Leveraging Best Practices in Contract Labor Management

Today’s top-performing companies are moving to a new workforce model that combines a core group of permanent employees with a contingent workforce of temporary employees, independent contractors, and consultants.

There are many benefits to this blended workforce model.

- A company can expand or contract a contingent workforce as needed, minimizing the impact of industry fluctuations and providing a buffer zone for permanent employees.
- When using contingent workers, employers can realize a savings of 30 to 40% in health care, unemployment insurance, life insurance, workers’ compensation, severance packages, and other expenses tied to permanent employees.
- Contingent workers can provide access to scarce skills needed for special projects or peak periods.
- Contingent workers provide an opportunity to “try before you buy.” It is estimated that 10% of contingent workers convert to permanent hires.

These benefits are only realized when contract labor management programs are carefully conceived and all program elements are successfully executed. Top-performing staffing agencies can help with this process by providing a range of offerings based on best practices developed over decades of serving customers. Services can range from contingent worker staff augmentation to a contingent workforce management program.

When providing staff augmentation services, the staffing firm sources qualified candidates, and—once the customer selects a worker—the staffing firm serves as the employer of record, providing worker administration, economic management, and redeployment. The customer supervises the work effort and outcome.

Contingent workforce (also referred to as contract labor) management programs are long-term, strategic relationships in which the staffing firm takes responsibility for the effectiveness of all aspects of the overall contract labor program as defined in Service Level Agreements (SLAs). These contractual relationships provide a single point of contact, overseeing the efforts of all suppliers. This document provides a guide to applying “best practices” to all elements of a contingent workforce management program. It describes the key work steps involved in optimal program design, transition of existing suppliers and their employees, contract worker recruitment and management, operational management, and administration.
Building a Best-in-Class Contingent Workforce Management Program

Communicate the Opportunity, the Goal, and the Progress Internally
The support of active senior leadership is critical to the success of any company-wide program, and contingent workforce management is no different. Begin with a top-down approach and ignite the interest of senior leadership via opportunity statements and progress reports. Companies that are tolerant of maverick buying will find compliance—hence success—particularly challenging. Make sure leadership at all levels “buys in” to the value proposition.

Align Purchasing Process with What’s Being Bought
Because all labor is not alike, it makes sense that purchasing processes and responsibilities might vary with different skill sets. The human resources staff may play a more significant role when sourcing highly skilled technical resources, while procurement may lead the effort to source high-volume, less-skilled workers. Assign the appropriate amount of scrutiny for large commitments and contract liabilities and the most streamlined process for every purchase.

Establish a Master Service Agreement
Savings are often realized through easy, accurate daily transactions. When negotiating with service providers, establish a clear and simple list of priorities. Sourcing technical workers requires a strong understanding of local labor market dynamics. Hiring the lowest-cost contingent labor may result in mediocre workers and high attrition rates. Match priorities for speed, price, quality, and customer service. Incentives for process improvements and innovation are welcome on both sides of the table. Make sure they are measurable and realistic.

The relationship between customer and staffing supplier in a contract labor management program should be clearly defined in a Master Service Agreement. This agreement should include, at a minimum:

- Clear and concise roles
- Typical terms and conditions, including length, termination, insurance, indemnification, privacy, intellectual property, legal, and compliance
- A Statement of Work (SOW) that defines:
  - A scalable model for dedicated onsite resources to run the program that addresses recruited and existing contingent workers. For admin/clerical, industry standards are 60 to 70 contractors per manager. For key technology positions, we recommend not to exceed ratios of 30 technology contractors to 1 manager.
  - Flexible terms and processes for converting workers from temporary to permanent status
  - Process management
  - An account plan
  - A schedule, process, and content for operational and business reviews
  - An SLA and key performance indicators (KPIs)
  - Pricing and sample invoice
  - Governance
  - Reporting and technology provisions
  - Code of conduct

Implement a Communications Plan
A widespread communications plan is an essential part of program implementation. The master supplier should set up a series of group meetings—with specific audiences—during the program implementation phase (and periodically, thereafter). This provides the opportunity for participants to interact and meet the key players involved with the program. The communications plan should be designed to create awareness, educate on processes and principles, respond to concerns, and solicit feedback. Companies should create handbooks that act as program reference guides unique to each specific segment of the program’s population: user-managers, contractor suppliers, and contractors. These handbooks should contain all pertinent information regarding the program, specific to that audience’s needs.

