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Improving Cost and Quality Control within Contingent Labor Management: The Energy / Utilities Viewpoint

Contingent labor has risen as a viable workforce strategy for companies looking to fulfill project-based needs and roles without the cost and commitments of full-time equivalents. In some industries, the contingent workforce floats underneath the corporate structure without much business focus. However, in other sectors, such as the energy sector (which, for this research paper is inclusive of oil and gas, mining, and utilities), contract workers parallel greater corporate and business objectives, leaving contingent labor program managers in need of streamlined processes and a rigorous structure to ensure that temporary workers meet quality standards and add value to the greater organization. Aberdeen research has found that within the energy sector, the role of contingent labor must meet the growing nature of safety, regulatory and quality directives to ensure that this temporary workforce drives true enterprise value and meets (and exceeds) the expectations set forth by specific role demands.

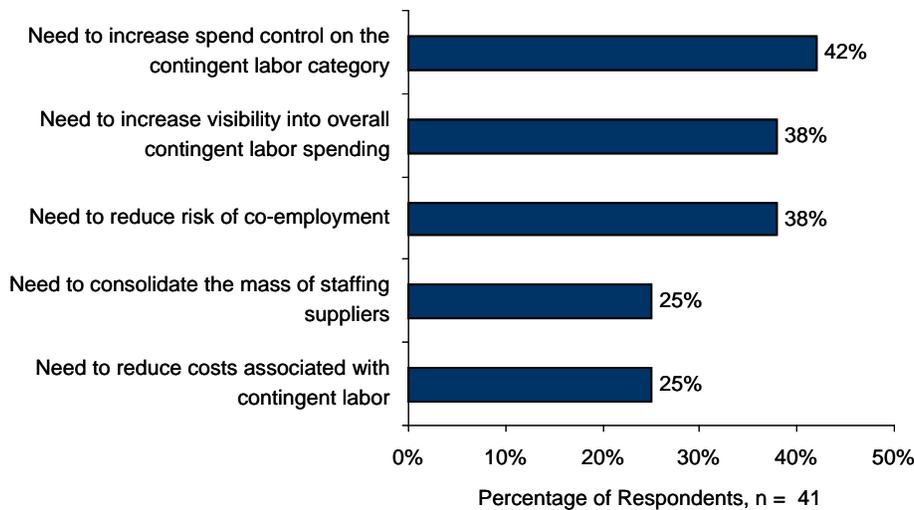
The Energy Sector: Spend and Quality Control

Aberdeen's 2009 *Contingent Labor Management* research study, which surveyed nearly 200 enterprises, found that cost and visibility were the top pressures driving their organizations to focus efforts on better management of the contingent workforce. And according to the 41 companies representing the energy sector in the survey sample, spend control (42%), co-employment risks (38%) and visibility (38%) reign as the top contingent labor pressures (Figure 1).

Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

Figure 1: Top Factors Driving Companies in the Energy Sector to Focus Efforts on Contingent Labor



Source: Aberdeen Group, October 2009

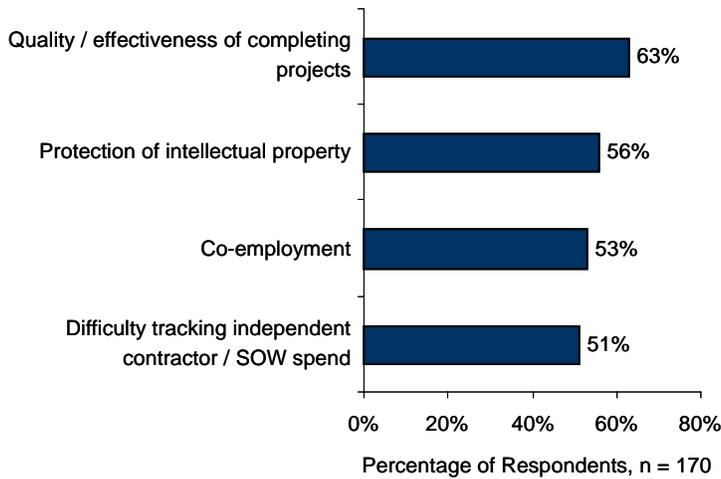
"We've acquired many companies and can benefit greatly by centralizing our workforce management processes across a common system. However, our challenge is to get senior management to see the importance of integrating scheduling, absence management, and time and attendance."

