills and experience required.
- Help reduce the costs associated with recruiting and training new employees due to their prior experience and reduced ramp-up time.
- Provide diverse sources of interaction for the knowledge workers on a team. Keeping knowledge workers' perspectives fresh is an essential competitive weapon.
- Strengthen an organization's succession planning efforts by increasing the likelihood that staffing can be conducted on a "just-in-time" basis while competitors face shortages.
- Increase an organization's ability to attract, retain, and motivate high-performing individuals who may not otherwise work in a full-time position.
- Enable an organization to proactively plan for the economic impact of expected talent shortages. As the Baby Boomers leave, replacement costs will likely skyrocket.<sup>2</sup>
- Lower benefit costs, since many contingent workers don't legally qualify for employer benefits.
- Lower employment/payroll taxes

## What Are the Risks of Utilizing a Contingent Workforce?

Taking on a contingent labor force is not without risks, of course, and each organization should thoroughly research and plan to minimize each and every risk. Typical risks include:

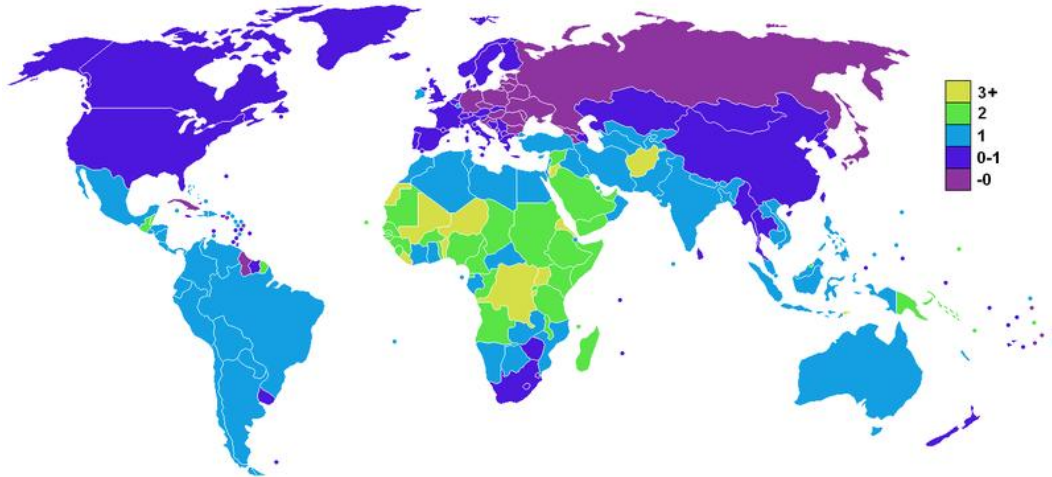
- Worker misclassification, either through negligence or deliberate means, can lead to legal action.
- Legal questions about employer offered benefits and workers compensation depending on the type of worker hired.
- Non-compliance with governmental taxes, such as payroll taxes.
- Inadequately executed contracts between either the contracting vendor or the individual worker (independent contractor).
- Knowledge management – contract workers may be less willing to share their knowledge in order to maintain their contract status.
- Co-employment – ensuring workers aren't working for multiple organizations that create legal conflicts.
- Animosity from the regular employees that view the contingent worker as possibly getting better work or working conditions.

## How does the Aging Workforce Affect Contingent Labor?

10,000 baby boomers will retire every day for the next 19 years and those who are pre-boomers got an earlier start. Within a few years, however, many retirees will go back to work. A study done by AARP (American Association of Retired Persons) has estimated that one-third of the 16.5% of workers age 50 and older eventually go into business for themselves. 60-90% of retirees will go back to work in some capacity. Because many retirees have the work ethic and skills that many younger people don't have, many temps find the companies want to hire them permanently.<sup>6</sup> Many workers that have retired or plan to retire are either faced with a smaller nest egg than anticipated and need to continue to work, or simply prefer to continue to work part-time in order to stay busy. And with good, solid skill sets, this can be a good talent pool for organizations to consider when shopping for contingent labor.

