SAP Fieldglass

# VENDOR ACCOUNTABILITY FOR CONTINGENT WORKFORCE MANAGEMENT

## AN SAP FIELDGLASS WHITEPAPER

This whitepaper chronicles the history of the development of vendor neutrality in the U.S. staffing industry and delineates why the prevalent form of this business practice may not be optimal for staffing suppliers or their customers. Furthermore, this piece offers an alternative to the traditional definition of vendor neutrality; one that allows staffing firms to deliver their core services while providing customers with the vendor accountability they require.

## Big Picture

Vendor neutrality represents a common requirement for many customers. The requirement is created when customers desire an outcome (in this case, unbiased staff provisioning), and then select a framework for getting there (vendor neutrality). By the prevailing definition, what they are saying is that they do not want the program provider (Managed Service Provider (MSP)) to participate in staff provisioning. While this addresses one issue, it deprives the customer of the valuable services of an accomplished staffing partner that the customer itself selected for proven expertise in managing the complexities of the global staffing process.

Historically, customers have insisted upon vendor neutrality due to their experience with program and staffing practices considered to be contrary to their best interests — firms quoting different rates for different groups within the same company, a program provider favoring their own staffing arm, etc. These issues were compounded by the fact that truly independent technology platforms did not exist until quite recently; therefore, a customer had almost no transparency into the contingent workforce management process. These and other perceived conflicts of interests led to the demand for vendor neutrality.

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When it comes to large-scale staffing programs, the concept of "vendor neutrality" is tough for staffing partners and even more onerous for customers. Vendor neutral staffing programs keep staffing partners from doing what they excel at — filling job orders and managing staffing programs. Consequently, that means less value for customers.

Today, when a customer requires vendor neutrality, what is likely required is vendor accountability. The customer wants to know that its staffing partner is doing everything possible to provide the highest quality workforce, at the lowest cost across their entire organization, and ensuring compliance with financial and HR practices. But this goal is better achieved when the technology used to manage, measure and monitor contingent labor is a buyer-oriented solution provided by an entity that has no influence on the actual selection of workers in filling job requisitions. In other words, a neutral platform that enables the design of a fully transparent program where the customer and the MSP can collaborate around the creation of the service levels and other program elements.

Companies should want a staffing firm running their staffing program; after all, who has more experience managing complex, large-volume staffing projects than established, multi-faceted staffing firms? Customers should also want their staffing firm to play a role in providing the actual labor; who is better positioned to fill job requisitions than a staffing firm that attracts quality talent both locally and worldwide? An independent technology platform, designed with the customer's requirements in mind, will provide the required visibility, control and ultimately the assurance that the staffing partner is operating as effectively and efficiently as possible.

## The Evolution of Vendor Neutrality

Vendor neutrality can be defined in at least two ways. A practical definition of vendor neutrality is the act of establishing rules and business processes that prevent staffing firms from supplying staff if they also are in charge of the staffing program (and vice versa). A purist would define vendor neutrality even more rigidly, stating that any firm that plays a role in running a company's staffing program, or even providing the technology platform for the staffing program, cannot be affiliated in any way with any staffing firm that may fill a job requisition for the company.

Vendor neutrality is a concept that evolved in the eighties and nineties from a growing perception by customers that staffing firms appeared to not have the customer's best interests at heart.

As explained in this whitepaper, these business practices led to a widespread opinion that staffing firms could not be expected to manage the staffing program and fill job orders without major conflicts of interest leading to undesirable outcomes, such as inequitable billing rates and the erosion of worker quality. To truly understand the evolution of vendor neutrality, it is helpful to track critical changes in the relationships between customers, staffing firms and technologies through the last few decades.

## The Eighties — The Age of Fiefdoms

In the eighties, much like today, a typical large company utilized multiple staffing firms. However, most companies did not have well-defined processes or systems governing the interactions between multiple departments and multiple staffing firms. Each department was likely to have a different list of favorite suppliers with whom they negotiated their own deals.

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The trouble started when HR and procurement executives started to ask the question, "Am I getting the best value for my money?" Staffing firms were not well positioned to respond to this question. They simply were not equipped to track or report the information that would provide customers with the insight they desired.

In the absence of a clear answer from staffing firms, companies started looking for their own answers. They made several important discoveries. For example, some staffing firms were charging different departments different rates for identical skills. Furthermore, there was frequently no pricing transparency, time tracking and billing mistakes were common and vendor salespeople cut deals directly with hiring managers.

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Companies quickly became dissatisfied with this decentralized staffing model as they became increasingly convinced that their staffing vendors were not properly managed. This suspicion grew throughout the eighties. Companies were essentially saying, "We don't feel that the staffing firms are policing themselves, therefore we will need to do something."

