Employee Database Creates Value for Firm and Clients

Completed Research

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Abstract

More than a decade and a half’s worth of data contributes to the successful provision of labor-hire to mining and construction. A labor-hire company’s database underpins its ability to provide customers with value in utilizing a Labor-hire service versus Full Time employment. We develop a model of labor-hire based on interviews, a survey, and an examination of labor-hire policies including costs and conditions between in-house hiring versus a labor-hire service. An employee history database and management system are at the heart of the business model, supporting business processes at each stage of the business. We show that the use of labor-hire translates into significant savings emanating from reductions in overhead costs, turnover, and absenteeism. Fundamental differences in employment contracts and net cash flow benefits exist. Intangible benefits include the ability to vary pay rates, and other employee benefits in line with market conditions.

Keywords

Database innovation, Business value, Model for labor-hire.

Introduction

The use of labor-hire in Australia has been growing strongly since the early 1990s. Hargraves (1999) identified over 1000 labor-hire companies operating in NSW, Victoria and Queensland in 1999. According to IBISWorld (2016), there are now over 5,000 organisations providing temporary staffing services in Australia, employing almost 300,000 people, and generating 19.4 billion A$ in revenue and growing at 2.2%. The industry is segmented into a small number of very large companies and a large number of small companies.

We define Labor-hire as the provision of outsourced skilled and unskilled workers hired for short or long-term positions (adapted from Wikipedia definitions, 2018). Workers are distinct in that they are employees of the labor-hire company rather than the company to whom they provide labor. The workers are known by various names: contractors, field employees, temps, on-hired employees or even just employees.

Our research question is “is labor-hire more effective than full-time employment?” We examine the enabling factors for the growth in labor-hire, focusing on the part played by information systems. We demonstrate information systems are a key enabler for the provision of labor-hire and instantiate the study by undertaking an in-depth study focusing on the provision of truck drivers to the mining industry.

Characteristics of Using Labor-hire

Organisations rarely experience consistent rates of production which means that labor demands will fluctuate. With the increase of the pressures of international and domestic market competitiveness,
Australian companies are looking for more hiring flexibility to match fluctuating labor-hire demands, and to realise throughput requirements at various stages of production, thereby improving the business’ bottom line. Prior research has shown that managing strategic flexibility in the areas of numerical functional and temporal labor deployment may help drive organisational efficiencies and effectiveness to meet short-term demand for production and export, and maintain market competitiveness (Zheng, Rolfe, Milia, Bretherton, 2007, p.703).

A core competency of a labor-hire firm is their ability to supply a large number of workers quickly to meet the demand of a rapidly changing work environment, such as the mobilisation of a mining or construction operation. This capability is founded on information related to the availability of workers and the knowledge of their performance. This information is key to the rapid provision of competent workers, and possible only through having a large historical database of workers whose work history at many organisations is readily available.

This historical database provides a competitive advantage in that companies hiring staff have to go through the complete induction and uptake processes. There is no history (unless the person worked for the company previously). The labor-hire company at the core of our research keeps records of all its labor-hire employees, their assignments, their weekly performance, and maintains all their technical certifications. They can provide workers who are ready to go, have guaranteed skills and competencies, and whose technical and trade certifications are up-to-date.

The International Confederation of Private Employment Agencies (CIETT) and Boston Consulting Group (BCG) shows that countries that have agile work models and reasonably flexible regulation outperform (in economic and labor market performance) those with heavy regulation and little flexibility (RCSA). The Australian labor market used to be highly unionised, resulting in a highly regulated workforce. Although union membership has declined rapidly over the years, regulation remains (private-sector union membership fell from 11.1 per cent to 9.3 per cent across two years, Australian Bureau of Statistics, 2017). The benefits of engaging labor without entering into an employment relationship are many and varied, and may sometimes be used to bypass problematic legislation.

