



ipse

FLEX

A guide for senior leaders

An agile approach to talent management in the digital economy

Produced by IPSE, the association of Independent Professionals and the Self Employed, 2018

www.ipse.co.uk

Struggling to employ the right people, quickly and inexpensively?



One in three UK organisations face the same problem.¹

If you're one of them, we invite you to consider this:

The right people aren't always employable.

A quarter of the European workforce in professional, scientific and technical fields is not on the payroll. Neither are more than a fifth of all those in the arts and entertainment. Instead, they work for themselves, offering specialist expertise to organisations on a freelance or contract basis.²

As concluded by Deloitte in its 2017 report on human capital trends:

“Companies can no longer consider their workforce to be only the employees on their balance sheet, but must include freelancers, gig economy workers and crowds.”³

If you're a CEO, hiring or procurement manager, this guide provides insights into the world of flexible talent.

It outlines the business case for taking a broad view of talent management: one that includes external specialists to give you a winning edge.

¹ UK employers face growing candidate shortages in 2017, retrieved 4 December 2017 from www.rec.uk.com/news-and-policy/press-releases/uk-employers-face-growing-candidate-shortages-in-2017

² Leighton, P. Future Working: The rise of Europe's Independent Professionals. 2013. Available from www.ipse.co.uk/ipse-resources/resources.html

³ Schwartz, J et al: Rewriting the rules for the digital age. Deloitte Global Human Capital Trends. 2017. Available from www2.deloitte.com/global/en/pages/human-capital/articles/introduction-human-capital-trends.html

Any of these sound familiar?

1 Urgency

You're expanding quickly and the workload is mounting up. You need people right now, but the recruitment process is painfully slow.

2 Skills shortages

You get bombarded with applications for vacancies, but few candidates have the specialist knowledge you need.

3 Sporadic needs

You know you need someone for a particular project, but once it's over, what would they do? Or else there are peaks when there is too much work for the existing team to handle, followed by troughs when they can cope just fine.

4 Rapid change

Everything moves so quickly. How do you know if the skills you need today will still be relevant tomorrow?

5 Uncertainty

Roles are becoming much harder to define. The digital economy demands a cross-functional skillset. Should you get a marketing person to lead your next digital transformation, or more of an IT project manager? Or a mix of both?

6 Poachers

You go through a lengthy recruitment and training process to get great people, only to have them snapped up by a headhunter a year or two down the line.

The flexible solution

Freelance and contract workers provide a flexible solution to these talent management challenges.

Technology is making it easier to organise projects in flexible ways. Many leaders are adopting a more sophisticated approach to resourcing – one that integrates core staff with external workers brought in at specific points.

As a result, using talent on an 'as needed' basis has become a major competitive strategy.

Here's why...

Respond rapidly to urgent needs

It's very quick to contract an independent specialist. You're not making a long-term commitment, therefore you don't need to go through a lengthy selection process or wait for notice periods to finish. You can make a fast selection based either on recommendation, a competitive pitch, or with the assistance of an agency or online marketplace.

Overcome skills shortages

Over half of UK businesses, both big and small, say they use contract workers to gain access to talent that would not be available on a permanent basis.⁴ Fortunately there is no shortage of freelance specialists. Between 2008 and 2016 the number of freelancers grew by 43 per cent⁵, and the digital economy

makes it easier than ever to find them. Whatever your business challenge, whether you need help tendering for a government contract or assessing the economic impact of a new healthcare campaign, there are independent professionals out there who can tell you exactly how to do it.

Scale up or down in line with sporadic needs

Freelancers provide a scalable taskforce, allowing you to customise your resources to fit your need. You might not need 228 days worth of work every year. The flexible freelance market allows you to buy decades of experience by the hour, day, week or month.