Develop a Transition Plan for Existing Suppliers and Their Employees
Staffing firms being considered for the position of master supplier should have a formal, ISO-compliant transition methodology for incumbent suppliers and contract workers. The process should strictly adhere to the American Staffing Association’s Code of Ethics and Good Practices. The methodology should clearly define work steps involved in transition planning, execution, and
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on-boarding, with timeframes and benchmarks established for each phase as well as acceptance plans for determining whether each benchmark has been met. It is particularly important when transitioning technical contract workers who are in high demand that the master supplier demonstrate a track record of successfully transitioning more than 90% of targeted suppliers and employees.

Implement the Workforce Management Toolset and Associated Training

The Aberdeen Group (Technology: the Pathway to Contract Labor Savings, Nov 2008) estimates that implementing e-procurement and VMS systems to manage contract labor spending can help enterprises save as much as 12% derived from spending aggregation, supplier rationalization, process automation, and process improvements. At today’s business velocity, “internet speed” tools are a market differentiator. The tool for your managed labor program should “float” seamlessly between your company, your master supplier, and all suppliers so that everyone can access data and execute transactions. In addition to providing a “corporate memory and understanding” of transactions, the tool should objectively record data and feed analysis for future internal and supplier discussions.

The tool should also provide a robust suite of ready-made reports that show service level performance, contractor labor spending, contractor headcount and hours, and total contingent cost. In addition, the tool should support a variety of service categories beyond traditional staff augmentation, including a customizable template to accommodate project-specific engagements that extend beyond time and materials. Companies should provide user guides and workshops free-of-charge to train customer managers on the tool’s reporting capabilities. This allows them to more effectively manage their contractors and budget for contract labor.

Best-Practices-Driven Program Operations

The cost of recruiting and hiring the right candidate is one of the most significant expenses of most companies. Gartner Group, the leading industry research firm, estimates that the average cost of replacing an employee is between one and two-and-a-half times the employee’s first year salary plus benefits. While this estimate is based on an analysis of permanent employees, the cost of prematurely replacing a highly skilled technical contract employee falls within the same range.

Top-performing staffing firms employ a process that defines and guides all stages of recruitment lifecycle management, ensuring “best fit” employees, reduced time to contribution, low turnover rates, and a high return on investment. We have identified seven primary stages of contractor talent acquisition and management, and defined best practices for each.

Customer Needs Assessment

Master suppliers should build upon the business planning conducted at the beginning of the engagement, creating specific staffing and recruiting plans for each of your projects. In-depth planning support should address sourcing strategies, “what if” models, nuances associated with contingent and direct placement in varied countries, etc. An understanding of the general staffing plan and the skill sets generally required by the projects planned or underway within the customer’s organization should be forwarded to recruiters to begin building a preliminary talent pool for each project. As each project begins and requisitions are issued, businesses can map specific requirements to the pool of potential candidates in the talent pool, speeding up the response time.

Recruiting by Relationship

When recruiting for IT personnel, engineers, and other highly skilled workers, recruiters must be able to reach passive candidates who are not actively seeking employment through job boards or other means traditionally used by most staffing firms. The master supplier must demonstrate that a team of recruiters has been assembled within the master supplier firm and its subcontractors, and that the recruiters bring the experience and domain knowledge needed to generate a plentiful slate of qualified candidates. Top-
performing companies provide “proven” candidates by sourcing technical talent through prioritized channels that move from highest level of direct, personal interaction to lowest:

- Current contractors approaching assignment end
- Prior contractors
- Referrals
- Prescreened candidates
- Candidates who have been mapped to a standard job description profile
- Online searches, advertising, and other outreach programs

When recruiting technical talent, best-in-class firms source more than 25% of candidates from current or prior contractors or referrals.

**Qualification**

Identifying highly qualified candidates improves the relationship between contingent workers and employers. Recruiters should deliver candidates who fit the requirements, are enthusiastic about the opportunity, and meet the duration specified for the assignment.

