

**Leveraging
the Freelance
Economy
for freedom
and profit**

EMERGENT

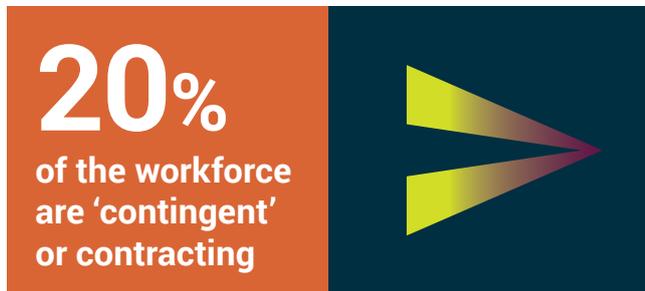
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The Freelance Economy is evolving.

As the new freelance or 'gig' economy rapidly develops, large and not-so-large 'employers' will have relatively few 'employees'. Freelancing, though a long time coming is the workforce disruptor – as Uber to taxis and Alibaba to retail.

Today, nearly 20% of a company's workforce is classified as contracting or "contingent labour", covering temporaries, specialised contractors, executive leasing and consultants; individuals moving from assignment to assignment as musicians would historically move from 'gig' to 'gig.'

The phenomena is global and growing. According to a study by global accounting software company Intuit, by 2020 more than 40% of the western workforce will be so-called contingent workers. New Zealand specific statistics confirm a similar trend. Following a "Y2K" peak in 2000 when contract employees made up 19.9% of the workforce and dipping to 17.4% in 2006, the trend has continued upwards.



Drivers contributing to this perfect storm are many: rapid adoption of mobile technology and ubiquitous fast internet, combined with work being more digital and 'everything' being available in the cloud, and work attitudes shifting in favour of collaboration. There's a sense now that work is no longer about commuting, face-to-face meetings and sitting in a cubicle or office to complete tasks.

In the eye of 'the storm' companies and workers share a common goal: using technology and mobility to maximise productivity, well-being and speed-to-market.

Other factors driving the trend include globalisation, worker migration, knowledge-

driven work, the nature of work and business leadership, and the shift from "traditional" work as baby-boomers retire to be replaced by "millennials."

Carmen Bailey, Founder of Emergent, New Zealand's largest agency dedicated to executive leasing and contracting, notes that being a non-IT contractor used to come with a social stigma. Today however, with opportunities for contingent, project-based work exploding, self-employment as a freelance contractor is seen as a rewarding and satisfying career option.

The pivot from socially-undesirable to career choice has lowered costs and increased demand as well. "Only a decade ago, in order to contract freelancing talent the premium would be 30-40% of an employee cost," says Bailey. "However with supply increasing and more individuals choosing a contractor's lifestyle, employee and contractor incomes are becoming equitable."

Current demographics

- Baby boomers who can't or don't want to retire view contract work as a way to have independence without the restrictions and 'political hassles' of a full-time job.
- Millennials, on the other hand, have witnessed their parents lose jobs as companies reorganised and have had a difficult time finding jobs themselves – Millennials have less of a liking for a traditional full-time job.
- In the middle is Gen-X: building a family while working. Both spouses work, but one can have greater flexibility with contract work.
- Average employee tenure in 2014 for 24-35 year olds is now below 3 years.
- Whilst having the highest median tenure, management and professional occupations' average tenure is still now just over 5 years.



“Employee and contractor incomes are becoming equitable.”

What does it mean?

Given these trends and strategies, it is important for an organisation to review how they acquire and manage this workforce with the same rigour and importance they give their permanent workforce.

Companies engage contingent labour to deliver special projects, cover staff absences and, most importantly, to maintain flexibility in their cost base in response to business demand. At the same time, more and more knowledge workers are opting for the type of portfolio career that contracting can bring them.

