

# RISE



## OF THE CONTINGENT WORKFORCE

by Christiane Soto

**The term “contingent workforce” at one time referred to a relatively small group of workers employed in temporary positions either through an agency or directly with the employer. In the last decade, the size and scope of the contingent workforce in the United States has expanded dramatically; it now includes many new forms of non-traditional employment, such as leased labor, temporary labor, contractors, etc.**

Rising labor costs, especially those associated with workers’ compensation insurance, health benefits and unemployment taxes, have led to an increased use of contingent workers. Leveraging these workers can reduce these labor costs. This is especially so when partnering with a 3rd party human capital management (i.e. staffing) firm mainly due to the economies of scale that they bring to the table.

But what exactly is a “contingent worker”. Well, the term does not have a set standardized meaning; it is an umbrella term that describes many different types of employment scenarios, including:

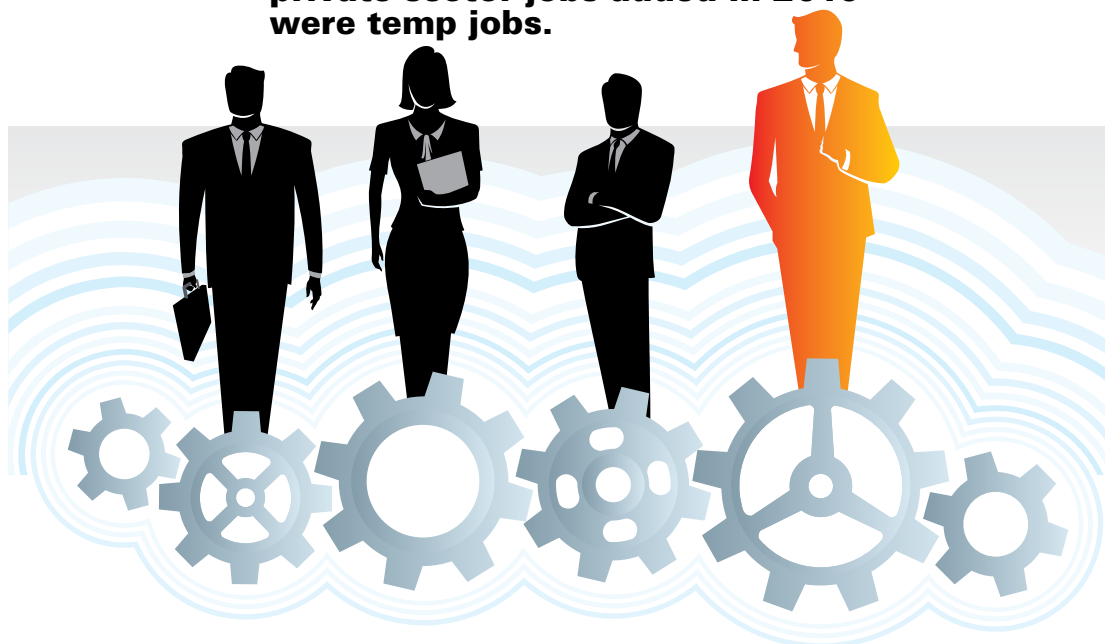
- **Independent Contractors** – These workers are self-employed and provide specialized skills on a contract basis with little to no supervision by the hiring company.
- **Temporary Employees** – These workers are provided by a staffing firm to a specific company for a limited period of time on a fill-in basis or for a finite project. The main differentiator of a temporary worker is the short-term nature of his/her position.
- **Leased Employees** – These workers are also provided by a staffing firm to a specific company to fill positions on a long term basis. These employees generally are not “permanent,” but their employment is for a longer term than typical temporaries.
- **Professional Employer Organization (“PEO”)** – In this employment situation, all or most of an employer’s workers are hired by the employer but then co-employed by the PEO, which assumes the employer’s responsibility for employment taxes, benefit plans, and other human resources related obligations.
- **Human Resources Outsourcing (“HRO”)** – In this employment situation, human resources functions are assigned to an outside agency. The HRO agency does not assume the role of an employer in this model.

## Impact of the Great Recession

Changes within the contingent workforce have always been considered a leading indicator of the ebbs and flows within the overall economy because movements in temporary/contract employment usually preceded changes in the broader job market. At the beginning of a recession, firms would lay off temporary/contract workers before laying off employees, in an effort to cushion the blow for their employees. This trend held through the last three recessions; temporary workers were let go first in massive amounts.

