

HRO Today Research Flash Report **Optimizing Contingent Labor: Key Struggles and Opportunities**

HRO Today Flash Reports are a series of ongoing research initiatives that address today's topics of interest in the HR community. These are focused briefs intended to help support business decisions and discussions among industry practitioners and thought leaders.

This report examines management visibility into contingent labor, practices around sourcing contingent talent and how organizations are using data to manage the contingent labor function.

This study was sponsored by Magnit.



Methodology

Between August 1 through August 14, 2023, invitations to participate in an online study were sent to subscribers of *HRO Today* magazine and *HRO Today* newsletters, inviting them to take part in an online study. Respondents were at manager-level or above within their human resources departments. Invited participants were also screened to ensure that they were familiar with their organization's practices for procuring and managing contingent labor. The total number of usable surveys was 52, and all were in North America.

The sponsor was not revealed to study participants.

Background

A 2022 survey by McKinsey & Company found that 36 percent of employed respondents in the United States now identify as independent workers.¹ Gartner research found that contingent labor is expected to comprise 35 to 40 percent of the global workforce by 2025 as companies seek more workers who can quickly adapt to changing market conditions in response to a growing demand for niche digital skills.²

But are organizations effectively sourcing and managing their contingent labor — given the amount of it in use and in combination with increasing demand? To what extent are available optimization tools being leveraged to maximize use and reduce cost? This report provides insight into the answers.

Key Findings

Eight key findings resulted from this research:

- 1. Responsibility for procuring contingent labor in organizations has shifted over the years.**
Two-thirds (66%) indicated it is now Human Resources' responsibility, while 20% indicated it is a combination of HR and Procurement. Organizations are seeing contingent labor as part of their planned workforce instead of just a variable operating expense.
- 2. Most organizations have no or limited visibility into their contingent workforce.**
Over one-half (56%) have no or limited visibility into their contingent labor and external spend. This lack of insight can lead to organizational inefficiencies, higher workforce costs and poor decision-making based on incorrect assumptions.
- 3. Contingent labor is still viewed most often (41%) as a short-term supplement to the employee workforce.** Because of this, fewer than one-in-five (18%) have a comprehensive approach for planning their contingent labor needs and managing the workforce, and often are more reactive than proactive in their approach to contingent labor demands.
- 4. Sourcing contingent labor is done through multiple channels.** Nearly one-half (48%) typically use a structured preferred supplier of agencies (MSP) to recruit contingent workers, though hiring managers sometimes also use their own network.
- 5. Contingent labor performance appraisal is largely informal and unstructured.** For nearly one-half (46%), there is limited structure with how their organization gauges the performance of their contingent labor. Over one-third (34%) have no formal structure to capture performance or effectively capture challenges.
- 6. Most organizations are using at least some of the available tools to manage the contingent labor process.** For over one-half (57%) the process is formalized, at least to a limited extent. Most of this segment uses a dedicated technology suite to create and approve requests, which includes tracking time and expenses. Hiring management, suppliers, and contractor notifications are often included in the suite's capabilities.
- 7. The largest segment (40%) characterizes their organization's contingent labor Diversity and Inclusion (D&I) practices for contingent labor as less developed than for full-time employees.** Implementing D&I policies for contingent labor is not only a legal requirement in many cases but also a strategic move. These policies help ensure that all workers, regardless of their employment status, are treated fairly, valued, and provided with opportunities for growth and development.
- 8. The use of data in managing the contingent labor function varies widely depending on the area.** More than three-quarters (77%) use data to a moderate or great extent for talent acquisition, for example, and 73% do so for labor cost analysis. But more than one-third of respondents (36%) reported little to no use of data for workforce planning, and nearly half (45%) reported similarly low levels of data usage to measure workforce performance.