The use of labor-hire should be a strategic decision, rather than a short-term cost-cutting exercise (Deavers, 1997; Sharpe, 1997; Quinn and Hilmer, 1994). Littler, Benson and Jensen (1999) identify cost savings as a factor that ranks highly for Australian managers. The research and business literature) suggests seven main motivations for outsourcing (Harrison and Kelley, 1993; Domberger, 1998; Sharpe, 1997):

1. Capacity outsourcing. Short term labor-hire is seen as a way of coping with peaks and troughs in demand.
2. Specialization requirements. Organizations who don’t require full time specialists can acquire specialised labor for short periods rather than having to employ and train expensive specialists full time.
3. Cost reduction. Organizations should focus on their core competencies where they enjoy a competitive advantage, and outsource other commodity functions where specialists in those functions can perform them at lower costs. Labor-hire contract rates are invariably higher than commensurate wage rates, but other perceived sources of saving include lower on-costs, fewer liabilities (such as superannuation, leave, sick leave, etc.), and enjoy greater flexibility in being able to adjust rates up and own, based on market pricing.
4. Market discipline. The use of outsourcing can allow managers to perceive they are getting competitive market rates by tendering out work.
5. labor-hire can provide access to new technology and skills without having to invest in upskilling their own employees with the latest technologies and skills.
6. Contract-out industrial relations problems, unions or ‘troublemakers’. Benson’s (1998, 1999; Benson and Ieronimo, 1996) case-studies illustrate that organizations sometimes seek to address workplace industrial relations by outsourcing what can be the source of a problem.
7. Introduce organizational change processes or introduce cultural change.
The Cost of Labor-hire

Labor-hire companies work on a charge rate system. The pay rate is the per-hour wage paid to the employees (see Wikipedia definitions and other Australian employment agencies and regulatory bodies). The charge rate is the fee levied on the host organisation to whom labor is provided. A “host employer” is a firm that uses labor-hire workers supplied by a labor-hire agency or engages a trainee through a group training company (Worksafe Victoria, 2006). Rates are impacted by industrial agreements, statutory on-costs, worker’s compensation levies, personal protective equipment supplied, and comparable pay rates for employees of clients.

According to Hall (2000), outsourcing and labor-hire usage have different disadvantages and potential costs. For outsourcing, the costs and disadvantages can be summarised as:

1. Transaction costs. Transaction costs involved in tendering, contract negotiation and drafting can be expensive.
2. Monitoring and management costs. Tenderers costs are high, and tendering is so competitive that pressures will tend to force the tenderer to minimise their costs.
3. Loss of control. Control is transferred to the client, and little control is retained.
4. Loss of skills and experience within the organisation. Once outsourcing is initiated the skills associated with the processes are soon lost (maybe even to the outsourcer). Where organisations outsource and downsize (in over two-thirds of outsourcing cases (Littler, Benson and Jensen, 1999)), skills losses will adversely affect the organisation’s ability to develop new core competencies. The loss of organisational memory might also have far reaching effects.
5. Structural change trauma and expense. Changes in organisational culture to one of uncertainty can result as a loss of process capabilities. Remaining employees are more likely to leave, with the loss of capabilities and increasing turnover costs. There is likely to be a lower commitment to the organisation by existing employees.

For labor-hire, the potential problems and issues are similar, but often manifested differently.

1. Labor cost premium. The use of labor-hire enjoys a premium to cater for the administrative burden of administering shore term contracts. To some extent this is offset by other cost savings such as repetitive usage of contractors saving in repetitive hiring practices.
2. Divided supervision and loyalties. Workers can be subject to potentially inconsistent direction from their labor-hire company and their client company managers. Benson (1998) noted labor-hire workers often exhibit a form of split loyalties. Although their loyalty tends to be greater to their labor-hire managers, we found many of them seek to join the company for a “permanent” job.
3. Inadequate equipment, tools and training. Client companies may expect labor-hire workers to be ready to do the job. Often, labor-hire companies will not provide workers with the necessary equipment, tools or training. However, we found that LabHireCo ensured its contractors had up-to-date certifications and licences, and conducted weekly performance calls to both the client company and the worker.
4. Role ambiguity. Similar to divided supervision, client companies and labor-hire companies can have different understandings of the worker’s role. Hall (2000) identified a number of cases where workers were sent out to jobs by labor-hire companies without the skills or experience to perform the job. Accordingly, the common perception is ‘When in doubt, send anyone out’.
5. Generation of low trust environment. Pearce (1993) identified potential negative effects on morale and trust when outsourcing and labor-hire are being employed.

