

# **Contract Labor Management**

Superior Workforce Strategies for a Demanding Market

January 2009

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## Executive Summary

With the nation facing the toughest economic times since The Great Depression, enterprises are being forced to reevaluate their current labor needs and implement alternative workforce strategies to effectively drive performance without sacrificing time, cost, or quality.

Contract labor, also known as contingent or temporary labor, is a multi-faceted category known for its complexity. Improper management of contract labor has many consequences, including inflated costs, failure to achieve desirable performance from contract-staffed projects, and non-compliance to internal and regulatory policies. In 2009, enterprises will do their best to face a demanding economic environment and succeed in their respective contingent labor programs by driving performance from outside experts (managed service providers and independent contractor engagement specialists), automation (vendor management systems), and superior management of independent contractors.

### Best-in-Class Performance

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Aberdeen evaluated more than 330 enterprises in December 2008 and January 2009 and used four key performance criteria to distinguish Best-in-Class companies: compliance to internal and regulatory policies regarding contract labor, time-to-productivity, time-to-fill an open requisition, and year-over-year cost savings on contract labor spend.

### Competitive Maturity Assessment

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Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics. Top-performing organizations are:

- **61% more likely** to leverage MSP programs, independent contractor engagement specialists, and VMS technology
- **39% more likely** to institute collaboration between procurement and human resources
- **31% more likely** to maintain clearly-defined classifications of employee types

### Required Actions

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In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Leverage MSP programs, independent contractor engagement specialists and VMS technology to streamline the contingent labor process
- Implement an internal review process for classifying labor types
- Standardize contingent labor processes across the organization

#### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"We just 'leave it to the professionals' with regards to contract labor management. To run the program ourselves, we would need to staff with knowledgeable professionals, establish software, processes, etc. Outsourcing is a cheaper and faster method of effectively managing contingent labor."

~ Business Process Manager,  
Large North American  
Enterprise

*Send to a Friend* 

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## Chapter One: Benchmarking the Best-in-Class

The current economic climate has forced enterprises to implement many cost-cutting strategies, such as slashing employee training, reducing employee benefits, and significantly trimming down the overall size of their workforces. With this scenario firmly entrenched as a reality in this new year, enterprises are more focused on leveraging contract labor, including independent contractors, to fulfill their staffing needs.

However, organizations around the globe fail to capture key information around this crucial category of spend, thus sacrificing negotiation leverage in the process. Enterprises leave the door open for compliance risks in their management of independent contractors, as well as lack of productivity and failure to capture hard-dollar savings.

Aberdeen research has discovered that **16% of the average enterprise's overall workforce is considered contingent labor**, a factor which reflects the need for superior management of this key spend category.

### Business Context

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With an economic recession as 2009's top business story, enterprises must find alternative methods for cutting costs and increasing visibility into corporate spend. Contract labor (also known as contingent labor) has emerged as an essential tool for plugging quality workforce additions into the gaping holes within business units.

This *Contract Labor Management* report surveyed executives at more than 330 enterprises to understand how this spend category is managed, executed, and maintained in a world where volatility is commonplace.

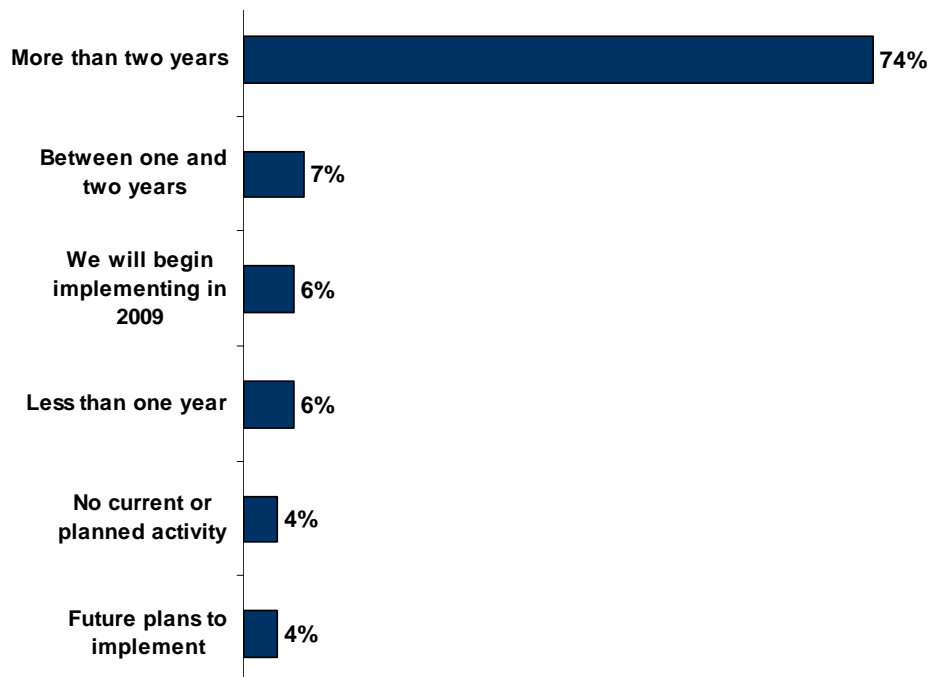
### Maturity

Although downtrodden economic times have solidified their grip around the nation over the past year, the majority of enterprises aren't new to the contract labor game. In fact, 74% of organizations have had some form of a contract / contingent labor management program in place for more than two years (Figure 1).

#### Fast Facts

- √ **74%** of enterprises have had a contract labor management program in place for more than two years
- √ The majority (52%) of enterprises believe that the use of contract / contingent labor will increase over the next two years

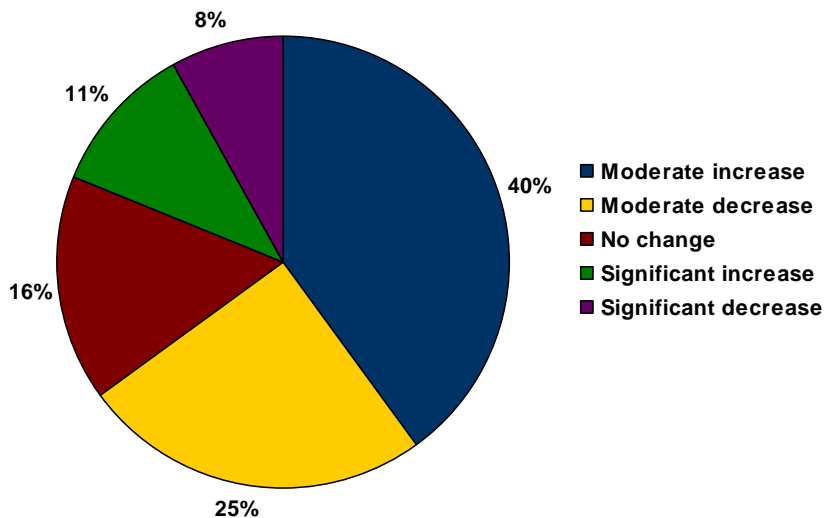
**Figure 1: Maturity of Contract Labor Program**



Source: Aberdeen Group, January 2009

The majority of enterprises are leveraging contingent / contract labor strategies to combat the effects of today's economy, seeking to fill their need for quality candidates. Enterprises in our survey believe that this trend will continue for at least the next two years, as indicated in Figure 2.

