

# Capacity Adjustment through Contingent Staffing Outsourcing

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**Abstract.** For a long time, contingent staffing was considered as the responsibility of the Human Resource department. The high needs of workforce flexibility combined with disseminated agencies have led some companies to a great number of labor suppliers. This situation has produced important cost variation, poor quality of service, and important risk due to the misunderstanding by local managers of legal considerations. To face this situation, companies have started to move from a HR consideration to a purchasing one. This paper deal with the problem of sourcing contingent workers as a supply chain mangement issue: to secure and optimise the sourcing of non permanent workers, companies need to involve different departments within the organisation and to develop an optimise business process with some prefered suppliers. A case study developped with Wincanton finally illustrates the benefit of identifying the needs and outsourcing to a unique service provider such a sourcing process.

**Keywords:** Supply Chain management, capacity adjustment, contingent workforce management, Logistic Service Provider.

## 1 Introduction

Today, globalization and technological innovations call for improved organizational adaptability and more flexible and advanced systems relative to manufacturing, logistics, engineering, information and process technology (Momme, 2002). In this environment, many enterprises have taken bold steps to break down both intra and inter enterprise barriers to form alliances, with the objective to increase the financial and operational performance. A closer relationship enables the partners to achieve cost reductions and revenue enhancements as well as flexibility in dealing with supply and demand uncertainties (Bowersox 1990, Lee et al. 1997, Bowersox et al. 2000).

To increase their performance in the supply chain, enterprises tend to focus now on their own business and to outsource non core competencies activities. Outsourcing is an approach that consists in making carry out by an external partner an activity, which has been carried out until then internally. It first concerned general company

departments and services, such as office cleaning, and progressively, it impacted more sophisticated activities such as IT or logistics. For Abdel-Malek et al. (2005), outsourcing targets, on one hand, the concentration of the company on its key competencies and, on the other hand, economies of scale.

Rabinovich et al. (1999) made a study on the outsourcing of different logistics activities and found that customer service could be improved and costs reduced by outsourcing diverse logistics functions such as internal logistics of production sites or transport management. The growing rate in exchanges of goods, especially logistics-intensive industries that require reactivity and flexibility, has led to an increasing sophistication of the needs in supply chain channel. In this context, an important component to the supply chain development was the emergence of third-party logistics providers that are specialized in providing logistics services.

The performance of a Logistic Services Provider (LSP) relies on its flexibility and reactivity, which means its ability to meet various and fluctuating demands, while ensuring a good service level to requests from a variety of clients. LSP actually work side by side with industrial and distributor clients to best meet requirements for a drastic reduction of stocks and lead times.

The sharing of the data base information with their partners concerning demand, planning, products and locations, inventory, etc. is of major importance for the optimisation of the operations in complex supply chain. In many of these relationships, they have to face with different business processes, different IT solutions, and different organisations, which lead to important interoperability and synchronisation requirements. Even these technological aspects are important to deal with the great variety of partners; one other key point for LSP's efficiency is their capability to adapt their capacity to the fluctuating demand.

With the high level of labor in logistics operations and constant pressure to reduce costs, properly managing the labor supply chain has become an important challenge. To deal with this labour-intensity characteristic, LSP require significant labour flexibility to deal with the fluctuation in supply chain demand. In this context, the way LSP's workforce is managed, especially the way they ensure capacity flexibility through contingent labor, has a direct impact on the logistics cost and the quality of service.

Contingent Staffing has traditionally been the Human Resource Department responsibility, but in recent years it evolves to a multi actor's decision. After developing risk and benefits of non permanent workforce management, the next paragraph will describe contingent staffing as an integrated, cross functional process, that involves the collaboration of various department of the company.