Worker Safety

Enterprise Bargaining Agreements (EBA) and the risk of industrial action due to permanent roles being displaced must be considered. Research has also highlighted that a potential downside of labor-hire is that some workers are likely to require higher levels of supervision, surveillance, and direct authoritarian control than intrinsically motivated, secure, and committed employees. This places the joint burden of safety
leadership as a crucial factor in a labor-hire arrangement. However, in practice the joint and overlapping nature of these obligations can create uncertainty as to which employer is responsible for fulfilling the duties. Based on research into prior court cases, and the examination of best practices, the Government of Victoria has developed a process flow diagram among other tools to ease the understanding and administration of the duties and responsibilities of both the host and labor-hire organisation for the provision of worker safety.

**Literature Review**

Organisational effectiveness literature underscores the need to define a theory or model of organisational effectiveness for the organisation, before developing measures of effectiveness (Cameron & Whetten, 1983; Goodman & Pennings, 1977).

Information systems (IS) can improve the quality and productivity of individuals, groups, and organisations, only if they are actually used. DeLone and McLean (1992) provided a lengthy list of IS use studies. Saaksjarvi and Talvinen (1993) measured the relative usage and integration of usage of two marketing systems. In this case, the comparison is between the fulfilment of labor needs from one of two sources; full-time employment or labor-hire.

Cost benefit analysis may be used to quantify the impact of the IS function on the organisation in an overall ROI calculation, but doing so is often difficult to do due to the inability to adequately quantify intangible or qualitative benefits (Keim & Janaro, 1982; King & Schrems, 1978). Neumann, Ahituv, and Zviran (1992) developed a measure for determining the strategic relevance of IS to the organisation and included the following operational variables: fit of IS applications portfolio to the organisation’s critical success factors (CSFs), IS contribution to improving profitability, IS contribution of financial gains through improved operations, and perceived overall criticality of IS to the organisation.

**Research Methods**

We conduct a comparison between labor-hire and full-time employment. For testing, our Independent Variables are a labor-hire company, a mining company, and employment category.

Two separate studies were undertaken to examine the tangible and intangible costs and benefits of hiring 200 truck drivers from two different viewpoints: an internal perspective of a labor-hire firm and an internal perspective of a mining and construction company. The first study included interviews of the senior leadership team of the labor-hire company, a labor-hire industry review and then a comparison of the cost of employment of in-house versus outsourced hiring. The second study focused on one-on-one meetings with operational leaders, Human Resources, and field staff to unlock insight with regard to costings, current perceptions of labor-hire, and internal business practices and preferences for the use of labor-hire. A survey instrument was developed to assist with this examination. A mining and construction industry review was also undertaken.

**Conduct of This Research**

**Study 1**

We identified a labor-hire company that is active in the mining sector, LabHireCo Inc. LabHireCo is a privately-owned human resource recruitment company that was established in 1997. It employs 230 full time staff and 4,000 field team members (labor-hire workers), resulting in an annual turnover of $432 million. LabHireCo’s vision is to be Australia’s preferred recruitment partner and provider of human capital solutions specialising in the mining and construction sectors. LabHireCo focuses on industry sectors where it has expertise, with core business activities being the recruitment and supply of job-ready candidates into contract roles, and the licensing of its human capital management system.

In addition to other recruitment companies such as Skilled Group and Chandler McLeod, LabHireCo's competitors include its clients in that many of its labor-hire placements convert to permanent

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1 Real company name withheld at the request of the company
roles for the host organisation. Key clients include mine owners like Rio Tinto, Glencore, Xstrata, BMA, and Peabody and contract miners like Downer Group, Thiess and Leighton Contractors.