Detailed Findings

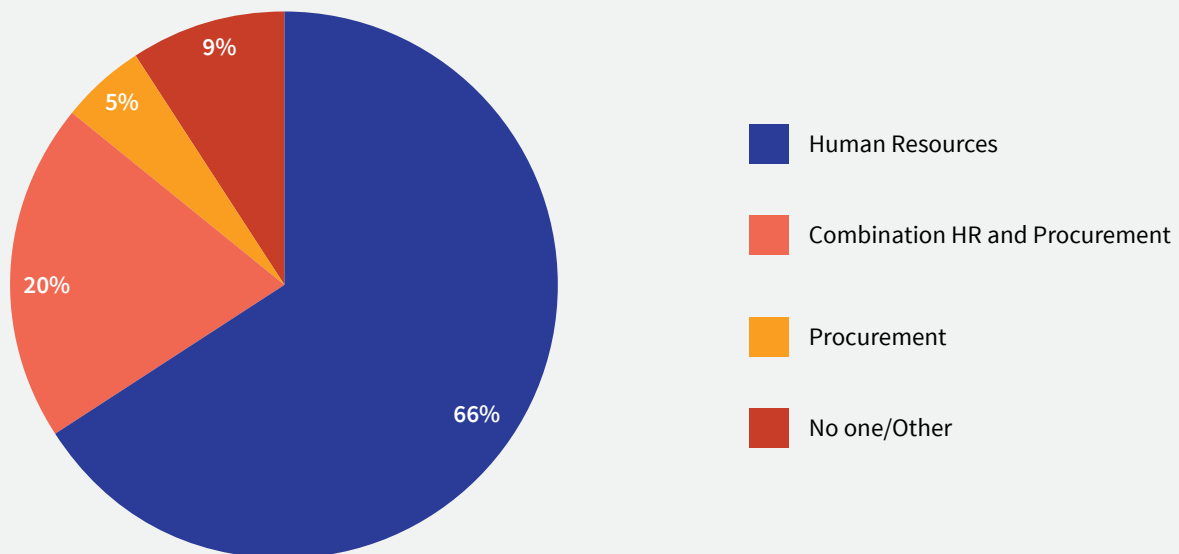
Contingent Labor Procurement Responsibility

Study participants were asked to indicate who is primarily responsible for procuring contingent labor in their organization. Two-thirds (66%) indicated it is Human Resources' responsibility, while 20% indicated it is a combination of HR and Procurement.

While those in procurement are skilled in contract negotiation and cost management, the management of contingent labor involves a broader set of skills and experience that is often better suited to HR or talent acquisition departments. Contingent labor (CL) management requires a unique skill set that goes beyond traditional procurement responsibilities. It involves understanding complex labor laws, compliance with regulations related to temporary workers, managing the human aspect of the workforce, and talent sourcing.

While 20% indicated responsibility is shared, collaborative efforts between procurement and HR can help create a more efficient and compliant contingent labor management process within an organization.

Who in your organization is primarily responsible for procuring contingent labor?



How Organizations Manage Contingent Labor Spend

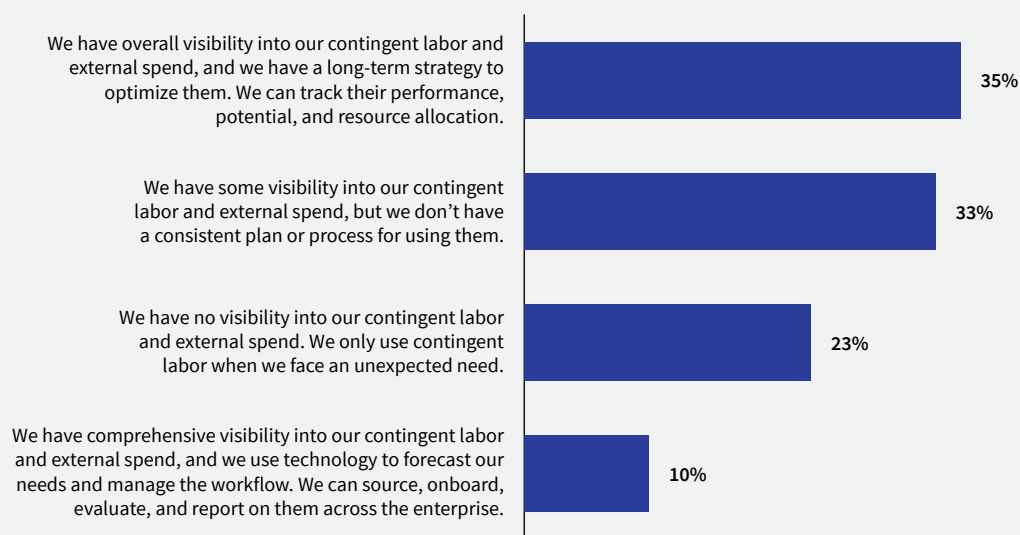
Respondents selected the statement that best reflected how their organization manages its contingent labor and external spending. The most common, as indicated by 35%, was *“We have overall visibility into our contingent labor and external spend, and we have a long-term strategy for optimization. We can track their performance, potential, and resource allocation.”*