**Figure 2: Increase and Decrease in the Use of Contract Labor Over the Next Two Years**



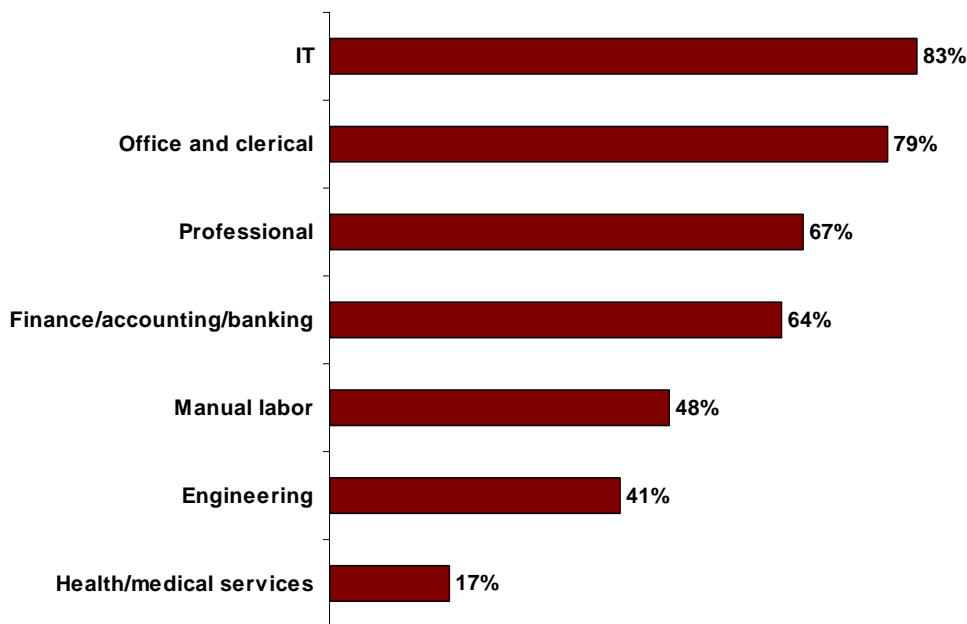
Source: Aberdeen Group, January 2009

A majority (51%) of enterprises believe that the use of contract / contingent labor will increase over the next two years, with 40% of that figure anticipating a moderate increase in this workforce strategy. With the economy in shambles (and no immediate resolution in near-sight), organizations around the globe must leverage their contingent workforce for immediate needs.

### ***It's an IT World: Staffing with Contract Labor***

As shown in Figure 3, information technology continues to be the most dominant field for skilled temporary labor (83%).

**Figure 3: Positions Staffed with Contract / Contingent Labor**



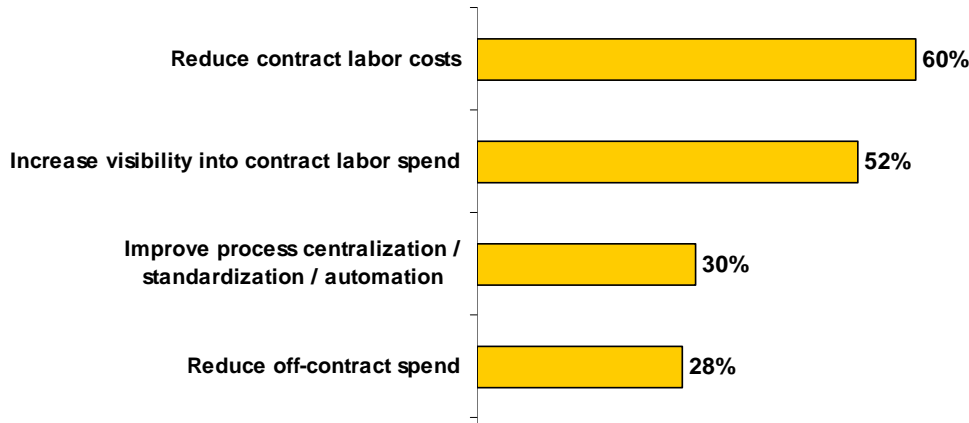
Source: Aberdeen Group, January 2009

In last year's [Contract Labor Management](#) study, office / clerical and IT were the top two positions staffed with temporary help. This year, the results reflect a dominant trend in these two industries, however, as indicated in Figure 3, the white-collar market (67%) is also being heavily staffed with contingent labor.

### **Pressures: Cost and Visibility...**

With economic pressure placed on enterprises in today's sullen marketplace, the average organization is seeking two main relief points when approaching their respective contingent labor management programs: reducing costs (60%) and increasing visibility (52%) (Figure 4).