## The Nineties — The Federalist Era

In the nineties, companies resolved to take control of their staffing program to corral what they viewed as an uncontrolled base of vendors characterized by excessively chummy relationships with their own managers. Centralized procurement of contingent labor became prevalent. Companies also shored up their preferred vendor lists, limiting the number of staffing partners that were approved to fill job orders.

Companies also began demanding annual and multi-year contracts to control what they perceived to be unacceptable variation in billing rates. Understandably, this practice did not sit well with staffing firms who felt exposed to unpredictable shifts in the labor market. To that complaint customers responded, "Tough luck."

To make matters worse for staffing firms, job boards emerged in the mid-nineties as a viable sourcing option. The significance of job boards cannot be understated. Job boards essentially threatened to disintermediate staffing firms by providing access to their core asset. With this asset now generally available on the open market, staffing firms found it more difficult to prove their value and justify higher margins. To overcome this erosion in power, staffing firms engaged in a rash of mergers to create larger, more powerful recruiting organizations.

At the same time, suppliers created the concept of the MSP to increase their value to the customer base. Essentially, staffing firms advised their customers, "We're experts in managing the complexities of the entire staffing process, not just filling job requisitions."

As the scope and influence of MSPs increased, staffing firms were forced to subcontract to other staffing firms to meet the demands of their large customers. As the MSP model matured, it became apparent that staffing firms could not effectively separate their dual role as MSP and staffing supplier. The most common complaint was a conflict of interest where the staffing firm responsible for providing the staffing programs was accused of selecting the most desirable job requisitions for themselves and passing less desirable opportunities to other staffing suppliers in the supply chain. So staffing suppliers who were not providing MSP services complained mightily. 'The fox guarding the hen house' became the overused phrase to describe this conflict. They also complained about sharing confidential information with their competitor (the MSP) as part of the staffing process.

 

These negative perceptions by non-primary staffing vendors fanned the flames of negative sentiment on the buyer side resulting in a couple of key changes. First, the buyer (large companies) became skeptical that the staffing supplier, who was also running their staffing program, could credibly provide metrics and analytics about their own performance. Second, it became apparent with the growing influence of job boards and the use of subcontracting, that candidates were often passed through multiple levels of subcontractors before being finally presented to the buyer, creating undesirable markups on the labor cost.

So the nineties ended in much the same way as the eighties — large companies feeling as if their staffing programs were not being optimally managed. And this was the point of inflection for our industry that lead to the demand for vendor neutrality. Customers were basically saying to staffing firms, "We do not trust you to both run our staffing program and be a supplier, so you have to choose one."

## The 21st Century — The Age of Vendor Accountability

The first few years of the 21st century saw a rapid acceleration in the evolution of program management. As vendor neutrality became a generally accepted business practice, the manner in which the staffing program was managed began to mature. As we will see, the maturation of program management has provided a better alternative to the rigid notion of vendor neutrality — we call it vendor accountability.

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## The Evolution of Program Management

**Phase 1 — No Technology**
With staffing partners providing program management, it became increasingly important for both staffing firms and customers to fine tune their processes around the management of contingent labor. So during the first phase of the evolution of program management, the emphasis was on developing the best practices to support high-volume contingent workforce management programs with multiple constituencies on both the buy and supply side. Little consideration was given to technology enablement.

**Phase 2 - Supplier-Oriented Technology**
As staffing firms improved their core business processes for managing the staffing program, they began to recognize opportunities for automating significant functions within program management. For the first time, in the mid nineties, we began to see a growing separation between the program management process and the supporting technology infrastructure. However, these initial technology platforms for contingent workforce management were supplier-oriented. They were aimed at automating the back-end processes associated with program management such as invoice generation.

They were not intended to support the customer in their quest to gain visibility and control across the entire contingent labor supply chain. Essentially, they were focused on helping the staffing firm, who was responsible for program management, do its job more effectively and efficiently.

**Phase 3 — Buyer-Oriented Technology**
Shortly thereafter, independent software vendors not affiliated with a staffing firm entered the market, offering solutions for contingent workforce management that were developed to support the buyers and their requirements. This is the key innovation in the evolution of program management and program management technology; independent technology for contingent workforce management provides a range of benefits for both buyers and suppliers and ultimately is the antecdote for suboptimal concept of vendor neutrality.