~ Workforce Management
Project Director, Large Mining
Company

Spend control is often a core component of complex category management; within the contingent labor space, and more specifically, within the energy sector, the cost aspects of contract workers must be managed efficiently to adhere to corporate budget structures. Considering the unpredictable nature of the energy sector, such as plant malfunctions and downtimes, power outages, as well as unscheduled and emergency maintenance aspects, coupled with the constant fluctuation in commodity prices, the flexibility and reliability of contract help is often well-regarded. However, if contract labor is not managed centrally, it can lead to a groundswell of additional costs and fees (with the inclusion of services in the contingent labor space).

Additional data findings from Aberdeen's June 2010 [Contingent Labor Management](#) study suggest that in addition to the costs around contract work, quality is the top barometer for the true effectiveness of contingent labor (Figure 2).

Figure 2: Top Contingent Labor Management Challenges (2010)



Source: Aberdeen Group, June 2010

"Quality is a crucial metric [for our organization]. Each department and business unit head sets the quality and performance metrics for our contractors to best meet their objectives."

~ Director of HR/Talent Management, Mid-Market Utilities Company

The majority (63%) of companies view quality as a top challenge for managing a contingent workforce. This aspect, when parlayed into the energy sector, rings especially true. There are often a wide range of duties and responsibilities placed upon the average contingent worker within this space, as the technical requirements often far exceed that of contractor assistance in other industries. The energy sector also includes a specialized set of roles that must be performed by contractors that have the appropriate and current certification, education and skill-sets, such as proper preservation against unplanned power outages, plant maintenance, and water / sewage system maintenance. These tasks are often performed by contingent workers as a means of driving down costs on labor within this industry.

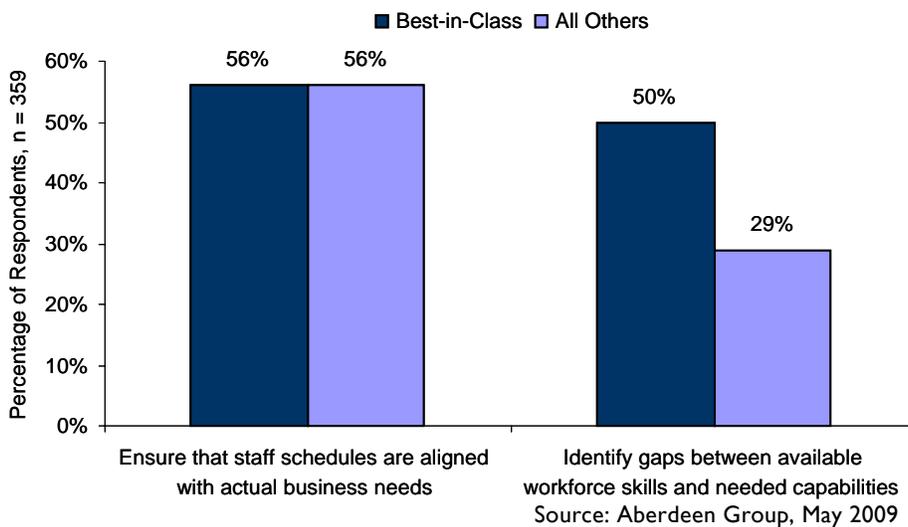
When these issues are discussed in relation to effectiveness, *quality* becomes a top area of concern within the energy sector. Considering that there is a severe balancing act in requiring high-quality (and specifically-skilled) contingent workers for the specialized tasks, the ways via which companies in this sector manage their contingent workforce is just as important an aspect as the very costs and fees associated with these temporary laborers. With just under 60% of the average contingent workforce in the energy sector self-managed (in-house), the idea of quality assurance and effectiveness measurement becomes a major item of concern for companies within this sector.

Improved Quality via Management of Skills / Competencies

Effective workforce management allows an organization to plan for anticipated demand as well as calculate the necessary allocation of required workers to ensure the right people, with the right skills, are in the right place, at the right time... all in an effort to optimize productivity, spend, risk avoidance, and customer satisfaction.

While cost remains a strong driver for workforce management among contingent labor, as Figure 2 illustrates, one element continues to grow in importance: quality. And according to Aberdeen's 2009 research [Workforce Scheduling: Managerial Strategies for Driving Down Costs while Escalating Customer Satisfaction](#) (a study of more than 350 organizations around the world), the strategies pursued by top-performing companies with regard to workforce scheduling are focused on ensuring that planning and allocation of their workforces are aligned with purposeful precision. In fact, while 56% of all organizations (including 56% of Best-in-Class) indicate they seek to align staff schedules with actual business needs, 50% of the Best-in-Class also prioritized the allocation of their workers based on the skills and / or competencies required - and these top-performers were 72% more likely than all other organizations to have this heightened focus (Figure 3).