However, the recessionary recovery periods, which had held pretty constant as far back as 1948, started to lengthen during the 1991 and 2001 recessions. The overall trends and patterns held but were stretched out over a longer period of time. For example, during both the 1990 and 2001 recession recoveries, firms started hiring temporary workers a couple of months before they began hiring full-time/part-time employees. This fell in line with the idea that an increase in the use of temporary/contingent workers could be used as a leading indicator of a looming recovery.

**More than 25% of the 1.17 million private sector jobs added in 2010 were temp jobs.**



With the Great Recession, this pattern did not hold; beginning in 2010, the demand for temporary/contract workers increased dramatically – the demand for traditional workers did not follow at the same pace. As an example, during 2010, 307,000 temp jobs were added - more than 25% of the 1.17 million private sector jobs added in total (Labor Dept., 12/10)\*.

In November (2010) alone, temp jobs accounted for 80% of the 500,000 jobs added by private sector employers.<sup>1</sup> The numbers have not improved greatly. In April 2012, 21,000 temporary jobs were added, which equated to 18% of all the jobs added by private sector employers.<sup>2</sup>

\*Since August 2009, over 744,000 temporary jobs have been added.

Companies have now inherently changed the way they do business in this post-recession world. In most cases, temporary workers do not have an opportunity to become full-time employees; therefore, temporary job increases are turning out to be a less useful indicator than they used to be.

Historically, companies utilized temporary/contingent workers as they waited to see whether they could (or should) take on permanent employees in preparation for a recovering economy. If the recovery held, then the temps were offered employment. If the recovery did not hold, the temporary workers were let go or remained temporary. This is not the case today; now companies simply want contingent/temporary workers to help them through the fluctuations of the business cycle, not test the waters of recovery.

### **Staffing After the Great Recession**

Recently, temporary/contract staffing has attracted attention from the news media, due to several factors:

- **Temporary help services employment has been traditionally viewed as a leading economic indicator**
- **The temporary help services market began to improve earlier and at a faster rate during the Great Recession recovery than in previous recession recoveries.**
- **Temporary/contract workers insulate businesses from demand fluctuations and this fact is being embraced by companies (big and small)**
- **Professionals and skilled workers are joining the ranks of contingent workers in larger numbers**

Employers made drastic organizational changes during the Great Recession in order to achieve greater flexibility and efficiency. Companies cut work hours and pay, and they hired abroad in addition to instituting furloughs and layoffs. Those changes are not going to go away. In other words, workers who were laid off are probably not going to get rehired in mass numbers; jobs that were outsourced to China or India will stay in China or India. Companies that turned to flexible, project-based staffing are not going to return to a traditional “job-for-life” employment arrangement.

With the economy expanding in spurts, employers are not willing to add permanent workers in mass amounts. Temporary employment is one of the few sectors of the labor market that is growing rapidly. In fact, it looks like staffing employment will continue to outpace total job growth. Analysts predict that staffing employment will grow 19% through 2018 – this is almost twice the rate of total job growth of 11%.<sup>3</sup>

## **New Types of Businesses Using Temporary Workers**

Businesses in industries that have typically not employed “temps” are now using contingent/temporary workers, and they are using them in increasingly diverse ways. Temporary hiring is becoming a valid business practice, one that is used to not only help companies test the waters during an economic recovery but one that is used to help them manage the natural highs and lows of their business cycle. Because the economy continuing to take a long time to stabilize after the recession officially ended, temporary/contract workers will be a major component long-term in the U.S. business model.

For example, Microsoft is an avid user of temporary staff, and they use them for all kinds of short-term projects, including writing code for new software programs. It has been reported that Microsoft has a 1:1 ratio of W-2 employees to contracted employees.<sup>4</sup>

## **Professional and Skilled Workers are Now Part of the Contingent Workforce**

With the wide use of temporary/contingent workers, many professional and skilled workers have become contingent workers. The staffing industry is moving from clerical and light industrial trades into skilled IT, medical, creative and sales professions. This “leadership on demand” movement in the U.S. places these skilled executives and directors at companies for a finite period of time in order to complete strategic projects for a fraction of the cost of hiring a full-time employee. Companies such as Fox Mobile, Godiva Chocolatier, Healthways, and POM Wonderful leverage highly skilled sales/marketing and finance executives and directors to manage new product rollouts, IT conversions and many other projects.

## **So Where are the Trends Taking Us?**

Companies are rebuilding their workforce, but they are doing it in a much more flexible manner. Flexible staffing is the new mantra of this decade. Companies are slowly beginning to hire permanent staff for specific positions; however, shifts in the economy, talent shortages in various industries and geographies, and seasonal talent requirements have accelerated the use of a contingent workforce.