Best practices in candidate qualification include:

- Interviews of all potential candidates, in person whenever feasible. Interviews should be conducted by a subject matter expert in the required technical disciplines. For technical candidates, it’s often effective to use existing contractors on assignment.
- Presenting a realistic view of the performance expectations, wage expectations, and work environment, letting candidates self-select out of the hiring process if they feel ill-suited to the work environment.
- A minimum of two rigorous reference checks. The Staffing Industry Analysts firm estimates that as few as two in five companies check references for contingent workers. (Staffing Industry Review Magazine, Sept 9, 2009).
- Degree and employment verification.

- Standardized processes for conducting additional background checks, including criminal background checks on local, federal, and international levels, social security verification, drug screening, as well as required certifications, licenses or clearances, credit checks, drug screening, and criminal record searches.

- Information from the candidate’s application in conjunction with competency-based interviewing techniques and aptitude tests to determine a match with the skills and behavioral traits.

**Talent Selection, Closing, and On-boarding**

The processes for talent selection, closing, and on-boarding are critical in mitigating risk, complying with applicable labor laws, ensuring the fastest possible time to contribution, and maintaining low attrition rates. Once the candidates have been submitted, the master supplier should coordinate interviews and perform any additional reviews or analysis required to support decision-making. Upon completing the feedback process and receiving an agreement from the customer to extend an offer, the master supplier should extend and finalize the offer and schedule the contingent worker into new hire orientation.

The orientation program should include an introduction to the customer’s company, a facility overview, a review of dress code and other company policies, a look at timecard, security, and support procedures, and an overview of the master supplier’s expectations. This process helps ensure that the contingent worker knows that Advantage Resourcing is the employer and further protects the customer from co-employment issues.

Factors used to determine the employment classification of a worker are often vague and confusing. Legislation frequently changes, and state and federal agencies employ multiple assessment standards to determine compliance. The U.S. Government General Accountability Office (GAO) estimates that 38% of all U.S. companies employ misclassified workers. Penalties for classification errors can include retroactive payments of taxes and benefits, fines and interest payments, litigation resulting in potential punitive damages, and, in extreme cases, criminal
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The master supplier should be well versed in contract labor employment law, and should offer the following risk management services:

- A comprehensive analysis of the customer’s current human resource procurement processes, comparing business practices against the most common audit triggers and highlighting policies or practices that may lead to potential misclassification.

- Revision of human capital procurement policies and practices to ensure best practice and minimize risk.

- Customer briefings on the major classification standards (i.e., IRS 3 Factors/20 Questions, Relative Nature of Work, Common Law, FLSA Economic Realities Test, and ABC Test).

- An ongoing program to assess workers’ classification at the beginning of their assignments. Over time, this program would virtually eliminate any misclassification risk.

- If the master supplier is expected to manage contingent employees (including 1099 and payrolls) not recruited by the staffing firm or its suppliers, it should enact a comprehensive qualification program to identify, screen, and authenticate bona fide 1099 independent consultants. This program should be designed to protect and insulate the master supplier and its customer from any potential employment liability due to the misclassification of an independent consultant.

Master suppliers should demonstrate that their recruiters and program managers have completed the American Staffing Association’s Certified Staffing Professional™ (CSP) program, or a similar program that offers education in labor and employment law principles and ethical practices applicable to the staffing industry.

Workforce Management

As the contingent workforce becomes more strategic and more important to corporate profitability, companies that initially deployed contract labor programs to reduce costs have quickly recognized the need for increased visibility into top-performing contingent workers so that those workers could be considered for permanent positions or redeployed elsewhere in the enterprise at the end of an engagement. Keys to employee retention and satisfaction hinge upon how valued employees feel, how challenged they are, and the opportunities they have for future employment and career development. The master supplier should provide support to the contingent worker throughout his or her assignment, acting as an HR advocate and support resource. Elements of a best-practices contractor care program include:

- Full-time contingent worker HR representatives to resolve any operational issues (i.e., paperwork, benefits, paycheck questions).

- Senior project members with deep knowledge of the company’s business practices and methodologies; these managers should serve as mentors to new employees as part of their responsibilities.

- A contractor portal specifically designed for contractors regardless of their assignment status. The website should provide access to important employee communications, contact information, forms, and information on contractor benefit offerings. The portal also should include self-service capabilities, allowing contractors to build their resume to apply for jobs, store updated resumes with the master supplier, apply online for positions, and create a “job agent” that will automatically notify them when new job listings match their search criteria.

