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# THE ADVANTAGES OF A CONTINGENT WORKFORCE

Why It Makes Sense for Today's Business  
A White Paper by Ngage Rail Ltd

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# Foreword



The current global slowdown has forced companies to consider methods of saving money, such as implementing hiring freezes, reducing the size of the workforce, cutting out training, reducing employee benefits and implementing other cost cutting initiatives.

With the recent focus of the war for talent giving way to more immediate needs of lowering costs and in some cases, corporate survival, it would be easy to overlook the contingent workforce as part of the solution to both challenges. Indeed, one would be foolish to do so.

Today's employment mix comprises a diverse composition of talent from a variety of sources and among them is the contingent workforce.

A post World War II phenomenon where temporary workers were primarily used to fill vacancies due to leaves of absence like maternity leave or illness, the use of contingent workers has grown across the industrialised world.

No longer are contingent workers found solely in light industrial or clerical roles; today, with the increase in specialisation in the workplace, even the most highly educated and specialist vocations feature a supply of contingent workers. They have become an essential part of today's labour and talent pool mix.

This ever-increasing move to a contingent workforce brings with it a multitude of challenges. So how can an organisation take advantage of the flexibility and agility associated with a contingent workforce?

The following article defines the ideal model, recognising sourcing, engagement and management as three distinct steps, each with their own responsibilities.

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# THE INCREASING TREND

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The increasing trend towards engagement of contingent workers has been reported in many parts of the globe. In Australia, according to the Australian Bureau of Statistics, around 25% of the workforce could be labelled as contingent. In the US and UK, the figures are similar.

Clearly any strategy for the ongoing engagement of a skilled workforce should not exclude this cohort. While contingent workers come in all age groups, experts observe that a typical contingent worker is in their mid to late 30s, and offers a range of skills.

Most recently there has been a marked increase in the availability of flexible workers. One key driving factor is the impact of the financial meltdown on baby boomer superannuation entitlements. The expected skills shortages have been reduced somewhat as many “would be retirees” are now back in the market, searching for part time, casual and flexible work arrangements to bolster their retirement nest egg. The contingent workforce is increasingly represented by all age demographics.

But it’s not just the size as a percentage of total workforce that makes the use of contingent workers attractive as part of the talent mix; most importantly the use of the contingent workforce makes good commercial sense.

The use of the contingent workforce may not only deliver projects more quickly, but does so at a lower cost. Flexibility and all of its benefits is the key to the trend of increased usage of the contingent workforce.

The war for talent was waged mainly on the permanent employment front, buoyed by global growth, skills shortages and competitors talent retention strategies.

The marked increase in permanent staff hiring, often to the exclusion of, and indifference to, contingent workers has contributed to the impact of the economic downturn on many companies.

What is most peculiar about the drive to permanent employees was and remains the fact that “Nothing is less permanent than permanent”.

Permanent staff are typically slower to acquire, due to notice periods, and more expensive to acquire, given recruitment fees and to the extent they applied, sign on bonuses. They are often more expensive to retain and train, and certainly more expensive to disengage.

Many permanent staff can leave with one month notice; and given the rapid rise in wages, a key result of the “WAR”, many were enticed to do so. Even with a longer notice period, there is no practical enforceable financial penalty that can be reasonably applied for breaking the moral or written employment agreement; and to the extent there was one, the hiring employer would often fund it.

Contingent workers, however, typically have enforceable contracts with penalties for early termination, non-performance, non-delivery of agreed outcomes; all this with no material early termination costs to the company.

If you want permanent staff, looking to add contingent workers into the mix is more likely to stay and complete agreed tasks and outcomes, when they are engaged as a contingent worker.

Furthermore, many are prepared to stay longer term as part of your “permanent workforce”. Successful organisations are increasingly reliant on these so called knowledge workers for short-term professional engagements and project-based work. Many now see them as a permanent part of their talent mix, augmenting and in some cases replacing their full-time permanent workforce.

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# DISAGGREGATE PROCESS FOR BEST PRACTICE

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While the use of contingent workers is not new to the corporate world, with the Aberdeen Group reporting that around 74% of companies as having contingent workforce engagement programmes in place for at least 2 years, the speed of the shift from hiring permanent staff to leveraging contract staff has caught many organisations under prepared.