LabHireCo has a history of strong safety performance. All employees and managers have a responsibility to work safely, take all reasonable care for their own health and safety, and consider the health and safety of other people who may be affected by their actions. In its 18 years of operation, LabHireCo's commitment to safety is evident with no fatalities, no prosecutions or investigations, and no environmental incidents. As the 2011 winner of the RCSA McLean Award for Workplace Safety and a finalist in 2013, among other industry awards, LabHireCo has developed a health and safety management process that is integrated with MAX. All LabHireCo systems are accredited to AS4801 and subject to systematic audits by external auditors, SAI Global.

The field study was conducted in partnership with members of the LabHireCo leadership team. The team members were interviewed in an open-format discovery session. The open format allowed the team to undertake discovery on matters that had not been considered prior to the session, such as how branch-level costs are accounted for, and the impact of the organisations Work-Cover premiums (workers compensation) on overall contract profitability. Financial reports were used to create a company-level cost analysis. This was particularly useful to understand the difference between variable costs, such as superannuation or payroll tax, a per-timesheet cost, such as payroll, and a yearly cost, such as company management and other overheads. The following summarises the analysis and comparison of the identified LabHireCo and host (in-house) incurred costs.

![Diagram](image)

**Figure 1. Labor engagement, employment and retention process**

Business processes are actions that firms engage in to accomplish some business purpose or objective. Under a “lean” philosophy, an organisation’s aim is to improve processes by minimising waste and maximising value. The goal of lean is to accomplish more with fewer resources, for example, time (Meredith & Shafer, 2016). Process improvement refers to improving a process (such as hiring internally) to make it more effective and efficient in obtaining an organisation’s objectives (Gershon, 2010). Thus, business processes can be thought of as the routines or activities that a firm develops in order to get something done (Nelson and Winter, 1982; Porter, 1991). A firm's overall performance depends on the net effect of these
business processes on the firm’s position in the market place, among other things. Business processes are the way that the competitive potential of a firm’s resources and capabilities are realised.

**Information Systems Support for Core Business Processes**

One of LabHireCo’s core processes is to record and maintain detail of all potential employees and employers contracted out to clients. This data is stored in an online database called MAX, the company’s Customer Relation Management tool. LabHireCo view MAX, their proprietary knowledge management database, where more than 650,000 candidates are registered, as a core capability. MAX captures ready to work employees, and their current certifications, inductions and safety training. The MAX system allows LabHireCo recruitment consultants to quickly and accurately place job-ready personnel to site, depending on a client’s requirements. One Key Productivity Indicator (KPI) of consultants is to call field team members every two weeks to check on their performance. Not only does this maintain a strong relationship between the workers and the recruitment consultant, but it also contributes data to MAX relating to the worker’s job performance.

LabHireCo's recruitment management and safety systems offer efficiency and consistency of service to ISO 9001 and AS4801 standards. The 4801 standard is promoted as a systematic approach to developing a management regime that reduces risk in the workplace, resulting in lower incidence of injury and associated cost, and demonstrates commitment, internally and externally, to risk and hazard reduction. It is built on an audit framework, in order to ensure robust assessment of an organisation’s claims and performance. For accredited organisations, an advantage lies in the capacity for third party assessment, which enables promotion of organisational value to customers and employees alike (ACREW, 2007). MAX is certified to AS/NZS ISO 9001:2008. With a four million-dollar maintenance budget for MAX, LabHireCo is committed to continuous improvement by ensuring their systems evolve improved capabilities to meet changing market demands.

