Contingent Workforce Management: A Recipe for Success

A White Paper by Taleo Research

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Analytics & Strategies for Global Workforces
Executive Summary

What is Contingent Labor?
The temp workers, professional contractors and professional services are categorized generally as contingent labor.

Where is Contingent Labor Used?
The contingent or contract labor workforce is prevalent across industries and functions. Professional, office-clerical and industrial represent the three most important functions, but its use is widespread – from IT to healthcare to technical work.

Why is Contingent Labor Used?
The reasons most cited by companies are:
- Unexpected increases in business
- Fill vacancy temporarily
- Fill in for absent regular employee
- Special projects
- Seasonal needs

Does It Make Financial Sense to Use Contingent Labor?
One academic study has shown that the usage of contingent labor provides better financial performance, and usage of contingent through a labor procurement software has even greater impact.

When to Decide To Use Contingent Labor?
Engagement of contingent workers should be made in the context of corporate strategy and take into account considerations such as intellectual property and capital, security issues, and learning investments. It should be avoided when used as a method of circumventing headcount restrictions.

How to Best Procure Contingent Labor?
Utilize a 10 step methodology designed around three key objectives: Control, Cost and Compliance, by using a combination of procurement software and professional expertise. A well-designed and well-implemented contingent workforce management strategy that is supported by a thoughtfully conceived supplier program provides an excellent vehicle for:
- Returning value to the shareholders by controlling costs and leveraging spend;
- Enhancing the company’s competitive advantage by improving the quality of its workforce;
- Protecting the company – including corporate brand – by mitigating/ transferring risk;
- Ensuring good corporate governance, accountability and compliance with Sarbanes-Oxley by managing the myriad contingent workforce data and spend.

With optimized contingent workforce management strategies, the use of contingent labor can be a recipe for enhancing corporate performance.
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Companies today use a variety of types of workers to “get the job done.” Dynamic market and economic conditions cause fluidity in the size and composition of the workforce. The higher the demand for goods and services, the greater the necessity for the supply of talent. A reduction in the demand triggers contraction in the size of the workforce. Along with response to market conditions, the type of talent engaged is dictated by the specifics of the task to be completed.

Broadly, the categories of labor are:

1. Professional employees
2. Hourly employees
3. Temp workers (admin, clerical, light industrial)
4. Professional contractors (IT, legal, marketing)
   - Workers who provide services:
     ▸ through an agency/staffing company
     ▸ as Independent Contractors
5. Professional services
   - Workers who provide services paid through:
     ▸ Statement of Work
     ▸ Fixed bid, paid based on milestones
     ▸ Time & Materials

**What is Contingent Labor?**
The temp workers, professional contractors and professional services can be categorized generally as contingent labor. The use of contingent workers is mainstream, and they are being utilized in significant numbers. Although there have been fluctuations due to economic conditions, in the past 15 years, there has been a substantial increase overall in the number of contingent workers employed. An average of 2.55 million workers were employed by staffing companies in the United States in 2004 on any day; a total of 11.7 million were employed for the year. Recent quarter over quarter growth is evident as well. In Q1, 2005 U.S. staffing firms employed an average of 2.6 million temporary and contract workers per day - up 11.1 percent or nearly 250,000 workers compared with the same period in the prior year. This marked the fourth consecutive quarter of double-digit year-over-year growth in staffing employment.¹

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¹. American Staffing Association, Employment and Sales Survey
Where is Contingent Labor Used?
The use of contingent or contract labor to augment a company’s permanent workforce is prevalent across industries and functions. The deployment of temp workers started in clerical and secretarial roles. Y2K projects increased the use of temporary or contract workers with IT skills. Corporations currently draw on the skills of temporary workers for clerical, industrial, accounting and IT as well as for health care, sales and marketing, legal and executive management roles.

