

UNIFYING THE WORKFORCE: PLANNING FOR CONTINGENT LABOR

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Report Highlights

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Contingent workers account for more than 40% of the workforce at 50% of Best-in-Class companies.

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Best-in-Class companies are 62% more likely than All Others to find that more than 60% of their workforce is highly engaged.

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60% of Best-in-Class companies reported that a lack of focus on engagement-related reasons accounted for the top 3 reasons employees voluntarily leave their organizations.

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84% of companies view strategic workforce planning as critical to driving successful business outcomes.

From 2008 to today, the contingent workforce has grown in relevance to employers warranting the development of a unique area within human capital management to specifically serve the different types of contingent labor. To that end, employers have engaged a diverse set of resources as they aim to merge the contingent and full-time labor groups together while managing their overall productivity.

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More than 40% of the US workforce identified as contingent labor in 2016 representing a 30% increase from 2006.

In 2016, the US Government Accountability Office reported that more than 40% of the US workforce identified as contingent labor in some form or another. While this statistic constitutes a 30% increase from a similar 2006 report released by the US government, changes in the contingent workforce are causing this labor pool to transform as employers experiment with measures to trim operational costs from the edges of the workforce.

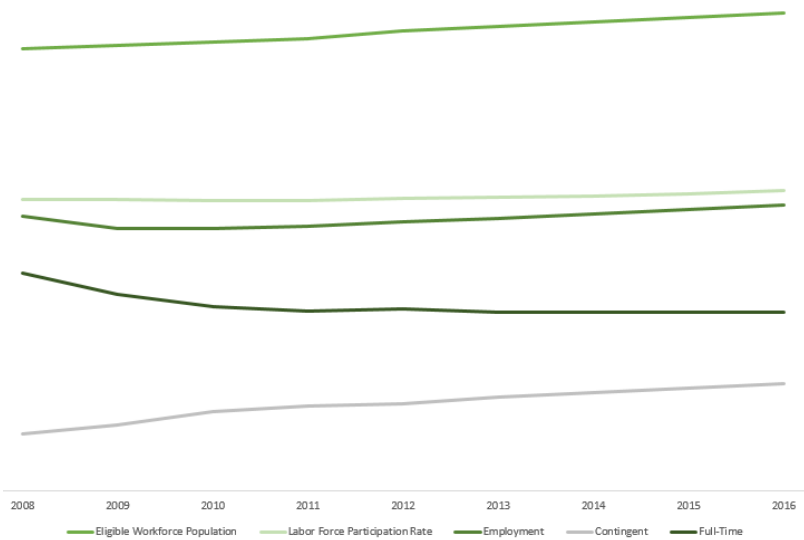


Figure 1 US Workforce Data Compiles from the [BLS](#), [NCSL](#), and [GAO](#)

Figure 1 shows the trends in US workforce participation and employment type compiled from the [Bureau of Labor Statistics](#), the [National Conference for State Legislatures](#), and the [US Government Accountability Office](#). What the trends show is that while the overall size of the eligible, full-time workforce has increased from 2008 to 2016, the workforce participation rate has declined leaving the actual size of the full-time workforce stagnant across that time period. From 2008 to 2016, actual employment sagged before statistically recovering steadily to 2008 levels by 2016, but the actual nature of the workforce underwent a significant change. The statistical recovery has been characterized

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by a growing number of contingent workers and a shrinking number of full-time hires that both approach limits heading into 2016. What this means is that the size of the contingent workforce has grown in the wake of the financial crisis and, while it remains smaller than the full-time workforce, it has leveled off in conjunction with the full-time workforce to represent a steady proportion that shows no sign of abetting.

The HCM arena has expanded its focus to include the changing labor landscape. By doing so, vendors are aiming to help end users drive more strategic outcomes from a workforce that is blended not just across multiple generations, but also across multiple labor types. Aberdeen has looked at some of the challenges that companies face in handling this biaxial diversity and identified best practices to achieve key business outcomes.