Additionally, in the United States, the latest labor/job predictions show that there will be more jobs available to fill by 2018 than there are workers to fill them. This is due in large part to the reduced population growth in the post-baby boomer generations. Assuming no change in immigration laws in the U.S., this adds up to 5-6 million unfilled jobs. The solution, if this does occur, could easily be to fill them with retired, contingent workers. Good pay and perhaps even modified types of benefits like “grandchild leave” or “extended

elder care” could entice this group of skilled workers back into the job market.<sup>7</sup> It’s reasonable to believe that this same type of trend would be seen in other developed countries that have declining populations such as most of Europe, Canada, South Africa, Russia, Japan and China.



Population growth rate estimates (by United Nations) for the period 2005-2010 using the medium variant.

### Finding the Right Mix of Contingent and Traditional Workers

The need to engage contingent workers is driven by many factors, most especially filling hard-to-find skill sets. Obviously, there can be a multitude of reasons to pick a contingent worker over hiring a traditional worker. Your internal systems play a major part in the decision making process. For instance, if you don’t have a solid system for tracking employee skill sets and goals, you could easily overlook a current employee with skills you need and hire a contingent instead, possibly costing the organization the loss of that worker or just adding an unnecessary contingent cost. A 2009 study by CedarCrestone also indicates that having a robust workforce management system in place (HR and payroll tied to time & labor, absence management and scheduling capabilities) can play a role in optimizing the amount of contingent labor needed simply through better insight into labor costs and labor assignments.<sup>8</sup>

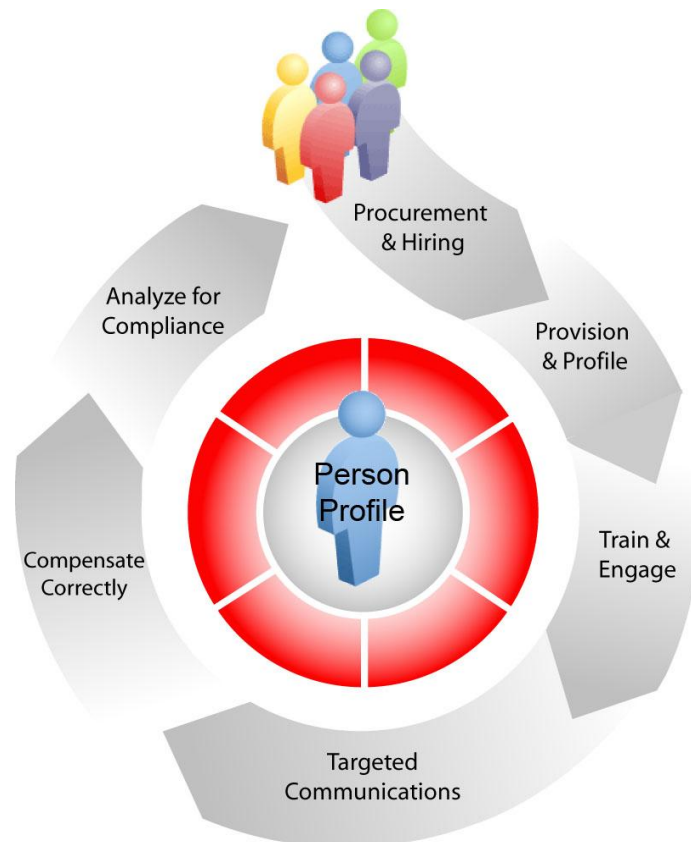
### Best Practices and Steps in Creating a Contingent Workforce Strategy

Managing workers who are strategically important to the success of the organization but not necessarily directly employed is difficult to get right but when done well it can really drive business performance. Best practice strategy is about the organization’s ability to build and maintain effective employment relationships so that the knowledge contingent workers bring

is shared with those working for the organization, while ensuring that the organization's values and purpose are not diluted. Equally it is important that employment relationships are managed to ensure legal compliance and that knowledge key to the organization's success is protected.