**Figure 4: Factors Driving Enterprises to Focus Efforts on Contract Labor Management**



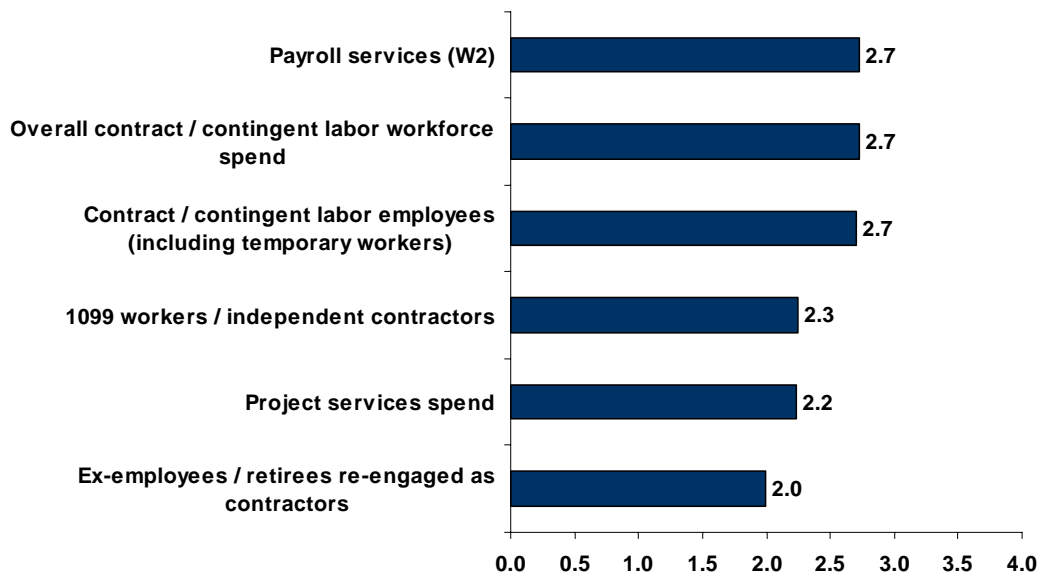
Source: Aberdeen Group, January 2009

Moving into 2009, enterprises still maintain a focus on reducing costs for their contract labor spend. However, in this modern world, saving money is always going to be an issue for any management program. *Visibility* is the key to running an efficient and effective contingent labor program, and the majority of enterprises (52%) have indicated a need to increase their view into contract labor spend as a means of reducing costs and gathering valuable information around this key category.

### **The Visibility Factor**

Visibility is a key component in efficient management of any spend category. Contract / contingent labor, however, must be approached with a much more focused eye. Valuable information (not just dollars) is gleaned around the typical contract labor management program, and if Figure 5 is any indication of the current visibility status of enterprises for their respective contingent labor programs, a hazy view into the contingent labor world reflects a need for technology and other helpful solutions.

**Figure 5: Visibility into Key Components of Contract Labor**



Source: Aberdeen Group, January 2009

Enterprises maintain a moderate level of visibility, according to the self-scored values in Figure 5, into their payroll services spend (2.7 score), overall contract labor workforce (2.7) and contingent labor employees (2.7). At a high viewpoint, these enterprises have light control over contingent labor spending, however, might not sustain visibility into the deeper aspects of the category, such as management of key information and the broad acquisition process.

However, what is more concerning is a lack of visibility into independent contractor spend (2.3), a component of contingent labor that, when mismanaged, can draw various business, legal, and tax risks that can flatten any enterprise's credibility and financial standing.

### **The Maturity Class Framework**

Aberdeen used the following four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations: compliance to internal and federal policies regarding contract labor, time-to-productivity, time-to-fill an open requisition, and year-over-year cost savings on contract labor spend (Table I).

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> <b>Top 20%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 86% compliance to internal and federal policies regarding contract labor</li> <li>▪ Time-to-productivity of 4.0 days</li> <li>▪ 5.3 days to fill an open requisition</li> <li>▪ 12% year-over-year cost savings on contract labor spend</li> </ul>
<b>Industry Average:</b> <b>Middle 50%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 43% compliance to internal and federal policies regarding contract labor</li> <li>▪ Time-to-productivity of 6.8 days</li> <li>▪ 12.3 days to fill an open requisition</li> <li>▪ 7% year-over-year cost savings on contract labor spend</li> </ul>
<b>Laggard:</b> <b>Bottom 30%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 35% compliance to internal and federal policies regarding contract labor</li> <li>▪ Time-to-productivity of 7.1 days</li> <li>▪ 20.3 days to fill an open requisition</li> <li>▪ 6% year-over-year cost savings on contract labor spend</li> </ul>

Source: Aberdeen Group, January 2009

### The Best-in-Class PACE Model

Gaining advancements in contract labor speed, depth, quality and cost reduction requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as shown in Table 2.

**Table 2: The Best-in-Class PACE Framework**

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Need to increase visibility into contract labor spend (including independent contractors)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conduct reviews / tests to determine status of contractors</li> <li>▪ Automate key processes within contract labor management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clearly defined classifications of worker types (independent contractor, employee, staff augmentation)</li> <li>▪ Collaboration between key internal units</li> <li>▪ Regular reporting to gauge performance of staffing vendors and contractors</li> <li>▪ Standardized contract labor management processes</li> <li>▪ Centralized review and management of contract labor and project requests</li> </ul>	<ul style="list-style-type: none"> <li>▪ Managed Service Provider (MSP)</li> <li>▪ Vendor Management System (VMS)</li> <li>▪ E-procurement solution</li> <li>▪ Contract Lifecycle Management (CLM) tool</li> <li>▪ Online dashboard to track key contract labor program performance metrics</li> <li>▪ Electronic independent contractor compliance survey</li> <li>▪ Applicant Tracking System (ATS)</li> </ul>

Source: Aberdeen Group, January 2009

## Independent Contractor Management

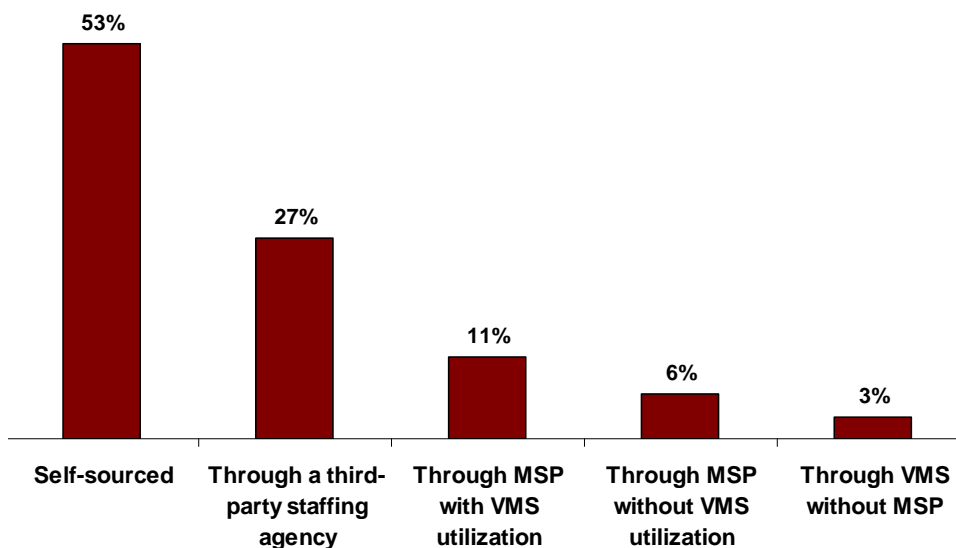
When enterprise hiring managers are in need of durable, short-term talent and hiring additional employees is not an option, independent contractors are often looked to for completion of important (and time-sensitive) projects. Although hiring workers paid by 1099 (or to their small company) seems to be a quick and resilient option, enterprises often mismanage this sub-category of contingent labor spend, leaving the door open for a plethora of business, tax, and legal risks if independent contractors are misclassified by hiring managers.

