

OUT OF THE --- SHADOWS

Procurement's Opportunity to Shine a Light on Contingent Labour



INTRODUCTION

As we know, procurement's greatest wins come from the intelligent management of spend:

- Collecting and bundling an organisation's expenditure
- Teaming disparate expenses with thorough sourcing processes
- Placing organisational spend under watertight management

So, what's the latest? We've uncovered an unprecedented opportunity for procurement to shine the light on a hugely unmanaged and high-risk bucket of spend: the contingent labour category.

As the non-employee workforce continues to evolve, organisations are increasingly revisiting the employee versus contingent worker debate. There's simply no way to stay competitive without maximising the cost savings and flexibility that non-employee workers provide. At the same time, companies will always need a core cadre of dedicated employees to manage the business and to perform mission-critical assignments. Their ultimate human capital challenge? Finding the best balance of the two.

In this paper, Procurious has partnered with Beeline to discuss the key questions surrounding the management of a growing non-employee workforce - namely, risk management and leveraging opportunities. Under the right conditions and with the right support, non-employees are poised to be the biggest asset of the future. It's time to bring our contingent workforce out of the shadows and into the light.

TANIA SEARY

Founder, Procurious



THE WORLD'S CONTINGENT WORKFORCE: THE FACTS

According to research from Staffing Industry Analysts, companies worldwide spent US \$4.5 trillion on contingent work in 2018. The lion's share, US \$2.67 trillion, was spent on independent or self-employed workers.



By 2023, it is estimated that more than half of the workforce will be contingent workers.

In 2020, 43% of an average enterprise's overall workforce was considered 'contract,' 'contingent,' or 'non-employee,' according to Ardent Partners and by 2023, it is estimated that more than half of the workforce will be contingent workers. These days, companies are favouring the use of non-permanent workers (and their often hard-to-find skill sets) to complete both short- and long-term assignments, seasonal tasks, and a variety of Statement of Work (SOW)-based projects. For business leaders pushing forward in this unpredictable economic climate, contingent workers are a great way to reduce fixed costs and boost workforce agility.

What's the appeal?

- The opportunity to access global talent pools and find the best specialists for highly specialised and strategic roles
- An effective strategy for covering project upswings, as well as project seasonality

“ There will always be a requirement for contingent workers. They allow organisations to forecast and control costs. Contingent workers support organisations in their quests to be agile and innovative.

Gabi Bywater, Former Director - Category Management, Human Services, New South Wales Department of Treasury

Today's external workers fall into four categories:

- Agency or temporary labour: covering IT, administrative and clerical operations, independent contractors, and shift-based or light industrial work
- Outsourcing: IT, back-office business processes, call centres, and field services
- Task-based contingent labour: includes remote and field work and small projects
- Consulting: highly variable and project-dependent

The days of contingent labour being limited to blue-collar workers are over. Professional workers such as lawyers, engineers, accountants, and IT specialists now comprise nearly a third of all non-employees.

“ ...it is difficult for us to exactly predict how many people we need on each day of the year. All we know is the number will change. So contingent labour gives us the flexibility we need in supplementing our own workforce to meet the programs we are working on.

Ian Holcroft, Procurement Director, J. Murphy & Sons Limited

As a category of spend, the proliferation of contingent workers is so profound that organisations are failing to comprehensively monitor its management. Indeed, chances are that nobody within an organisation has concrete knowledge about the size of the dramatically changing workforce profile, nor how it will transform human capital management in the future. Indeed, chances are that nobody within an organisation has a complete understanding of the size and composition of the company's extended workforce, and this lack of visibility can expose the organisation to a variety of risks.



