

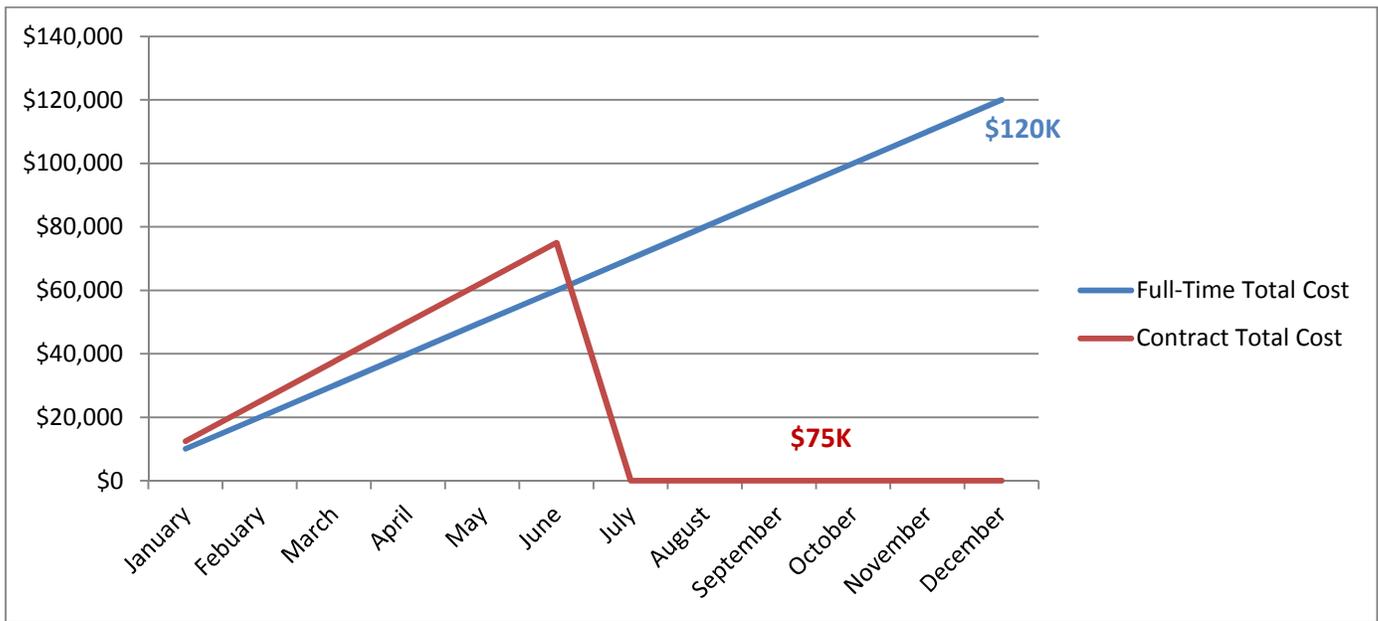
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**The Business Case for contingent Labor**

**Cyclical Business and Un-reliable Forecasts Pushing More Companies to Contract Contingent Labor**

The economy is improving across the globe and orders begin to flow. The discussion across conference rooms of growing companies continues to be focused on the age old question; Hire full-time employees or hire contract labor? This white paper addresses the benefits and potential downsides of moving towards a contingent labor model. First, let’s start with why this trend is proliferating. There is a growing trend amongst baby boomers to move towards a semi-retired lifestyle model. The market is flooded with competent seasoned employees with 20+ year’s experience who for lack of a better reason prefer to work 6-9 months out of the year. They have sacked away enough cash for a rainy day, are typically empty nesters and are utilizing contract gigs to allow quality of life with income flow. Many of these baby boomers are financially independent, yet they continue to want to participate with employment for self fulfillment as well as have additional spending power. On the employers side; cautious senior management, are resistant to taking on fixed overhead, and are very receptive to the idea of contingent labor. This coupled with the decades old problem of accurate business volume forecasting is causing operations managers (the folks that are forced to implement what the promise department sells) into dancing at the last minute to staff up-coming projects. Operations managers are truly between a rock and a hard place. The answer more often than not is to move towards contingent labor model. Although it is not always intuitive, when you look at the simple chart below, it becomes evident that the cost savings are significant in the long run.