## **2 Contingent Workforce: a Multi Actor's Decision**

Global competition is affecting nearly every industry. And it comes harder than ever for companies to forecast their staffing needs. The cost of overstaffing can reduce profitability and viability for a company while the cost of understaffing can lead to missing business opportunities and decreasing of Customer Service Level. In 1999, the report from the U.S. Department of Labor (USD, 1999) found "Employers that

have flexibility in adjusting labor requirements to meet product and service demands have a competitive edge over those with less flexible human resource policies. The contingent work force that accommodates fluctuations in labor requirements has become an increasing segment of the labor market". That's why, use of temporary employees to smooth labor needs has grown substantially and why companies determined to make their staffing team fully responsive to market changes are using more contingent workers. With a contingent labor strategy, in which a portion of the workforce is easy to scale back or ramp up, it's easier to rapidly expand when business is growing, and to shift resources as the business changes. Instead of hiring everyone as permanent; companies have developed a flexible approach: depending on the level of operations, as demand is changing, the percentage of the workforce is adjusted.

As mentioned by Phillips (2005), increased competition and the need for cost-efficiency require that employers have flexibility in adjusting employment levels and employment costs to demand for its product or services, both of which might be constantly changing and volatile. A permanent full-time workforce does not permit that. Advantages and Disadvantages of Using the Contingent Workforce have been exposed by Phillips (table1).

**Table 1.** Advantages and Disadvantages of Using Contingent Workforce Phillips (2005).

<b>Advantages</b>	<b>Disadvantages</b>
Flexibility.	Perceived lack of loyalty
Savings in the cost of taxes and benefits.	Lack of knowledge of the organization's culture, policies, and procedures
Access to expertise not internally available.	Potential for overall higher costs, depending on the situation
Potential savings in overall compensation costs.	Concern with disclosure of organizational proprietary information
	Impact on morale of permanent workforce
	Loss of internal capabilities
	Potential for increased training costs when contingent workers must be trained on unique or unusual processes or procedures used by the organization

While many firms currently use some forms of contingent labor, few have developed a strategy to help ensure that such deployments maximize the organization's return (Sullivan, 2008).

## **2.1 Contingent Workforce: a Sourcing Problem**

In their paper, Pac et al. (2007) classified the production capacity under two main categories: permanent capacity and contingent capacity formed by the workers that can be acquired temporarily from what they call an External Labor Supply Agency (ELSA). Their paper investigates different supply uncertainty in ELSA responses to

workforce request. As indicated in Table 1, the main advantage in using non permanent staff is cost reduction and flexibility, but manufacturer's requests for contingent workers may be totally or partially unmet by the ELSA due to the lack of availability and/or skill requirements.

As indicated in Taleo (2004), Contingent Workforce Management is part Human Resource (HR), part Procurement, part Finance, IT, Security/Compliance/Risk management. It does not reside comfortably in any one traditional corporate department. The same point of view is developed in the special report from Workforce Management (2007), saying that managed staffing provider contracts are a growing trend, driven by security concerns, compliance issues, costs, the desire for tighter control over spending and shortage of skilled labor for specific position.

In this context, because temporary labor involves sourcing workers from External Labor Supply Agencies, negotiating rates and contracts, many HR departments prefer not to deal it. Moreover, identifying the needs for contingent workers in the company, finding the right supplier, reducing the time for candidate sourcing, monitoring their presence, adapting their number to the level of demand, etc., are activities that can be supported and improved using supply and purchasing techniques. Pac et al. (2007) identified the risk and wrote that, in case there is a high demand for contingent workers in the market at the time of the request, or if the manufacturer requires the workers in short notice, the risk of the request not being met in full terms is higher. They identified different risk factors such as the size of available temporary worker pool, capability of finding skilled workers, competition in the environment, demand structure of different customers, and opportunities in alternative options. Moreover, ELSAs may not be willing to fulfill a specific request at a specific time, considering potentially better options.

The next paragraph will describe the problem of sourcing contingent workers as a multi actor issue: to secure and optimise the sourcing of non permanent workers, companies need to involve different corporate departments and to develop an optimised business process with some preferred suppliers.