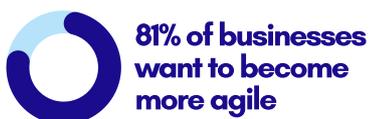
COVID-19: SHIFTING THE LANDSCAPE OF WORKFORCE MANAGEMENT

The COVID-19 pandemic upended the traditional 'nine-to-five' working model and proved that workers could work anywhere at any time, with limited impact on productivity. But when they implemented business continuity plans to respond to the pandemic, organisations struggled to contact their non-employees. The procurement executives we surveyed revealed a common thread of oversight towards the contingent workforce. During the COVID-19 disruption, members of the Procurious community reported that their organisations had failed to include non-employees in their contingency plans.

Most businesses lack a single repository for tracking and managing non-employees, creating major compliance issues. According to Ardent Partners, only 52% of the average company's non-employee workforce is accounted for in formal budgeting, planning, and financial forecasting. This means that nearly half of the contingent workforce is 'invisible', and that many companies are not even able to answer the most basic questions, such as:

- The location of non-employees
- Whether non-employees had access to facilities, systems, or company IP
- The status of current non-employee projects
- Whether system access would be discontinued upon said projects' completion

This 'proof point' continues to spur business leaders and their employees to redefine the nature of the workplace. According to Ardent Partners' Future of Work Compendium (2019):



It is critically important for organisations to have comprehensive information about their contingent workforce, not only to manage risk and maintain security, but also to control costs and maximise the productivity of their entire workforce. Moreover, as the world embraces this mix of permanent and temporary workers, companies must plan for inevitable shifts in the makeup of their workforce and find new ways to support and manage all types of employees.

“ I predict the hybrid model will become the norm for regular employees, which will put increasing pressure to have most contingent labour folks be remote.

Dr. Elouise Epstein, Partner, Kearney Management Consulting

IS PROCUREMENT BEING BYPASSED?

Despite the burgeoning of a contingent workforce, feedback from the Procurious community indicates that procurement is currently not playing a lead role in harnessing and managing the resulting spend. Department heads take on temporary or contract workers through their own budgets, bypassing HR and procurement altogether, and consequently leaving this area of expenditure exposed to risk factors.

Managers are left to coordinate the hiring of contingent workers but are often ill-equipped to oversee these operations. The result?

- Uncontrolled labour engagement
- A lack of contingent workforce strategy and forecasting
- A maverick program of spend (i.e. an 'invisible workforce' not accounted for in the budget)

Without an organisation-wide approach, 'off book' contingent workers aren't screened, onboarded, or off-boarded through standardised corporate processes. The consequences are significant, negatively affecting the impact on a brand's culture, the consistency of company communications, headcount projections, and the determination of budgets (including staffing costs). As countries enact new policies to protect workers and prevent tax avoidance, it also becomes critically important for companies to comply with all applicable laws and regulations to prevent financial and reputational risk.

The growing importance of the non-employee workforce is an opportunity for businesses to engage procurement more substantially and rigorously: in doing so, the sourcing and management of the company's overall spend is certain to increase benefits and quell risks.

“ HR and procurement professionals should focus on building a contingent workforce strategy. This should include partnerships with contingent labour firms and marketplaces, as well as building a pipeline of talent to support corporate goals and priorities. With a good onboarding process and experience, the organisation can position itself to attract good talent faster, staying ahead of the competition.

Stephany Lapierre, Founder and CEO, tealbook

For companies shifting their operating models to navigate the COVID-19 crisis, containing costs is more important than ever: cost control, cost reduction, and cost avoidance may now determine which companies will survive and thrive. Since human capital is typically a company's largest single operating cost and non-employee workers represent nearly half of a typical company's workforce, contingent labour management is now truly in the centre of the storm.

Utilising technology to manage your contingent labour laws allows procurement professionals to apply their specialised skill sets to:

- Procure the best resources, at the best price, for every type of project or assignment
- Eliminate rogue spend and optimise contracting deals
- Prioritise vendors based on performance
- Establish checks and balances to ensure that milestones are met, and projects are successfully completed



WHAT ARE THE RISKS?