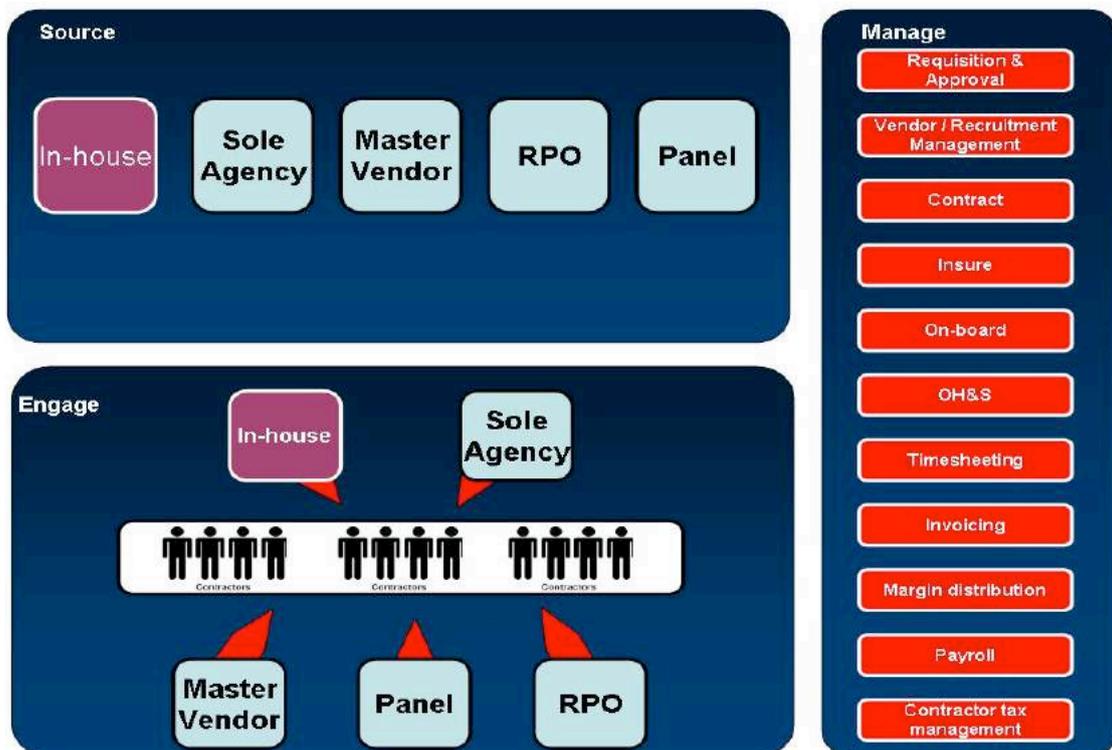
According to the Aberdeen Group's recent study titled, "Contract Labour Management, Superior Workforce Strategies for a Demanding Market", there is a distinct gap between engagement practices of the top 20%, the so-called best in class, and the bottom 30%, their so-called laggards.

As the utilisation of contingent workers continues to grow, organisations need to improve their business models and readjust their business processes as they relate to contingent workers.

Human capital comes at a cost. Indeed, the key question for any enterprise focused on human capital is "how do we maximise the human capital return on our investment?".

Managing the total cost of labour is an essential element of this goal. Human capital costs can be both fixed and variable. HR professionals know only too well the inputs into the fixed cost of employees, namely hiring costs, training costs, management costs and perhaps more currently relevant, separation costs. Many of these costs can be minimised if not avoided by using a contingent workforce.

The cyclic nature of the economy in general and features of many industries specifically, fuel this demand. Too often, however, procurement departments and to some extent, Human Resource departments are not fully engaged in recognising and accommodating the subtle challenges associated with managing this critical component of the workforce. Their companies therefore frequently incur unnecessary costs and expose themselves to unnecessary risks.



While most organisations suggest that contingent workers should not be processed and managed in the same fashion as "temporary clerical workers," there is debate and even confusion as to how they are best managed.