Contingent Workforce Pressures

The contingent workforce is not a new subset of the workforce. What is new is how the subset has expanded particularly in the wake of the 2008 and 2009 financial crisis. Employers have turned to the contingent workforce for a number of different reasons at different intervals as the [proverbial recovery has taken effect unevenly between markets and geographic regions](#). At the HR Technology Conference in Chicago, IL, vendors and end users provided four main reasons for the expansion of the contingent workforce:

- [Market Expansion for SMBs](#) – Certain markets have grown in fits and starts without regularity. Small to medium-sized businesses reported turning to contingent hires in order to expand their footprint prior to being financially ready to expand their business in order to take advantage of market

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At the HR Technology Conference, vendors and end users attributed the expansion of the contingent workforce to a combination of market expansion among SMBs, risk aversion among established firms, industry dependence for certain markets, and general corporate reorganization and departmental restructuring.

growth that could see contingent hires become full-time employees further down the line.

- [Risk Aversion](#) – Medium to Enterprise sized employers now have a reputation for seeking ways to continuously cut labor costs as a routine lack of major innovations has pushed their markets into diminishing returns. What this means is that their revenue streams have leveled off forcing them to cut operational costs in order to maintain profitability as they place shareholder interests ahead of employee investment.
- [Industry Dependence](#) – Some industries have always hired contingent labor such as part-time labor in retail and retail services or union labor in transportation and logistics. The nature of these industries establishes a threshold of contingent labor around constant industrial restructuring and redirection that makes full-time labor impractical.
- [Reorganization or Restructuring](#) – Medium to Enterprise sized organizations noted using contingent labor to manage gaps in the company during reorganization or restructuring until such time that they realign with their target markets and identify what positions will become full time.

Industry dependence and reorganization carried over from before the financial crisis but new to the arena are market expansion among SMBs and risk aversion. According to the [American Staffing Association](#), prior to the financial crisis, the use of agency and direct-hire temporary workers bridged the skills gap during rapid market expansion or industry reorganization. Today, companies are bringing temporary hires inside the organization rather than using intermediaries as they struggle to determine a clear line between what will be a temporary position and what will last

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beyond the short-term. As a result, the internal hiring structure has changed to include procurement departments in headcount allocation that happens off the fiscal calendar.

In addition to changes in the employer mentality, there has also been a shift in the employee mentality. According to the [freelancer's union](#), a significant portion of the workforce has essentially gone into business for themselves as the flood of contract positions into the market and the emergence of the gig economy created opportunities for them to subsist on contracted income alone.

The Business Pressures of Contingent Labor

Aberdeen has found that Best-in-Class organizations are 23% more likely than All Others (90% vs. 73%) to perceive contingent labor as a vital component or as a moderately sufficient component of their workforce. In a separate survey, Aberdeen found that contingent workers account for more than 40% of the workforce at 50% of Best-in-Class companies, but that companies feel that they will only be able to deliver 67% of the leaders that their businesses will require in the coming three to five years.

Taking these statistics as a set, the first business pressure is obvious: The business benefits of the contingent workforce often remain with contingent employees and do not translate to the business over the long term. Contingent labor commoditizes employees in a way that makes it difficult for businesses to plan around stability in their talent ranks and talent pipelines because talent pools shift from project to project and from contract to contract without developing a focus for hiring and retaining top talent. In other words, businesses only realize the value of their

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Best-in-Class companies are 82% more likely than All Others to have a process in place to identify job roles that are critical to organizational success.

employees for as long as they make the investment in the workforce under the terms of the employment contract.

In [Turn Your High Potentials into Your Leaders of Tomorrow](#) (August 2015), Aberdeen found that Best-in-Class companies are 82% more likely than All Others (71% vs. 39%) to have a process in place to identify job roles that are critical to organizational success. Aberdeen also found that Best-in-Class companies are 62% more likely than All Others (98% vs. 37%) to find that more than 60% of their workforce is highly engaged.

Connecting these together means that Best-in-Class companies are identifying what positions are necessary to drive better business outcomes, connecting back to drawing business value out of the workforce. Digging deeper, however it is clear that when this top-down role recognition is combined with the aforementioned statistics about the proportion of the workforce that is contingent at Best-in-Class companies, and the lack of fulfillment of leadership positions, even Best-in-Class companies are failing to connect the dots on their employment strategies.

