



## Whose Best Interest? Understanding Vendor Neutrality

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Efficiently managing a contingent workforce—your contract professionals, administrative temporaries, and IT contractors that augment your full time employees—is a complex and challenging undertaking.

Historically, many companies have turned to staffing firms for external expert assistance, but frequently these companies have found it difficult to achieve the desired results in the three key areas of contingent workforce management (CWM):

- Cost
- Control
- Compliance

This article provides insights into two key questions for companies that are considering implementing a staffing-firm owned solution for CWM.

1. Is there a difference between temporary staffing and contingent workforce management?
2. Why will a staffing firm agree to restrict its ability to compete in its core business?

### CWM Versus Staffing

CWM can be defined as the strategy, policies, processes and tools for the acquisition, administration, control and disposition of a contingent workforce. Many staffing firms are experts at filling jobs. That's their core business. And not only are they good at it; their services are critical to many client companies. But are they the right type of firm to own the management of your company's contingent workforce? In other words, does the staffing firm Vendor On Premise (VOP) or Managed Services Provider (MSP) model deliver true value in the area of CWM? Consider the history.

### History of the VOP and MSP

The VOP model was introduced more than ten years ago by staffing firms. It was marketed as an offloading solution for contingent worker administration – with aggregate invoices touted as a key benefit to the client. Staffing firms conceived this concept to accomplish two key VOP goals:

- Increase their revenue by gaining control over the client's staffing requisitions.
- Lock out – or neutralize – the other staffing firms who compete for the client's business.

Clients however generally have four key goals when they bring in a service provider to get their arms around CWM:

1. **Reduce hard costs** related to bill rates and margins, and to leverage spend.
2. **Mitigate and transfer risk** to the staffing firms who are the employers of the workers.

3. **Minimize soft costs** by introducing best practice business processes and offloading daily administration.
4. **Ensure high quality service delivery** from the staffing suppliers.

Early adopters of the VOP model believed staffing firms were experts who would offer the best solution to CMW. However, what those early adopter clients experienced were the flaws inherent in the VOP model.

The VOP staffing firm, in day-to-day administration, exercised control over hard costs, resulting in minimal or no quantifiable hard cost reductions. In models that involve subcontracting, both the provider of the worker and the VOP firm charge a mark-up, which can actually increase the cost of the workforce.

The VOP firms generally do not have deep and broad experience mitigating risk in these five key areas: employee misclassification/co-employment, regulatory, intellectual property protection, security, and governance such as Sarbanes-Oxley. Also, they do not voluntarily write contracts that transfer risk from the client to their own company.

Staffing firms are not generally experts in business process best practices, resulting in minimal or no reduction in the soft costs associated with administering the contingent workforce. Staffing firms did not provide a level of service that fostered enthusiastic adoption from the user community, resulting in large amounts of maverick spend.

In reviewing the disappointing results, a number of early adopters of this model began to refer to the VOP model as “the fox in the henhouse model” and believed the problem to be a lack of vendor neutrality.

When client companies began to demand vendor neutrality, staffing firms responded by creating the Managed Service Provider (MSP) model which is generally a spin-off division that provides CWM administration, and funnels requisition fulfillment to subsidiaries or sister companies rather than doing the fulfillment themselves. This model is comparable to “putting the fox’s cousin in charge of the henhouse.”

### **Definition of Vendor Neutrality**

In the early days when vendor neutrality first became a topic of discussion, the definition was simple: A CWM model wherein the CWM administrator does not also fill job requisitions. Yet, that definition must take into consideration other key neutrality issues. The staffing-firm-owned MSP gains significant competitive advantage by acquiring valuable visibility into their competitors’ rate management procedures, business practices and competitive differentiators, and acquiring the names and resumes of their competitors’ contractor pool.

To really understand the value gained by the staffing firm that implements a vendor neutral model, imagine a scenario where your company could do business with its clients only by working through your biggest competitor. That, in a nutshell, is the structure of the staffing-firm-owned MSP.

In short, the competitive advantage the staffing-firm-owned solution provider gains can often outweigh the monetary value of placing contractors into an organization. Why else would it restrict its ability to compete in its core business?

### **Competitive Disadvantage**

Moreover, suppliers have begun to take defensive measures to protect their businesses from non-neutral solutions. This has led to supplier adoption issues that can impact the buying organization’s

ability to implement a successful contingent workforce supply chain solution. Suppliers have also become defensive since performance analysis or measurements conducted by competitors cannot be conducted in an unbiased capacity. Again, this leads to issues of supplier adoption.

And, last but not least regarding vendor neutrality: Is there a Sarbanes-Oxley issue for the CFO if the company has turned over management and reporting of financial data to a supplier who has something to gain by controlling those processes and data? Sarbanes-Oxley is still too new for the ramifications to be fully understood, but in the development of your corporate contingent workforce management strategy, all aspects of vendor neutrality should be carefully considered.

### **Your Best Interest**

All companies use the services of other firms to conduct their business. In the relationship, the goals of both businesses are the same: prosperity. To achieve it, supplied services must be satisfactory or a service provider will not stay afloat. Regardless, the service providers you use for your company are ultimately most concerned with their own best interest. With regard to acquiring and managing your contingent workforce, it is critical to make sure that your service provider's best interests are fully aligned with your own.

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