Procurement today works in a 'risk-rich' environment - the management of regulatory, cost, security, fraud, and governance risks are paramount. Contingent labour management holds the same importance. If neglected, businesses can face severe consequences such as intellectual property theft, data loss, financial penalties, and lawsuits.



Legal issues around who qualifies as an ‘employee’ can become murky. When US labour secretary Marty Walk classified temporary drivers as legal employees in a statement to Reuters, rideshare and delivery service businesses took a financial hit. This problem has spread beyond the United States: similar cases have arisen in Italy, Canada, and Australia, while the Supreme Court in the United Kingdom established a ruling in February that classified Uber drivers as legal employees and thereby differentiated the status between employees and contractors (non-existent in the US).

Members of the Procurious community expressed concern about a wide range of security and legal issues associated with their contingent workforce. Many believed that their offboarding process, including the removal of access to facilities and networks, was suboptimal. This area poses a security risk because disgruntled non-employees may be able to steal, damage, or destroy valuable data if their access is not terminated when their assignments are complete.

“ One caveat to this notion is that although cybercrime is definitely more prevalent in today’s work-from-home environment, it’s not forcing businesses to wane their utilisation of contingent labour. The skill sets and expertise far outweigh the risks.

Christopher Dwyer, Vice President, Research at Ardent Partners

Another troublesome issue is co-employment - that is, when two or more employers have legal responsibilities for the same employee. Co-employment gained attention in the 1990s through the lawsuit Vizcaino versus Microsoft, wherein Microsoft was sued by its contingent workforce. Since that landmark ruling, many other companies around the globe have faced similar litigation.

“ Companies need to ensure they have language in their agreements with suppliers to minimise risk, e.g., W-2 employee status, background checks, tenure limits, audits, and minimum liability limits.

Koenraad Lecot, Head of Contingent Workforce Management, Farmers Insurance

A lack of visibility into the regulation of contingent workers carries substantial risk. When addressing day-to-day concerns, we found that employers are troubled by their organisation’s inability to provide a list of all contingent workers with access to buildings and systems. Moreover, some companies noted failing to track and verify the status of their independent contractors. Firms additionally reported that misclassification, or incorrectly classifying a contingent worker, was a common concern. Not only can this create problems for non-employees, but inconsistent and incomplete record keeping systems leave businesses vulnerable to serious legal implications.

TECHNOLOGY AND PROCESS: OPTIMISING THE HYBRID WORKFORCE

As the workforce continues to diversify and remote work becomes the new normal, businesses will need to improve their ability to oversee the identification and practices of non-employees. Indeed, consistent and methodical monitoring and management of non-employees is critical to company security and overall growth. Evolving technology has the potential to improve company processes exponentially, including:

- Enhancing visibility and control over company operations
- Managing non-employee spend globally
- Automating processes for heightened efficiency
- Onboarding and offboarding employees quickly and effectively

Despite the existence of Vendor Management Systems (VMS), many organisations continue to rely on manual, spreadsheet-based processes to oversee work. Members of the global Procurious community report using a variety of methods for managing their workforce, but many have fallen back on outdated or poorly maintained systems. These findings contribute to a widespread lack of essential knowledge and visibility into the contingent workforce: many corporations are not keeping sufficient track of their independent contractors. Though spreadsheets may have proven sufficient for monitoring a small-sized temporary workforce, many companies are now discovering that technology solutions are required to optimise their operations and globalise their employee base.

The availability of Vendor Management Systems has revolutionised how companies elect to source and manage contingent labour and Statement of Work (SOW)-based contractors. A VMS provides the tools required to procure, manage, and pay for all types of contingent labour and statement of work (SOW)-based contractors.