Some of the bigger issues for an organisation looking to optimise the opportunities of this new “freelance economy” to consider include:

- What elements of the talent management process should be applied to contingent workers – and why?
- How do we recruit from a highly diverse set of talent pools, including expert networks and specialists? Important HR practices include understanding the compensation and tax implications of contract workers’ location.
- How do we administer and oversee contingent workers, many of whom may be procured by line managers and not even included in HR systems?
- How should compensation be structured? What is the implication of contingent or hourly workers earning more than salaried workers?
- Should we on-board, train, manage, set goals, and engage these workers like our full-time employees? How can we engage contingent workers and integrate them into our culture?
- How should we measure contingent workers’ performance in a manner consistent with non-contingent workers and avoid a dual class system?

The battle for talent

For many companies, a contingent workforce presents a way to clamp down on costs while at the same time snagging skilled, scarce talent. Though these contingent workers may be pricey with an added premium of 17-22%, the cost is temporary, it doesn’t have the more expensive employee add-ons, and their speed to productivity is faster. Contractors are much more palatable to the bottom line.

Return on investment

Consider:

- The average time to hire a permanent employee: **43 working days.**
- Candidates typically have 2-3 offers to consider simultaneously during this period which means companies miss out.
- Delaying a hiring decision can really slow a company down.
- Average time to hire a contractor via a good specialist talent agency: **3 days.**

Many permanent employees are overworked or underperforming so contingent workers can be a huge plus for company morale.

Clients estimate it costs between 35-40% of an employee’s annual earnings to replace them, including productivity losses, training, recruitment and similar on-boarding costs. Some sources estimate this hidden cost to be higher. Technology companies’ replacement costs can exceed \$125,000 per vacancy.

However, for a contractor it is estimated this on-boarding cost reduces to 5-8% due to the speed to engage and on-board, lower training needs, and faster acceptance (less team ‘norming-storming-forming’).

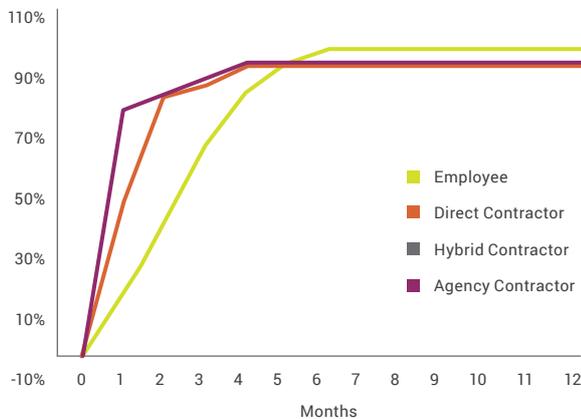
Though your fast-start contractor may not be inducted or connected to the same degree as a long-term employee, they “get going” far quicker,

leading to comparatively greater productivity in the first 6-12 months.

Contracting can attract higher or even over skilled individuals who are 'in between' contracts and able to smash through an assignment's deliverables in record time and better quality than an employee extending themselves to their next step. Quality and speed which delivers to the bottom line.

Lastly, in Emergent's estimation, 12% of contractors are offered permanent roles by businesses who legitimately find roles for truly great talent discovered through contracting.

Comparative productivity: excluding time-to-hire



Comparative productivity: including time-to-hire

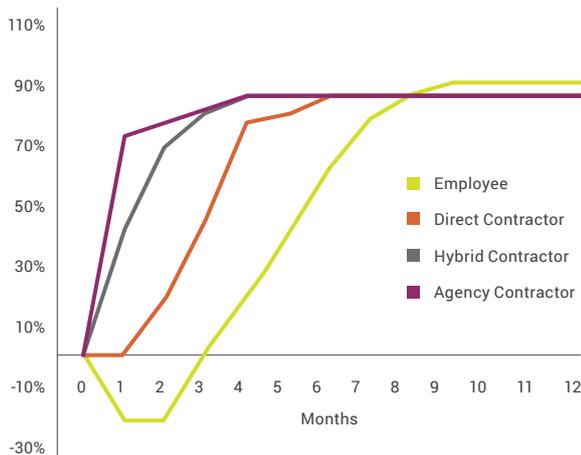


Fig: Productivity comparisons: In the long run employees are more productive however considering work disruption and hiring activities Contractor ROI is greater in the first 18 months.

