

# identifying & managing independent contractor (IC) talent compliantly

## Strategies & solutions for today's contingent workforce

Data from the U.S. Department of Labor validates what employers know to be true: contingent workforce strategies are proving to be a cost-effective approach for attracting highly productive talent. Engaging an independent contractor is a smart solution that offers greater quality, flexibility and efficiency in filling critical gaps. This dynamic trend is anticipated to grow exponentially in the years ahead, as workers find this type of employment arrangement to be more readily available, and, often, more desirable.

But what the statistics don't tell us, however, is how many of these millions of workers are being improperly engaged by the companies that use them. There are multiple challenges for organizations that seek to source and retain top talent in a compliant manner that satisfies internal controls, IRS and state regulations, and the unique needs of free agents.

**Currently, about 20-30% of the workforce in Fortune 100 companies is made up of contingent workers. That percentage is expected to swell to 50% by 2020.**

Staffing Industry Analysts, 2012

## Capitalizing on the growing contingent workforce

Given the shifts in workforce demographics and the demand for innovation and global growth, painting a complete picture of current and future talent needs is vital to an organization's success. As a result, total talent acquisition — the identification, attraction and hiring of both permanent and contingent labor— is becoming a strategic endeavor.

Increased adoption of contingent labor strategies serves as proof that the benefits of hiring independent contractors outweigh the costs. Workforce planning, including the use of an integrated hiring strategy, leads to lower turnover rates and contributes to an organization's best-in-class practices for optimizing all types of talent.

Given the forecast for the hiring of both contingent and full-time workers, combined with slow economic growth projections, controlling labor spend is more crucial than ever before. But cost is only one factor driving the dependence of an integrated hiring strategy. Workforce quality is another consideration. Leveraging the use of contingent workers provides greater access to a wider talent pool of experienced and highly skilled individuals.



**E lance, the leading online work marketplace, reported that 50,000 new freelance jobs were created in September 2013. Nearly one-third of the entire U.S. workforce is considered independent, a category not captured by the Bureau of Labor Statistics (BLS).**

### Key drivers of best-practice organizations

Businesses that have a greater acceptance of the benefits of an integrated talent mix, and a clear view of their permanent and contingent labor, are better equipped to make smarter business decisions around recruiting and retaining talent.

**Cost** | Improving spend on all talent initiatives requires an in-depth analysis of pay rates, internal resources and recruitment costs. Reducing costs on independent contractors can often be achieved through an integrated hiring strategy that identifies a set of shared objectives for recruiting total talent.

According to a 2012 study conducted by Aberdeen Group, there are three key areas where companies use a significant percentage of independent contractors:

- Information Technology (49%)
- Management Consulting (41%)
- Engineering (23%)

**Visibility** | Engaging independent contractors for best results means knowing who they are, what sources are most effective in attracting them, why they are worth the investment, and how they are impacting the bottom line. The need to identify and acquire talent does not always take visibility into consideration, as the most urgent focus is on the end result. If you were asked today, could you easily identify who your independent contractors are and where they are engaging within your organization?

Key drivers cited by employers that invest in independent contractors include access to specialized skills sets (65%), flexibility (57%) and the ability to build a reusable talent pool (37%).  
Aberdeen Group, 2013

**Efficiency** | Using free agents to enhance business outcomes depends on having an efficient process to engage and manage top talent in ways that increase satisfaction and retention. Approximately half of all companies using independent contractors have lost talent due to poor engagement strategies and processes.

Recent data from Aberdeen Group also reports the top pressures associated with the use of independent contractors. These include greater efficiency (42%), finding talent with the right skill sets (41%) and ensuring compliance (34%).

**Risk** | Classifying the contingent workforce in a legally compliant manner is essential to mitigating risk and the liability for back benefits, taxes, overtime wages and the like. This means understanding the state and federal laws for defining employees versus non-employees, and applying a series of litmus tests to verify the level of behavioral and financial control falls within tolerance levels, and that the relationship of the parties supports the worker classification.

On average, an organization can expect to pay a minimum of 40 cents for every dollar that has already been paid to an inappropriately classified worker. Most agencies have a look-back period of at least 3 years. If an employee is reclassified, the company may also be liable for back taxes, late payment penalties, overtime pay, and in some cases, additional civil and criminal charges and fines.

## Single-source solution

To increase visibility, efficiency and compliance, organizations may be well-served by retaining a Managed Services Provider (MSP) who has demonstrated success in the area of Contingent Workforce Services (CWS) and includes an Independent Contractor Engagement Specialist (ICES) in their solution. Firms with expertise in this area are able to:

- Audit and assess your workforce for possible misclassification risks, while also providing an in-depth look at your current 1099 independent contractor usage, spend and engagement practices.
- Design, implement and manage an independent contractor engagement process that mitigates risk, identifies cost containment opportunities, and brings visibility contingent labor into executive leadership's line of sight.
- Provide payrolling services for contingent workers who do not meet the requirement to engage as Independent Contractors.

To mitigate risk, companies should conduct a worker classification audit of their entire labor force on an annual basis. All categories of labor, contingent, internal FTE, SOW, etc. should be included in a total talent audit, which can be facilitated by an ICES.

By addressing the gaps uncovered in an audit with a comprehensive compliance program, companies become more empowered to engage independent talent and capitalize on the free agent movement. More importantly, organizations gain a clear view of their entire workforce which can facilitate leaner and smarter decisions — reducing costs, improving visibility and enhancing overall productivity.

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