As an information and resource pool, MAX is highly utilised by all staff at LabHireCo with all interactions recorded in the database. To ensure high quality, well-trained labor-hire personnel that are ready for deployment, LabHireCo maintains only casual contracts with their placement candidates. This structure allows LabHireCo to reduce its retaining costs, and is not impacted by training, sick leave, annual leave, or work cover and rehabilitation costs. To address host company business planning uncertainty, LabHireCo has developed a spreadsheet tool to identify cost drivers and account for other elements such as employee power. Employee power depends on whether employees are restricted to making suggestions that do not bind on management, whether they have a minority voice in decision making bodies, whether they have a dominant decision-making role, or whether they make autonomous decisions, and whether the decision-making bodies in which they participate are permanent or are ad hoc subject to cancellation by non-employee owners (Benner and Jones, 1995). Critical assumptions are identified and alternative model structures compared so that the optimisation of resource allocation within scenario based forecasts is available to guide employment sourcing. This acquisition of knowledge enables informed decision making. The host candidate employment and retention costs (Figure 2) can be compared to the labor-hire employment costs (Figure 3).

**Instantiation of Truck Drivers**

In order to compare Labor-hire costs with Full-time employment costs, we reviewed the costs incurred in the hire of 200 truck drivers (a typical requirement in the establishment of a new mine site. The true cost includes all applicable statutory, EBA and company costs. Costs included back-end (or hidden) costs that contribute to the annual cost for each placed candidate, broken down into direct service fees and central service fees, including branch fees. Direct service fees include: General management service level agreement charges, regional manager charges, corporate sales and marketing, and HSE charges. Central service fees include: Strategic expenses, group operations, temporary payroll, industrial relations, accounts receivable, finance, learning and development, ICT, and permanent payroll.

The results of the cost comparison for hiring 200 Truck drivers for a mining company based on a $56/hour pay rate resulted in a true cost of $76.48 for a labor-hire company worker versus $86.26 for the host organisation (refer Figures 2, and 3). These figures were compiled by LabHireCo, and verified by the researchers. This is a savings of $9.78 per person per hour, or 11.34%, when the worker was supplied by
LabHireCo. This would result in an annual saving of approximately $4 million for the host organisation, based on a 43-hour week.

<table>
<thead>
<tr>
<th>Client</th>
<th>Employee Cost Per Normal Time Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statutory Costs</strong></td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>9.25%</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>4.75%</td>
</tr>
<tr>
<td>Auscoal</td>
<td>2.70%</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>1.68%</td>
</tr>
<tr>
<td>Public Liability</td>
<td>0.30%</td>
</tr>
<tr>
<td><strong>Additional Costs</strong></td>
<td></td>
</tr>
<tr>
<td>Long Service Leave</td>
<td>0.02%</td>
</tr>
<tr>
<td>4 Weeks Annual Leave</td>
<td>7.69%</td>
</tr>
<tr>
<td>Sick Leave, Carers Leave etc</td>
<td>3.85%</td>
</tr>
<tr>
<td><strong>Company Costs</strong></td>
<td></td>
</tr>
<tr>
<td>Work Cover - Rehabilitation Costs</td>
<td>1.50%</td>
</tr>
<tr>
<td>Administration Costs</td>
<td>9.00%</td>
</tr>
<tr>
<td>Training</td>
<td>1.00%</td>
</tr>
<tr>
<td>Industrial Relations Advice</td>
<td>1.00%</td>
</tr>
<tr>
<td>Staff Turnover</td>
<td>10.00%</td>
</tr>
<tr>
<td>Absenteeism</td>
<td>1.30%</td>
</tr>
<tr>
<td>Opportunity Costs</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total On costs</strong></td>
<td>54.04%</td>
</tr>
<tr>
<td><strong>Client Employees Hourly Rate</strong></td>
<td>$56.00</td>
</tr>
<tr>
<td><strong>Real Employee Hourly Cost</strong></td>
<td>$86.26</td>
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</tbody>
</table>

* Figure 2: Labor-hire employment costs

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Labor Costs</td>
<td>38,576,545.28</td>
</tr>
<tr>
<td>LabHireCo Costs</td>
<td>34,203,207.04</td>
</tr>
<tr>
<td>Savings to Client</td>
<td>4,373,258.24</td>
</tr>
<tr>
<td>Savings to Client %</td>
<td>11.34%</td>
</tr>
</tbody>
</table>

* Figure 3. Total costs for 200 truck drivers working a 38-hour week for 52 weeks

**Study 2**

The second study reviewed the mining market and the workforce strategy of one construction and mining company to identify direct and indirect costs of the employee life cycle of a truck driver. The study included one-on-one meetings with operations, human resources, procurement and field staff. An on-line survey instrument was also developed to measure the perceptions and attitudes towards labor-hire within the host organisation. The resulting identified perceptions and attitudes included worker demand, flexibility, optimum workforce balance, enterprise bargaining agreements, equality, quality and performance, safety performance, absenteeism and culture.