Organizations cannot fully ward off the negative effects of improper independent contractor management with a simple contract; management of this complex component of contingent labor often involves multiple measures to avoid risk and exposure.

### Outsource the Self-Sourced...

When sourcing independent contractors, the majority (53%) of enterprises are not sourced through any third party (Figure 6).

**Figure 6: Methods of Sourcing Independent Contractors**



Source: Aberdeen Group, January 2009

"External programs provide a level of security against misclassification issues and offer good reporting capabilities."

~ Procurement Manager, Media / Public Relations Firm

Although Managed Service Provider (MSP) programs and Vendor Management System (VMS) technology are typical components in sourcing ordinary temporary workers (contract and contingent laborers), a majority of enterprises are self-sourcing independent contractors.

Even though it is common for independent contractors to be self-sourced, it is evident that organizations are failing to outsource the engagement of these workers to leverage the advantages of a VMS, MSP and independent contractor engagement specialists, as outlined in Table 3.

**Table 3: Independent Contractor Management Performance, Outsourced versus Self-Sourced**

Independent Contractor Management Performance	Outsourced	Self-Sourced
Compliance to internal and federal policies regarding contract labor	<b>63%</b>	<b>48%</b>
Cost savings	<b>8%</b>	<b>6%</b>
Onboarding length	<b>2.7 days</b>	<b>4.1 days</b>
Time-to-fill an open requisition	<b>8.6 days</b>	<b>11.5 days</b>

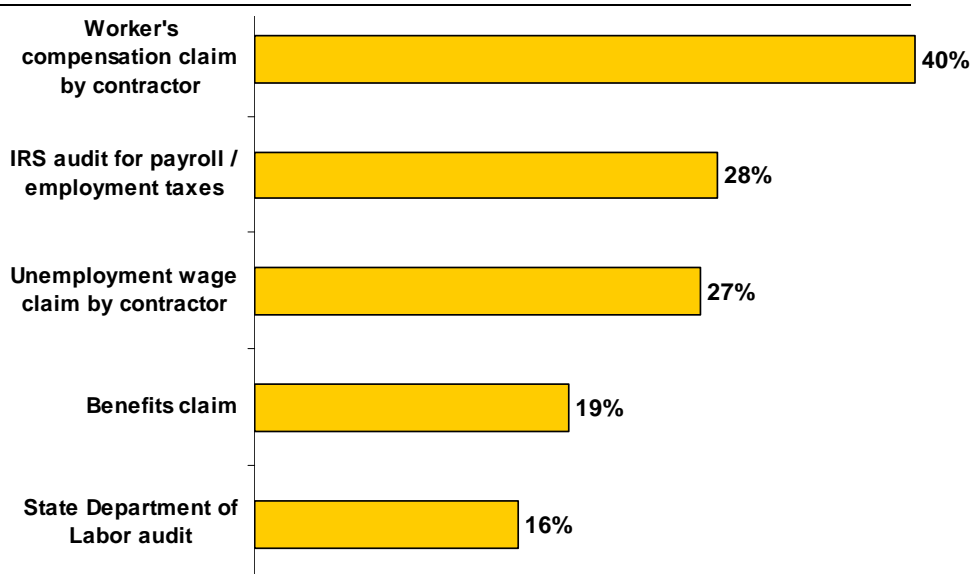
Source: Aberdeen Group, January 2009

As detailed earlier, leveraging MSP programs, independent contractor engagement specialists, and VMS technology in the sourcing of independent contractors has reaped many rewards across the scope of compliance, cost, speed, and depth. (Note: The data points in Table 3 refer only to the sourcing of independent contractors and do not include other temporary labor types.)

**The Effects of Mismanagement: Exposure to Legal Risk**

Although independent contractors remain an attractive option for fulfilling project-based needs, there are many dire consequences in not only mismanaging this area of contract labor, but misclassifying independent contractors, as detailed in Figure 7.

**Figure 7: Ramifications of Misclassifying / Mismanaging Independent Contractors**



**Independent Contractor Engagement Specialist Defined**

✓ An independent contractor engagement specialist performs worker classification assessments to determine if a worker is a compliant independent contractor without the risk of IRS reclassification. These specialists also maintain audit compliance files and administer payments for compliant independent contractors or processes W-2 payroll for those that are not compliant and must be classified as an employee.

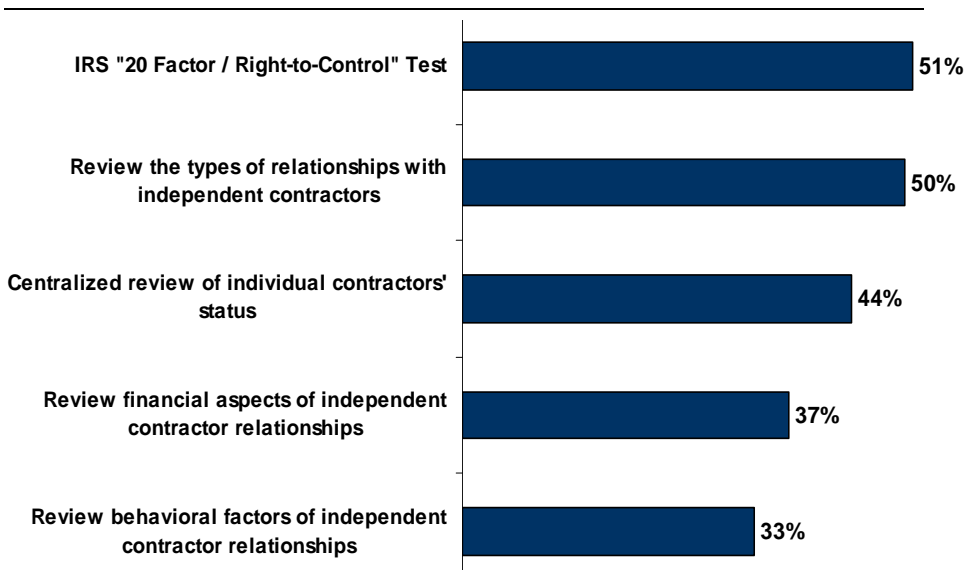
Source: Aberdeen Group, January 2009

The top ramifications for misclassifying independent contractors are receiving a worker's compensation claim (40%) and undergoing an Internal

Revenue Service (IRS) audit for payroll and employment taxes. These two factors can cause an organization undue stress and can impact financial performance. The IRS can reclassify an independent contractor, leaving the hiring organization responsible for tax and employee benefits. While a single audit for a few contractors isn't a significant financial drain, the typical large organization, which can employ thousands of independent contractors, can be obligated financially for millions of dollars in back taxes, expenses, and benefits.