In many organisations, individual hiring managers improvise inefficient processes to manage their contract talent needs, resulting in multiple (and often redundant) vendor relationships, non-uniform pricing, uncertain compliance status, and tremendous overall losses in time and money. Moreover the loss of talent and ongoing engagement of this most critical element of the workforce can lead to increased costs and at worst, a material loss of competitive advantage.

Human Resource staff would rightly question how might they best take advantage of the contingent workforce leveraging the many benefits such a model has to offer. Perhaps the best way to answer this question is to consider

the three distinct steps in procuring the benefits of a contingent workforce, namely:

- **SOURCE** (Locate, identify, recruit and select the best)
- **ENGAGE** (Engage and contact, on mutually agreeable terms)
- **MANAGE** (The individual, their work and their well-being as part of the talent pool)

By looking at each step as a separate but important element, the methods for leveraging the benefits and business opportunities become more apparent.

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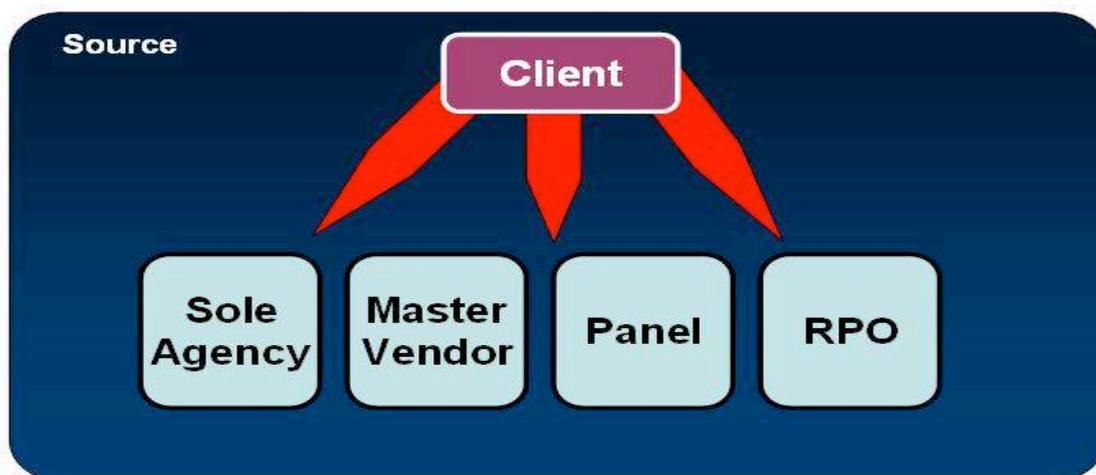
## SOURCING THE TALENT

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Typical methods of sourcing contingent workers include:

- Referrals from current staff
- Internal talent management programs
- Introduction via Recruitment companies

Contingent workers can be identified from many different sources and by according to one study, a common practice is to self source or in- source. However, this process has led to outcomes which are far from best practice.



According to the Aberdeen Group, the outcomes for clients that self-source, engage and manage themselves, are not as favourable as those sourced, engaged and managed by a specialist provider. In-sourced (in-house recruitment) companies had lower compliance, higher costs, longer times to induct and longer recruitment fill times. Clearly, if this study is any indication, outsourcing the introduction of contingent workers provides for better outcomes.

Focusing on outsourced introduction, there are several sourcing strategies than can be adopted. In summary, these include:

- Sole sourcing from one supplier
- Sourcing from multiple suppliers via a primary (or master vendor ) supplier
- Multiple suppliers on a panel without a co-ordinating vendor
- Recruitment Process Outsourcing (RPO) Provider