## **2.2 Contingent Workforce: a Multi Actor Perspective**

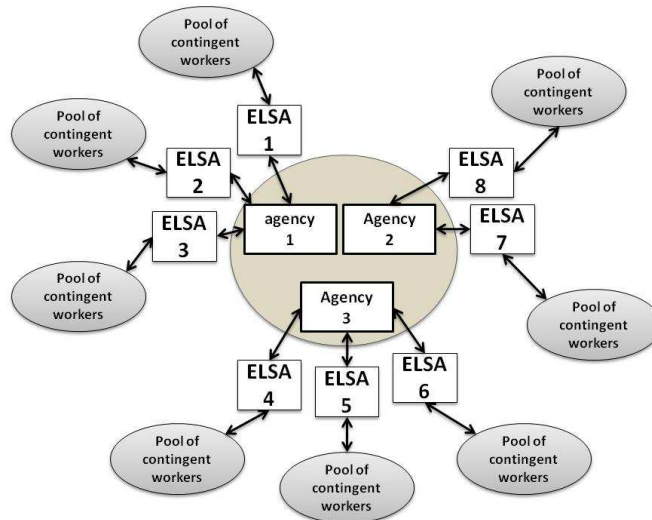
Today, many enterprises are changing their organisation in order to better integrate their activities. The concept of integration can be approached through different perspectives (functional, business process, Information System, etc.), but in all cases, it aims at shifting from local management to system management. From literature, it emerges that integration can support business processes at two different levels (Romano, 2003), intra-company integration, aiming to overcome the functional silos boundaries, and inter-companies integration, aiming to overcome the individual company boundaries.

Sourcing of temporary workers has to be considered as a cross functional process. It needs to plan the needs, to identify the knowledge, skills and abilities of contingent workers, recruit and select them accordingly, to schedule their arriving (start and stop times), and identify the tools, equipment and information that will be needed, to supervise their activity, and specify the procedures and methods to follow. As it includes all these activities, the process of sourcing contingent workers involves

different actors from various departments within the company, and need their interaction and their close collaboration:

- HR: qualification, legal and practical considerations ,
- Operation: capacity planning, skill and knowledge of the workers, etc.
- Quality/security: safety wear, equipment, procedures, etc.
- Purchasing: contracts, sourcing of the external labor agency
- Finance: invoice paiement, cost regulation, etc.

But, as mentioned by Rice (2004), in many organizations, individual hiring managers manage their own contingent workforce needs, resulting in multiple, redundant vendor relationships, non-uniform pricing and tremendous overall losses in time and money. Moreover, in big groups, with numerous location and agencies, sourcing of temporary workers often use different external labor supply agency (ELSA) as shown in figure 1.



**Fig. 1** Network of labor supply agencies for contingent workforce sourcing

This organisation, based on decentralised decision, is closed to local market but it leads to some major inconvenience:

- The pool of skilled employees in each aerea is limited and shared by all the companies that need contingent workers. One agency of the group is generally a small structure that, in many situations, is not considered as a preferred customer by the ELSA.
- The number of requests from one agency to one ELSA can be limited. This lead to cost variation in contingent workers sourcing.

In many cases, legal and practical considerations are not well known by the managers in the agencies. This situation can lead to dramatic consequence for the group.

As there is a competition among companies to attract and develop their non permanent workforce, big groups have to start establishing longer-term relationships with preferred providers to ensure proper leveraging of contingent labor volumes and a continuous flow of qualified candidates (Falgione, 2008). To be more efficient, they have to standardize their interaction with their labor suppliers.

To achieve the goal, the process of managing contingent workers can be outsourced to a service provider. That means that activities and best practices have to be defined, actors have to be identified, inside (manager in the company's department) and out side the company (ELSA), and Key Performance Indicators have to be chosen to evaluate the performance of the process.

### **3 Case study: Wincanton**

Wincanton is a European leader in the design and delivery of advanced supply chain solutions. Wincanton operates a comprehensive range of supply chain solutions for its customers; from transportation of simple product flows to complex freight management solutions and from temporary shared user warehousing to fully automated dedicated solutions. Through every stage of the supply chain process, from raw materials to recycling, they provide their customers with solutions: warehouse management, transport and distribution, barge services, removals, outsize loads, or logistics consulting. Wincanton offers an extensive range of warehousing and transport services including national and European distribution services. In France, Wincanton has built a distibuted network of logistics facilities: about 30 locations, 600 000 sq. m, 300 trucks and 1500 employees.

