

83%

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The rise of the contingent workforce

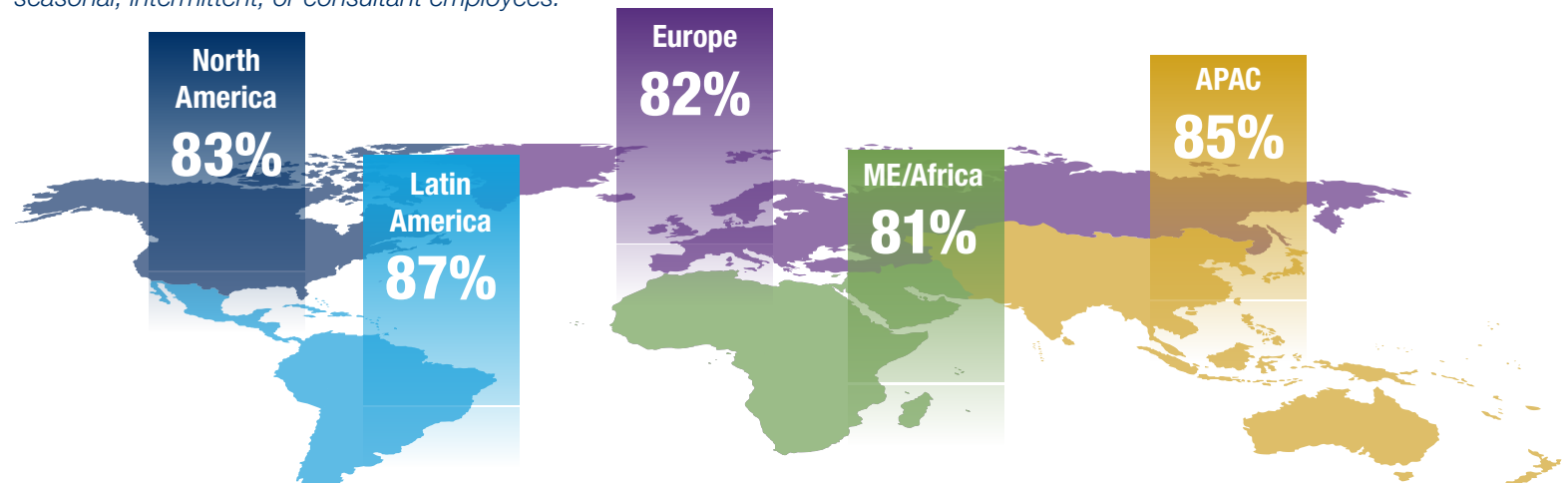
The nature of employment is changing. Over 80% of executives surveyed by Oxford Economics say they are increasingly using contingent employees—non-payroll personnel including intermittent and seasonal employees, consultants, freelancers, and part-timers. The trend is global and cuts across industries.

Managing these contingent workers effectively requires companies to make major updates to technology, training, and culture—and the degree of difficulty is likely to increase as lawmakers and regulators around the world sharpen their focus on the issue. Yet our survey of over 2,700 executives in 27 countries shows that most companies are struggling to keep up with the transformational changes to traditional work arrangements that are already underway. Just 42% of executives say the influx of contingent workers is having an impact on their workforce strategies—roughly half the number who say they are using more of these workers.

The rise of the non-payroll worker promises businesses greater agility, access to talent, and cost control, but the challenges are large as well. Ultimately, the rise of the contingent workforce will require companies to reassess core assumptions about what they value most in workers and how to achieve their workforce goals. Executives say they place a premium on employee engagement, loyalty, and long-term commitment, but engendering these qualities in contingent workers requires fresh thinking. For leaders already falling behind in other areas (see our think piece “The Leadership Cliff”), integrating the contingent workforce represents a significant hurdle to developing a successful talent strategy.

Contingent workforce on the rise

Percentage of 2,715 executives surveyed worldwide who said they were increasingly using contingent, seasonal, intermittent, or consultant employees.