Without a clear strategy in place, employers are essentially foregoing gaining any long-term value prospects out of the workforce. While organizations are recognizing what they need to succeed in terms of the roles needed here and now, they are incapable of taking risks on long-term candidates because they have no idea how to build the business case for labor over 2, 5, and 10 years.

The lack of a clear strategy brings us to the second business pressure: Organizations have no idea how to identify what they need in the short versus the long term let alone how to attract and retain candidates for both. As a result, Aberdeen has found that engagement has grown in significance as organizations feel that engagement is a key reason employees stay with or leave the

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company 3.7 times more than for compensation-based reasons. As a result, there is a real need to ensure that employees feel a sense of inclusion and relevance to the organization in order to drive business outcomes regardless of the type of role they fill.

In [Analyze This: Workforce Productivity](#) (September 2016), Aberdeen found that 71% of Best-in-Class companies are focusing on aligning HCM goals and procedures with management goals. What this means is that as workforce diversity extends to employment type, Best-in-Class employers are shifting their focus to how the employees themselves meld into the management strategy beyond how they parse out by role, race, generation, or employment type. In other words, as employers map employee characteristics on one axis and employment type on another, the employee characteristics are taking center stage in terms of what can be expected or driven in terms of management goals and objectives and how the employee's persona contributes to the cultural environment even in the short term: Engagement matters as a driver of key business outcomes.

Shifting their mentality to bring contingent employees into the workforce regardless of their employment status has delivered results for Best-in-Class companies. Aberdeen has found that Best-in-Class companies are 30% more likely than All Others (71% vs. 50%) to realize a change in revenue per FTE above 10% year over year and that Best-in-Class companies are 49% more likely than All Others (86% vs. 44%) to see an increase in customer satisfaction rates above 10% year over year.

Understanding that the contingent workforce has to be treated the same as the full-time workforce brings up the third pressure: How to take the employment strategy and channel it into building

Best-in-Class companies are 30% more likely than All Others to realize a change in revenue per FTE above 10% year over year.

an all-inclusive hiring and management methodology. Aberdeen found that 60% of Best-in-Class companies reported that a lack of focus on engagement related reasons accounted for the top 3 reasons employees voluntarily leave their organizations. The results were tabulated across full-time and contingent employees and Aberdeen found that contingent employees account for more than 40% of the workforce at 50% of Best-in-Class companies. What this means is that contingent retention and rehire rates are growing in importance to running a lean and productive organization despite that common instinct that the most valuable roles to departmental business outcomes will always be filled by full-time labor.

Synthesizing these three pressures together shows that the financial crisis shook up the labor market and rearranged the interactions between full-time and contingent labor, as well as between management and contingent labor. A new mindset has to be adopted that is more inclusive when linking contingent employees to management goals so that companies can expect the same quality business outcomes from contingent labor as they do from full-time hires – **the strategy matters for the whole workforce.**

Unifying the Workforce

Bringing the pressures to bear shows that employers are having difficulty in unifying the workforce regardless of employment type. Aberdeen has found that more than half of employers fail to consider contingent workers according to the same characteristics as full-time employees leading them to miss the mark on what is needed to achieve high quality workers in this subset of labor.

At the HR Technology Conference, HCM solution providers were finally shifting their focus to engagement. Furthermore, providers who ushered in the message first were finally starting to talk

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→ [Read the full report](#)
“Turn Your High Potentials Into Your Leaders of Tomorrow!”

about engagement as an enabler of business outcomes. In [Turn Your High Potentials Into Your Leaders of Tomorrow!](#) (August 2015), Aberdeen found that business that have a standard process in place to measure engagement are 24% more likely (67% vs. 54%) to have employees who rate themselves as highly engaged. While a measurement platform sets the benchmark for incorporating engagement as a performance metric, it starts the conversation into how technology can provide a platform for strategic workforce planning.