Interestingly, more than one-half (56%) have no or limited visibility into their CL and external spend. For this group, there is a lack of planning in optimizing contingent labor. This lack of visibility can lead to organizational inefficiencies, higher workforce costs, and poor decision-making based on incorrect assumptions as to the true makeup of the organization's workforce.

Taking a centralized approach to contingent workforce management gives senior HR leaders a holistic view of where contingent labor is being used, helping identify opportunities for cost savings or business process improvement as well as how the contingent workforce aligns with the organization's overall talent strategy.

Partnering with a Managed Service Provider (MSP) can provide the ability for an organization to compare its use of contingent labor to that of its peers. For example, tracking data may reveal that an onboarding process is taking longer than the industry benchmark, its hourly rate for contingent IT staff is higher than average, or its rate of FTE conversions is lower than average.³

Which statement below best reflects how well your organization manages its contingent labor and external spending?

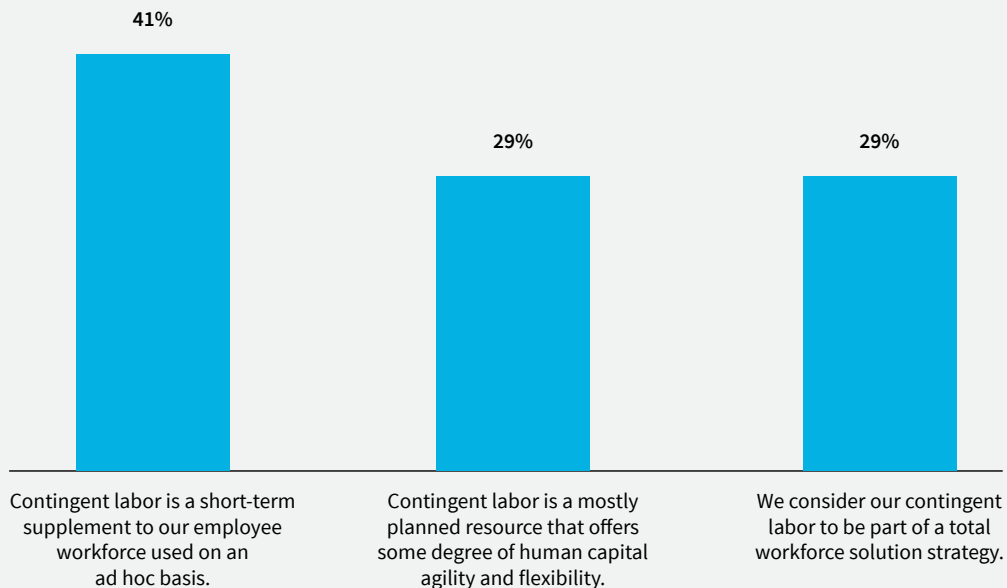


View of Contingent Labor

Study participants were asked to select the statement that best reflects how contingent labor is viewed in their organization. While there was no one view shared by most, the largest segment (41%) views it as a short-term supplement to the employee workforce used on an ad-hoc basis.

Contingent labor is a valuable component of a total workforce solution strategy. When managed strategically, it can provide the flexibility, cost efficiency, and specialized skills needed to drive business success in an ever-changing landscape. However, it is essential to approach contingent workforce management with a well-thought-out plan that aligns with the organization's overall goals and values. Contingent labor can provide an organization with increased flexibility, cost efficiency, specialized skills, and access to a broader talent pool. Use of CL should optimally be part of Strategic Workforce Planning. This aligns contingent labor needs with the overall business strategy.

Which statement below best reflects how contingent labor is viewed in your organization?