Jones, 2011, noted that companies need to reinvent themselves, to enable them to beat their competitors and add value to their bottom line by changing the way they hire. To remain at the forefront of the industry, the host organisation embarked on an innovation agenda where traditional practices and processes were challenged. This included a review of their workforce strategy given that labor costs are approximately 35% of the costs associated with running a mine. According to Zheng, Rolfe, Milia, and Bretherton (2007), managing strategic flexibility in the areas of numerical, functional and temporal labor deployment may help...
drive organisational efficiencies and effectiveness to meet short-term demand for production and export and maintain market competitiveness.

Company 2’s workforce strategy is to permanently employ industry-leading talent and engage labor-hire short-term as and when required. This approach requires the right person, with the right skills, at the right time. This is to assist with ramping up operations, supplementing operations, and/or executing discrete packages of work. The following table is the cost comparison analysis result where approximately $12 million in savings would be realised by Company 2.

<table>
<thead>
<tr>
<th>200 Workers employed for 1 year by Company 2 Per Employee</th>
<th>Per Total Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing &amp; Recruitment Costs</td>
<td>$2,500</td>
</tr>
<tr>
<td>On-Boarding &amp; Induction Costs</td>
<td>$2,333</td>
</tr>
<tr>
<td>Remuneration &amp; Benefits</td>
<td>$168,087</td>
</tr>
<tr>
<td>Statutory Costs</td>
<td>$8,701</td>
</tr>
<tr>
<td>Administration Costs</td>
<td>$228</td>
</tr>
<tr>
<td>Demobilisation</td>
<td>$4,093</td>
</tr>
<tr>
<td>Worker’s Compensation</td>
<td>$0</td>
</tr>
<tr>
<td>Turnover &amp; Absenteeism (rehires &amp; replacements)</td>
<td>$1,365,432</td>
</tr>
<tr>
<td>Total for 200 Truck Drivers</td>
<td>$38,553,910</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>200 Workers for 1 year by LabHireCo Per Employee</th>
<th>Per Total Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charge Rate</td>
<td>$129,009</td>
</tr>
<tr>
<td>On-Boarding</td>
<td>$2,333</td>
</tr>
<tr>
<td>Turnover &amp; Absenteeism (rehires &amp; replace)</td>
<td>$55,992</td>
</tr>
<tr>
<td>Cash Flow Benefit</td>
<td>- $165,561</td>
</tr>
<tr>
<td>Total for 200 Truck Drivers</td>
<td>$26,158,807.00</td>
</tr>
</tbody>
</table>

Figure 5. Total costs for 200 truck drivers working a 38-hour week for 52 weeks

Beyond cost, there are distinctions when compared on how permanent or labor-hire employees are managed which could have operational impacts. Operational impacts included motivation, performance management, commitment, engagement and values alignment, and employee administration. Productivity may be impacted due to a flexible employment arrangement and the risk of employees leaving; tacit knowledge may be lost with a transient workforce; risk of employees attempting to work sick or injured in order to make a good impression; and host employees have a different experience to labor-hire in how they view the nature of their work and workplace differently. While a permanent employee may view themselves as part of the organisation, without effective performance management there is a risk that they do “just enough”. On the other side, a labor-hire employee is intrinsically motivated to achieve security (the financial and lifestyle effects of casual employment) and as a result may contribute more discretionary effort to make the right impression.