The following section will help highlight best practices and steps for managing these relationships which:

- Ensure compliance with often complex legislative requirements regarding contingent workers that vary by country and region
- Ensure that the knowledge purchased from external suppliers is managed and retained to inform future activities
- Recognize the individuals external to their organization who are crucial for success
- Ensure high standards of delivery across an increasingly complex supply chain



The Contingent Workforce Lifecycle

## Procure the Right Workers

Standardizing enterprise processes as a part of developing a solid contingent workforce strategy is a best practice in any circumstance and is crucial for contingent workforce management. Decide what types of workers are needed and how they will be tracked and compensated. Understand the laws affecting the various types of contingent labor you plan to procure.

A good first step is to establish a collaborative environment for HR, financials and procurement through use of an integrated system to minimize data entry and risk of non-compliance. Establish working relations with the various departments that will be involved in the overall process and be sure you each have a full understanding of each other's roles and responsibilities. Create service level agreements as needed. Implement and utilize collaborative Web 2.0 tools such as chat and wikis to bring your groups closer together, share knowledge and ensure processes run smoothly, and in compliance with contingent laws.

Understand the avenues and vendors you plan to use to procure the workers and continually gauge their performance and quality of workers offered. Organizations typically contract with either a staffing firm or perhaps directly with an individual. Having services procurement systems in place that are fully integrated with the HR/talent systems, project management and financials will allow you to create the right relationships with vendors/individuals, create a contract, issue a purchase order, and bring all pertinent worker information such as skills and personal details into the recruiting system and prepare you for the selection process. And analyze their performance over time.

## Onboard, Provision and Never Lose Sight of Them

Once you are ready to hire, you need to be able to collaborate with all lines of business to be sure the purchase order, budget, job description and contract details are all in alignment. Collaborative workspaces are an ideal way to accomplish this, especially for organizations where the required parties are geographically dispersed. All systems should be integrated in a fashion that will allow for minimal data entry and be able to set the stage for future tracking of the contingent worker from hire to exit. Having a centralized human resources system that is natively integrated with talent management and collaborative functionality as well as procurement and financial systems is a best practice and will provide the greatest success.

The HR system should allow you to build a person profile of the type of worker desired and "fill in the blanks" with specific details once the worker has been procured and you are ready to start moving them into a productive role. Profiles are a collection of selected items such as competencies, skills, certifications, accomplishments, and so on, that describe the desirable attributes of a job or organizational entity, or the actual attributes of a person.

Profiles provide greater insight into talent planning and facilitate more effective management of existing talent, which can help increase retention and improve morale.

With regards to contingent labor, profile management is critical, for example defining a role of an “executive compensation consultant” who only comes in three months per year to help the board determine executive pay and compliance. With profile management integrated throughout the HR and talent systems, not only can you search to see if you really need to source externally but you can also track how our own internal capital performs against this requirement.

Utilizing a HR solution that essentially treats the contingent worker like a regular employee will also allow you to perform essential provisioning tasks such as security role definitions, badge access and offering benefits when appropriate. Workflow approvals will help secure and streamline all processes and get the contingent worker on site and productive in the shortest possible time.

### Train and Engage to Increase Effectiveness

As with traditional employees, you are going to want to treat most or all of your contingent labor with the same type of development techniques and processes in order to ensure they are producing at the same level as regular workers. Depending on your contract with the supplier, some of this might be their responsibility but it may also fall to you to ensure consistency. Items to consider here are conducting performance reviews on the contingent labor, giving them line of sight information into how their performance aligns with the overall goals of the organization. Conducting such reviews can give you insight into how well they are performing and allow an open dialog with the worker and supplier on areas that need improvement. From here, you can also identify learning gaps that need to be filled to ensure the worker is fully trained and performing at their peak ability.