Anticipate rapid change effectively

Over 60 per cent of UK companies say that freelancers and contractors help them to be more agile.⁶ They enable start-up, growth and change by helping to solve problems, improve efficiency and drive innovation.⁷

Gain different perspectives to innovate in a competitive world

Engaging freelance specialists allows you to adapt to volatile and uncertain circumstances. If you aren't sure what type of skills you need for a project, you could engage several specialists for shorter periods to provide different perspectives on a particular challenge. The beauty is you're not tied in

⁴ Based on a survey of 1,028 small, medium and large businesses conducted for IPSE by ComRes, 2013.

⁵ Jenkins, K. Exploring the UK Freelance Workforce in 2016. IPSE, 2017. Available from https://www.ipse.co.uk/resource/exploring_the_uk_freelance_workforce_in_2016.html

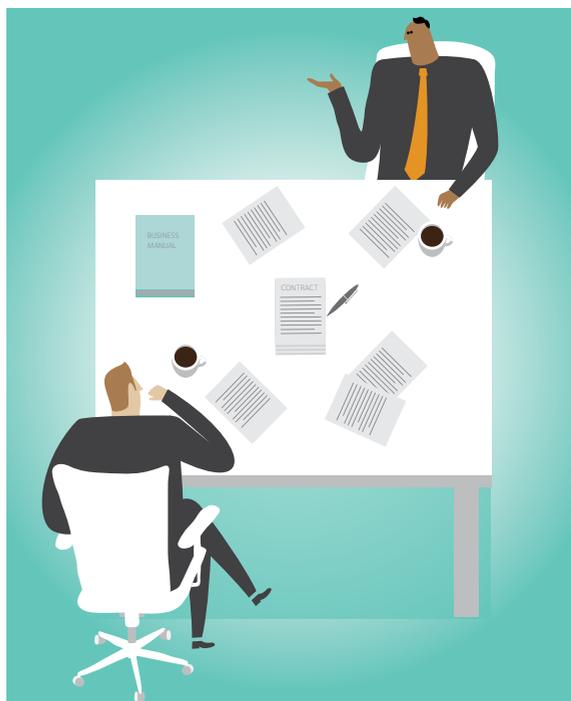
⁶ Based on a survey of 1,028 small, medium and large businesses conducted for IPSE by ComRes, 2013.

⁷ Burke, A. The role of freelancers in the 21st Century British Economy. IPSE, 2012. Available from www.ipse.co.uk/resource/the-role-of-freelancers-in-the-21st-century-british-economy-report.html

to anything and you can book as much or as little of a consultant's time as your budget allows. As objective outsiders, freelance consultants are frequently the people who ask awkward questions, demand smarter answers and inspire breakthrough solutions.

Avoid business interruption

People usually go into freelancing because they love what they do and are not interested in climbing the managerial ladder. There is a strong motivation to deliver results so they can get repeat business. This means they can be some of your most loyal brand advocates, and the ones who are still around to facilitate a transfer of knowledge from one internal manager to the next.



“Freelancers play a major role in enabling businesses to manage the risks of developing new innovation and growing a business to exploit new opportunities. They also play a major role in supplying innovation to businesses as well as encouraging innovation through new business ventures. By using freelancers for these distinct roles businesses are able to create sustainable value-added which underpins employment. Simply put, in the modern economy much employment would not be created and some would be unsustainable without the availability of freelancers.”

Professor Andrew Burke, Dean of Trinity Business School, Trinity College Dublin and Chairman of the Centre for Research on Self-Employment

Five myths about engaging self-employed professionals

Myth #1: it's costly

Some leaders think it's more expensive to engage a freelancer or contractor than to employ somebody with equivalent skills.

But the truth is you can't compare a freelance contractor's fees directly with the pro-rata salary of an employee.

Don't forget that full-time employees come with a whole range of extra costs, such as employer's national insurance contributions (NICs), training and development, company car, pension, holiday and sick pay.

You aren't liable for any of these when you engage self-employed professionals.

What's more, self-employed professionals bear the risks of irregular work patterns, and their rate reflects the flexibility that this affords you.