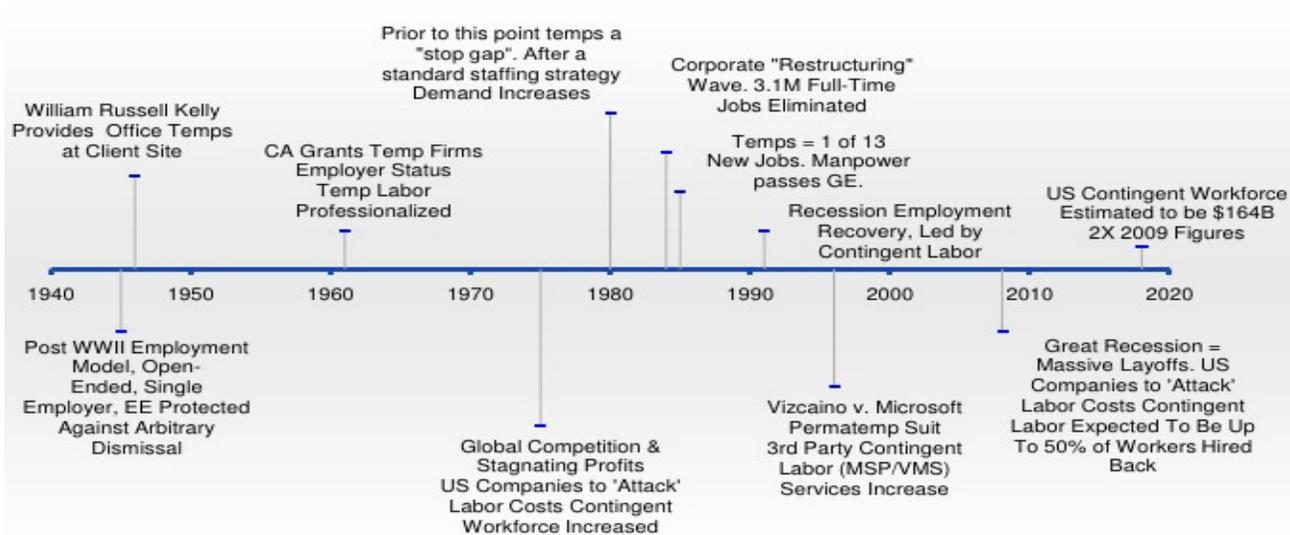
**Chart “A” 100k Full-time employee cost .VS. Contract employee**



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The question becomes; when you study the benefits (which we will outline below), why aren't hiring managers utilizing this contingent labor technique more often. The timeline below shows that the resistance to contingent labor is breaking down. But there are defensible positions against the movement. The most common response we have heard is that when the contractor leaves our project he takes that knowledge with him. Also, we hear the argument that our company processes are unique and complex and it is difficult for a contract employee to fit into our culture and understand our process and procedures in a timely fashion. In addition, companies who possess special technology want to protect such technology and keep it in house.

## CONTINGENT WORKFORCE HISTORY



\*REF 1

Additionally, even when given the go ahead from senior management to bring on additional head count, hiring managers are tied to their human resources department (who are over-whelmed) and often feel helpless when asking them to on-board full-time employees quickly. The H.R. team is tasked by the company to protect the company's business due to conformance, State and Federal regulations. This causes slowdown in the execution and securing the proper talents to serve the end customer. These are valid arguments, but the qualitative data shows that with the proper on-boarding and screening, any risk can typically be mitigated with the right partner. The gains that overcome this risk can be put into several categories. Although in some cases the benefits are subjective, with the proper evaluation it is quite easy to create the objective business case. The section below captures the potential objections and compares them against the subjective/objective business benefits.

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## INTERNAL VELOCITY

- Speed of Deployment
- Fully Benefitted Resources
- External Expense Management
- No Relocation Expense
- Projects meet schedule
- Satisfied and repeatable customer