The ramifications are steep, and organizations are trying to mitigate the risks by deploying the following techniques, detailed below in Figure 8.

**Figure 8: Methods of Classifying Independent Contractors**



Source: Aberdeen Group, January 2009

The majority of enterprises (51%) use the IRS “20 Factor” test to determine independent contractor status, however, the IRS has recently moved away from relying exclusively on this method. It now focuses its qualification assessments primarily on establishing the degree of control the client has over contingent workers as it pertains to three factors: behavioral control (used by 33% of organizations), financial control (37%), and the types of relationship of the parties (50%).

### **Workforce Strategy #1 — Independent Contractor Classification**

Business executives and hiring managers are often faced with a quandary: fill roles on a crucial project in a fast and efficient manner. As alluring as independent contractors may sound to the uninformed business manager, there are a myriad of risks associated with mismanaging this subcategory of contingent labor.

IRS 1099 reclassification and co-employment are the two main risks associated with employing independent contractors. Enterprises that fail to address these issues can potentially find themselves on the receiving end of a worker's compensation claim, employee benefits claim, or worse, an IRS tax audit.

Enterprises conducting regular business with independent contractors should look to external resources to effectively manage this category, such as a Managed Service Provider (MSP) or an independent contractor engagement specialist and leverage VMS technology to improve performance, compliance and visibility with the independent contractor components of the workforce.

## Chapter Two: Benchmarking Requirements for Success

As illustrated in Chapter One, enterprises lack key visibility into their overall contract and contingent labor spend, sacrificing dollars, time, and efficiency. In fact, enterprises estimate that, on average, **17% of contract labor spend occurs outside of their programs**. To effectively manage this category in a demanding economic environment, enterprises must blend Best-in-Class strategies and deploy crucial contract labor management tools to boost performance and mitigate risk.

### Case Study — The Quality Factor

The commercial manager for a large North American CPG enterprise found herself buried in manual contract labor management processes. Resumes were received by fax, while requisitions were tracked in a homegrown database. After implementing a Managed Service Provider (MSP), the enterprise saw a high level of soft benefits from the program, including consolidated invoices, on-time payments and quick influx of resumes, as well as automated job requisition-tracking. However, the most beneficial aspect as a result of leveraging an MSP came in the form of *quality*.

“Our attrition rates have decreased significantly over the last year,” the commercial manager said. “We are consistently bringing in superior quality resources, as well as utilizing more streamlined processes across the company.”

As a result of using an MSP program, the firm has been able to reduce time constraints on hiring managers and simplify the entire contingent labor lifecycle. “Everything is running much more smoothly now,” the commercial manager added.

### Fast Facts

- √ **Eighty-five percent (85%)** of Best-in-Class organizations have clearly defined classifications of their employee types
- √ **MSP users report higher rates of compliance** to federal policies concerning contract labor, as well as **increased cost savings**

## Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their daily contract labor management operations); (2) **organization** (corporate focus and collaboration among stakeholders regarding contract labor management); (3) **knowledge management** (leveraging information around the contract labor category and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and effective deployment of those tools in managing contract labor); and (5) **performance management** (the ability of the organization to measure their results to improve their business). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

**Table 4: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Standardized contract labor management processes		
	69%	61%	38%
	Ability to track project services spend		
	69%	57%	35%
<b>Organization</b>	Internal review process for compliance to federal labor and tax policies		
	68%	46%	55%
	Collaboration between key internal units (procurement, human resources, finance, hiring managers, etc.)		
	79%	61%	57%
<b>Knowledge</b>	Centralized review and management of contract labor and project requests		
	77%	55%	36%
	Contract worker issue management and resolution		
	68%	56%	47%
<b>Technology</b>	Clearly defined classifications of employee types		
	85%	67%	64%
	Maintained repository of active and passive candidate information		
	54%	47%	30%
<b>Performance</b>	Contract / contingent labor technology currently in use:		
	<ul style="list-style-type: none"> <li>▪ 63% Managed Service Provider (MSP)</li> <li>▪ 61% Vendor Management System (VMS)</li> <li>▪ 52% e-procurement system</li> </ul>	<ul style="list-style-type: none"> <li>▪ 37% Managed Service Provider (MSP)</li> <li>▪ 36% Vendor Management System (VMS)</li> <li>▪ 38% e-procurement system</li> </ul>	<ul style="list-style-type: none"> <li>▪ 28% Managed Service Provider (MSP)</li> <li>▪ 33% Vendor Management System (VMS)</li> <li>▪ 36% e-procurement system</li> </ul>
	Performance-tracking capabilities		
	<ul style="list-style-type: none"> <li>▪ 64% regular reporting to gauge performance of staffing vendors and contractors</li> <li>▪ 30% online dashboard to track key contract labor program performance metrics</li> <li>▪ 41% business intelligence system for tracking and measuring performance</li> </ul>	<ul style="list-style-type: none"> <li>▪ 51% regular reporting to gauge performance of staffing vendors and contractors</li> <li>▪ 22% online dashboard to track key contract labor program performance metrics</li> <li>▪ 21% business intelligence system for tracking and measuring performance</li> </ul>	<ul style="list-style-type: none"> <li>▪ 41% regular reporting to gauge performance of staffing vendors and contractors</li> <li>▪ 13% online dashboard to track key contract labor program performance metrics</li> <li>▪ 17% business intelligence system for tracking and measuring performance</li> </ul>

"Our primary issues surround the lack of education on what truly is a 1099 and what is not. Often times, management simply assumes someone claiming to be an independent contractor is just that..."

~ Procurement Manager, Large Health Services Organization

Source: Aberdeen Group, January 2009

## Capabilities and Enablers

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Best-in-Class enterprises have demonstrated aptitude in their overall management of contingent labor, driving desirable performance across the scope of compliance, savings, time-to-productivity and time-to-fill an open requisition. Behind this array of top-level performance are a myriad of capabilities and enablers that help streamline contract labor management processes and add strategic value to the organization.