More growth is expected. Staffing services are on track to create more new jobs than any other industry. Cultural shifts along with the changes in the demographics of the labor force make temp work a viable, and even desirable option for many. They can “try out” a company or position, or leverage the flexibility of contingent work to meet their scheduling needs. For an increasing number of workers, this “free agency” is a lifestyle that has implications for the traditional employer/employee social contract. Just as organizations employ workers at will, the free agents take positions that interest them and then move on. For individuals, temping offers lifestyle choices, independence, and a chance to choose projects that suit their interests and schedules. It provides income and experience, and can enhance occupational mobility and future employability.

How large is this category of worker? Complete data is hard to come by and requires a combination of estimates and sources. In February 2001, there were 8.6 million independent contractors; 10.3 million workers were self-employed in 2003.\(^1\) Staffing companies employed a total of 11.7 million workers for the year 2004.\(^2\) One poll calculates free agents were 22% of the workforce in 1998 with an increase to 26% in 2004; then projects 41% by 2010.\(^3\)

**Why is Contingent Labor Used?**
The same flexibility that is attractive to workers also makes hiring contingent workers desirable for companies. For hiring companies, these temporary workers can provide special expertise, fill-in during a search or restructuring, offer start-up assistance or even experienced mentoring. Companies can staff up for project work and then easily disband a project team upon completion. Contingent workers can fill-in for immediate labor needs, or seasonally.

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2. American Staffing Association
3. EPIC/MRA Lansing, Michigan market research firm
Companies can also "try out" a candidate for a permanent position or accomplish special project work without ballooning their payroll budget. Temp-to-hire is an attractive hiring tactic: the American Staffing Association estimates that about 8 million temps transitioned to full-time work during 2004. Conversion fees paid to staffing companies for hiring away their workers came to $7.3 billion last year, which represents almost 10 percent of total revenue for the staffing industry.¹

These benefits of hiring contingent workers must be considered carefully, though, especially in light of potential disadvantages and risks. Upon separation the contingent worker carries away training, and possibly proprietary corporate intellectual property. The sunk costs of training, lack of long-term corporate loyalty and concerns over IP leakage must be evaluated along with the risks of contingent worker mis-management and its significant legal liability.²

### Does It Make Financial Sense to Use Contingent Labor?

In addition to meeting the immediate needs of a corporation, does the use of contingent workers make financial sense? What is the lost opportunity cost of having a position open? As the reliance on contingent workers increases, this choice of resource deployment requires more rigorous financial scrutiny. How does the going rate for contract work compare with a salaried employee when calculated over the period of time the worker is needed? What are the cost benefits when calculating wage, benefits and severance compared to contract labor rates? What is the time to contribution for the contingent worker, and its equivalent in dollar value? Is there more value from bringing in a contract resource for a finite time period, or perhaps training and re-deploying an internal resource?

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1. American Staffing Association
2. More information about contingent workforce management is available in Taleo Research’ Contingent Workforce Management white papers at www.taleo.com

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A rigorous academic study explored this question.

“Using a carefully constructed sample, our evidence indicates that firms that increased their reliance on contingent labor experienced increased earnings before interest, taxes, depreciation and amortization, and gross profit margins. This result is valid even after comparing the performance of those firms against a control sample matched on industry and the size of the asset base. The implications of this result are fairly obvious. Given the same asset base with which to generate revenues, firms that increase their reliance on contingent labor experience higher performance because their costs are lower (on average).”

The study concludes: “Using measures of performance from income statement and balance sheet data, and stock returns, we find that the adoption of this labor practice is associated with superior subsequent performance.”

Moreover, our consulting engagements have shown that careful and centralized procurement of contingent labor has certain cost control, with impact ranging from 4% to 22%.

The savings are usually generated by:
- better management of bill rates and margins provided by vendors
- leveraging applicable discounts such as volume, early pay, tenure
- providing performance incentives
- eliminating redundancies and "multiple touches"
- minimizing the "human error" factor by automating more and providing self-service tools
- offloading administrative burden to the suppliers or a Managed Service Provider in order to have, for instance, consolidated billing
- eliminating "maverick spend"

Typically we have seen that companies, often unknown to them, will spend about 7% of revenue on contingent labor. If we assume an average saving of 14%, through the practices mentioned above, this can add 1% of revenue to earnings. With a typical 5% margin, it represents a 20% increase on that margin.