Aberdeen found that 84% of companies view strategic workforce planning as critical to driving successful business outcomes. Of the 84%, 86% of Best-in-Class companies viewed this as a must-have in their quiver of arrows aimed at optimizing the workforce. Keeping in mind that contingent workers account for more than 40% of the workforce at 50% of Best-in-Class companies, this means that 86% of Best-in-Class companies and 84% of all companies are recognizing the importance of viewing and laying out the whole, integrated workforce as a system of interconnected, moving parts.

Looking into the organizational structure, planning for the workforce has to come out of the halls of the HR space and engage all departmental stakeholders prior to developing headcount figures and budgetary needs for the workforce. In [Talent Acquisition Trends 2016: Candidates Take Command](#) (July 2016), Aberdeen found that employers felt that the market skills gap was growing and that 73% of companies felt that talent acquisition was vital to fulfilling and executing on business strategies. Without directly saying it, this means that HR has to be in the driver’s seat of strategic talent acquisition. Beyond HR, other stakeholders from finance to department managers and

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project leaders should outline the core needs of the department for a given planning period. In fact, Aberdeen found that Best-in-Class companies are 45% more likely than All Others (61% vs. 42%) to involve various business stakeholders in setting the talent acquisition strategy. For labor that exists outside the core group contingent labor spend should be allocated according a project pitch with budget being allocated directly from the finance team on behalf of the organization as a whole only to then be properly sourced, vetted, and hired according to the workforce strategy. If hiring is decentralized according to applicable budgetary areas, Aberdeen has found that organizations risk becoming laggards in terms of their hiring and engagement practices leading to decreases in revenue per FTE in excess of 10% year over year.

Centralizing hiring along a core HR strategy that brings together all project and contract stakeholders is just the first step. The hiring process has to be personal, relevant, and enticing to make a connection with any candidate regardless of the position type. In the context of short-term hiring with high turnaround, this means that the recruitment process has to be personalized to the ideal candidate while still honing in on defined skill sets. in [Talent Acquisition Trends 2016: Candidates Take Command](#) (July 2016), Aberdeen found that Best-in-Class companies are 42% more likely than All Others (37% vs. 26%) to create and promote an employer brand to target desired talent. The hiring process has to become more candidate-specific so that prequalified candidates can become good project fits that will keep things running on schedule with a high quality of deliverables whether they are contingent or full-time.

Once employees are hired, it then falls to a combination of workforce management, learning management, and workforce planning capabilities to provide employers with the ongoing data

→ [Read the full report](#)
“Talent Acquisition
Trends 2016:
Candidates Take
Command

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sets needed to ensure that they can strategically plan for the workforce of tomorrow.

Connecting the Dots

The contingent workforce is a direct extension of the same management goals that lead to the hiring of full-time labor. Best-in-Class companies have realized that their hiring and workforce management strategies have to be consistent across the organization and across the workforce regardless of position type. As engagement has finally come back into the fray in terms of bringing people together to accomplish business outcomes without the interference of direct technological management, the characteristics of the individual employee are mattering more and more.

→ [Read the full report](#)
“Need to Find High Potentials to Lead the Charge? Look Internally First

What this means is that it is time to allocate contingent headcount to where it can deliver strategic business value while sourcing, vetting, and hiring talent according to the same high-level criteria of being qualified, having an amicable personality to the company, and being willing to take initiative. Remember, today’s contingent hire could be tomorrow’s re-hire for the next project when the first contract runs out. While the detailed mechanics of contingent labor may be different from full-time employees, as Aberdeen found in [Need to Find High Potentials to Lead the Charge? Look Internally First!](#) (December 2015), the contingent worker you hire today, could be your internal high potential candidate for the next project because you already know what they can deliver.

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For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Best-in-Class Contingent Labor Utilization: A Word to the Wise](#); May 2016

[Best-in-Class Contingent Workforce Utilization](#); May 2016

[Contingent Workforce Utilization: The Art and Science of Getting it Right](#); May 2016

[How Best-in-Class Businesses Manage Contingent Labor](#); May 2016

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