It allows you to balance the mix between fixed and variable costs, in order to keep overheads low. It also allows you to bring in specialist skills at key points to accelerate developments within your organisation that you couldn't do on your own.

This flexibility has a tangible value – UK freelancers providing services through their own limited companies generate an estimated £4.6 billion in benefits for their clients.

Myth #2: it's risky

Clients sometimes worry that bringing in external contractors can expose them to all sorts of risks.

How can we rely on them? Are they really committed to our brand? Could they wreck our reputation? How do we know they won't disappear halfway through a project? What about information stored on their computers? Are we open to security breaches?

All of these are valid concerns, but fortunately these risks can be managed effectively through the appropriate processes (which we'll explain in the final chapter). Therefore they shouldn't prevent you from seeking the productivity gains that a flexible taskforce can give you.

Ultimately, freelancers are only as good as their last job. Their own reputation is closely tied to yours, so it's in their interests that the project goes well and that your reputation is enhanced.

While there will always be variations in quality of service from one professional to the next, the freelance way of working demands a high degree of self-motivation. Enthusiasm about a particular project can be infectious and helps motivate other staff members as well.

⁹ Report: The Economic Impact of Personal Service Companies. Oxford Economics and IPSE, 2016. Available from www.ipse.co.uk/resource/the_economic_impact_of_pscs.html

In fact, all of IPSE's research indicates that, far from being a risky alternative, the flexibility, specialist knowledge, and high-motivation of external contractors plays a vital role in reducing business risk for organisations.

Myth #3: it's more hassle

One CEO we spoke to was concerned about losing the "control that we crave". He felt that external specialists would need a lot of additional supervision in order to maintain that control.

Actually, the opposite is true.

One of the defining principles of self-employment is that independent professionals don't require direction and control. They are external experts who are responsible for how they do the work, and take full responsibility for the quality of the delivery.

So rather than needing more supervision, they need less.

As long as you have the right contracts and security processes in place, working with external contractors can actually reduce the management burden.

Myth #4: we can only engage self-employed professionals for a limited time

This is a surprisingly common misconception but in fact there is no maximum length of time that a contract can last. Some clients

have ended contracts shortly before two years, under the mistaken belief that contractors would receive greater rights at this point, as employees do. But this is not the case.

The length of the engagement has no bearing on the employment or tax status of the contractor. Clients have no more liability with a five-year engagement than they do with an engagement that lasts only a few weeks.

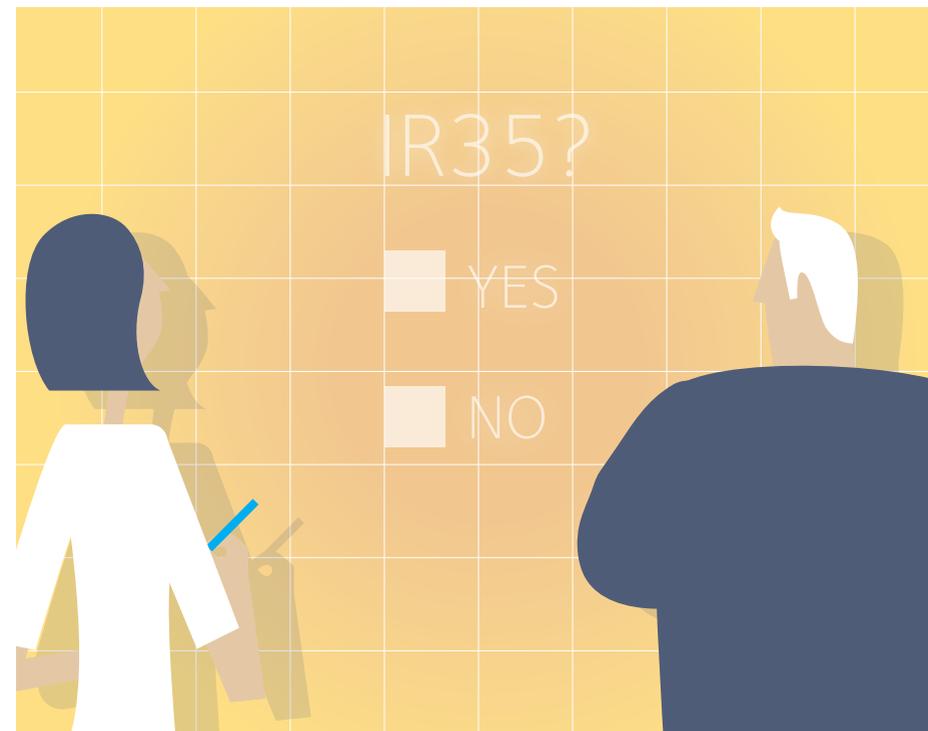
Unlike employees, who gain additional protections once they have been employed for over two years, contractors remain at the disposal of the client for an unlimited duration.