Figure 3: Top Strategies to Optimize Workforce Scheduling Efforts



Impact of Workforce Management on Compliance

Among the most heavily scrutinized and regulated industries over the past decade are energy and utilities. And given the recent news headlines, the tightening seems likely to persist; just as automated workforce management helps organizations optimize resource allocation (i.e. to manage overtime costs), so too does it enable an organization to achieve greater compliance.

Giving managers and supervisors visibility into (and the ability to track) contractor work, break, and non-work hours is critical, especially in the energy sector. Compliance for this sector goes a step beyond certifications as these organizations have to adhere to certain rules and regulations around the number of hours worked, breaks taken, pay policies, etc.

The issue of fatigue management in particular is an area where automated workforce management can assist with regulatory requirements [i.e. the

Best-in-Class Criteria

The following key performance indicators were used to determine the Best-in-Class for Workforce Scheduling, with top performers achieving impressive results:

- ✓ 30% average improvement in workforce capacity utilization
- ✓ 36% average increase in staff productivity
- ✓ 31% average increase in customer satisfaction

Best-in-Class: top 20% of aggregate performance scorers

Industry Average: middle 50% of aggregate performance scorers

Laggards: bottom 30% of aggregate performance scorers

United States Nuclear Regulatory Commission's (NRC) Fitness for Duty (FFD) regulations (NRC 10 CFR Part 26)]. These requirements were put in place, in part, to prevent employees from going beyond permissible work-hour limits. Having accurate reports and real-time visibility enables the contracting company to identify and take action when certain roles are not getting the necessary rest between shifts. In addition, it can alert managers to contractors that are not up-to-date on required certifications, thus mitigating potential risk.

This visibility can also enable a supervisor to compare productivity, quality and safety records across different contractors. This insight can be leveraged by that same supervisor to ensure those contractors with the best records are assigned to the most important jobs or tasks. On the other hand, that same information can be utilized to avoid scheduling contractors who have a history of health or safety issues or who do not have up-to-date certifications. It can also be used to assign these non-compliant or at-risk workers the training they need to overcome these barriers, as well as monitor their progress against this training to ensure they attain and retain the requisite knowledge and abilities. All of this knowledge is essential to ensure the three main requirements of any project - budget, scope, and timeline - are met.

Within the aforementioned [Workforce Scheduling](#) data, 75 organizations indicated they utilized a formalized schedule for contract workers. Among these, 36% indicated their scheduling process was manual (i.e. spreadsheet intensive) and 64% indicated their scheduling process was partially or fully-automated. The results suggest strong rationale for the use of automated scheduling among contractor workers for both cost and compliance reasons (Table I).

Table I: Impact of Automated Scheduling on Contract Labor

Key Performance Indicator (KPI) (year-over-year improvement)	Automated Scheduling Solution	Manual Scheduling Solution
▪ Compliance (e.g. state and federal, labor laws, internal policies, etc.)	8%	2%

Source: Aberdeen Group, May 2009

Impact of Workforce Scheduling on Labor Cost

The ability to improve overtime costs in the energy sector is especially challenging as a result of the complexity of overtime rules [e.g. the Fair Labor Standards Act (FLSA) average overtime rate requirements]. Aberdeen's 2009 study on [Workforce Scheduling](#) also revealed that organizations that utilize workforce scheduling software experienced a 16% year-over-year decrease in overtime costs, as compared to a 13% decrease among organizations that did not utilize workforce scheduling software. However, the data around overtime cost reduction becomes even more

compelling when considering the use of an automated scheduling solution for a contingent labor force (Table 2).

Table 2: Impact of Automated Scheduling on Contract Labor

Key Performance Indicator (KPI) (year-over-year improvement)	Automated Scheduling Solution	Manual Scheduling Solution
▪ Overtime Costs	14%	6%

Source: Aberdeen Group, May 2009

Automation of Internally-Managed Contingent Labor Processes

Internal management can be seen as a barrier to success due to the attention and rigor applied to the various phases, steps and processes within a particular spend category. For contingent labor within the energy sector, these complexities, combined with an increased focus on *quality*, transform simple contract labor management into a scenario where automation and guidance is required to drive corporate value.