Another area to consider is including these workers in your overall succession planning process. While a contingent worker typically doesn’t stay with an organization for a long time, there is a shift towards more non-permanent workers as discussed previously, and it would make sense to start including at least the key performers in succession plans in the event they either convert to permanent employees at some point, or continue on to fill other roles in the organization. Studies conducted by CedarCrestone have shown that conducting succession planning at all levels of the organization yields a much higher level of overall sales growth than merely conducting succession planning on executive management or key players.<sup>9</sup>

Consider work-style needs for contingent labor. Many may not be full-time, or traditional 9-5 workers. Be prepared to be flexible in work schedules, job-sharing, and remote work environments. And lastly, contingent worker training can also help contribute to a safer working environment.

## Communication is Key

It will come as no surprise that communication will be key for success in a contingent workforce strategy, both for the contingent worker and the traditional workers, and management. Contingent labor may tend to feel more or less valuable than regular employees. They may tend to feel they are considered separate from regular employees, given extra work, or simply not part of the overall team. On the other hand, traditional employees may tend to feel animosity towards contingent labor if they feel that the contingent worker is being compensated better, has more flexibility with work hours and assignments, or that work is being taken away from them. Best-in-class organizations will plan for this and utilize tools and processes to be sure the entire workforce understands their roles and organizational goals and will create an overall team environment that is harmonious.

Best practices in employee communication include the ability to create targeted messages to specific groups or individuals; gather feedback in a 360° environment; and survey employees to gain valuable insight into wants and needs.

## Compensate Correctly

Compensation with contingent labor can be a tricky area to navigate. On one hand, you have negotiated what is hopefully a fair and equitable price when procuring their labor. On the other hand, if you are tracking their performance and potential to help your organization meet its goals, it is reasonable to assume that discussions could be had for over- and underperforming resources. Additionally, you have a number of different types of contingent labor that could be in your employ (contractors, temps, interns, persons of interest, and so on) and each will carry a certain amount of legal and tax implications to consider as you move into the area of compensation. From a system standpoint, you need to be prepared, again through integrated systems, to be able to provide timely and accurate compensation either through the accounts payable system in financials or directly through the payroll system in HR. While most contingent workers would be paid through accounts payable, certain types may need to be paid through payroll, such as part-time employees, interns and certain types of persons of interest. Accurate coding, reporting and analysis is critical here.

## Remain Compliant at All Times

Compliance is one of the most confusing and complicated areas to maneuver when using contingent labor since there are so many varieties that might be employed. Be sure you research this well and consult your internal legal department to understand all the compliance issues that will be required.

From the systems standpoint, there are three key components you want to be sure are in place.

1. Consistent classification of contingent status – standardization of all contingent labor processes and classifications is a best practice and will significantly reduce the risk associated with managing a contingent workforce.
2. Reporting (Statutory and internal management) – this is critical to reducing risk of audits or lawsuits, and will help keep costs in line or be able to reduce them through better line of sight between the costs and worker performance.
3. KPIs – Key Performance Indicators will provide on the spot insight into worker performance and vendor performance, and help ensure the best workers are procured at the best price.

Although most organizations spend a large share of total budget on services, few have the same visibility into service costs as they do for goods and materials. Workforce analytics, including data warehousing, will be crucial in order to aggregate data across financials, procurement and HR and both prove the value of contingent labor at an executive level and help organizations manage costs.

## Technology Enablers for Best-in-Class Contingent Labor Management

HCM	SCM	FMS	CRM
Core HR	Vendor Mgmt	General Ledger	Social Tools for communication, collaboration and engagement
Payroll	Procurement	Accounts Payable	
Time and Labor	Contract Mgmt	Project Mgmt	
Absence/Scheduling	Services Mgmt		
Talent Mgmt			
Workforce Planning and Optimization			
Governance, Risk & Compliance			
Workforce Analytics - Dashboards/KPIs/Data Warehousing			

## Conclusion

Having a well-run and effective contingent workforce strategy in place will allow you to reap the benefits you need to stay ahead of the competition. Use of contingent labor is on the rise and those organizations that take advantage of it early and strategically will shine. Contingent labor allows you to find and utilize specialized skill sets, outsource non-critical roles, “test” candidates before fully hiring them, and ultimately move ahead of competition by executing your business strategy in a quick and cost-effective manner.

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