HOW A VMS CAN HELP

- Provide transparent analysis of all stages of the procurement lifecycle, and the ability to enforce procurement policies
- Automate sourcing, background checks, and other vetting requirements
- Facilitate and document onboarding and offboarding processes, ensuring security requirements are met
- Document and report the identities and status of all workers: where they are, what they are doing, and the extent of access they have to facilities, networks, and data
- Track and report on every contingent worker around the globe





MANAGING GLOBAL SPEND ON CONTINGENT LABOUR

While organisations have grown more creative in their use of contingent resources, governments at all levels are increasing their efforts to enforce laws and regulations governing the use of non-employee workers. The current COVID-19 crisis has exacerbated the need for authorities to safeguard workers' rights and benefits. This puts a growing burden on companies to comply with laws and regulations – and to document such compliance.

It's no small task to stay familiar with, and appropriately apply, the guidelines and regulations handed down by multiple entities. Misclassifying workers can expose companies to significant legal liabilities, which far outweigh any cost savings gained by utilising contingent workers. Company directors must ensure that their worker classification lines up with state and federal employment laws.

Starting in April 2021, for example, all large and medium-sized private sector businesses must determine whether freelance staff and contractors they engage in the UK are true Professional Service Companies (PSCs) or really 'disguised employees'. If a worker is found to be a 'disguised employee,' the financial impact can be significant: it may induce the fallout of unpaid taxes, National Insurance Contributions (NICs), added interest for late payments, and other monetary penalties.

As contingent labour increases, the compliance challenge grows. Governments want to ensure that workers are properly classified for tax and benefits purposes. Companies must also ensure that their hiring policies – and non-employee engagement policies – meet government protocol.

Global companies need to comply with local, state, and national codes and labour laws, including relatively recent legislation such as the Fair Work Act (Australia), WAB (Netherlands), IR35 (UK), and changes to the Employment Act (Singapore).

Misclassifying contingent workers or independent contractors (ICs) can have devastating implications for a company. They can result in litigation, financial penalties, and reputational damage.

“ More importantly for us, the new IR35 legislation has re-emphasised the need for us to have complete visibility over our contingent workforce. As we have had to ensure our preferred suppliers are correctly set up to deal with the requirements of the new legislation and whether our contingent workers are in scope or out of scope.

Ian Holcroft, Procurement Director, J. Murphy & Sons Limited

Members of the Procurious community rely on a wide range of methods to stay compliant with country-specific regulations for contingent workers. These methods include in-depth coordination and consultation with country or regional stakeholders, as well as reliance on VMS or MSP partners. Some organisations use independent third-party advice, while others have their own centralised in-house program management. Surprisingly, some organisations within the Procurious community have indicated that when it comes to non-employees, they do not stay on top of compliance and regulatory issues at all. Though the reason for this is unclear, suboptimal procurement or human capital management may be to blame, making these companies vulnerable to financial penalties.

WHAT DOES THE FUTURE HOLD?

Non-employee workforce numbers will continue to grow in the coming years. With over 80% of large corporations planning to substantially increase their 'flexible' workforce in the coming years, remaining ignorant of the non-employee ecosystem could have serious consequences.

“ The contingent workforce is growing and will continue to grow in the months ahead, especially as the economy recovers and businesses require staffing scalability. 82% of businesses state that the extended workforce provided them with true talent scalability.