There are several workforce trends that are causing a paradigm shift towards contingent workers. They are:

- **Generational Shifts in the workforce**
- **Employee Morale**
- **Smarter Talent Management**
- **Critical Skills Shortages**
- **Changes in the Staffing Industry**

## **Generational Shifts**

Generational differences are driving the need for a more flexible workplace. Millennials, as well as aging Baby Boomers and members of Generation X, are beginning to not view work as they (or their parents) did in the past. Members of all generations want more flexibility, they want to work on their own terms. They are not looking for the traditional 9-to-5 work week. They want a better work/life balance as well as a fair salary. They want (to a certain extent) to exercise more control over their own employment, regardless of whether or not they are at the beginning or end of their career. Contingent work offers them the ability to do this, and many of them are choosing to follow this path, with the help of technology.

## **Employee Morale**

Companies have reacted to the Great Recession through layoffs, furloughs and the cutting of hours. The employees that remained were expected to “do more with less”; in other words, work harder and longer hours (in many cases through the use of technology) in order to keep service/production levels as high as in years prior to the recession.

However, there comes a point when those employees become overworked to the point of burnout. At this point, output plummets and morale takes a direct hit. A contingent workforce can help fill that gap. During times of necessity (due to seasonal/periodic fluctuations, raw growth, acquisition or expansion) the contingent workers allow employees to continue to fulfill their day-to-day responsibilities without taking on additional workload. They also allow employers to uphold their quality standards (an important competitive differentiator), productivity and employee morale.

## **Smarter Talent Management**

Businesses are looking to make strategic human capital decisions – for both stability and financial reasons. They are looking to attract, manage, develop and retain high-performing workers. They are beginning to think outside the box in regards to talent management, and many of them are increasingly using contingent labor to fill short-term gaps and specific labor segments. In the short term, contingent labor is attractive to businesses that need to cut labor/headcount costs.

## **Critical Skills Shortages**

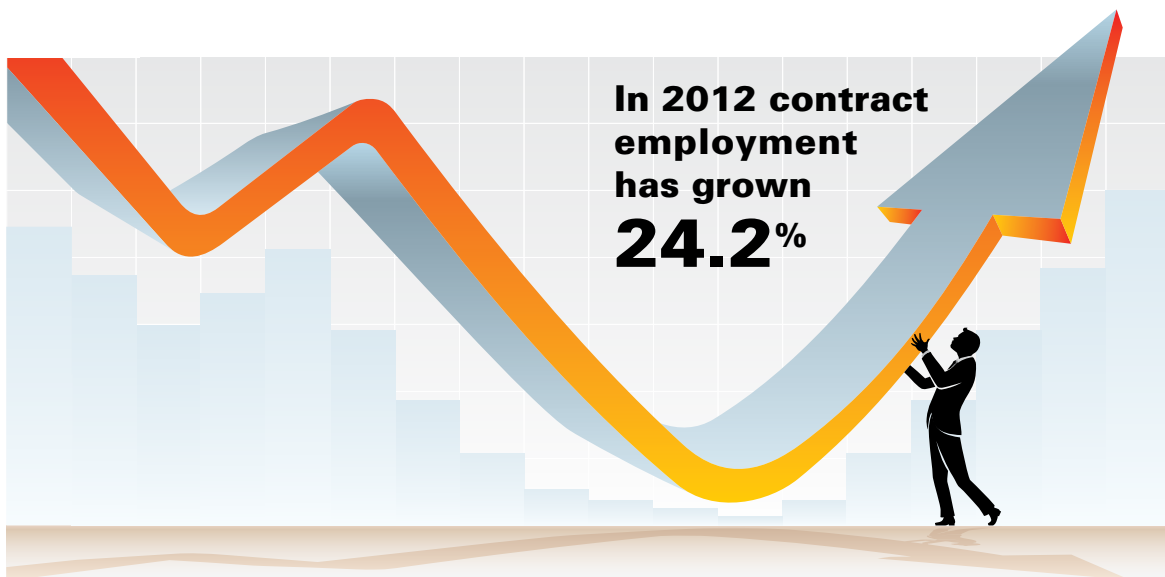
There are fewer jobs for more unemployed workers. After the 2000-2001, there were 14 unemployed people for every 10 hires. That number has now risen to 35 unemployed people for every 10 hires.<sup>5</sup> This odd pairing of high unemployment and high job vacancies illustrates a structural employment issue – one that has worsened in the years since the Great Recession.