### **Process: Standardization and Compliance Reviews**

Standardization has long been the cornerstone of effective procurement processes and supply management. When sourcing contingent labor, standardization is a key factor in ensuring that all business units, hiring managers, and other stakeholders are utilizing the same methods and processes for all phases of the lifecycle. Best-in-Class enterprises (69%) have demonstrated the value of standardization; these organizations raise the bar in terms contract labor management performance.

One of the main components of satisfactory compliance levels is the ability to conduct internal reviews for compliance to federal labor and tax policies, a capability that top-performing enterprises (68%) have in tow. With consistent reviews of these policies, Best-in-Class enterprises are ensuring that all contingent workers (and independent contractors) meet specific criteria concerning federal and internal policies.

### **Organization: Contingent Labor Collaboration**

Collaboration has risen to prominence as an internal strategy that encourages the free flow of crucial information between key internal stakeholders. Last year's [Contract Labor Management](#) study found that enterprises that establish strong collaborative environments for procurement and human resources, the two business units most often associated with procuring and managing contingent labor, have seen cost savings that are **115% higher** than those achieved by enterprises without collaboration in place.

By leveraging the unique skill-sets of each team, enterprises can turn the candidate-sourcing lifecycle into a more efficient process. Enterprises encouraging collaboration between procurement and HR are also afforded superior visibility into contingent labor spend.

"VMS technology has provided us back-office support and real-time industry knowledge."

~ Director, North American  
Pharmaceutical Manufacturer

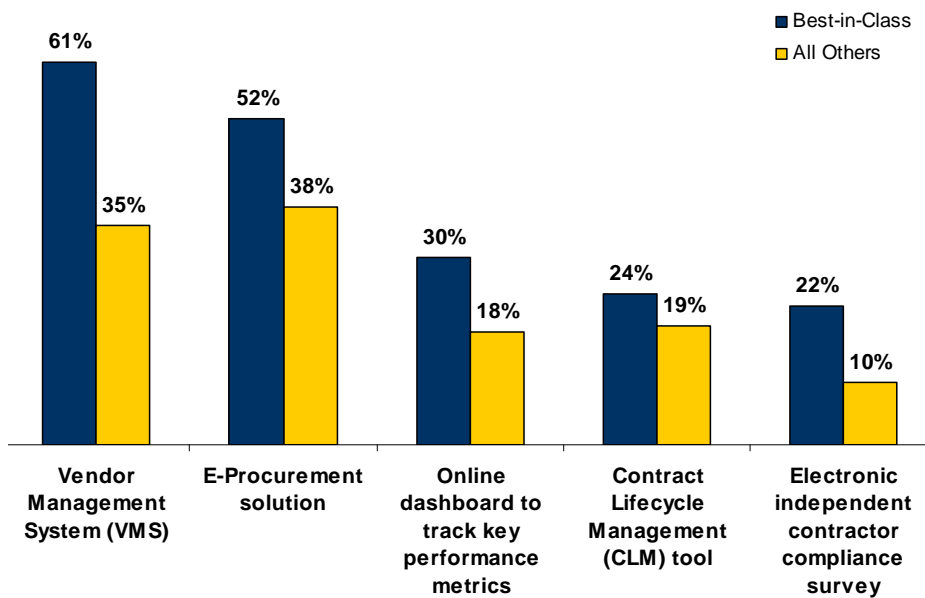
### **Knowledge Management: Clear Definitions**

In an age where federal scrutiny lingers overhead, enterprises must be sure that their contract workers, especially independent contractors, are classified properly in the eyes of the IRS. Eighty-five percent (85%) of Best-in-Class organizations have clearly defined classifications of their employee types, a factor which contributes directly to their superior level of compliance.

## Technology: Automating Key Processes

As shown in Figure 9, Best-in-Class enterprises are actively leveraging technology solutions to enhance their contract labor programs.

**Figure 9: Best-in-Class Solution Usage**



"Outsourcing to an MSP has provided better results for our program. They administer the process according to our rules, and our resources are freed up for higher value work internally. They also understand supplier management better than we do."

~ EVP, Large North American Enterprise

Source: Aberdeen Group, January 2009

Best-in-Class performers actively utilize VMS technology (61%) and e-procurement solutions (52%) to aid in sourcing temporary labor. VMS tools oversee the distribution of labor requirements to staffing suppliers, facilitating various processes within the contingent management lifecycle, including filling / closing requisitions, approval, hire, and collection of rates.

By leveraging an e-procurement solution, top-performing organizations are utilizing a 'golden' procurement technology to effectively source their contingent labor candidates. These solutions have transformed the purchasing department into a core of real-time visibility and provider of detailed spend information. All of the core capabilities of an e-procurement solution can be leveraged in the contract labor process: access to preferred suppliers, review and approval of candidates, online tracking of labor milestones, and payment.

## Performance Measurement: Gauging Supplier Performance

Contingent labor management is often varied from the procurement norm; staffing suppliers are sometimes held to a higher standard than vendor selling materials. Therefore, it is important to actively report on supplier performance to ensure that there is a steady flow of quality candidates swimming through the door, as 64% of Best-in-Class enterprises have done.

### MSP Defined

√ Managed Service Providers (MSPs) are typically leveraged to manage the end-to-end lifecycle of the contract labor process, directing all inner-processes in securing quality candidates for the organization. MSPs are known for their ability to consolidate all contingent labor activity into a single point-of-contact, with all activity funneled through a single program.

## Driving Results with MSP Programs

Top-shelf performance is driven by a combination of strategic actions and key capabilities. However, without the proper program structure in place, enterprises lack the resources to streamline contingent labor processes and ensure results across the scope of speed, savings, and quality.

Top-performing enterprises employ Managed Service Provider (MSP) programs to drive their contingent labor programs, streamline operations, and kick-start performance around key metrics (compliance, time-to-productivity, time-to-fill and savings), as detailed in Table 5.

