

Contingent labor can be a differentiator in times of uncertainty or volatility.

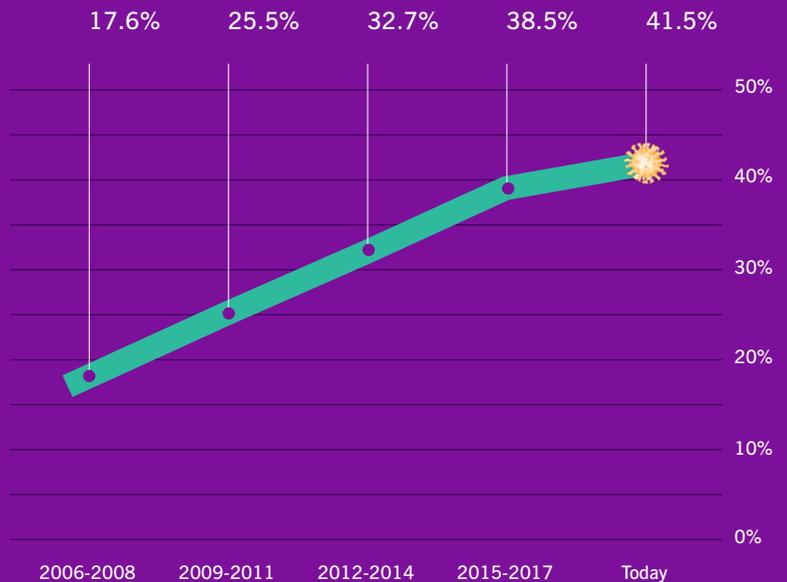
Maximizing the Value of Your Contingent Workforce

By Jeff Birch and Amir Poonsakvarasan

The COVID-19 pandemic has been a wake-up call for businesses around the world, pushing leaders to think about the recovery around this crisis while reconfiguring plans and strategies to be ready for the next crisis. Regardless of the industry, COVID-19 has exposed vulnerabilities in many aspects of companies, including operations, IT, supply chain, and, perhaps most importantly, the people who keep these businesses running.

With this crisis serving as a catalyst, many senior leaders have reinforced the increasing importance of creating and maintaining workforce agility. In fact, many leaders are evaluating the talent strategy executed within their organizations, including the labor mix of their talent pools. Before COVID-19, the use of contingent workers was on the rise in the U.S., where they accounted for nearly 40 percent of the overall labor market. The lasting impact of this crisis may be how companies address the mix between full-time and contingent workers.

GROWTH OF THE CONTINGENT WORKFORCE
2008 to present



Who are contingent workers?

Contingent workers are hired by companies on a nonpermanent basis. They often bring a niche skill set not common within the organization, or they may be hired to provide additional resources when a company needs to scale up a capability. Contingent workers are employed for a specific period of time, the duration of which is frequently tied to a specific project or outcome. These workers—often referred to as freelancers, independent contractors, or consultants—are not salaried employees and, among other things, do not receive benefits or company-provided training opportunities. This role is appealing to many workers because it provides them greater flexibility and control over the types of work they do or don't do, and it also gives them flexibility to take periods of time off from work. They are typically sourced through staffing agencies or directly by the business.

While contingent workers are common throughout all industries, specific industries historically rely on

them to a greater extent, including manufacturing, health care, and financial services. Within a business, the functions most likely to utilize a contingent workforce include IT, operations, and program management offices. For example, some organizations have IT departments comprised of 30–40 percent contingent workers. It is important to note, however, that trends show the use of contingent workers now extends to all geographies, industries, and business functions.

Lastly, a larger segment of contingent workers are millennials who, as of 2016, represent the largest generation in the workforce. Millennials have prioritized workplace flexibility and predictability over pay, which makes contingent work opportunities appealing. In fact, a 2018 USA Today survey showed that 74 percent are interested in freelancing, and 40 percent plan to abandon their jobs to freelance in the next five years.

When should I consider a contingent workforce?

For employers, contingent workers allow for a great deal of flexibility and agility, particularly in a shifting and dynamic market. The top reasons for employing contingent workers include:

Flexibility to scale your workforce up or down quickly.

What you need today may not be what you need tomorrow. Contingent workers allow you to assess your business on an ongoing basis to sense and respond to market demand.

Fill niche skill sets and/or internal skill gaps.

Finding top talent with in-demand skill sets has become increasingly difficult. Contingent workers can be brought on to augment and even grow organizational capability in a particular area of expertise.

Cost savings. While the costs of full-time employees can be hefty from hire to retire, the ability to reduce fixed

costs (e.g., employee salaries) by hiring contingent workers can positively impact financial performance.

Hire and onboard quickly. As the pressures of “time-to-fill” grow in an on-demand market, contingent workers can be quickly identified and vetted, then get to work on pressing business needs.

Project-based staffing without negative impact on other work. Contingent workers typically have a specific scope associated with a project and can focus their attention, while other areas of the business are handled by your full-time workforce.

Trial run roles and employees. With a temporary agreement, employers can use a probationary period to determine culture and organization fit with a contingent worker, as well as test-driving a new role to determine long-term feasibility.