## Why Vendor Neutrality Is Tough on Customers and Staffing Partners

Right or wrong, vendor neutrality is a concept essentially born from the mistrust of staffing suppliers. Over the past twenty-five years, buyers have come to believe that an increasingly commoditized staffing industry has found it difficult to always operate in the customer's economic interests. Before the procurement of contingent labor was centralized within corporations, customers were dissatisfied with the disparity and fluctuation of billing rates across different departments within the company. They were also dissatisfied with the flow of information about staffing efficiency between the suppliers and the buyer.

After contingent labor procurement was centralized within corporations, customers remained dissatisfied with the availability of business intelligence about their staffing supply chain, but also found new reasons to be dissatisfied. Staffing partners were using their MSP position to select the best orders and source undesirable assignments to non-primary vendors. This led to complaints from other staffing firms, but also to the perception that staffing quality was not as important to the primary staffing vendor as monopolizing the best business opportunities. This fact, combined with the complexity and expense of subcontracting chains led customers to insist upon vendor neutrality.

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Vendor neutrality seeks to eliminate conflicts of interest by segregating duties between program management and actual staffing. But the concept is flawed. First of all, pure vendor neutrality is difficult to achieve. Try finding anyone to deliver program management or supporting technology that doesn't have some affiliation (either directly or indirectly) with a staffing firm. Second, vendor neutrality does not assist customers as it limits the value a staffing partner can provide. Staffing firms are far better equipped to do two things: (1) manage complex, large-volume staffing programs; and (2) fill job requisitions.

 

Why would a customer want anyone else to manage their staffing program other than a business entity that has more experience than any other service provider in the world with attracting, hiring and managing large contingent workforces? Should a customer entrust this incredibly complex and company-critical initiative to, for example, a small technology firm that claims program management expertise? Customers need the experience and expertise of established staffing firms in the role of program management.

## The Complexity of the MSP

Let's take a moment to explore the complexity of the MSP. The program management component of staffing is an incredibly specialized function. Firms that fill this role must have the ability to handle very large volumes of workers, with disparate backgrounds and skills. In many categories of contingent labor, high turnover is a pervasive reality. Changes in credentials and background check requirements are frequent and require constant monitoring of regulations and the workforce. Finally, an increasingly complex legal environment characterized by onerous compliance requirements and stiff penalties demands constant vigilance. Protecting customers from the many risks of human capital management is a non-trivial quest. Only staffing firms with a proven track record in the field should be trusted with such an important initiative.

Furthermore, it has become apparent that even with the introduction of new tools and techniques for sourcing, e.g., job boards, no one can do a better job of filling job orders than established staffing firms. They simply have access to the biggest pool of qualified workers, which is a good thing for the client.

Vendor neutrality basically limits the value a staffing partner can provide to a large company, and generally misses the point. What customers really want is reassurance that their staffing partners are being held accountable for their actions. Vendor neutrality achieves this to a degree, but the price is too high. There is a better way.

## From Vendor Neutrality to Vendor Accountability

To drive accountability, customers must focus less on the division between staffing programs and staffing supply, and more on the division between staffing programs and the technology solution that helps manage this program. Independent technology solutions for contingent workforce management provide customers with the assurance they need that staffing firms are acting in their best interests, without forcing staffing firms out of a major component of their core competence.

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Solutions such as the SAP Fieldglass VMS help ensure vendor accountability in several ways. First, they enable Service Level Agreements (SLA) management, ensuring that staffing partners meet the terms of their contracts. Second, they ensure the equitable distribution of labor between staffing firms so that each firm can focus on quality placements rather than getting a bigger piece of the pie. Finally, solutions like SAP Fieldglass provide full transparency, actionable business intelligence and comprehensive audit trails. With such a system in place, the staffing partner is free to focus on managing the staffing program and filling job requisitions without the level of customer mistrust and anxiety that gave birth to vendor neutrality in the first place.

Coming to the table with a high level of integrity is the key to winning back that trust. Part of that integrity is proving to customers that technology providers and established staffing firms are operating in their best interests. By staffing providers arming themselves with independent tools that enforce a very visible level of integrity, they are proving to customers that they care about the big picture both in terms of the enduring relationship and the overall efficiency and effectiveness of their contingent workforce management strategy.

*About SAP Fieldglass*
*SAP Fieldglass provides the industry's leading cloud technology for services procurement and external workforce management. More than 400 global businesses leverage SAP Fieldglass' intuitive Vendor Management System (VMS) to gain visibility into its external labor, project-based services including Statements of Work (SOWs), independent contractors and additional flexible talent pools.*

**Contact**

To learn more about SAP Fieldglass or how to manage vendor accountability for your contingent workforce, please don't hesitate to contact us at fieldglassinfo@sap.com or visit www.fieldglass.com.



 