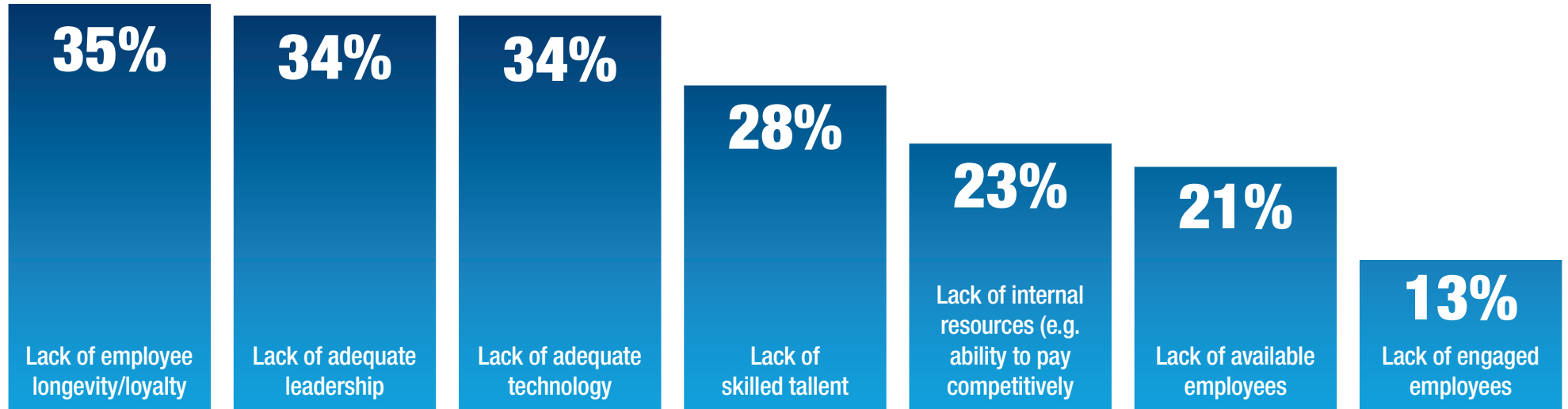
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Impediments to building a workforce capable of meeting future business objectives



Investing in the contingent workforce

Adapting to the contingent workforce is not a low-cost job. Investments must be made on several fronts, including technology, training, and HR processes.

Technology plays an important role in understanding and managing the contingent workforce. Yet as shown in the figure above, a lack of adequate technology is a major impediment for executives intent on building a workforce capable of meeting future business objectives. One impact of this technology shortfall is a lack of insight into basic HR issues. For example, nearly one-third of executives say that insights into worker turnover, along with the cost of workers by level (e.g., front-line, managerial, and executive), would help them achieve their business objectives. Meanwhile, more than half of executives say that problems with talent and skills are affecting business performance. And even when executives have adequate data available to them, they may not be able to use it effectively. Only 42% say they know how to extract meaningful insights from the workforce data they

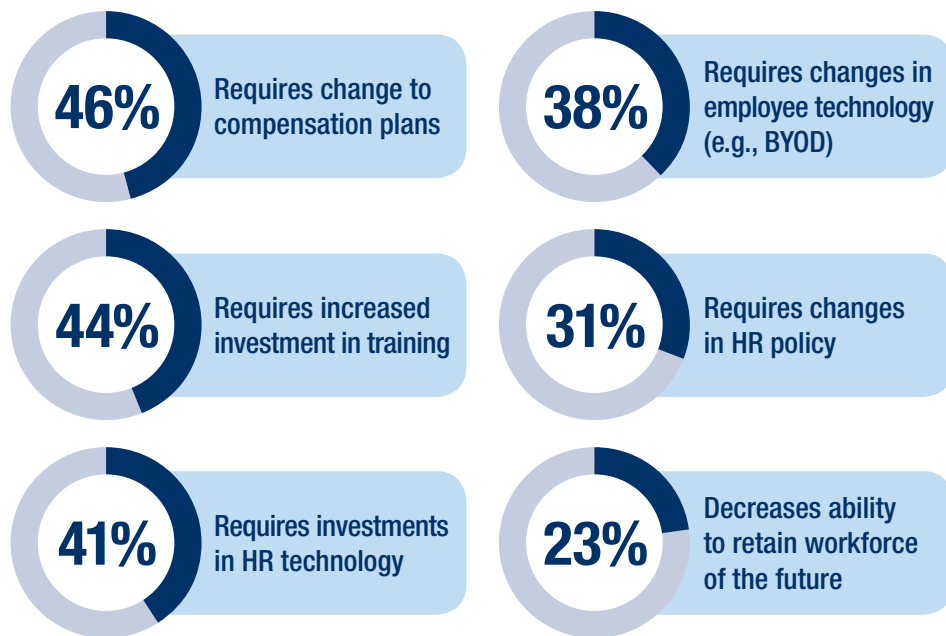
Only 42% of executives say they know how to extract meaningful insights from the workforce data available to them.

do have on hand, and just 38% say they have ample data about the workforce that could be used to understand strengths and potential vulnerabilities from a skills perspective.

Executives recognize that the rise of a contingent workforce only intensifies these challenges, and that changes are needed to properly accommodate the evolving nature of employment. Nearly half of executives say that this requires increased investment in training, especially as traditional training programs may not fully accommodate the needs of contingent workers. While more than half say that their company widely offers supplemental training programs for individuals to develop new skills, there is far to go before the needs of the new workforce are fully understood and accommodated.

So companies are making the link between the growing contingent workforce and changing investment priorities. Yet the pace of change across key areas lags the rapid growth rate for non-payroll workers.

Effects of the changing nature of employment on investment and planning



Still, executives are cautiously optimistic about their future workforces—only 23% say the changing nature of employment will decrease their ability to retain employees. But our survey data, along with the likelihood of increased regulatory pressure on companies using contingent workers, suggest that this confidence may be overblown.

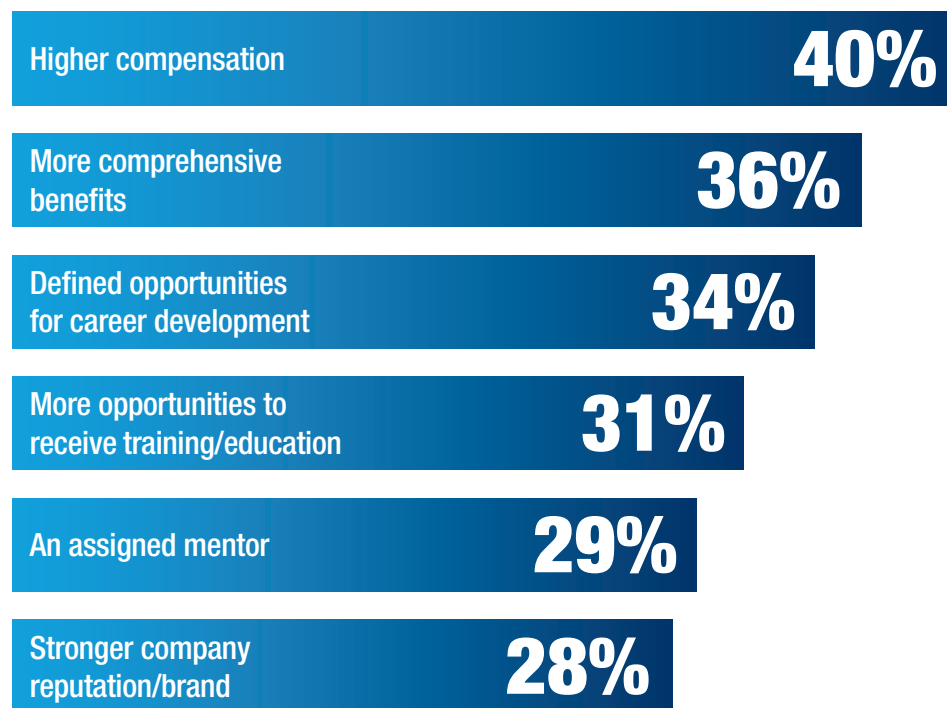
Contingency and culture

Managing the contingent workforce involves work on corporate culture and HR strategy as much as it does investment in technology and training. Take the issue of employee loyalty, which is widely understood to be a core value of the successful organization. Executives expect loyalty in employees and see it as essential to workforce planning. Yet here the contingent workforce creates a dilemma: how does a business engender loyalty in employees who, by definition, are not fully invested in the company's culture and future, and may reasonably expect the company to lack full investment in them?

Adding complexity to this problem is the fact that companies already struggle to engage and retain more traditional employees. There are wide gulfs between what companies offer their employees and what employees say is actually important to them (see our think piece “What Matter Most at Work”). Over a third of employees say more comprehensive benefits (e.g., insurance or retirement plans) would increase loyalty and engagement with their current job. This gulf may be broadened when it comes to contingent workers, who often are not eligible for the same benefits as full-time workers.

When it comes to worker preferences, cash is king. But there is a clear case as well for an increase in education and training opportunities. These are especially important for contingent workers, who may appreciate individual attention and realize value from investment in what traditionally has been an underserved area of mentoring and education. In any case, proven methods of building engagement must be part of a larger plan focused specifically on the contingent workforce.

Effects of cash, benefits, and education on employee engagement



Legal variations

External pressures also factor into the equation. In some countries, government regulations already require companies to treat non-payroll employees more like traditional workers. “We have very progressive labor laws in our country that want flexible and contingent workers to have the same benefits as permanent staff,” says Shani Naidoo, HR director at South African retail holding company The Foschini Group. “That means that even if you work for six months on a short-term contract, you’ll receive all the benefits that a full-time employee would.”

Meanwhile, lawsuits against major companies in the US are questioning the classification and treatment of contingent workers, and regulations in other countries are limiting the growth of the contingent workforce. “The national labor code is not very friendly for the modern requirements and the Generation Y workforce expectations,” says Alexey Mekhonoshin, vice president of HR at Russia’s Sberbank. “Apart from running a set of pilots, we are working to change the regulations to allow for more flexible working relationships.”

Clearly, the burden is on employers to figure out how best to navigate this shifting environment and develop new approaches to workforce strategy. Sound management of the contingent workforce will involve fresh thinking about core HR goals of enhancing loyalty and engagement, and extend as well to political, legal, and regulatory concerns that may complicate or even trump internal strategy.

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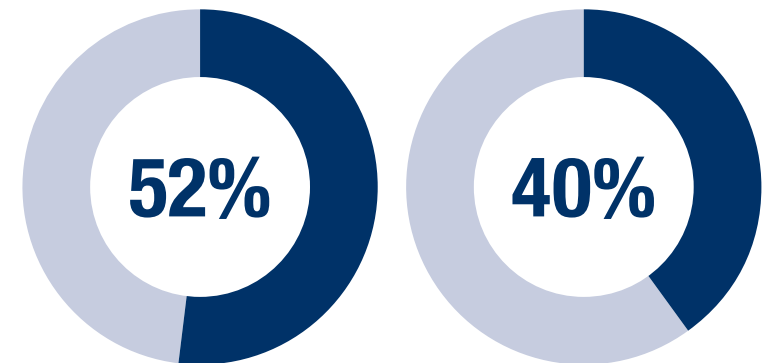
Alexey Mekhonoshin, vice president of HR at Sberbank

The two-way street

As companies focus on capturing the full value of the contingent workforce, they can improve their performance by understanding contingency as a two-way street. As employees become more flexible in their roles, companies must be willing to accommodate them with flexibility in other areas.

But many companies lack the flexibility that their employees desire. Barely half, for example, make accommodations for high-value contingent workers, and only 40% do so for workers who are not contingent by choice.

Different accommodations for different contingent employees



We provide flexibility for employees who are part-time by choice (highly skilled, in-demand, highly compensated).

We provide flexibility for employees who are part-time not by choice (mostly young, low wages, unskilled).

These issues apply far beyond the contingent workforce and reflect a larger pattern of workers expecting flexible approaches to key concerns like scheduling and location. Forces such as globalization and diversity are contributing to the need for new approaches as well.

“Issues we tackle include how to build a global workforce when the global workforce we need is not located in this city [and] how to manage virtual working.”

Lori Sawyer Jenson, head of HR functional excellence and transformation, Arla Foods

Danish food retailer Arla Foods must deal with challenges that are shared by many companies located outside of major metropolitan areas. “Part of the struggle to find the talent we need is location,” says Arla’s head of HR functional excellence and transformation, Lori Sawyer Jenson. “Because we’re not located in the capital and getting to our city can be a bit complicated, we need to look at things a little differently when it comes to finding talent.” Among the issues Arla must tackle, she says, are “how to build a global workforce when the global workforce we need is not located in this city [and] how to manage virtual working.”

One way of addressing such challenges involves technologies like teleconferencing. French corporate finance advisory Accuracy is taking that approach. Says managing director Frederic Duponchel, “We have all the technological tools in place, IT and so forth, which allow our consultants to work seamlessly whether they are in the office or outside the office.” Technology is allowing companies to reach employees who were previously unavailable, and is enabling employers to provide the flexibility that so many employees need.

Conclusion

As economic, social, and technological changes continue to remake the world of work, the nature of employment is shifting. More and more companies are relying on contingent employees, forcing executives to meet the particular needs of these workers and the challenges of deploying them across successful businesses. And as governments continue to take notice of the trend, companies face even more hurdles.

Executives must recognize that the rise of the non-payroll workforce represents a major business transformation, and be prepared to invest in the technology and training required to support new ways of working. They must also understand that company culture has to adapt in order to accommodate contingent workers, demanding new approaches to the traditional employment relationship—and new ways of managing all kinds of employees.

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