**Table 5: The MSP Performance Advantage**

Contingent Labor Management Performance	MSP Users	Non-MSP Users
Compliance to internal and federal policies regarding contract labor	<b>64%</b>	<b>46%</b>
Cost savings	<b>9%</b>	<b>7%</b>
Onboarding length	<b>2.9 days</b>	<b>5.7 days</b>
Time-to-fill an open requisition	<b>9.8 days</b>	<b>12.2 days</b>

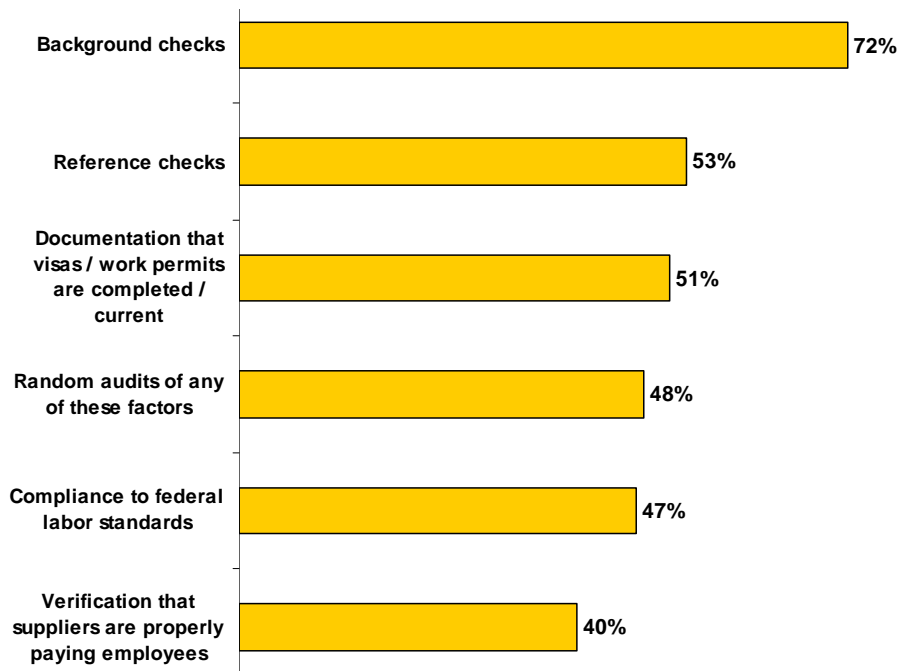
Source: Aberdeen Group, January 2009

Enterprises leveraging MSPs have seen a wealth of hard-line benefits from these programs, including higher compliance rates, increased cost savings, and shorter onboarding lengths and time-to-fill rates. Channeling all contingent labor activity through a single program has assisted enterprises in driving significant benefits.

## Post-Selection Management

Hiring managers are typically under pressure to take an extra step to ensure quality and performance from temporary workers. Post-selection management allows an organization to dig deeper into the employment history of a contract labor candidate to ensure quality and performance. Figure 10 details the methods in which enterprises are conducting post-selection management.

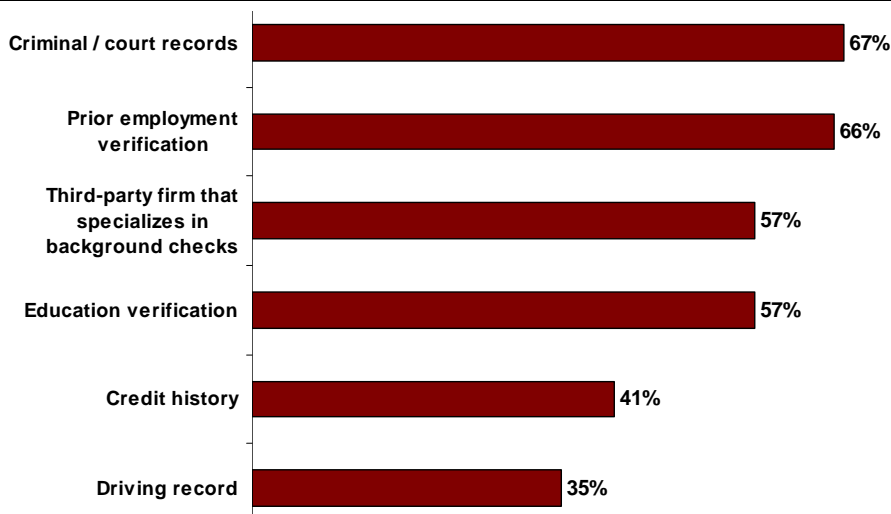
**Figure 10: Post-Selection Management Techniques**



Source: Aberdeen Group, January 2009

As with last year's study in this space, background checks (72%) remain the premiere method of post-selection management; organizations find that this is the top way of gathering information on a contingent candidate to ensure quality. Enterprises are also conducting reference checks (53%) as an extra measure of gauging the history of contingent labor candidates. Figure 11 details the methods enterprises are using of conducting background checks.

**Figure 11: Methods of Conducting Background Checks**



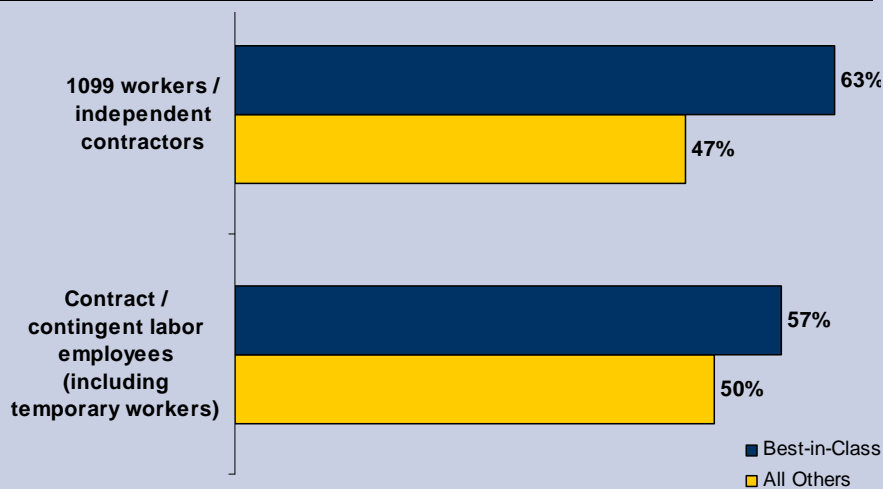
Source: Aberdeen Group, January 2009

Referencing criminal / court records (67%) is the top background check method employed by enterprises as part of their post-selection management process. By conducting prior employment verification (66%), hiring managers are saving time and are presented with a window into a candidate's reliability and behavior at previous employers.

### Workforce Strategy #2: The VMS Advantage

Vendor Management System (VMS) technology solutions are designed to help streamline and facilitate portions of the contingent labor acquisition lifecycle, managing a pool of staffing suppliers through an automated system. As shown in Figure 12, Best-in-Class enterprises are capturing significantly more of their contingent labor through VMS solutions.