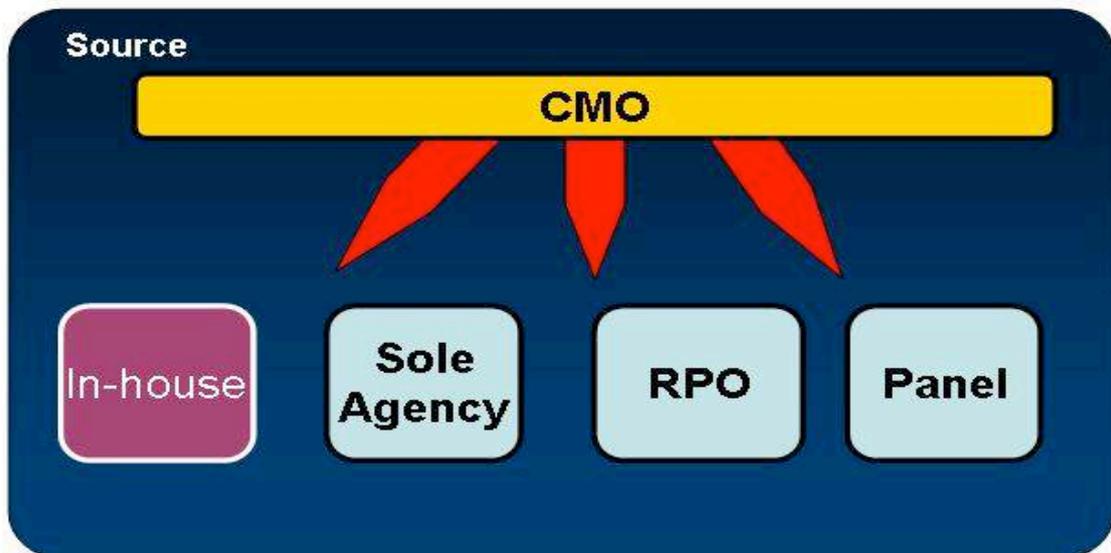
According to one report, common sourcing arrangements or supply models are via a primary or master supplier, with 41% of respondents stating this is their preferred method, or via multiple suppliers or open bidding. Only 22% sole source, that is, use a single supplier for all their needs.

This stands to reason. Single supplier strategies are best focused on homogenous skill sets, where the supplier is a true specialist and the client can leverage their buying power to negotiate favourable arrangements.

Companies can gain economies of scale by using a single sourcing strategy. However, where there is a mix of skills required, the single sourcing strategy may not deliver the best outcomes.

Contingent workers can be utilised in many facets of the business, including technology, accounting, office support, engineering and industrial roles.

Rarely does one supplier have the necessary reach, expertise, skill and knowledge to provide the best workers across such a diverse need. Therefore, companies should consider multiple suppliers.



However, with the use of multiple suppliers comes more risk, increased administration and less purchasing power. Without a commercially sound strategy, the complexity of managing multiple suppliers may diminish the value of this approach. Add those contingent workers sourced from in-house

strategies, it is easy to see how companies have ended up with a multitude of systems, processes, policies and practices to accommodate this mix.

How do the best of breed overcome this issue? This is where specialist contractor management organisations come in acting in the capacity of a Managed Service Provider (MSP), reducing internal admin for the organisation, enforcing policy compliance and managing contractual obligations.

Sourcing talent is only the first step of an integrated model focused on human capital management. Other steps include successful engagement and management of the contingent workforce. These three steps, sourcing (or recruitment), engagement and management are indeed three distinct and separate specialist areas.

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# Engagement and Management:

## A two-step approach

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Many organisations have a mix of engagement models which typically follow the recruitment source, namely:

- Engaged directly by the company (either as “employees” or “independent workers via their own entity”)
- Engaged via a contingent labour supplier (CLS)

Specialist contingent labour suppliers make a full-time business of engaging and managing contractors and others that make up your contingent workforce. They have the necessary skills, knowledge, systems and insurances to protect your company from the risks associated with implied employment while gaining the full benefit of a contingent workforce. They are the solution to multiple suppliers for sourcing and provide further value added services in engaging and managing the contingent workforce, typically at a fraction of the cost charged by normal recruitment agencies.

Some of the services offered by such suppliers include:

- provision of online timesheets with management reporting
- specialist payroll management services
- value add services like labour costing and workforce planning
- protection via quality processes and insurances to mitigate customer risk

On this last point, don't discount the value that contingent labour suppliers offer in salary packaging. Contingent workers can gain legally allowed benefits through salary packaging, which can be a tool used to strengthen both attraction and retention of talent. Selection of those CLS that do this well will ensure organisations get the best contingent workers at the best market price.