The results of the survey identified that a key risk to the host organisation is whether the labor-hire agency has the internal knowledge to make the right judgement on people, and to align its processes to find the right culture fit candidates. Stroh (2003) stated “an organisation has to think seriously about whether it wants to outsource such an important responsibility (recruitment). To undertake this task, someone must have inside knowledge about the particular company’s culture and values”. However, there is a premium cost for a host to recruit and own the risk of making the wrong hiring decision. Because recruitment is a core business for a labor-hire agency, processes are leaner, more efficient, and the recruiters are incentivised to supply quality resources. The host risk can be transferred to the recruitment firm and measured as a key performance indicator (KPI).
LabHireCo has a natural, sustainable cost advantage that is driven by fundamental differences in the employment contract obligations of labor-hire employees versus permanent hires, and their ability to instantiate these through their information system. The key insights realised from this study are the realisation of a minimum of 25% cost advantage if the workforce is recruited and administered by LabHireCo. Leave accruals accounted for 60% of the cost differential, and the net effect of turnover and absenteeism, demobilisation, recruitment costs and cash flow generation was seen to be minimal.

Discussion

This report is a compilation of two studies into labor-hire operations in the mining and construction sectors. Research findings show that companies who use a labor-hire company instead of directly hiring workers translates into significant savings to the organisation. In seeking to improve business processes in the area of employee sourcing, the opportunities in employing a labor-hire and permanent employment mix can significantly reduce an operational cost base while providing greater flexibility to ramp up or down operations. What is not known is the most effective ratio of permanent versus labor-hire workers. However, we believe that by partnering with a labor-hire organisation, synergies can be realised as part of the succession planning of a talent pool that promotes skill, attitude and safety leadership.

Generally labor-hire companies can offer a better response time as they have access to a larger database of potential labor-hire candidates, along with their job history across many companies. They have familiarity with the markets, the technology, and the infrastructure and support to facilitate easier identification of candidates with the right expertise and knowledge to facilitate a flexible workforce that better aligns with a client’s demand. Some employers have different motivations for using labor-hire companies. These include transfer of employment risk, increased productivity, flexibility including wage costs, short-medium-long term contract viability, a try before you buy methodology and more operational time for management.

The recommendations to improve profitability and operational effectiveness from both studies resulted in the following. For the host: Refining the current workforce strategy to build competitive advantage; Utilise labor-hire as part of a long-term integrated team; and Leverage market conditions to reduce costs and build flexibility. For a labor-hire organisation: Develop multiple value propositions; Deliver large-scale expert selection processes; and, Engage the host organisation and incorporate a formal performance review that is improvement and developmentally focused.

Conclusion

The labor-hire industry now operates an “open book” model, in which the company discloses costs and margins to clients before doing business. For the future, it is important that labor-hire companies develop customised value propositions that meet the unique needs and challenges of their customers. Labor-hire’s value proposition must meet the changing landscape of market cycles. Sales can be enabled with training and analytical tools that demonstrate labor-hire’s ability to place the right people, at short notice, and create more value than in-hiring. Host organisations need to explore every opportunity to realise the benefits that labor-hire provides, not just the potential cost advantages. Workforce strategies can optimise the use of labor-hire in both rising and declining markets, and through the use of performance-based contracts with clear KPI’s including quality, tenure and cultural fit of the recruit, by partnering with a labor-hire organisation, significant cost and flexibility benefits can be realised.

A conclusion of findings highlights the need for the development of effective inter-organisational information systems that can share data across the labor-hire supply chain. As labor-hire companies address both risk management and compliance processes at a global level, future research is required to determine optimum employment levels dependent on location, diversification, and capital structure of host organisations. Additionally, because the value proposition for labor-hire is not only based on cost, greater margins and new income streams can be realised from core business processes. In an organisation where technology is seen as a core capability and the backbone of the operation, process design results in strategic and financial capabilities. By maintaining the growth of core information systems such as MAX, with its comprehensive availability of cross-organisation work histories, additional opportunities to utilise the knowledge as a workforce trending tool can see its contracts expanded to the labor industry, unions, and Government organisations, in addition to mining and construction companies.
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