Myth #5: there are complicated tax liabilities, like IR35

In the private sector, there is no tax liability for the hirer, where the individual provides services via their own limited company. If the taxman declares them 'deemed employed', then the IR35 legislation can kick in. This could result in more tax being owed, but all of the liability falls on the individual contractor.

In the public sector, there has been a significant and hugely controversial change to the way IR35 works. Public authorities are now responsible for deciding whether IR35 should apply, and they can be held liable for getting that decision wrong.

The Government has said it will consult on whether to apply the same change to the private sector later this year (2018).



If the Government pushes ahead with this reform, then your business could become liable for IR35 decisions that HMRC disagree with. IPSE is very strongly opposed to this. We think it will heap extremely complex bureaucracy on any business that is looking to take on a self-employed professional, and in so doing will stifle flexibility and innovation.

If you agree, we would encourage you to engage with the consultation, once it's published, and tell the Government how such a measure would impact your business. IPSE would be very happy to discuss

this important issue with any concerned businesses.

In the meantime, the important thing to note is that as things stand, IR35 need not concern private sector businesses looking to take on a freelancer. But that's not to say that it isn't worth making sure the contract is clearly business-to-business and cannot be conflated with a contract of employment. For advice on this, see our section on 'Getting the Contract Right' on page 17.

Success stories

Enabling the business transformation of a major international bank

Freelance contractors were used on a wide range of work streams in order to progress the development of a full-scale transformation of all the digital and physical channels that this bank uses to provide services to its customers. This required a diverse team of specialists, from senior interim managers to junior analysts.

Freelancers accounted for 75–80 per cent of the workforce throughout the first phase of the transformation programme. When the programme rolled into the second phase of build and implementation, a plan to redress the balance of freelancers to employees reduced the freelancer share of the workforce down to a target of 30 per cent.

The business case

The programme leader opted for freelancers in order to access expertise that wasn't available from employees in the company, as well as an independent mindset with a fresh perspective and enthusiasm for each project.

Hiring employees would have slowed the process down to an unacceptable level, due to long pre-employment checks and other administrative burdens. Using freelancers allowed the bank to scale rapidly from 20 to 200 people to deliver the first phase of the programme.

The decision was also based on the fact that freelancers pose less of a financial risk – they are part of a different budget line and, therefore, are more flexible in terms of deployment.

*Case study originally published in *The role of freelancers in the 21st Century British Economy*, a study by Andrew Burke for IPSE.*



Scaling a top 500 law firm entirely through flexible talent

Scott-Moncrieff & Associates (ScoMo) is a virtual law firm, meaning that all lawyers in the firm are self-employed, working from their own premises.

In a traditional law firm the convention is that a lawyer has to account for three times their salary. A third of their billings go on their salary, a third goes on paying overheads and then another third goes on the partners' profits. At ScoMo the lawyers get 70 per cent of what they bring in and the remainder covers the overheads and directors' profit share.

Making it run smoothly

ScoMo has set up robust systems to maintain standards and quality assurance. There are three people in the office, which includes the two directors and a bookkeeper to deal with finances. All incoming communications are read by one of the directors to make sure there aren't any complaints or issues. Any post gets scanned and sent out to the consultants so that they can put it into the case management system. An office manual sets out the regulatory requirements.