Hybrid model contractors are sourced by agency and contracted by company (see page 6).



30-40%
of annual salary
to replace an
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5-8%
for a
contractor

What about intellectual/proprietary knowledge?

Perhaps a company only requires these highly valued workers for a specific project, such as developing an application. Once the task is complete, the worker costs and overheads are gone. Having anticipated the end of the worker relationship right from the outset, the intellectual property is nearly always transferred into structured form and retained as a legacy – unlike an unexpected employee departure!

Somewhat counter-intuitively, contracting can preserve and continue institutional knowledge better than employees.

"Hire Slowly and Fire Quickly" isn't working anymore – professional candidates have 2 or 3 job offers on the table at once and are gone if you blink; meanwhile, with modern employment laws the only way to fire quickly is to 'pay out'.

Knowledge

Contracting can preserve and continue institutional knowledge better than employees.

Risks and pitfalls

Before rushing off and sourcing the new breed of workers be wary of a few challenges.

Misclassification risk – claiming to be an Employee

Hiring contingent workers means navigating several, ever-complicating legal, liability, and tax minefields. Key amongst these risks are the employment of an independent contractor as a self-employed supplier, thereby not paying fringe benefit or employment taxes for that individual, nor allowing for other 'employee benefits' such as leave entitlements and redundancy.

However, then disaster strikes when the worker, contracted in good faith, begins a personal grievance process claiming to be an employee. Immediately there are costs – distraction, opportunity costs and legal defence, particularly if this goes to the Employment Relations Authority (New Zealand).

If it goes against the employer, and it is determined they were in fact 'an employee' there can be individual compensations as well as penalties for failing to follow due process with the 'employee'. IRD (NZ) penalties and payments for tax, FBT, PAYE and the like may apply.

Two of the tests which are often applied to examine for an employer-employee or business-contractor relationship are known as the 'fundamental test': is the person in business on his/her own account, and the 'integration test' – are they an integral part of the business (employee) or not (contractor).

The other 'misclassification risk' in New Zealand is where an individual may claim their contract or term assignment was an employment trial – prohibited in New Zealand¹.

One effective way to mitigate these risks is to hire a contractor/temp worker via a third-party contractor leasing agency which, in turn, has engaged the individual. Agencies use standardised contracts and manage timesheets, suitable tax compliance/awareness and invoices. They may also provide casual employees to the agency for assignment durations. Third party agencies provide a clear separation point for contractors, removing a lot of any feeling of grievance which may lead to such action in the first place.

Culture take-over risk

Though always tempting to bring a contingent worker into the culture and reduce the 'outsider feeling', this can diminish the value delivered. Culture can take over as time goes on – the contractor can pick up employee habits and their morale can eventually wane as they work side-by-side with an employee who does not perform as well.

3rd party agencies – advantages

Specialist 3rd party 'contractor leasing' agencies provide contractors as contingent resource – from top-level executives to skilled specialists – either arms-length suppliers or in a placement fee hybrid model.

Networks and availability

In addition to employment status issues, another hurdle companies encounter is simply finding qualified contractors for the job – and who will stay for the completion of the assignment. Contingent workers often pick up freelance or contract 'gigs' as a bridge to full-time employment. When a full-time job offer comes their way, they may bolt before the task is finished. After all, there may be less attachment to the job if you are contingent than if you are a permanent worker. The better leasing and staffing agencies alleviate this issue.

¹ For more information see: www.business.govt.nz/staff-and-hr/hiring-an-employee/hiring-fixed-term-and-casual-employees

Besides, part of the point of using contingent staff is to sidestep the hiring process of advertising, interviewing and getting buy-in: all established to ensure right-fit, credibility, genuine qualifications and ultimately risk reduction.

Internal recruitment often doesn't deliver the quality results, often bringing in someone who is out of work and will leave when their next permanent job offer eventuates. Typically organised for systematically recruiting permanent employees, internal recruitment teams often struggle to attract quality contractors at the necessary speed.