Ve-loc-i-ty: Webster's defines velocity as quickness of motion, rate of change with respect to time. In most organizations with any level of bureaucracy time can be our enemy. Lack of time brings frustration, stress and costs money. The ability to shorten outages, quickly staff field support and create customer satisfaction in a timely manner creates "delighted customers". The contingent labor model can put time on our side. However, the objection typically brought up when considering contingent labor is that of the increased cost associated with hiring hourly resources. A closer look, however, reveals that this initial "sticker shock" is mitigated once we consider what is included. One advantage is that by turning to a resource provider who has access to a bench of immediately available, skilled and properly screened candidates ensures that needs can be met much more quickly than through traditional hiring methods; sometimes in as little as 24 hours. All employment costs including background screening, taxes, workers compensation, health insurance, vacation, retirement etc. are included in the rate paid for the resource. This removes a heavy hidden burden to traditional hiring that can sometimes approach 60-70% of the employee's base salary. It also avoids complicated corporate Human Resource on boarding processes. For resources that are expected to travel heavily, expense management can become time consuming and complicated. Expenses for contingent labor, including making all travel arrangements, are typically managed by the service provider within pre-agreed parameters. One invoice, including hours worked are fully vetted and approved expenses, can then be submitted. Finally, standard relocation costs for a mid level hire in a Fortune 500 company can often exceed \$25,000. The flexibility of a contingent labor hire allows for a much more cost effective relocation to be included in the hourly rate and amortized over the period of the resource assignment. This removes the relocation expense from overhead and allows it to become directly recoverable to the project. All these benefits improve internal velocity which equates to cost and time savings.

## EFFECTIVE SCREENING

- Experienced Screeners/Recruiters
- Individualized Screening Profile
- Targeted Candidates

As the hiring manager earlier in my career for a large multi-national corporation it was appalling to see the large number of candidates that Human Resources submitted through the utilization of a VMS (vendor management system). Clearly, many of the perceived risks associated with using contingent labor can be mitigated through the use of an effective screening program. There are several components to this:

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The model of the staffing industry has always been to use recruiters who look more like salespeople than subject matter experts – a junior person is trained in selling techniques and then sent out to contact potential candidates. Technical training may or may not be given. Our experience has shown that taking a person with solid industry experience and training them in recruiting techniques significantly improves the quality of candidates sourced. As a degreed mechanical engineer, I can ask the tough questions and weed through experience more efficiently.

Additionally an individual screening profile should be developed for each open position. This should be based on the job description but will also include aspects particular to both the corporate culture and the preferred profile of the hiring manager. A technical individual that spent most of his career in the Start-up world might not be a good fit for the large stodgy organization. Typically this assessment is developed in conjunction with the person doing the recruiting so that there is a clear understanding on all sides of what is required. From this profile a list of questions is developed. Every candidate sourced will be asked the same list of questions which allows for a very objective evaluation of skill sets and personality fit. The search should be approached in a much targeted way. The industry as a whole often uses a “shotgun” approach where large numbers of candidates are peppered with phone calls and emails. We have found that it is much more effective to target our search; who are the closest competitor companies? Which competitors are downsizing ? What level of person would see this opportunity as a promotion? What skills are transferrable?

Also, working directly with the hiring manager is critical for successful vetting of candidates. Ultimately the hiring manager is responsible for the success of their department and therefore is integral in determining which candidates have the necessary knowledge and the ability to seamlessly integrate into the culture.

Finally and more importantly, the model of partnering with the customer and take the time to understand their business by a technically competent team to include technical, administration, H.R. experience will quickly understand the customer business and include this important aspect in the recruiting process.

#### OVERALL COST

- Remove the burden from hiring manager
- Reduce the burden from Human Resources
- Manage Cyclical Business and Un-reliable sales forecasts
- Shift costs to individual business units verse fixed overhead
- You only pay for actual hours worked

Remember the argument that buying a vehicle verse leasing a vehicle was the better idea. This argument has come under scrutiny in the last several years due to a myriad of reasons. But the underlying benefits for leasing have now become reliability, better fuel efficiency, reduction in maintenance costs, and tax breaks. There are even web-based companies that match those wishing to get out of leases with those in need of getting a short term lease. While the analogy is a good one, there is no doubt that overall costs of “owning” an employee in today’s environment is far more costly to the overall business model then “leasing” one. When we look at the job duties of the average hiring manager there is a common thread across all industries that include; Quality, efficiency, employee growth, profitability, cost