How Contingent Labor Needs Are Planned

Respondents were asked to indicate how they plan for contingent labor needs. For most (55%), planning is largely reactive to an immediate or imminent need. Fewer than one-in-five (18%) have a comprehensive view, incorporating forecasting, talent mapping, and redeployment/exit plans.

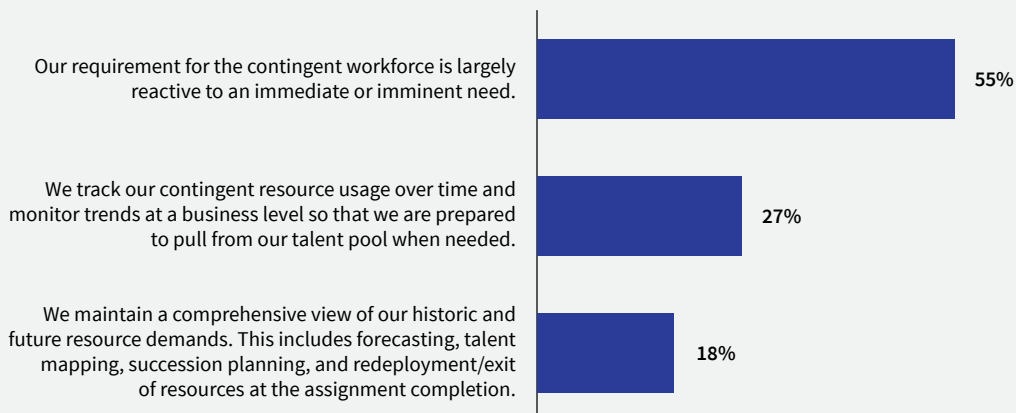
A September 2023 article from LinkedIn offers a solid overview of the steps in planning and forecasting a contingent workforce. The first step is to understand the current situation. Data on existing contingent workers, such as their roles, skills, performance, costs, contracts, and compliance status should be collected and analyzed. Gaps or risks in the current workforce strategy should be identified, which include skills shortages, talent pipeline issues, or regulatory changes.

The next step is to define objectives and metrics for the contingent workforce. It is important to align them with overall business goals and strategy. The third step is to develop demand and supply forecasts for the contingent workforce. These include estimates as to how many and what type of contingent workers will be needed in the short and long term, based on objectives, metrics, and market trends.

This information is compared to how many and what type of contingent workers are in the available talent pool, based on budget, quality standards, and sourcing channels. Various methods and tools to create the forecasts can be used, such as historical data, statistical models, and scenario analysis workforce management software.

Finally, the results of the plan should be tracked and measured regularly and measured against benchmarks and expectations.⁴

How do you plan for your contingent labor needs?



Approach to Sourcing Contingent Labor

Study participants were asked to select the statement that best described how their organization typically sources contingent labor. Nearly one-half (48%) typically use a structured preferred supplier of agencies (MSP) to recruit contingent workers, though hiring managers sometime use their own network.

With talent scarcity continuing to be an enormous challenge, the supplier network can be combined with an organization's own direct sourcing efforts, but less than one-third of respondents (32%) are currently doing so. This additional channel is particularly important in a tight labor market. One report found that 59% of companies experience negative business impact due to talent scarcity.⁵

The least structured approach, whereby managers use word of mouth and ad hoc agency engagement, was the least used, with one-in-five (20%) typically using this approach.

How does your organization typically source contingent labor?