Average
43 days
to replace an
employee

3 days
for a contractor
via a specialist
agency

A traditional recruitment agency isn't effective either – specialist leasing agencies are a different breed of agency. They are deeply networked, know their talent so they can be placed instantly, and work at incredible pace. A call for help comes in and the contractor starts within 24 hours!

Leasing agency value-add

If an organisation contracts through a 3rd party leasing company, that company takes care of contracts, weekly timesheets, offers insurance options, provides transparency and lifts cash flow (invoices the organisation/paying the contractor). These are all additional benefits to above and, should things not work out for you

Discipline

A manager has to follow same disciplinary and dismissal processes as for other employees (NZ).

and your contractor, the task falls to the 3rd party to terminate the contractor within 24 hours and provide any replacement.

Hybrid engagement

There is also a hybrid option which is more common to bigger businesses with large on-going contingent workforces. Here the business will hire the contractor through a leasing agency, and then pays the contractor directly through accounts payable. Whilst more common for technical and project contract roles where a specific end date is identified, this is less common for open-ended executive and specialist contracts. It is also unusual for general office business support and temp roles.

These 'hybrid engagements' have much higher upfront costs, but lower total cost in engagements greater than 10 months – should the contract and contractor last that long.

Additionally, though the invoice price of direct contracting is lower, there are often hidden costs and higher risks when compared to engaging through a 3rd party. Extra care must be taken by the managers to ensure a contract relationship by treating contingent workers differently.

Finally, there is one key danger which many New Zealand managers aren't aware of: to dismiss their direct, fixed-term employee, the same disciplinary and dismissal processes have to be followed as for other employees.

Finding a leasing agency

Of course, the first step in hiring contingent workers is partnering with the right staffing agency for a company's specific requirements.

² See www.business.govt.nz/staff-and-hr/hiring-an-employee/hiring-fixed-term-and-casual-employees

Look to align with one or two contracting companies, possibly with different specialties such as core business (HR, Finance, Sales & Marketing, Analysts, Communications & PR, Supply Chain and Logistics), quality clerical and support staff while another provides technical IT/development workers.

Even before an agency is brought into the fold, a company should first assess what it needs to accomplish with its contingent workforce initiative. Is it trying to reduce costs? Or is it struggling to find highly in-demand, scarce talent?

Secondly review the leasing agency's track record and crosscheck references. Also, ensure the agency complies with and is aware of regulations, and with your company's business policies as well.

And evaluate rates the agency charges, too.

The bottom line

The on-demand freelance economy – contingent, part-time, remote, and contract workers – is now a critical part of virtually every company's talent pool. Managing this complex workforce effectively and with greater sophistication will require new, integrated relationships across HR and procurement as well as with business leaders.

Correctly engaged and implemented, the benefits of contingent workers (contractors) include:

- Lower short-term business costs
- Faster delivery
- Project/business continuance
- Transition assistance
- Higher skilled contractors for faster, better results
- Improved employee morale
- Higher capability impact
- Coverage for extended employee absences
- Removes pressure while recruiting permanent
- Increased market responsiveness

Think broadly about the range of talent practices your organisation uses for full-time, on-roll employees, and consider how they may be applied to other categories of the on-demand workforce. Programs to consider extending could include those around workplace culture, engagement, analytics, productivity tools, performance management, collaboration, and retention. In short, it is time for HR to take ownership and share the management responsibilities for on-demand workers – and not to just leave it to the line manager and/or procurement division.

“We were launching a new business and didn't have the skills needed in house. We were also confident that the person we would need after 12 months might not be the person we had at the beginning of the year.”

CFO NZX Listed Company

“ It’s not for everyone – benefits and training are lacking. However this type of work does provide for a decent work/life balance, primarily because most contingent workers are limited to 40 hours/week.”

Emergent Contractor

About Emergent

Emergent is one of the most prominent providers of executive contracting/leasing resources in New Zealand. Whether you are an individual who wants flexibility, enjoys variety and integrates well, or a successful organisation searching for the right person with the right skills for a set time period – contracting with Emergent is the perfect solution.

EMERGENT

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