Benefits of a Contingent Workforce



As workplace tropes go, the loyal employee toiling away for half a century to earn a gold watch may soon be as antiquated as Victorian dress codes.

The rise of the "gig economy" has created a shift not just in what people do, but how they approach their careers and commitments in exchanging their labor for compensation.

It's becoming increasingly common for workers to have part (or all!) of their income generated as part of the *contingent workforce*—i.e., positions that are temporary, on-demand, contract-based, and flexible for both employee and employer.

These positions, which include freelancers, contractors, and consultants, offer freedom and flexibility for workers—and reduced cost and increased strategic value for employers.

As a result, contingent workforce management has become something of a hot topic among businesses looking to trim spending while ramping up productivity with outsourced human capital.

The Contingent Workforce: An Overview

In 2018, the United States Bureau of Labor Statistics (BLS) reported that, as of May 2017, 3.8% of the U.S. workforce was made up of contingent workers deriving all of their income from contingent labor.

However, when the Government Accountability Office (GAO) released a similar study including *all* workers (including those who have part or full-time positions as permanent employees) just two years earlier, deriving at least *part* of their income from contingent work, the percentage of contingent workers in the U.S. workforce was measured at more than 40%—and growing.

These two statistics reflect a fundamental change in the global workforce.

Companies have come to prize mobility, adaptability, and optimal return on investment (ROI) over "locking in" workers with lifelong employment.

On the other side, those in the freelance talent pool prioritize versatility, flexible, short-term arrangements, and work-life balance more than that fabled gold watch.

Contingent workforce solutions let companies meet high demand for flexible scheduling and part-time hours while meeting business needs for human capital and reducing their own costs for wages, benefits, and overhead (contingent workers do not gain the same benefits as full-time employees).

These positions also allow companies to vet potential permanent employees using a contract-based trial period.

Contingent labor can be on-site or remote, and includes:

- Temporary workers from staffing agencies
- On-call seasonal workers
- Independent contractors (freelancers)
- Part-time employees

The skill sets of workers in all of these categories can be leveraged effectively to produce the desired results, from meeting seasonal demand for unskilled labor to building a short-term, project-based team to address skill gaps in your existing talent pool.

With GAO projecting contingent workers will make up more than half of the total workforce by 2020, integrating processes tailored for the hiring and compensation of contingent workers makes good financial sense for businesses of all sizes and types.

Like all workforce solutions, however, obtaining maximum ROI and cost savings from contingent workforce management requires collaboration with human resources (HR) and careful compliance with employment law to avoid running afoul of the tax authorities.

> *Connecting a centralized, cloud-based procurement solution with your Human Resources Management System (HRMS) makes it easy to bring the benefits and cost savings of real-time, automated vendor management to onboarding staff of all kinds. This integration makes it much easier to evaluate service providers for reliability and compliance.*

Benefits of Effective Contingent Workforce Management

While it's HR, rather than procurement, that usually springs to mind when talk turns to talent acquisition, bringing these two crucial functions together is the secret to gaining optimal results from contingent labor.

Strategic sourcing is perhaps even more important when choosing staff than it is raw materials, and balancing compliance with cost savings protects a company's productivity and reputation as well as its bottom line.

Consider these benefits:

Better Hiring Through Technology

Connecting a centralized, cloud-based procurement solution with your Human Resources Management System (HRMS) to create a Contingent Workforce Management System (CWMS) makes it easy to bring the benefits and cost savings of real-time, automated vendor management to onboarding staff of all kinds.

This integration makes it much easier to evaluate service providers for reliability

and compliance within your vendor management system (VMS).

It also makes it much simpler to create and automate (for example) blanket purchase orders (POs) for contractor hours, and integrate contract management with both independent freelancers and service providers like staffing agencies to ensure internal compliance with policies and procedures while simultaneously complying with employment laws and other regulations.

Integrating your VMS with your CWMS also reduces rogue spend by ensuring only preferred, vetted service providers are used when onboarding staff.

Not only does greater visibility make it easier to produce accurate and useful financial planning documents, but it also helps protect the company from unnecessary risk exposure from questionable “off the books” hiring.

Finally, should a contingent worker prove especially skilled or valuable, integration between procurement and HR will make it easy to transition them to permanent employee status without any wasted time or effort manually updating their contact and payment information or work history.

Reduced Financial Burdens

In the United States, employers are legally required to withhold federal, state, and local income taxes of their full-time employees, along with Medicare and Social Security taxes.

In addition, employers must match these employees’ contributions to Social Security and Medicare taxes.

Contingent workers—with the exception of contract workers—are not on the company payroll. They’re responsible for their own taxes (or may have them withheld by their referring agency).

Independent contractors will pay self-employment taxes; contract workers may need to have their taxes withheld, depending on the law where your business is based.

In addition to taxes, contingent workers also provide cost savings through elimination of benefits. Contingent workers don’t receive paid vacation, health insurance, participation in company retirement plans, or other benefits.

They receive only compensation at an agreed-upon rate for their labor.

A More Flexible, Agile Workforce

Adding a full-time employee can be costly; not just in the form of tax obligations, benefits, and compensation, but in training, educational enrichment, and other measures required to correct skill gaps in your team.

If you have a project that requires a specific skill set but don't want the expense and risk of recruiting a full-time employee, consider bringing a contingent worker with the required skills onto the team for the duration of the project instead for significant cost savings.

This method allows you to cast a wider net in your job search, meaning you can easily bring together both temporary workers for unskilled labor to support production using a staffing agency, and bring highly skilled designers and engineers on board as contract staff for the duration of the project without having to add permanent employees.

Contingent Workforce Caveats

While the appeal of outsourced labor for part-time, temporary, or project-based labor is apparent, it's important to be aware of two potential challenges when recruiting and hiring contingent labor:

- **Worker Misclassification.** Whether you're hiring a new contingent employee or reclassifying existing staff as such, it's crucial that you follow Internal Revenue Service (IRS) classification guidelines for all employees. The IRS has very specific requirements differentiating independent contractors from contingent workers; a situation made even more complex by the many different ways in which state laws classify these types of employees. Incorrectly classified employees can cost a company a small fortune in penalties, fines, back wages, etc.
  Ensuring your HRMS is fully integrated with the contract management and compliance tools of your procurement solution will take much of the stress and risk out of this particular challenge. With legal, HR, and procurement all on board and on the same page, ensuring contingent workers are properly classified will be much simpler.

- **Culture Struggles**. Because of their status as "outsiders," (whether on-site or remote) contract workers may struggle to feel like a part of the team. They may need extra time to absorb company culture, best practices, and guiding principles to ensure they both feel included in the shared endeavor and have success in accomplishing the goals they've been hired to achieve.

The Future of Work?

Getting the most value for your hiring dollar while still providing meaningful, safe, and rewarding employment for contingent workers doesn't have to be a headache.

Bring your HR, legal, and procurement teams together through technology to craft a winning contingent workforce management system, and you'll soon discover the enduring benefits of temporary staff.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide "Indirect Spend Guide"

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified

about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts