



THECONTINGENT
contractor workforce solutions

The Contingent Workforce in New Zealand **January 2013**

The Contingent commissioned Research New Zealand in October 2012 to undertake a survey of New Zealand organisations to better understand and appreciate the local contingent workforce landscape. The Aberdeen Group in Boston USA has published several research papers over the last several years on the topic. To our knowledge no such research has ever been undertaken in New Zealand to date. We hope the content of this summary will prove useful to our audience.

New Zealand and Australia have often lagged behind Europe and the US and it was the general consensus at last September's ATC Contingent Workforce conference in Sydney, that Australian contingent workforce management lagged some 3-4 years behind these more mature markets. Research NZ's findings would suggest New Zealand may be even further behind.

The Research New Zealand report states that contractors represent 8% of the total workforce of the average NZ hiring organisation. This is significantly lower than the 26% reflected in the last Aberdeen Report and is on a par with where the US was at nearly a decade ago. While the findings state an 8% average, in reality it could be much greater as we know from the survey results that most organisations cannot accurately report on the number of contractors engaged as only 14% of respondents stated they had 'high visibility' of the use of contractors across the entire organisation.

The Aberdeen Group have reported a continual upward trend in the US contingent workforce market as the following percentages indicate:

2008	2009	2010	2011	2012
15%	17%	20%	22.5%	26%

The preferred management techniques of New Zealand organisations also seem to be out of step with the widely adopted contingent workforce practices that are now well entrenched in many US and European organisations. A very low number of survey respondents currently utilize Managed Service Providers (MSP) (7%) and Vendor Management Systems (VMS) (10%) suggesting the local market has yet to embrace internationally proven methods of managing contingent workers.

In the current economic environment it is hardly surprising that 87% of respondents whose organisations employ contractors stated that the main pressures in their organisation to change management practices is the 'need for better financial control' and a 'management drive to reduce costs associated with contractors'. We are in very tough times and it is to be expected that all expenditure is coming under the spotlight.

However, with this in mind, organisations apparent appetite for risk is surprising. Only 21% felt the pressure of 'increasing risks' yet the following results suggest most organisations need to up their game with regard to compliance and risk management.

<i>No tenure policy</i>	70%
<i>No performance policy</i>	58%
<i>No compliance policy</i>	58%
<i>No pay rate policy</i>	57%

One in four respondents stated their organisation did not have a policy on any of the above four areas. Staggering!

With the general focus being on cost reduction perhaps the lack of policies shouldn't be a surprise as it could be assumed that risk management would come at a cost. The northern hemisphere market would suggest the contrary.

At the ATC conference, this was summed up well by Vodafone's Europe global head of HR procurement, Kiwi, Dave Bell when he stated that 'implementing a vendor management system has improved workforce planning, mitigated employment, tax, asset and intellectual property risks, and reduced the total cost of ownership of the contingent function by 15%'.

Added to the lack of policy, the majority of organisations surveyed choose a DIY approach to sourcing and managing their contingent workers with organisations preferring to;

<i>Source contractors directly from the market rather than utilizing the services of recruitment agencies</i>	76%
<i>Manage the contractor relationships internally</i>	92%
<i>Management burden rests with the hiring managers</i>	76%

The associated risks of these practices are profound. For example we know that there is greater exposure to employment risk when contractor's tenure is left unchecked. We have all heard stories of contractors being engaged with the same organisation for many years with the continual rolling over of contracts. It is our view that this risk is compounded by the direct engagement and self managed models. Mis-classification of contingent workers currently exposes the hiring organisation to employer obligations, which may only become evident when a contractor is finally let go. It is common knowledge that IRD are currently investigating the contractor market. Should an individual be non-compliant, in a tax sense, the ultimate responsibility may rest with the hiring organisation.

While the legal definitions of an employee and a contractor are well understood, the treatment of contractors is often more akin with that of an employee. The mere presence of an intermediary doesn't necessarily protect the hiring organisation from all employment and tax risks, however a well-structured engagement model involving a specialist provider of contingent workforce solutions, will help mitigate it.

What is also alarming is the high number of organisations who rely on their hiring managers to manage the complexities of the contractor relationship. This result would suggest that most organisations have a decentralized contractor management process.

This thought is also reflected in the low number of respondents who stated that they have 20/20 vision of their contingent workforce and are able to measure their contractors 'highly accurately' or have 'high visibility' of their contractors. This is highlighted in the following results.

Those who state that they can measure their contractors 'highly accurately' with regard to;

<i>Skill sets</i>	25%
<i>Compliance with policies and standards</i>	25%
<i>Rates of pay</i>	32%
<i>Effectiveness/performance</i>	33%
<i>Contract tenure</i>	36%

Those who state they have 'high visibility' of;

<i>The levels of compliance and the performance of their contingent workers</i>	11%
<i>Their Statement of Works (SOW)</i>	12%
<i>Services suppliers</i>	13%
<i>the use of contractors across the entire organisation</i>	14%

The lack of visibility of an organisations contingent workforce is a serious issue as it is impossible to manage what you cannot see. Our investigation into centralized, contingent management practices would suggest that a reduction in costs and risks through improved compliance standards and workforce visibility is achievable.

"If you don't see them, you're not managing them!"

It is widely accepted that contractors are here to stay, and in fact at just 8% of the average organisation's permanent head count, this workforce is set to increase dramatically should the New Zealand market do as we all expect and track global trends.

This growth theory is reinforced by the reality that organisations are required to engage contractors simply to get the specialised skills they need as many individuals are choosing contracting over traditional permanent employment due to career development and lifestyle benefits.

The prospect of adding more contractors into an environment where risk is high and largely unmitigated, visibility and accurate measurement is poor will present senior management with some serious challenges in the years ahead. To this end it is some what surprising that most respondents stated that their organisations would not change the way they recruit or manage their contingent workforce in the next 12-18 months. Are we missing something?

The Contingent is engaged in discussions with many New Zealand organisations, both private and public across a raft of industry sectors regarding effective management of their contingent workforce and despite these research findings, we believe there is a growing awareness and acknowledgement of the specific challenges that this dynamic workforce presents and an increasing openness towards specialised contingent workforce management.

It is The Contingent's expectation that the New Zealand contingent workforce market will mature markedly over the next 3-5 years as we and other specialist providers promote tailor-made contingent workforce management solutions.

We trust this report has been informative and we would greatly appreciate your feedback. Should you have any interest in discussing how The Contingent can assist to reduce the cost and risk associated with your organisation's contingent workforce then please contact:

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Future Research

The Contingent would like to undertake annual studies of the contingent workforce within New Zealand. To enable thorough investigations in the future that is more representative of New Zealand organisations, we require a large pool of respondents.

Due to Research New Zealand's Code of Practice and confidentiality standards we do not have access to the email addresses of respondents. We would, however, like to invite those of you who are willing and in a position to assist us in the future by completing a 10-15 minute survey on your organisation's contingent workforce composition and management practices to please email your details to hello@thecontingent.co.nz with Research Respondent in the subject line.

All responses are confidential.

Thank you.