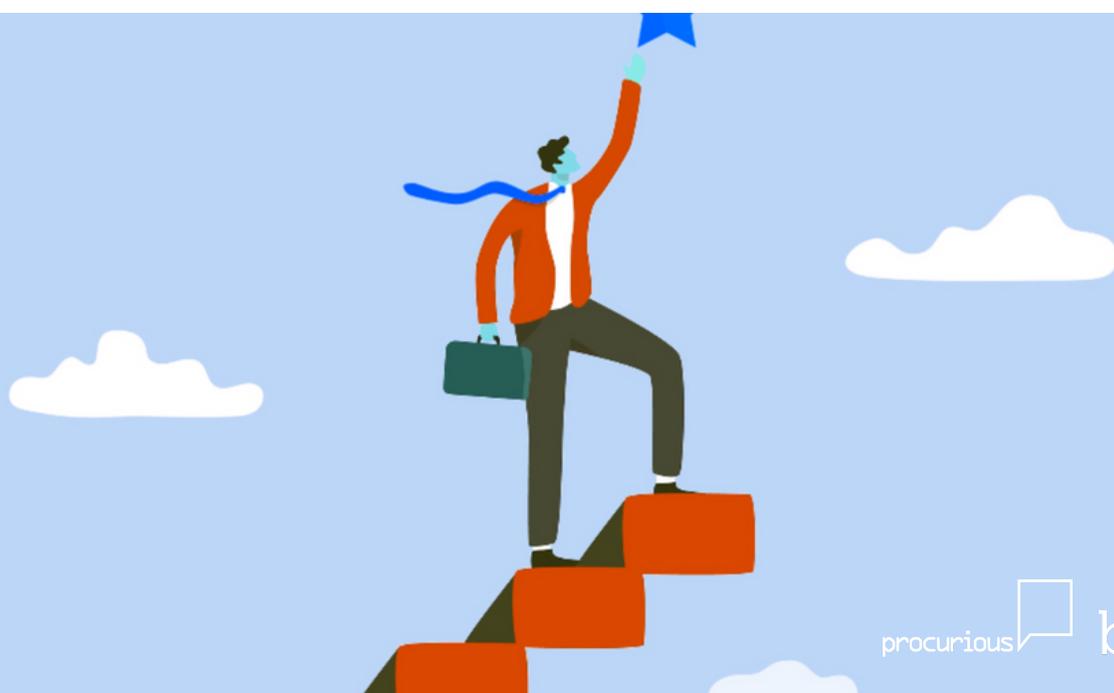
Christopher Dwyer, Vice President, Research, Ardent Partners

According to feedback from select members of the global Procurement community, most businesses will maintain or increase the number of contingent workers they employ in the next year or two, with a focus on reducing the costs of non-employee worker programs.

There also seems to be a positive trend towards implementing new health, safety, and wellbeing protocols for non-employees. While select members of the global procurement community seem confident in their ability to effectively scale up their non-employee workforce within the next twelve months, only a few say they are 'very confident'.

“ Over the last few years, we have seen some large global disruptions, the COVID-19 pandemic being the latest, where many permanent employees lost their roles. The security of a permanent role and growing a career in one organisation is now not as valued as it once was. People are looking at their careers differently and are more open to working on a project, or a piece of work that interests them and gives them the skills and experience needed to move to the next role in their career.

Nathan Nankivell, Talent Acquisition Manager, Digital Consumer & Retail Channel Sales, Agency Partnerships, Optus



CONCLUSION

As companies and procurement leaders continue to invest in non-employees, the management of this workforce is projected to become even more critical to company growth in the future. A substantial opportunity exists for companies to gain newfound control of this spend; to source and manage it properly.

If this spend category is neglected, the risks and consequences are far-reaching: companies not only lose cost-saving opportunities, but the chance to achieve peak performance. These untracked workers can also create serious regulatory compliance issues for an organisation and limit its ability to make comprehensive business decisions concerning the total workforce. If a business can't onboard workers, train them, know how to manage them, and monitor their outputs, the organisation is putting itself at risk. Moreover, it has little hope of optimising this new hybrid workforce model.

The nature of work in the twenty-first century means that companies will need to invest in a technology that provides a single repository for tracking and managing non-employee workers.

It's time for non-employees to come out of the shadows: procurement must step up to the plate and proactively manage this increasingly valuable segment of the workforce.

Procurement can play a pivotal role - shine a light.

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Beeline Extended Workforce Platform connects your business to the exceptional talent within the global contingent workforce. Beeline workforce solutions go far beyond traditional vendor management systems (VMS). We help you manage all categories and complexities of non-employee resources and address every phase of the extended workforce life cycle. Be confident in the technology powering your workforce and gain expert guidance every step of the way with Beeline.



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