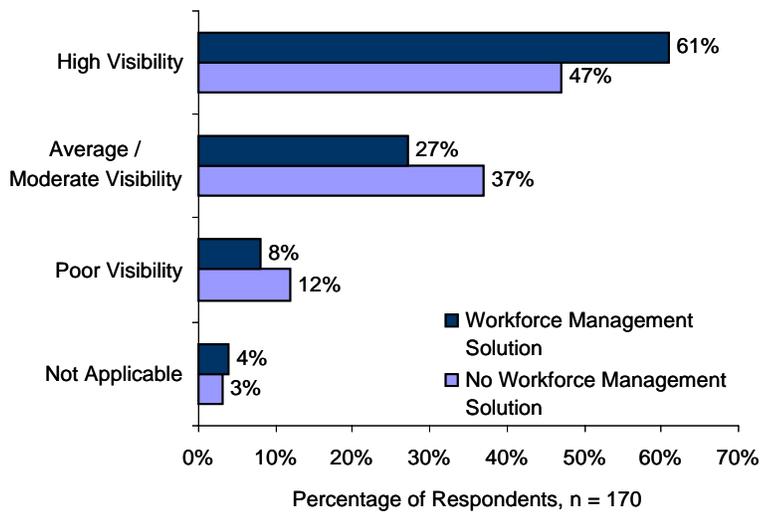
In order to measure the quality of a contingent workforce, companies are currently utilizing two main metrics: *percentage of contract workers that meet expectations* and *percentage of contract workers that exceed expectations* ([Contingent Labor Management](#), June 2010). Aberdeen research has found that companies that currently automate the in-house processes associated with contingent labor through a workforce management solution (WMS) have made significant waves within the quality spectrum. In fact, companies that are currently utilizing a WMS as a technology enabler for contingent labor management report the following gains:

- **Nearly 10% higher frequency** of contingent workers that **meet** the quality and effectiveness expectations of their temporary job / project roles;
- **Nearly 30% higher frequency** of contingent workers that **exceed** the quality and effectiveness expectations of their temporary job / project roles, and;
- **35% higher cost savings** on contingent labor spending (achieved through better pricing, less expensive mark-ups, or introduction of efficiencies for the same amount and type of contract workers).

Automation as a Means of Improving Visibility

Visibility, charted as one of the top pressures within the energy sector (Figure 1), is a core component of the modern contingent labor program. For the typical company in this sector, visibility is a key to achieving not only spend control, but also improving the quality and effectiveness of their contingent workforce. Automation is one measure to achieve that global visibility, as detailed in Figure 4 (below).

Figure 4: Visibility into Temporary Workers, WMS vs. No WMS



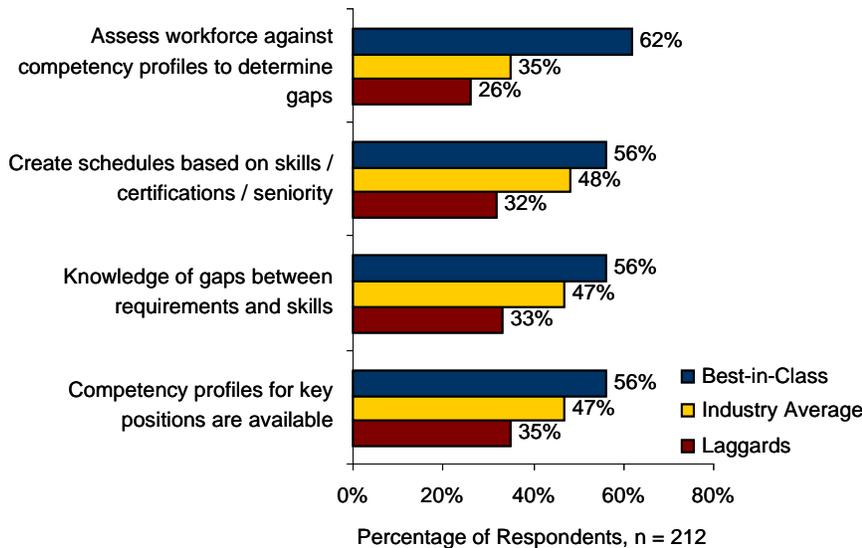
Source: Aberdeen Group, June 2010

As detailed in Figure 4, companies with workforce management solutions in place are 30% more likely to report having high visibility into contingent labor than enterprises without WMS automation. This benefit can assist companies in the energy sector to gain cost control, improve performance measurement, and ensure that all temporary contractors / laborers meet the regulations set forth by federal, state and environmental standards. High visibility also translates into intelligence about the contingent workforce and its ability to meet the specifications and skill-sets required to complete the unique tasks inherent within this sector.

The importance of visibility also came to the forefront in Aberdeen's [Workforce Scheduling](#) research. In that study, another critical Best-in-Class differentiator pertaining to workforce scheduling was providing workers visibility into their personal schedules as well as the ability to suggest schedule changes. Best-in-Class organizations were nearly twice as likely as Industry Average and nearly five times more likely than Laggards to enable workers to view or change their schedules in real-time (53%, 29%, and 9%, respectively).