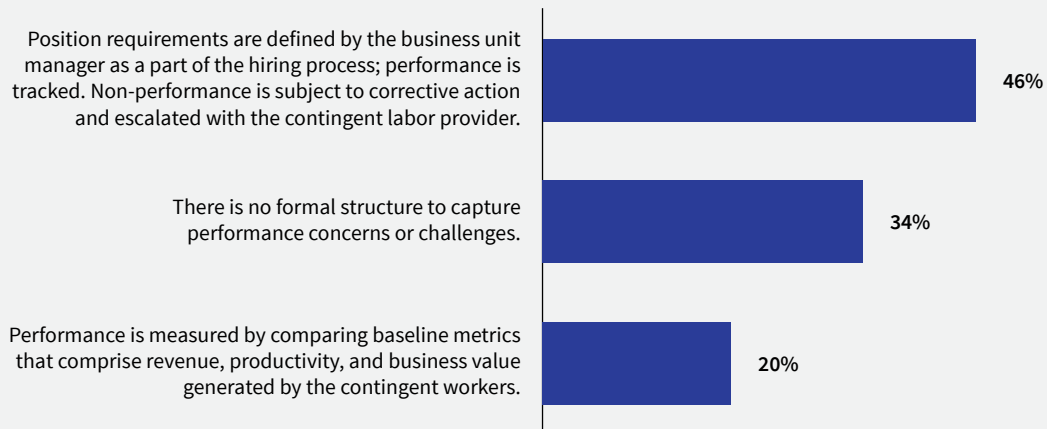
Gauging Contingent Labor Performance

Respondents selected the statement that typified how their organization gauges the performance of their contingent labor. For the largest group (46%), there is limited structure with the process. Position requirements are defined by the business unit manager as part of the hiring process; performance is tracked. Non-performance is subject to corrective action and escalated with the contingent labor provider.

The most structured approach is used by one-in-five (20%) of respondents. With this approach, performance is measured by comparing baseline metrics that comprise revenue, productivity, and business value generated by the contingent workers.

Feedback from a hiring manager should be frequently taken during a contingent labor project and it can be done through a Vendor Management System (VMS). Specific Key Performance Indicators (KPIs) should be defined, and then those that are met or not met along with positive feedback or areas for improvement should be captured. Examples of KPIs include project completion time, error rates, customer satisfaction scores, and revenue.

How does your organization typically gauge the performance of your contingent labor?



Tools Used to Manage Contingent Labor Process

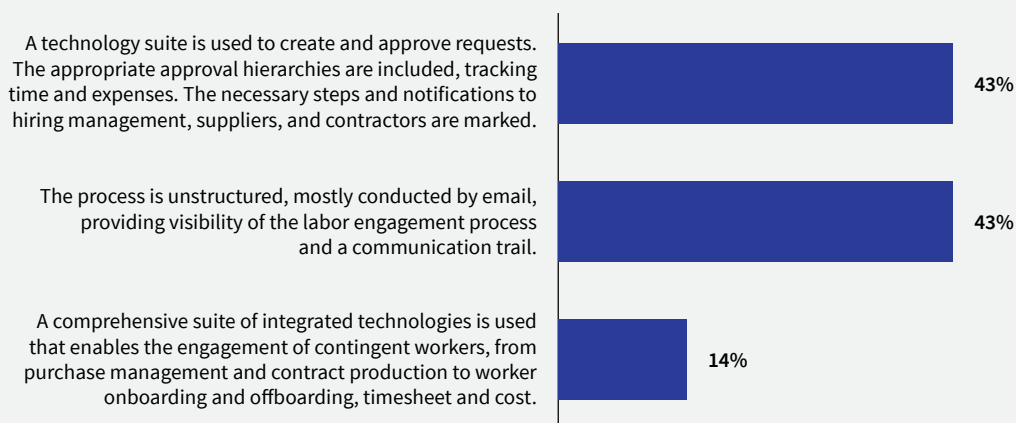
Study participants identified the statement that best described the tools their organization uses to manage the contingent labor process.

For more than one-half (57%), the process is formalized — at least to a limited extent. Most of this segment (43%) use a dedicated technology suite to create and approve requests. This approach includes tracking time and expenses. Hiring management, suppliers, and contractor notifications are included in the suite’s capabilities. The remaining 14% go further, using a more comprehensive suite of integrated technologies that includes internal demand forecasting and engagement of workers through offboarding upon contract completion.

Next-generation VMS technologies integrate contingent workers with FTEs for a total workforce view and can provide dashboards and analytics that can display contingent workers side-by-side with FTEs, enabling managers to mix and match labor types based on skill needs and talent availability. New solutions designed to help organizations better manage and retain contingent workers are emerging, automating the onboarding and payment processes and change that helps businesses navigate compliance requirements.⁶

For a significant portion (43%) of respondents, the contingent labor process is largely unstructured, relying on email to provide visibility of process and a communication trail. This lack of formality does not support maximizing the potential or minimizing the costs associated with contingent labor.