The conclusion from a strictly financial point of view is that usage of contingent labor provides better performance, and usage of contingent through a labor procurement software has even greater impact.

1. Financial Implications of the Decision to Increase Reliance on Contingent Labor, Decision Sciences, Fall 2001
When to Decide To Use Contingent Labor?

Validation of positive financial performance from the use of contingent workers does not imply that blind use of contingent workers is necessarily the right choice when the need for labor arises. Corporations should carefully study the allocation of resources to assure the optimal worker type is engaged. In addition, risk and legal liability considerations must be factored in. A contingent worker must meet certain strict criteria so that the company is not exposed to co-employment litigation.

Decisions around workforce deployment need to include a broad evaluation of corporate considerations and the requirement for work, the qualifications and relationship of the worker, intellectual property, intellectual capital, security issues and more.

In some organizations, contingent workers are engaged by hiring managers as a method of circumventing headcount restrictions. In companies in which temp labor is uncontrolled, managers “do their own thing.” The company misses the opportunity to substantially reduce the cost of its contingent workforce by negotiating and enforcing better rates. In addition, intellectual property and security concerns as well as tax implications and Sarbanes-Oxley should be contemplated as elements of the determination to hire a contingent or a permanent employee.

The requirements of the task also must be factored in to the choice of talent. Is the need for a fill-in for an FTE who will be absent (maternity leave, vacation, sabbatical, etc.)? Temp workers are typically available right away, however that immediacy should not overshadow other factors for choosing to bring in a contingent worker. Emphasis should be on the skills needed for the work, and the efficacy of drawing on those skills from a transient resource.

The engagement of a contingent worker should also be made in the context of corporate strategy. Does the work relate to the company’s competitive advantage? Will the worker cycle through competitors after exposure to the company’s IP? Will the contingent worker have access to data systems and secure areas? Strategic workforce planning and a holistic view of the workforce can promote judicious decision-making on the allocation and deployment of staff.

How to Best Procure Contingent Labor?

Once the decision is made to utilize contingent workers, it is critical to put rigorous processes and management in place. The effective management of this critical resource requires a process designed and implemented around the “3 C’s”: Cost, Compliance, and Control.

An enterprise-wide Contingent Workforce Management program has four key goals:

1. Controlling hard-dollar cost, leveraging spending
2. Mitigating and transferring risk in five key areas:
   - “Employee misclassification” and/or co-employment
   - Regulatory compliance
Contingent Workforce Management: A Recipe for Success

Intellectual properties
Security (physical plant, employee and data)
Sarbanes-Oxley

3. Delivering consistently high-quality service to end-users (in order to achieve 100% adoption of your CWM program)
4. Identifying best practices for business processes

Contingent Workforce Management (CWM) practices vary greatly. It is a complex—and expensive—area to manage successfully. In many companies, the responsibility for contingent workforce management crosses departments—HR, procurement, finance, legal, etc.—or does not reside in any department. Generally, there is shared responsibility with no one entity being held totally accountable for contingent workforce cost management, risk reduction or business process control. Hiring managers may autonomously choose and contract for temporary workers’ services, at great, yet often unrealized, risk to the company.

A survey of 25 Fortune 500 companies illustrated some of the challenges. Alarmingly, many survey participants could not answer critical questions about contingent workforce management in their organizations:

- 18% could not estimate the number of suppliers currently providing contingent labor to their company.
- 21% could not estimate their company’s current annual spending for contingent labor in the United States.
- 33% could not report which, if any, department holds primary responsibility for minimizing their company’s risk and liability as it relates to their contingent workforce.
- 50% do not know if their company has ever defended itself against a lawsuit associated with contingent labor.
- 64% do not know what quantifiable reduction in temp labor spend has been delivered by their Vendor on Premise (VOP) or Managed Service Provider (MSP).