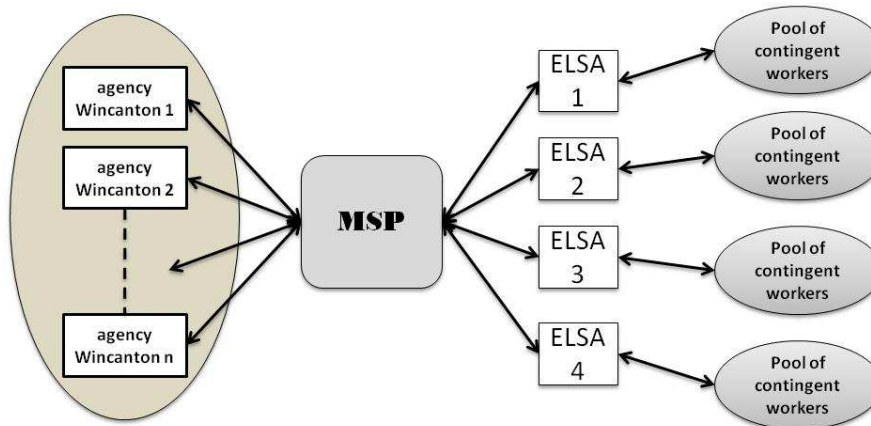
#### **3.1 Outsourcing Contingent Workforce at Wincanton**

Because many of their customers have a changing demand, Wincanton has to face a fluctuating business. To adapt its workforce to the level of the demand, Wincanton is using contingent labor. Depending on some parameters, the logistics platform's needs are different: specialisation of the paltform, periode in the year, seasonality of the major customers demand, etc. Contingent workers represent 25% of the expenses of the group and 30% of the total number of employees and mainly concern: fork-lift truck driver, picking and warehouseman. With its distributed complex of logistics platform, Wincanton had built a network of agency labour suppliers that was so large it was no longer possible to be sure that their needs were being met. Further more, with a contingent labor representing up to 10% of the total cost of a contract, and with an increased pressure on supply chain managers to reduce costs, Wincanton has decided to redesign the sourcing of its contingent workforce.

Based on the considerations described in paragraph 2, the first point was the constitution of a cross-functional group to rationalise the process. Under the control of the purchasing department the objective was not to reduce the cost, but rather to secure the quality of service to their customers by better understanding the requirements of all the persons concerned in the group. As previoully described, included in the team were representatives from all the departments involved in the

labour supply: HR, IT, Quality Health and Safety, Legal, Finance and Operations with the sponsorship of the senior management.

The long term goal was to outsource the management of the temporary workers in order to get down from 65 different external labor suppliers that have contract with the local Wincanton agencies around France, to a unique centralised managed service supplier (MSP) as shown on figure 2.



**Fig. 2** outsourcing of temporary workers' management to a unique managed service supplier

The main benefits of this new organisation are the following:

- All the agency needs for all the French sites are centralized and managed by the dedicated ONESYS team,
- A centralized French work legislation control,
- A full electronic recruitment process for a much lighter administrative load,
- A 97% fulfilment rate completed in the first month of operation,
- A 30 min average time to find a suitable agency worker across France,
- Improved payment processes between the operational sites and the supplier through the innovative eprocurement.

## 5 Conclusion

To achieve the competitive advantage that results from high performance, companies must develop their ability to anticipate demand trend and to react to pontual demand fluctuation. This adjustment is based on a permanent workforce and a contingent one, formed by workers that can be acquired temporarily.

For a long time, this contingent staffing was considered as the responsibility of the Human Resource department, but it has recently shifted to Purchasing departments. The fact is that to secure and optimise the sourcing of non permanent workers, companies need to involve different actors within the organisation and to develop an optimised integrated business process with a few number of prefered suppliers.

Wincanton France decided to do so during 2008, and the satisfactory roll-out of their programme encourages other countries to deploy this strategy.

One limitation is that this study was conducted in a specific area of competencies, where the variability of request to the service provider is not so wide. Applying this method to specific skill workers will probably need to integrate more sophisticated tools to specify competencies for the contingent workers.

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