Ensuring clarity over employment status

From a branding perspective, the lawyers use ScoMo's headed paper and business cards.

From a contractual perspective, they are engaged with clear contracts to define the working relationship as self-employed.

ScoMo sought advice on this and HMRC confirmed that the lawyers were genuinely self-employed based on the fact that they didn't require day-to-day supervision and that they took business risk (if a client doesn't pay, the lawyers don't receive their fees).

The business case

The structure allows ScoMo to keep overheads low, to be very flexible and hence very competitive.

It's a very attractive way of working for lawyers who wish to focus solely on law, rather than on management or running a business. This means that ScoMo can offer services from lawyers who are much more senior, but also more cost-effective, than you would get from a traditional firm.

Also, the company doesn't have to pay for any downtime – when lawyers don't work, they don't get paid. As a result ScoMo can offer high-quality services at a much lower cost than a regular law firm.



“One of the things about being self-employed is that you have the freedom to organise your working life and do whatever you want to do. If you’re happy in yourself then you’re likely to work better. It’s a good thing in itself that people should be happy in their work, but it’s also very good for productivity. And we have plenty of certainty. We have people who are very committed to working with us, so they’re not impermanent, they’re just self-employed.”

Lucy Scott-Moncrieff, Managing Director, Scott-Moncrieff & Associates (ScoMo)

Enabling innovation for a global glass manufacturer

This multi-national manufacturing firm typically uses freelance and contract professionals on creative and innovation projects.

Freelancers are tasked with taking an innovation from concept through to completion.

The firm also uses freelancers to manage the cost and risks associated with peaks and troughs in demand across the globe. For instance, a workload peak in Brazil can be satisfied by using high quality freelancers in the UK. The quality of UK freelancers is one of the key reasons why they can engage in this type of international trade.

The business case

The firm finds it more effective to contract freelance consultants, rather than outsourcing to a large company, as it allows

them to choose appropriate specialists directly. With outsourcing, the employees of the outsourced company often have competing tasks within their organisation and are less output focused than hand-picked freelancers.

Freelancers are not just alternatives to R&D activities conducted by employees, but also a substitute for buying applications in the marketplace. The key advantage of using freelancers in this realm is that it enables better management of entrepreneurial risk and also the quality of innovation. Packaging R&D objectives into freelance projects enables the company to forecast budgets more accurately, as the freelancer carries the risk and responsibility for the output, in return for a fee.

Case study originally published in The role of freelancers in the 21st Century British Economy, a study by Andrew Burke for IPSE.

Improving the quality of care for patients in the healthcare system

Lantum.com was founded by Melissa Morris after she witnessed first-hand how inefficiencies in staffing have a direct impact on the quality of patient care in the healthcare system.

Lantum’s software provides an effective way to solve this by making it easier for the health service to connect with doctors looking for a more flexible way of working. The tool also streamlines the tax and administrative processes for both parties.

The case for freelancing in the health service

Primary care practices in the healthcare system face the pressure of unpredictable patient demand, which can fluctuate up to 50%. It would be unsustainable for medical practices to employ doctors full-time to cover these peaks, and therefore they rely on freelance doctors, known as locums, to fill vacant shifts rapidly.

For this reason, independent contractors have become an established part of the workforce in healthcare.

Freelancing gives doctors the opportunity to work across many different areas within the health economy. They gain experience and knowledge from this that they wouldn’t have otherwise. It also builds more resilience against burnout because they are not doing the same thing all the time, and are therefore

more energised. This has a direct impact on the quality of care they provide for patients.

Having a buoyant freelance marketplace therefore benefits the whole system.

The initial brief: a critical success factor

Lantum provides a detailed questionnaire which clinics use to brief doctors. This onboarding process is essential as locums need to understand the specific processes that are unique to each practice, such as referral pathways and equipment.