Which statement below best describes the tools your organization uses to manage the process?



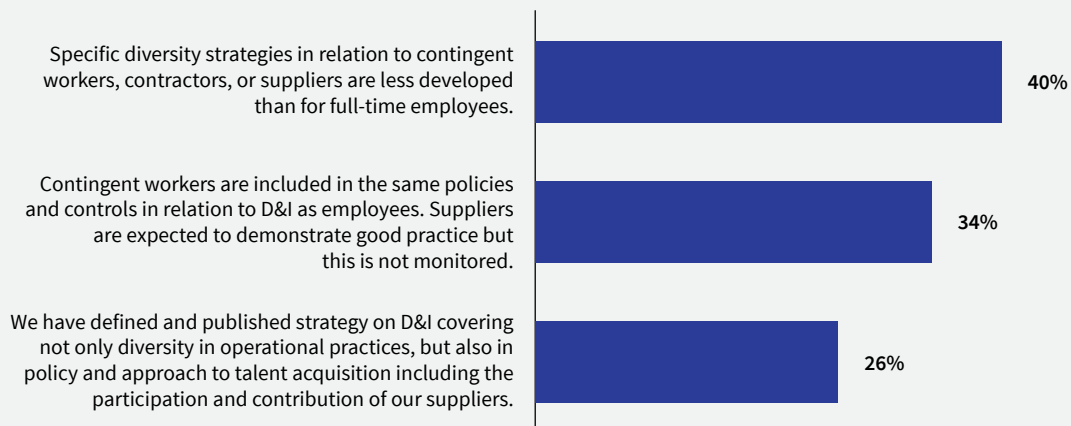
Contingent Labor Diversity and Inclusion Practices

Respondents were asked to characterize their organization's contingent labor D&I practices. The largest segment (40%) indicated that specific diversity strategies in relation to contingent workers, contractors, or suppliers are less developed than for full-time employees.

While D&I practices should not necessarily be the same as full-time employee policies, as they serve different but complementary purposes within an organization, they should align and integrate closely with full-time employee policies to create a more inclusive and equitable work environment. Areas of overlap include compliance, fairness, recruitment, retention, training, and development and accountability. When D&I practices are integrated with full-time employee policies, it sends a clear message that D&I are core values, which becomes part of the employer brand.

Just over one-quarter (26%) have a defined and published strategy on D&I that includes operational practices, along with talent acquisition and the expectation of providers. This is the most comprehensive approach, but also the one with the fewest noting it is reflective of their organization's approach.

Which statement represents your organization's diversity and inclusion practices with respect to your contingent labor?