**Figure 12: Labor Types Captured by VMS Solutions**



Source: Aberdeen Group, January 2009

Top-performing organizations capture more of their independent contractors (63%) and temporary workers (57%) through their VMS systems than all other organizations, effectively gaining superior visibility into these sub-categories of contract labor spending.

## Chapter Three: Required Actions

Effective contingent labor management blends a mix of strategic actions, rigorous capabilities, and the leveraging of key technologies and programs to attain superior performance in line with Best-in-Class execution:

### Laggard Steps to Success

- **Centralize management of contract labor (and project requests).** An efficient contingent labor program starts with centralized processes; funnel all job requests through a single unit or program to ensure visibility and reduced off-contract spending on this category. Laggard enterprises should also focus on centralizing compliance reviews to avoid worker misclassification. Best-in-Class enterprises are 98% more likely to centralize and standardize contingent labor management processes, a factor which allows them greater visibility into spend on this key category.
- **Standardize contingent labor processes across the organization.** Nearly 70% of top-performing organizations share this crucial trait. All hiring managers and program-runners (including both procurement and human resources) should implement a program that includes standardized acquisition processes within the labor lifecycle.
- **Leverage MSP programs and VMS technology to streamline the contingent labor process.** Best-in-Class enterprises are especially adept at leveraging technology; they are making use of MSP programs (63%) and VMS solutions (61%) to avoid the issues that plague self-managed contract labor programs. Laggard enterprises can utilize these tools to streamline the contingent labor lifecycle and drive desirable performance in speed, savings and compliance.

### Industry Average Steps to Success

- **Collaboration: The procurement and HR relationship.** Aberdeen research [detailed the advantages](#) of having procurement and human resources collaborate in enterprises' contingent labor programs, including superior visibility and 115% higher cost savings. Best-in-Class enterprises are 30% more likely to institute this type of relationship to enhance their contract labor programs.
- **Implement an internal review process for classifying labor types.** Less than half (46%) of Industry Average organizations have this process in place, putting themselves at risk for a plethora of tax, financial and benefit liabilities when managing independent contractors.
- **Ensure that all contractor relationships are clearly defined and classified in accordance with internal and federal labor policies.** As with the previous recommendation, Industry Average

#### Fast Facts

- √ **Best-in-Class enterprises are 30% more likely** to institute collaboration between procurement and human resources
- √ Top-performing organizations are adept in leveraging technology; **63%** currently utilize MSPs, while **61%** have VMS solutions in place

"Using a third-party provider has always been our best option [for managing contract labor] because they are subject matter experts and keep current with labor regulations."

~ Business Process Manager,  
Large North American  
Enterprise

enterprises (56%) lack standard definitions and classifications in regards to their independent contractors, which 85% of top-performing organizations have in place. MSPs and independent contractor engagement specialists can provide guidance in this area, as will implementation of behavioral and relationship reviews to effectively classify independent contractors.

## Best-in-Class Steps to Success

- **Automate the independent contractor compliance process.** Contractor compliance is a necessity in today's demanding business environment; poor compliance to federal policies can flatten an organization's marketability and financial standing. Only 22% of Best-in-Class enterprises are currently leveraging an electronic independent contractor compliance survey to effectively classify employee types and drive contingent labor compliance. Top-performing enterprises can also leverage the expertise of independent contract engagement specialists to streamline contract compliance reviews.
- **Leverage workforce analytics to plan and forecast.** Business managers are more apt to gauge investment in human capital by analyzing trends in 'people performance.' However, a mere 31% of top-performing organizations have this ability in tow. Best-in-Class organizations should leverage workforce analytics to determine the quantifiable need for contingent labor additions and its effect on overall business performance.

### Workforce Strategy #3: "The Little Things"

In the current volatile economy, enterprises are relying now more than ever on contingent labor to enhance their workforce; **16% of the average enterprise's workforce is comprised of temporary labor.** Although strategies involving external programs (MSPs and independent contractor engagement specialists) and technology solutions (VMS) are crucial additions to an existing contract labor management program, it is critical not to overlook the "little things" that are components of a successful program.

Centralization and standardization, often touted as vital elements of basic procurement and sourcing programs, are essential to contingent labor management success. Enterprises should first look to their own internal abilities before looking to the outside for help. A centralized program, in conjunction with standardized processes, is the first step in overhauling or developing an efficient contingent labor management program.

Organizations should then add external components as they see fit, such as outsourcing management to an MSP for increased visibility, funneling requests and staffing management through VMS for added automation, or electronic compliance surveys to ensure that independent contractors meet classification requirements.

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## Appendix A: Research Methodology

Between December 2008 and January 2009, Aberdeen examined the use, the experiences, and the intentions of more than 330 enterprises leveraging contingent labor programs.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on contract labor management strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: manager (33%); C-level and EVP / VP (24%); director (23%); and others.
- *Job function:* Forty-one percent (41%) of responding end-users are in the procurement function; human resources (20%); operations (9%); IT (4%); and others.
- *Industry:* The research sample included respondents from many industries, including: finance (13%), manufacturing (11%), IT (10%), and 27 others.
- *Geography:* The majority of respondents (85%) were from North America. Remaining respondents were from the Asia-Pacific region (5%) and EMEA (10%).
- *Company size:* The majority (58%) of respondents were from large enterprises (annual revenues above US \$1 billion); 22% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 20% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

### Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which contingent labor management is deployed in their operations and the implications of the program
- √ The structure and effectiveness of existing contract labor management implementations
- √ Current and planned use of contingent labor technologies / solutions to aid operational and promotional activities
- √ The benefits, if any, that have been derived from contract labor management initiatives

The study aimed to identify emerging best practices for contingent labor management and to provide a framework by which readers could assess their own management capabilities.

**Table 6: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, January 2009

**Table 7: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, January 2009

**Table 8: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, January 2009

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [The 2009 HR Executive's Agenda](#); December 2008
- [Technology: The Pathway to Contract Labor Savings](#); November 2008
- [CPO Rising: The CPO's Agenda for 2008](#); February 2008
- [Contract Labor Management: Permanent Solutions for Temporary Workers](#); January 2008
- [Contract Labor and Professional Services](#); April 2007
- [The Contract Labor Benchmark Report](#); August 2006
- [The Category Spend Management Report Series 2004: Report No. 1: Contract Labor](#); March 2004

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).

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