There is a skills shortage in several industries – namely, healthcare, education, business & finance, IT, architecture and engineering and skilled trades.

Looking towards the future, employers looking for these job functions will be further motivated to hire contingents because of the lack of skill/knowledge in the current, general candidate pool. Soon contingent workers may be the only source of some of these types of skill sets and specializations.

### **Changes within the Staffing Industry**

Staffing firms are no longer just handling “spot recruiting” for their clients. In other words, they no longer focus mainly on sending workers to fill in (on a day-by-day basis) for illnesses and vacations. This move came about because businesses moved away from reactive staffing and started focusing on flexibility and started asking their staffing companies to manage their contingent workforce. Modern-day staffing firms are playing a larger role in a employers’ talent management plans, by managing their clients’ contingent workforce needs.



### **Benefits of Employing a Contingent Workforce**

Since the beginning of 2012, temporary and contract employment has grown 24.2%, with staffing employment in May 2012 (alone) up 6.6% from May 2011.<sup>6</sup> In a recent survey conducted by the Economist Intelligence Unit, 67% of interviewed senior executives plan to maintain a leaner organization through the use of a contingent workforce. Contingent workers are here to stay.

With this increased adoption, the evidence points to fact that the benefits outweigh the costs. Those benefits are (broadly speaking):

- **Financial savings**
- **Better Talent Management**



## **Financial Savings**

It is cheaper for a company to bring on a contingent worker than to hire one full-time employee. For more information on this, please review our whitepaper titled “True Cost of Employment”. In most cases, the staffing agency is responsible for the contingent workers’ benefits. In addition, staffing firms absorb the costs associated with recruiting, screening, hiring, disciplining and firing (if necessary) the workers. This allows the company to immediately capitalize on the workers’ skills and knowledge without a large initial investment.

Research supports these conclusions. According to industry statistics shared at the 2011 Staffing Industry Analysts Executive Forum, the largest users of staffing services (companies using 1,000+ temporary and/or contract employees) report a labor cost savings of roughly 13%. Not all companies use contingent workers at these high levels, but this statistic does point that employing contingent staff can decrease a company’s labor expenses.

## **Talent Management**

Companies are beginning to think outside the box in regards to talent management, and many of them are increasingly using contingent labor to give themselves more flexibility and allow them to reach higher productivity levels.

## **Flexibility**

After the Great Recession, companies were hesitant to hire because they did not want to have to lay off these new employees should the economy take a step backwards during recovery or recover more slowly than anticipated. Contingent workers acted as a buffer for these businesses, since they can be hired as the needs warrant and let go with little fuss. Companies with cyclical sales or manufacturing cycles also benefit from this flexibility.

This flexibility also transitions itself to the hiring cycle as well, since high-performing temporary workers can become full-time employees, without the obligation to do so.

## **Productivity**

Many times, contingent workers outperform the company’s permanent staff because they feel the need to prove themselves in the job, in order to land either an extended contract or a full-time position.

A recent report shows that those temporary/contingent workers who feel that they have the opportunity to transition to a full-time employment arrangement have more positive attitudes toward their supervisors and coworkers and are better performers than their peers in standard work arrangements.<sup>7</sup>



Another survey highlights exactly how motivated contingent/temporary workers are. In a survey conducted by ASA, 77% of staffing employees said they decided to work through staffing firms to find permanent jobs. Eight in 10 worked full time, the same as the traditional work force, while 90% were satisfied with their jobs (compared with only about 60% of workers in traditional employment arrangements) and would recommend temporary or contract work to a friend or relative.

### **Partnering with a Human Capital Management Firm to Manage Your Contingent Workforce**

All staffing firms work to recruit and provide quality contingent/temporary workers for their clients. However, the key differentiator between a great staffing firm and an “OK” staffing firm, is its candidate network and the process used to provide the best fitting candidate.

Modern staffing firms have the ability to obtain quality temporary/contingent workers that meet all the requirements of a position. They should manage a substantial candidate database specific to a company’s desired set of skills. In addition, they should have a thorough understanding of strategies used to attract top talent; this includes a strategic plan on how to utilize the passive job seeker market through referrals and networking.

The critical element in your relationship with a staffing firm is the quality of temporary employees and job candidates you receive. Reliance on a reputable and capable staffing company can be an important management tool for your business. Snelling can be that management tool for you. Our staffing experts can show you how to lower expenses, increase flexibility, keep your business humming. Visit your local Snelling office or visit us at [www.Snelling.com](http://www.Snelling.com)



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