- A process for monitoring and assessing contractor performance, which typically includes assessments after one week, 90 days, and six months. Master suppliers should create performance assessments based on feedback from the user-managers.

- An effective awards or recognition program for top performers.

- Ongoing training for contract workers. Typically, customers seek fully competent technical workers who bring all the appropriate skills to the position. Although skilled for a specific position, a technical contractor may require certification on specific products. In addition, the half-life of technical job
skills is constantly growing shorter, requiring the continuous development of new skills. The suppliers who help contractors keep their skills up to date are best able to attract and retain top talent.

- Review meetings with contractors and the customer team, ensuring manager and contractor satisfaction.

- A clear, progressive problem-resolution process that includes:
  - Well-defined corrective steps, with timelines, agreed to by the customer and supplier
  - A system for logging and tracking issues until resolution; the system should be linked to an escalation procedure within the master supplier’s firm
  - Standard termination procedures developed in conjunction with the supplier’s human resources department and legal counsel
  - A commitment by the master supplier that a contract employee will be terminated at customer request for any performance-related issue, including attendance
  - Agreement on billing for hours worked
  - A knowledge transfer process to minimize work disruption
  - Agreement on the time required to replace a terminated employee; top-performing suppliers will commit to replacing any removed resource within 3 to 10 days depending on the job category in question

Project Completion and Workforce Redeployment
Best practices regarding project completion, contractor termination, and redeployment are aimed at transferring all knowledge to the relevant parties and protecting the customer’s intellectual and physical property.

If a company has a tenure limit policy, the master supplier should routinely run a tenure report and provide a 60-day advanced notification when contractors are approaching a tenure limit. The master supplier should then consult the hiring manager to determine if a replacement will be necessary. If so, the supplier should establish a replacement recruitment plan and knowledge transfer plan.

During the off-boarding process, the master supplier should:

- Verify that the customer’s property, including—without limitation—equipment, tools, notebooks, manuals, and work product, has been turned over to the responsible customer manager
- Promptly notify the customer’s MIS, facilities, and security groups of the departure date, and request that they revoke the employee’s access to facilities and computer systems
- Ensure that temporary staff has completed and signed their final time report for the period
- If needed, revise the purchase order to reflect early termination
- Ensure completion of a customer satisfaction survey issued to both the contractor and applicable hiring manager
- Assign a performance rating and determine return/rehire eligibility; if a contractor is deemed as “do not rehire” by a customer, the master supplier should maintain this information in a “no rehires” list

The master supplier should have the ability to create an electronic interface within the customer’s system for the on-/off-boarding of computer assets, passwords, and security access, along with an interface to the customer’s HRIS systems for the purpose of tracking headcount.

Supplier Management
There are many benefits to managing the efforts of all staffing suppliers through a master supplier. Customers are able to reduce costs through:

- Increased adherence to rate cards and budget parameters
- A competitive environment for better rates and candidates
- Elimination of rogue spending

Master suppliers help customers enjoy greater control and reduced administrative burden by:

- Managing all hiring requests through a single program
- Enforcing corporate spending and approval policies
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- Providing full reporting on head count and spending
- Ensuring that suppliers comply with budget and program guidelines
- Enforcing corporate rate card and conversion policies
- Tracking supplier performance and compliance through SLAs
- Consolidating invoices
- Enhancing supplier communication and availability

To achieve these benefits, the master supplier should establish a high-performing subcontractor program that:

- Manages, but does not suppress communication between customers and subcontractors
- Conducts ongoing outreach efforts to minority-owned, women-owned, and small businesses, trade associations, development organizations, and trade conferences to ensure that diverse organizations receive an equitable opportunity to compete for business.
- Includes a customer-specific addendum to the master agreement with the master supplier. This addendum ensures that the potential subcontractor has agreed to all of the terms and conditions of the master agreement with the customer. These include but are not limited to the following:
  - Bill rates and/or markup
  - Overtime rates
  - Customer’s right to hire
  - Compliance with prescreening requirements (drug screening and background investigation)
  - Confidentiality/rights of ownership agreements
  - Additional customer-required insurance requirements
- Establishes supplier participation criteria requiring that a supplier must:
  - Be an incorporated or LLC company recognized by state government
  - Be an established firm in business for at least six months
  - Demonstrate proof that it services other customers, including references
  - At a minimum, carry commercial general and workers’ compensation insurance as required by law

Metrics and Reporting
Continuous program measurement and refinement delivers quality results that can be applied across your company. These require a company to establish quality goals, key performance indicators, and associated metrics to determine progress.