In addition, and perhaps most importantly, a credible contingent labour supplier will provide advice and help you mitigate risk. And there are many. Here are just a few:

- Risks associated with definition of 'employer' and cross claims for employee entitlements
- Pre-engagement risks associated with representations of the recruiter
- Assumption of risk associated with workers compensation for OHS and obligations with respect to a safe environment
- Risks associated with base pay rates, awards for contingent workers, benefits and entitlements.

Unless you are dealing with a credible and financially sound contingent labour supplier, you run the risk of being caught up in these and other legal wrangles.

The value of using a supplier is even more evident when one considers the total cost and quality of the contingent workforce. These elements can be impacted by current labour demands, sources of supply and business systems information.



A CLS is often a great source of market intelligence, particularly in respect of current labour demand and skills availability. Factors which impact demand include geographic availability, specialisation, urgency of supply and current business activity. CLS's can provide you valuable information ahead of any project launch, enabling you to map your needs against the current supply curve. Supply arrangements need to be flexible.

Organisations need to be able to shift focus from one supplier to multiple suppliers, or a mix of specialists including in-sourcing of contingent workers. CLS's provide you with the flexibility of choosing your preferred recruitment model for contingent workers with the stability and security of one platform for engagement and management. While value can be created by selecting and sticking with one or a group of recruitment suppliers, CLS's can provide excellent and often valuable information about current supply of skills and resources

across many domains, including price range, geographic segment of skill speciality.

Also, there is material value for their clients in their ability to link into existing business systems proving seamless gateways to valuable managing information and business intelligence. More often executives are asking questions about their contingent workforce. How much do they cost? Are we engaging them and inducting them correctly? Are we paying them correctly? Have we got the right disengagement model and protection? CLS's are able to ensure organisations are protected in this regard. In addition, CLS's can enhance visibility into a contingent workforce, providing live, comprehensive reporting on all aspects of the engagement model.



They support the view that best practice is to use specialists for each segment of the process, namely:

- Methods focused on finding and sourcing (or recruiting) the contingent workforce (whether via recruitment agencies or internally or a mix), disaggregated from
- Methods focused on engaging the contingent workforce, disaggregated from Methods focused on managing the contingent workforce.

This approach has been used very successfully in many of Australia's largest companies. And there is no surprise why; because it delivers great efficiencies at lower cost and risk. Suffice to say, best in class performers tended to have:

- Standardised contract labour management processes

- Ability to track labour spend
- Internal review processes from compliance
- Perfected contract labour grievance practices
- Repositories for current and past workers
- High use of a managed service vendor or CMO
- Sophisticated reporting and tracking systems

Fortunately achieving best of class status is not particularly difficult, as today, larger contract management organisations, supported by their specialised technology and business relationships can provide much if not all of the functions necessary to achieve best practice status.

Finally, to ensure that a contingent workforce remains part of an organisation's talent mix, who is best to manage them during their assignment with the organisation? HR are. Each HR person should take just as much responsibility for contingent workers as he or she does for permanent staff. Why?; because organisations want contingent workers to be part of the team, seeing the host client as a potential permanent workplace. Contingent workers are the best advertisement when it comes to winning the war on talent.

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## CONCLUSION

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Fortunately you need not work alone in best practice management of contractors and contingent workers; there is a valuable role for Contingent Labour Suppliers in managing an existing contractor base, particularly at renewal time; but that process and the overall relationship with the knowledge worker will be more meaningful and enduring if HR sees these valuable workers as part of the solution, not as just an add-on for procurement or legal to be concerned with.

Ngage Rail is a high-quality full-service provider to the rail industry. We're a bona fide civil subcontractor and supplier of highly-trained, competency-tested contingent labour to main contractor rail companies across the UK. We are RISQS Approved, ISO 9001, ISO 14001 and OHSAS 18001 accredited which ensures that service we give our customers is of the highest standard and keeps them coming back. We would love have you on board as a customer!

Our contingent labour service is dynamic in every sense - behind every person is a solid support network which ensures that together we achieve the best results.

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