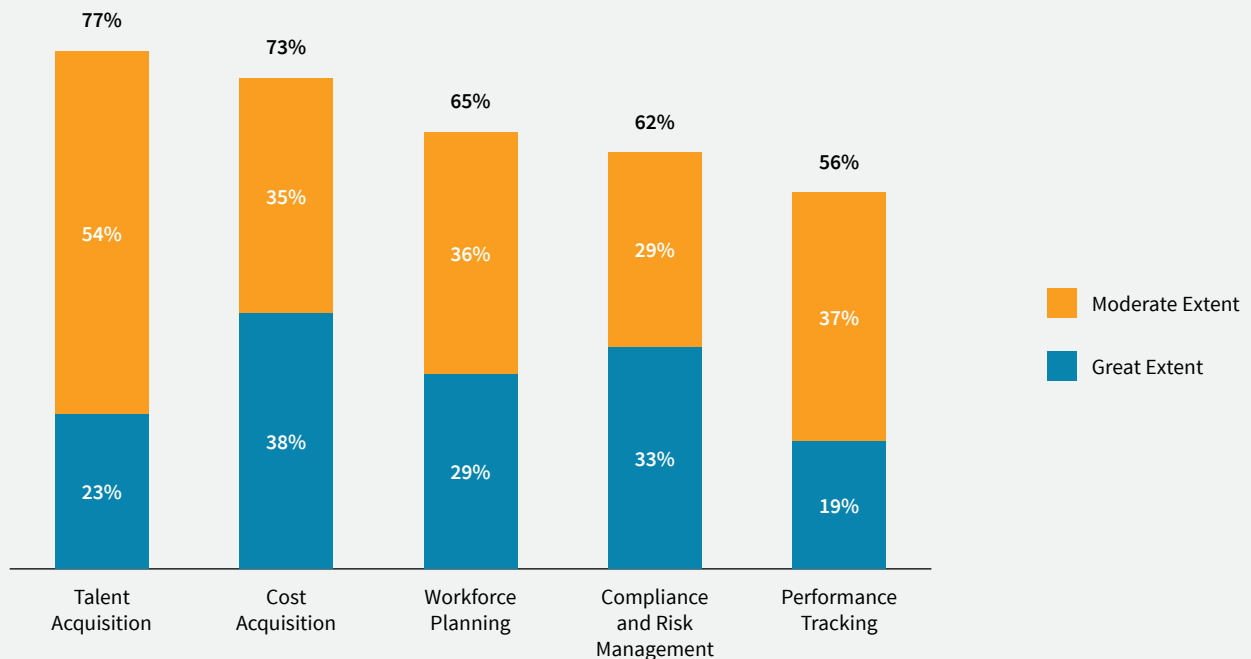


Use of Data with Contingent Labor Function

Study participants were shown five areas related to the management of contingent labor. They were then asked to indicate the extent to which their organization uses data for each area. Each of the five areas examined were used to a moderate or great extent by at least one-half (50%) of respondents, but there was significant variance within these findings that indicates areas of opportunity.

The category where data is used with the contingent labor function the most is Talent Acquisition. Over three-quarters use it to a moderate (54%) or great (23%) extent. While traditional hiring metrics such as time-to-fill and cost-per-hire also apply to contingent labor, AI is also starting to be used, though the relatively low number of respondents here using data to a larger extent suggests this is still an area for growth. Just as human resources and talent acquisition departments may use automated matching in their direct hire applicant tracking system connected to the HR information systems, staffing firms do the same with ATS systems that pull candidates from job boards and other resume sources.⁷

Please indicate the extent to which your organization uses data with your contingent labor function for each of the areas below.



Use of Data with Contingent Labor Function (continued)

Contingent labor cost analysis is used second most often, as 73% use it to a great or moderate extent. Among this group, 38% use it to a great extent, the highest of any of the areas examined. Organizations can use contingent workforce management (CWM) analytics to help track and manage their spending on contingent workers. This includes data on billing rates with comparative rates, contract terms, and other expenses related to the use of contingent labor. The use of data visualization tools such as dashboards and reports makes it easy for stakeholders to access and understand spend data related to CWM.⁸

Respondents were closely split on the levels to which they used data for workforce planning, with slightly more than one-third using it to a moderate extent (36%), and just under one-third using it to both a great extent (29%) and a little extent (29%). Historical data on contingent labor usage combined with predictive workforce analytics can forecast future needs. AI-driven analytics can assist in predicting peak work periods, project demands and skill gaps, enabling an organization to plan their contingent labor needs more effectively.⁹

Compliance and risk management data is used to little or no extent by nearly two-fifths (38%) of respondents. Analytics can help organizations remain compliant by tracking data on worker classification, hours worked, changes to regional laws and regulations, and other compliance-related metrics. AI tools can help assess and manage risk associated with contingent labor, including compliance with labor laws, contract management, and managing necessary credentials.¹⁰

Lastly, data is used to little or no extent for contingent labor performance tracking by almost one-half (44%) of study participants. Various KPIs that can be tracked and analyzed include productivity, quality of work, adherence to schedules, and task completion times. Data is collected to quantify these metrics, helping managers assess the overall performance and contribution of temporary workers. From a talent retention perspective, capturing worker satisfaction data and turnover rates across departments and teams is also critical.

Final Thoughts

Despite the responsibility for contingent labor moving increasingly towards HR, many organizations still have a long way to go before they are maximizing their contingent workforce. Long-term planning, greater visibility into managing the function, and systematically gauging performance are three areas where there can be significant improvement. The data and tools already exist to accomplish this, and given the increasing importance and reliance on contingent labor, more organizations will need to embrace these tools if they are to maximize the value contingent talent offers.

Notes

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