Customer satisfaction should be one of the principal goals of any contingent workforce management program. As part of the program planning activity, the master supplier and customer should agree to satisfaction metrics, measurement techniques, and frequency of measurement and reporting. Elements of this plan typically include:

- Measurable definition of “customer satisfaction.” One effective approach is to apply a balanced scorecard approach to metrics, reviewing items that include talent quality and overall program efficiency and effectiveness.

A sample of frequently tracked metrics include:

- Manager satisfaction
- Cycle time (requisition to resumes); best-in-class staffing suppliers acknowledge receipt of a temporary labor request within four hours, and will deliver resumes for an administrative position within 24 hours; for IT/technical requests, resumes are delivered in 48 to 72 hours
- Cycle time (requisition to fill)
- Fill ratio; best-in-class suppliers will maintain a fill ratio for technical positions greater than 95%
- Failure to start; this number should be less than 5%
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- Bill rate management
- Program compliance
- Negative turnover; the staffing industry average is approximately 20%, but leading suppliers will reduce that number to less than 15%
- Invoicing accuracy and timing; using web-based labor management tools, suppliers should achieve 98%-plus invoicing accuracy
- Problem resolution
  - Mutually agreeable schedule of business reviews. We've found that a combination of monthly operational business reviews and quarterly business reviews are ideal for program review.
  - A comprehensive customer satisfaction survey program that provides continuous measurement of efforts. The survey should focus on every area of customer and supplier interaction. Survey data should be used to identify areas requiring corrective action, as well as to distinguish areas where the master supplier is providing greatest value. This data provides the necessary information to implement key process changes, resulting in continuous quality improvement.
  - Independent Quality of Service Audit (QSA), which focuses on a few key areas:
    - Service level agreements, metrics, and performance
    - Opportunities for improvement beyond the contractual agreements (obtained by interviewing sponsors and key users of our services)
    - Establishment of stretch goals and milestone measurements to ensure orderly and ongoing program improvement

In order to gain process transparency and visibility, the master supplier should provide customers with a customizable desktop that provides access to key metrics, status of active requisitions, and notification of key activities.

Effective Financial and Administrative Controls

In a well-administered contract worker program, the master supplier will take responsibility for the following elements:

- Job order processing; electronic job order processing lets suppliers immediately assign orders to recruiters, and the workflow to be completely tracked
- Contractor payroll administration, including time tracking, payroll withholdings and deductions, workers’ compensation claims, unemployment claims, expense reporting, and employee benefit administration
- Purchase order management and invoicing; best practices require electronic time reports with electronic invoices. The master supplier should be able to issue monthly consolidated invoices by location, cost center, account code, department, and line item
- In order to maintain consistency from transaction to transaction regardless of whether a candidate is placed by the master supplier or a subcontractor, all billing should flow through the master supplier for all services rendered via a single consolidated invoice
- Availability of auditable payroll records
- Reporting on rate card compliance

The policies of best-in-class staffing firms also support high performance while mitigating risks. The master supplier should have established policies for:

- Disaster recovery and work stoppage
- Responses to pandemics
- Sexual harassment
- Workforce safety
Execution Drives Results
While a solid strategy is a requirement of an effective contract labor program, performance gains and costs savings result only when every element of the program is based on best practices. Savings that result from a master supplier skilled in process streamlining, leveraging the expenditure, and actually “minding the store” improve your business, improve your speed to market, and help employee morale.

About Advantage
Advantage, headquartered in Tokyo, Japan, is the world’s 11th largest staffing and professional services company. Advantage Resourcing provides global talent acquisition and management, with offices in the U.S., Japan, United Kingdom, Australia, China, Poland, and Dubai. Advantage Resourcing offers comprehensive services through four main business groups: Advantage xPO, Advantage Technical Resourcing, Advantage Professional, and Advantage Staffing. More information about Advantage Resourcing is available at www.HireThinking.com.