To design and implement a successful contingent workforce management program, the initiative’s goals have to be established first and the service delivery model should be selected.

A comprehensive CWM program requires basic activities such as the following:

1. Develop a cost management strategy (rate management, volume & other discounts, etc.).
2. Reengineer and streamline business processes (requisitioning of workers; worker selection; security due diligence; administration of SOWs, contract extensions, timesheets, etc.; archival of agreements and other legal documentation to comply with applicable statutes of limitations; invoicing/payment cycle; financial and usage reporting, etc.).

3. Draft comprehensive Managed Services Agreements (MSAs), Service Level Agreements (SLAs), Intellectual Property Agreements (IPAs), etc.

4. Decide on a supplier strategy (i.e. short list of suppliers? uncontrolled list of suppliers? etc.) and select suppliers, as appropriate.

5. Choose the service delivery option (outsourced to VOP, MSP or BPO; CWM program managed in-house, etc.).

6. Select and implement the e-procurement software tool that will function as the program’s infrastructure.

7. Design an education and communication strategy (for both users and suppliers).

8. Develop an implementation strategy.

9. Devise a performance management strategy that incorporates a formalized feedback loop.

10. Establish management reporting procedures.

In order for the company to realize the benefits gained by establishing new contingent workforce management policies and processes, and by negotiating new CWM contracts, there are two key factors that create the necessary control:

1. Day-to-day administration of the Contingent Workforce Management program is managed by a dedicated and specialized team of professionals;

2. The company utilizes a Vendor Management System software tool to function as the infrastructure of the program: to automate processes, measure compliance, and manage and report data.

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Conclusion
Temporary and contract labor is one of the fastest growing line items on many corporate operating statements. Prudent companies use them as one component of an overall workforce strategy. Contingent labor can be used successfully and profitably when the choice of utilization is made in light of both value and delivery aligned with corporate goals, balanced with considerations of the workforce mix and labor requirements.

A well-designed and well-implemented contingent workforce management strategy that is supported by a thoughtfully conceived supplier program provides an excellent vehicle for:

- Returning value to the shareholders by controlling costs and leveraging spend;
- Enhancing the company’s competitive advantage by improving the quality of its workforce;
- Protecting the company – including corporate brand – by mitigating/transferring risk;
- Ensuring good corporate governance, accountability and compliance with Sarbanes-Oxley by managing the myriad contingent workforce data and spend.

The impact of improved Contingent Workforce Management processes and practices can be substantial: our studies show potential savings of more than twenty percent. The impact is derived from better negotiated bulk rates, control of maverick spending and rate enforcement, risk avoidance, as well as better process efficiency of on-boarding and off-boarding. Now, more than ever, it is critical that responsible corporations establish comprehensive, well-designed contingent workforce management strategies. The use of contingent labor can be a recipe for enhancing corporate performance.
About Taleo Research

Taleo Research analyzes the best practices and economics of talent management for organizations of all sizes, worldwide. The specialty research practice focuses on business analytics that tie talent management technology and process improvements to financial results.

Taleo Research conducts primary research on critical issues of talent management and maintains a valuable library of talent management resources. Published reports and studies include Quality of Hire, Internal Mobility, Economics of Candidate Relationship Databases, Corporate Careers Site Value Creation, Jobseeker Surveys, among others.

The Taleo Research team has presented at numerous industry conferences and published extensively on talent management best practices, economics and metrics for nearly a decade. The team includes sought after experts in talent management and has been cited, along with its research, in leading publications worldwide including Investors Business Daily, Harvard Business Review, BusinessWeek, The Wall Street Journal, The Financial Times, and Human Resource Executive.

Founded in 1997 as iLogos Internet Intelligence, Taleo Research is the talent management research division of Taleo.