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containment and sales. Yes, sales. No matter what your position in the organization, the bottom line is; if stuff does not get sold then the sustainability of the business is threatened. Then why would we burden the hiring managers with the stress and pain of vetting out potential full-time employees. By moving towards the contingent labor model, hiring managers are able to focus on the business of top-line growth, middle-line containment and overall profitability. This focus allows the organization to focus on growth which quite frankly is what Wall Street and owners want...yesterday. If your business is cyclical and your forecasting is less than stellar, then having a competent bench you can call on in a timely fashion is a must. The ability to shift costs to individual business units and or projects; versus fixed overhead is also a financial director's dream. Studies have also shown that full-time core employees provide better productivity, because through contingent labor you are able to create a more stable work environment, free from the cyclical affects of the economy. As we shift gears to the front of the office we embrace the day to day struggles of our human resources department. HRHero (leading HR law website) estimates that less than 10% of the HR departments daily work day in US companies are actually spent recruiting, negotiating, and on-boarding employees (\*REF 2). The human resources function has become a daily barrage of paperwork, counseling, ethics compliance, reprimanding, OSHA filings, firing, salary and benefits, conflict mediation, and administrative functions associated with complying with US law. In many medium sized companies the HR department also functions as the executive's liaison. So, when the hiring manager does eventually jump thru all the burning hoops and red tape necessary to get approval for that new requisition how can the HR department possibly bring you qualified candidates. Recruiting, negotiating, qualifying and on-boarding employees are LOW on their list of priorities. It must be noted that the HR departments in most companies do their best to find qualified candidates but with the barrage of other duties it becomes almost impossible for them to deliver. My experience is that HR works hard to support their organizations, but with ever increasing amount of regulations they certainly have their hands full on a daily basis.

#### RISK MITIGATION

- Try before you buy (convert contractor to full-time at anytime)
- Large pool of qualified candidates eager to work
- Schedule crash does not add additional (Unmanageable) cost
- Budgeting becomes easier due to flat ( known and budgeted ) hourly bill rates
- Release of contractor if business circumstances change at no cost
- Quick replacement of contractor if he/she does not work out

As a nuclear controls engineer with project management experience I remember being assigned my first project management job. It was a large project for someone with little experience in managing people. My mentor continued to pound the words schedule creep into my head. The contract was fixed price and the margins were fairly thin. What happened next I was not prepared for. Three days before my field engineers (12) and I were to deploy to site, our customer called us and decided to delay the outage indefinitely. Forget schedule creep, we had experienced schedule crash. Our budgets were blown and the inevitable happened. All 12 of these field engineers were full-time at the company. With this large contract indefinitely delayed seven of them were let go in less than 30 days. With the large pool of skilled eager to work candidates we could have saved those jobs. No matter your position risk mitigation is

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about identifying what unforeseen circumstances can reach out and bite you on a project or task. As a hiring manager for a large corporation I have made some poor hiring decisions and in today's climate, as we all know that's a ticket that is hard to un-punch. Contingent labor removes this risk by allowing the "try before you buy theory". Contract employee not working out in your culture; remove him instantly while minimizing risk. Great fit, hard worker, convert him to full-time. With the right compliant partner, background checks, benefits and insurance are all handled by a third party.

Having a well-run and effective contingent workforce strategy in place will allow you to reap the benefits you need to stay ahead of the competition. Use of contingent labor is on the rise and those organizations that take advantage of it early and strategically will shine. Contingent labor allows you to find and utilize specialized skill sets, outsource non-critical roles, "test" candidates before fully hiring them, and ultimately move ahead of competition by executing your business strategy in a quick and cost-effective manner. The chart below tells us future generations and the baby boomers are moving in this direction.

## The Future Contingent Workforce

### **Baby Boomers** (1946 – 1964)

80% of baby boomers plan on working past retirement, part-time or as contingent workers.

### **Gen X** (1965 – 1981)

Responsible for the concept of "work/life balance" wanting extra free time for family and outside interests.

### **Gen Y** (1982 – 2000)

Are likely to change careers ten times before they are 40 – making contingent work a very attractive option for trying out new career opportunities.



\*REF 1

As a Gen X'er myself, I am reaching that age where my wife and I are beginning to talk about freeing ourselves from the sixty hour work week. Were empty nester's have been blessed with storing away a few nuts for winter and a six month work year is starting to look inviting. Who knows, maybe I'll work a few contracts jobs for your company some day.

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1. Credit for information on “Contingent Workforce History” & “The Future Contingent Workforce” data goes to [www.emergent.com](http://www.emergent.com) and its president, Bill Inman. His full presentation can be found in the public domain here; [http://www.slideshare.net/zaina\\_emergent/the-rise-and-risks-of-the-contingent-workforce](http://www.slideshare.net/zaina_emergent/the-rise-and-risks-of-the-contingent-workforce)
2. HRHero (leading HR law website)- [www.HRhero.com](http://www.HRhero.com) provides legal information, training, and compliance tools on state and federal employment law, supervisor training, and employee management for human resources and other business professionals.

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