In addition, Aberdeen's Best-in-Class reflect key knowledge management capabilities that enable these top-performers enhanced visibility into competency requirements and competency gaps; between what's needed and what's currently available (Figure 5). The benefits of visibility into a contract worker's current competencies are numerous for firms in the energy and utilities industries, and were expounded earlier in this research paper. However, the importance of a system that can not only enable this visibility, but also provide the means to document a contractor's work status and eligibility is especially important given the increasing state and federal regulatory rules and requirements.

Figure 5: Competencies to Align Labor Supply and Demand



Source: Aberdeen Group, May 2009

From a technology adoption standpoint, 56% of Best-in-Class organizations (from Aberdeen's 2009 [Workforce Scheduling](#) research) indicated their workforce scheduling system was either fully or partially automated. And the technology indicated as most planned among Best-in-Class for Scheduling purposes shows intent to further their ability to proactively manage and maximize the quality of their scheduled workers. Specifically, 29% of Best-in-Class indicated plans by mid-2010 to adopt forecasting software to allow managers to predict the number and type of employee needed to meet anticipated demand, and another 27% indicated plans to utilize assessment tools to determine gaps in skills, proficiencies, or knowledge of their workers.

However, the most adopted technology utilized as part of workforce scheduling efforts was Time and Attendance software (utilized by 68% of Best-in-Class and 65% of all other organizations). In support of this, Aberdeen's February 2008 research report [Evolving Time and Attendance: Foundation for Workforce Management Improvements](#) included the following: "The benefits of merely getting time and attendance data more accurate should not be understated. Those benefits include more accurate payroll for contact labor, stricter compliance with workforce regulations, and verifying that billings from consultants accurately reflect their efforts. Another advantage is to ensure equitable pay to employees based on the type of work they do."

Required Actions

The unique nature of contingent work within the energy sector, such as unpredictable maintenance issues and power outages, not to mention the stringent environmental and regulatory requirements, dictates that

enterprises within this sector better manage their in-house structure concerning temporary labor. Companies within this sector should undertake the following recommended actions for contingent labor consistency, quality and performance:

- **Develop and implement programmatic measures to gauge the quality of contingent workers.** Quality has risen as the top challenge inherent in managing a contingent workforce; companies in the energy sector must develop the ability to measure the quality of their contingent workers to ensure that these temporary roles are effectively meeting specific regulatory standards. Companies should start by measuring the number of contingent workers who meet the defined and communicated expectations (i.e. competencies) set forth by their specific job roles, and also gauge the number of contractors who exceed those same expectations. Gaps can then be addressed, followed by the proper program adjustments to secure contingent workers that adhere to standards and can effectively perform the unique tasks within this sector. In addition, just as companies consider employee performance ratings as a key measure of the effectiveness of its professional workforce, so too should these organizations look to relevant productivity measures when considering the quality of their contingent workforce.
- **Leverage a workforce management solution (WMS) to automate key components of the contingent labor program.** Components of contractor management, such as time, attendance, and workforce scheduling, are critical aspects within the energy sector. With safety and regulatory issues and guidelines at the forefront of the company's mind, it is crucial for enterprises within this sector to utilize a WMS solution to not only streamline processes, but also mitigate fatigue management and other safety or environmental concerns in the utilization of contingent labor. In addition, via the automation of workforce management, managers (for example) will also have greater visibility into the availability and current allocation of skilled workers which, in turn, will enable organizations to more effectively expand or reduce their contingent workforce based on market fluctuations and demands.
- **Align contingent labor strategies with overall corporate and business objectives.** The alignment of contingent labor strategies and business goals has fast become a top strategy for Best-in-Class companies; enterprises within the energy sector should align their top business goals and objectives (safety, regulations, responsiveness to projects, etc.) to their contingent labor strategies. This alignment will sharpen contingent labor efficiency and allow human resources and other key internal stakeholders to accurately gauge not only the need for contingent labor within certain company projects, but also the effectiveness

(quality) of contract workers on meeting those greater business objectives.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
<u>Contingent Labor Management: Strategies for Managing the Complexities of the Contingent Labor Umbrella</u> ; June 2010	<u>Workforce Scheduling: Managerial Strategies for Driving Down Costs while Escalating Customer Satisfaction</u> , May 2009
<u>Contingent Labor Management</u> ; October 2009	<u>Evolving Time and Attendance: Foundation for Workforce Management Improvements</u> , February 2008
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