This forms the basis of a successful long-term relationship between practice managers and their preferred freelance doctors.



“The ability to pick from a wide pool of freelance specialists is extremely valuable for kick-starting a

business. When we were in the early stages of growth we couldn’t afford to take on too many full-time staff. We were able to contract a CFO on one day a week and an HR Director on two days a week. Having this kind of access to flexible talent is really important.”

Melissa Morris, Founder of Lantum. Named by Business Insider as one of the 100 coolest people in UK tech

Making the decision

The need to solve a resourcing challenge could lead down any number of avenues. Should you assign the workload to your existing team? Should you expand your permanent headcount? Or should you outsource? And if the latter, would it be better to go with a freelancer/contractor or a larger firm?

Here are some questions to consider:

- 1 What problem are you trying to solve or what need are you trying to fulfil?
- 2 How well do you understand the problem and potential solution?
- 3 How will the project's stakeholders benefit once it is completed?
- 4 What type of expertise do you need?
- 5 How long do you need this particular expertise for?
- 6 Do you have the expertise in-house and to a sufficiently high level to give you a competitive advantage?
- 7 Is this a task-based challenge – could a freelancer therefore be more suitable?
- 8 Is this more of an ongoing management/leadership challenge and therefore better suited to someone with a career path within the organisation?
- 9 How much of a bottleneck could it cause if you do it in-house?
- 10 Could you free up the internal team to focus on core activities by outsourcing this project, leading to increased revenues?

The project brief

When engaging independent contractors it's important to remember that you are embarking on a procurement process, and not a recruitment process.

So, rather than a job description, it's a good idea to begin with a project brief. This clarifies the objectives and parameters so that everyone involved understands what is required.

You may not have all the information needed to complete this until you have spoken to the expert who is due to deliver it. It should therefore be regarded as a fluid document. The first version starts with what you do know: you can use this to approach external specialists or to put the project out to tender. The final version can be completed once you have agreed the full scope of the project with your chosen expert.

Your brief can include the following:

- **Project Description:** What is the problem you need solving? What will the project consist of and what is its purpose?
- **Ultimate goals:** What do you ultimately want to achieve? What is your desired outcome?
- **Stakeholders/audience:** Who is this aimed at? Who will be affected?
- **Deliverables:** What are the actual items that need to be produced during this project?
- **Assumptions and constraints:** What do you know so far? What are the unknowns that could impact the project further down the line? This list can be adapted as the project progresses.
- **Milestones:** What are the main stages? What are their projected completion dates?
- **Quality assurance:** How will you measure or evaluate the quality and impact of the outcome?

Three ways to source self-employed talent

Agencies

Larger companies that work with big teams of freelance contractors sometimes choose to outsource the process to agencies. This can help with administration, allowing the client company to sign a single contract with the agency. It then becomes the agency's responsibility to put forward a selection of candidates for the client to consider, as well as to administer the contract paperwork and invoicing with the contractors as the project goes ahead.

Ian Godsiff, a manager responsible for the engagement of IT contractors at AXA, believes it is essential to have a formal procurement process to select the right agency: "Select the agencies very carefully. There are some very good agencies out there, but there are also some agencies that are not as reputable as others... certain companies will try and get a contractor for as low as possible and then try and maximise their commission. I have even heard of 50% margins, which is incredible. We have preferred supplier lists in place for agencies and we have an agreement with agencies to pay a margin that is set in stone."

Invitations to tender

Some companies, whether by choice or requirement, draw up a shortlist of candidates (usually around three) and invite them in to pitch competitively.

Sometimes the shortlist might include larger consultancies as well.

Other organisations believe that a competitive pitch is a poor predictor of future performance. They prefer to trial candidates by paying them to develop an initial response to the brief. The candidate with the strongest response is then awarded the whole project.

Direct recommendation

Many businesses prefer to contract freelancers directly, with no third party involvement. This saves on the agency mark-up and can also help to cast the net wider, as not all freelancers are willing to work via an agency. This type of approach is particularly common where high-end expertise is required and the client needs a 'trusted adviser'.