Contingent work integrated in overall talent strategy

Now, more than ever, businesses should revisit, review, and refresh their talent strategy to reflect new operating environments. Leaders often tackle this exercise with their full-time workforce in mind, but, in fact, they should consider their entire workforce, including full-time and contingent workers. Taking this holistic approach to developing your talent strategy will allow leaders to identify the critical talent skills required to achieve the organization’s business objectives.

Once you have identified these, it is important to understand which skills workers need to maintain and grow, versus skills that are missing from the organization. Leaders should then evaluate the current labor mix and determine the right balance to meet short- and long-term market demands and business objectives. To understand

the optimal labor mix, it is important to evaluate this side by side with your assessment of critical skills required to achieve business objectives. As gaps are identified, evaluate whether the role where those skills are required is best for a full-time hire or a contingent worker.

We recommend considering these contingent workforce-related questions as you review and evaluate your talent strategy to ensure that it supports meeting the vision, goals, and demands of your business:

What are the drivers and goals for our use of contingent labor?

It is critical to have a clear reason for using contingent labor. Doing so will help you understand how to source, select, and measure these employees and the value they contribute to your business.

What work is this contingent labor workforce doing for us?

You must be strategic in the work you ask contingent workers to do, since the knowledge they develop will leave your company when they do. Many companies rely too heavily on contingent labor for managerial or leadership roles, which not only creates the risk of losing institutional knowledge but also can be perceived as a barrier to growth for full-time employees. It is best to be as specific as possible in defining contingent workers’ roles and establishing clear goals to achieve objectives, deliverables, or outcomes that will allow you to better manage the workforce.

How many contingent workers do we need?

Many companies struggle with striking the right balance in their use of contingent labor. Some are overreliant on their nonpermanent workforce, while others do not leverage contingent workers frequently enough. Establishing a baseline understanding

of the ratio of contingent workers to full-time workers is one of several metrics that leaders should monitor regularly. As the business changes or your functional needs change, this metric can provide insights on how a labor shift might affect your ability to better achieve your goals.

Best practices for contingent workforce management

Here are a few proven best practices to consider when designing and operating your contingent workforce management plan:

Forecast future labor needs.

It is important to understand the role contingent labor is expected to play in alignment with your organization’s talent strategy. Once you have established the baseline for expected future contingent labor needs, we advise the development of a forecast of those needs as far into the future as possible, starting at a minimum of three to six months. This projection will help you understand whether you have the vendor pool required to meet your needs. It also will give you the business case to update your vendor pool to ensure the timely onboarding of contingent workers.

Manage your contingent labor as a pool of resources versus project by project.

Many organizations place limits on the number of consecutive months a contingent worker can serve the company as a contractor, and there are sound reasons for doing so. Nonetheless, it can be beneficial for companies to investigate alternate projects for contingent workers whose project is ending but have remaining time before hitting their limit. To do so, the company needs to have a robust understanding of the contingent worker’s skill set, including skills and experiences not tapped in the current project.

In many cases, the company may need to require vendors to provide a robust skills assessment for contractors who are deployed at the company. Then, as contingent workers are able to be quickly redeployed, the vendor benefits as does the company.

Stay vendor-neutral.

Without proper governance and controls in place, it is easy for managers to establish their favorites or preferences in vendors. Often that comes at the cost of limiting an organization's ability to bring in the best talent from a broad pool of vendors. To avoid overreliance on a single vendor, or on a small subset of vendors, make sure you have a system and process in place to track and manage vendor awards. Competition drives cost savings and helps ensure that you are paying consistent rates for similar resources. By establishing a vendor list based on talent needs, you will be better able to manage the list as your talent needs and gaps change over time.

Automate when you can.

As your contingent workforce grows, it is important to acknowledge the resource commitments required to provide the appropriate hiring and management activities for your contingent labor pool. It is advisable to implement a vendor management system that is dedicated to supporting your contingent workforce hiring and management activities. There are numerous vendor management systems, and each has its pros and cons, so it is important to undertake a thorough selection process to ensure that the selected system best meets your needs.

All systems should enable you to:

- Automate streamlined processes supporting the identification, onboarding, and management of contingent workers.

Establishing a plan to ensure that contingent workers have a desirable experience—and feel a part of the larger team and organization—can have a major impact on the quality and volume of contributions your contingent labor pool provides.



- Deliver additional labor cost savings by creating vendor competition for contingent labor hiring.
- Improve governance of organizational vendor management policies.
- Provide performance insights on the workforce and the value it is delivering, enabling you to translate these insights into actions designed to optimize supplier performance across your contingent labor supplier base.

Consider the contingent workers' "employee" experience.

While it is widely accepted that there are many benefits to putting a strong value on your employee experience, this mindset is frequently demonstrated only for full-time employees. Establishing a plan to ensure that contingent workers have a desirable experience—and feel a part of the larger team and organization—can have a major impact on the quality and volume of contributions your contingent labor pool provides. Failure to make them feel part of the team can result in unproductive effects on day-to-day work, while also creating a counterculture or culture drain that everyone in the organization will experience.

Conclusion

When managed strategically as part of your workforce planning, contingent labor can be a differentiator for a company, especially in times of uncertainty and volatility as we have experienced this year. The most successful companies develop workforce plans that enable their organizations to shift talent rapidly and dynamically as the business environment contracts. Use this time to review your business needs and consider how contingent labor can support you to not only survive but also thrive in the future. ●●

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