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About Taleo Corporation

Taleo delivers on demand talent management solutions to leading companies worldwide. Taleo enables organizations of all sizes to assess, acquire and manage their workforce for improved business performance. For the first time, Taleo arms HR executives and staffing directors with the capability to wring out talent management costs, respond more quickly to organizational demands and drive workforce quality. Taleo turns talent management into a source of value, competitiveness and workforce performance management. Taleo serves the world’s most demanding businesses and is one of the world’s largest Software as a Service Providers with more than 475,000 users across 100 countries and 29 million candidates from virtually all countries in the world.

Email: info@taleo.com
Taleo Research Talent Management Resources Library

Taleo Research conducts primary research on critical issues of staffing management, and provides a valuable library of staffing management resources.

**Contingent Workforce Management White Papers Series**
Three comprehensive white papers detail effective and successful Contingent Workforce Management programs for large companies. The white papers focus on: Benefits & Best Practices; Strategies for Results; and Service Delivery Models. (Available by Request)

**“We’re Always Accepting Applications”: Hourly Job Applications Methods at Top 100 Retailers**
A study examining the hourly job application methods used by the Top 100 Retailers in the United States finds that major opportunities exist for retailers to better leverage technology in recruiting and staffing processes. (Free download)

**Quality of Hire**
Quality of Hire: The Next Edge in Corporate Performance is an important white paper that examines quality in a workforce: how it is defined, how it is measured, and how a company can drive quality into its staffing process. (Free download)

**Internal Mobility**
A groundbreaking report that articulates the key strategies for leveraging and optimally deploying the existing employee base. (Available by order)

**Economics of Candidate Relationship Databases**
A report that models the financial benefits of implementing a candidate relationship database. (Available by order)

**RFP Builder, Whitepaper and Webinar**
An interactive tool that generates a free RFP for a staffing management solution, customized to your business objectives. The accompanying whitepaper and webinar help HR executives know what to ask vendors to become informed decision-makers. (Free e-tool & download)

**Corporate Careers Site Interactive Benchmarking**
A free interactive tool that creates a custom study benchmarking your company’s Careers site recruiting effectiveness against the Fortune 500. (Free e-tool)

**Value Creation Through Corporate Careers Websites**
Report focuses on the impact of Careers website best practices on value creation, and reviews adoption rates and trends in the Fortune 500. (Available by order)
Trends in Fortune 500 Careers Web Site Recruiting
This report presents a view of the ongoing levels of implementation of careers website recruiting best practices among the Fortune 500 in 2001. As well, the report gives a clear explanation of the nuances and implications of the adoption of specific best practices. (Available by order)

Best Practices for Fortune 500 Career Web Site Recruiting
A groundbreaking benchmark study of recruiting practices on the Web sites of North America’s leading companies, measuring them against the ideal standard set by the twenty Taleo Research best practices. The report also makes predictions for future career Web site practices and recruiting trends. Also available: Best Practices for European 500 Career Web Site Recruiting and Canadian Top 100 Companies. (Available by order)

Where The Jobs Are
Survey of the job posting practices of Fortune 500 companies on the corporate Careers website and major job boards. (Available by order)

Perception vs. Reality: Jobseeker Behavior Online
This report is the industry’s first comprehensive survey citing valuable observations about online candidate behavior, preferences and expectations to large corporations offering employment. (Available by order)

Global 500 Web Site Recruiting Surveys
Now in its sixth year, the survey reports on online Web site recruiting activities for large global corporations, analyzing the data regionally and by industry. Also available: Archive of past years’ Global 500 Survey reports (Free download)

Lessons from the Global 500
Comprehensive 1999 white paper analyzes Internet recruiting developments including branding, active and passive candidate recruitment, and identifies best practices. (Free download)

Achieving Results with Internet Recruiting
Detailed Internet Intelligence Report published in 1998 evaluates early adopter Internet recruiting techniques, including online and offline advertising and job board use, and assesses associated costs and efficiencies. (Free download)

Studies, e-tools and a library of articles are available at www.taleo.com.