One of the most effective ways of finding the right professional is through recommendation, either in person, or with the help of social media. Search engines can also be a fruitful source of talent as more and more freelancers are willing to share their expertise via blogs and online publications, making them easy to find and providing detailed insight into their knowledge and overall approach.



"Companies can benefit from thinking strategically about how and when to involve freelancers. They are often hired to deliver something specific – a concrete part of a project – but from my work I've seen huge value in involving freelancers much earlier in the process, as they may have insights that can shape the direction of an idea. When freelancers can see the meaning and "bigger picture" behind their work, they're often more engaged and invested, leading to a better outcome for both the freelancer and the company".

Alison Coward, Founder, Bracket Creative

Getting the contract right

When engaging the services of a self-employed professional it's vital to remember that this is a business-to-business relationship.

This applies even when you're dealing with a single-person business.

The engagement is a procurement process which works in the same way as engaging a larger company, such as a big-four consulting firm.

It's important to ensure that a clear business-to-business relationship exists between the client and the self-employed contractor's business. Independent professionals are in business on their own account and bear the responsibility for the success or failure of their business. They are not "virtual employees".

The best way to ensure clarity is to draw up a contract that specifies key deliverables.

Such a contract should specify that the supplier's business is responsible for the

deliverables, and not the individual.

There should be no obligation to continue the relationship once the deliverables have been satisfactorily supplied, unless the client wishes to commission a new set of deliverables.

The contract should also recognise the supplier's responsibility to deliver according to their own professional judgement, without the kind of reporting, supervision and evaluation that would apply to an employee. This does not invalidate any quality assurance and security processes that you would apply to any external supplier, large or small.

In other words, you are not hiring a person, you are buying an outcome.

As long as you observe these principles, both in letter and spirit, you can benefit from the flexibility of the freelance workforce, without involving yourself in the legal complications to do with UK employment status or tax legislation such as IR35.

Managing the project

As per the aforementioned contract, self-employed professionals take responsibility for delivery and therefore don't need to be managed like an employee. This reduces the management overhead for the client and gives the freelance contractor the flexibility necessary to deliver the project according to his/her own expert judgment.

Needless to say, both sides should keep their promises. From the client's point of view, that includes ensuring that the accounts department settles invoices on time: freelancers rely on good cash flow just like any other business.

Also, think about any resources that need to be put in place for the freelancer to meet the requirement. Do they have access to the systems or infrastructure needed to deliver? Do they need passcodes or security clearances to do the work? Will the freelancer need to liaise with your internal people, or other external suppliers?

As one contractor put it: "If the links haven't been created and haven't been oiled, then I can't fulfill the task that I've been brought in to do. So it's making sure that the rest of the machine understands what is required of it, as much as the consultants understand what is required of them."

Ultimately, the most successful business relationships are the ones in which client and contractor are able to co-create requirements. Through regular

communication and close collaboration you can evolve the plan from inception through to delivery, adjusting as necessary along the way to tackle unforeseen obstacles or to introduce new ideas that might come to light along the way.

When you welcome the alternative viewpoints that external specialists can offer you, it can lead to transformational breakthroughs.

As the entrepreneur Malcom Forbes said, it's "the art of thinking independently together."



About IPSE

IPSE, the Association of Independent Professionals and the Self Employed, is the voice of the UK's self-employed population – who make up one in seven people working today.

We believe that flexibility in the labour market is crucial to Britain's economic success. We work with leading academic institutions and research agencies to provide empirical evidence about evolving market trends, to deliver both insightful information and effective policy campaigns to ensure our economy remains one of the most flexible, agile and innovative in the world.

IPSE Heron House, 10 Dean Farrar St, London SW1H 0DX

T: +44 (0) 20 8897 9970

W: www.ipse.co.uk



This document is provided for general guidance only and does not constitute professional advice. IPSE accepts no liability for losses arising from any action taken on the basis of this guidance.