The Rise of the Extended Workforce

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Strategy | Digital | Technology | Operations
To compete in the future, organizations will need to push talent management beyond the confines of the enterprise wall to include the new extended workforce: a global network of outside contractors, outsourcing partners, vendors, strategic partners and other nontraditional workers. By maximizing the potential of both an extended workforce and permanent employees, companies can gain critical advantages—including agility and access to valuable talent.
The Extended Workforce Will Be Critical to Competitive Success

It’s the end of work as we know it. In the future, organizations’ competitive success will hinge on a highly unlikely suspect: workers who aren’t employees at all. There are a growing number of people who temporarily lend companies their skills and knowledge in an ever-expanding network of freelancers, consultants, outsourcing partners, vendors and other types of nontraditional talent. Many of these individuals are jobless, but not workless. Others have jobs in one organization but perform work for another, existing in a complex and intricate web of cross-organizational relationships that form a new “supply chain” of talent.

They help organizations supplement their existing core set of employees with a highly mobile, dynamic workforce to meet the challenges of a complex and turbulent business environment.

Take Procter & Gamble. More than 50 percent of product initiatives at P&G involve significant collaboration with outside innovators. Through its Connect and Develop program, the company has forged more than 1,000 agreements with innovation partners. The company has also tapped into a wide range of outside individual contributors through new crowdsourcing models by challenging them to solve R&D problems or to come up with new product ideas. Workers outside of P&G have helped develop hundreds of successful offerings, such as Swiffer Dusters, the Crest SpinBrush and Olay Regenerist.

The extended workforce is expanding fast (see “The Rising Tide of the Just-In-Time Worker”) and its efforts are becoming essential to organizations’ competitive success.

The Rising Tide of the Just-In-Time Worker

Economists project that the extended workforce will continue to increase as part of a long-term trend. Consider the following statistics:

• By various estimates, 20–33 percent of today’s US workforce now comprises independent workers (freelancers, contractors and temps), up from 6 percent in 1989 (1). Worldwide, companies now spend an estimated $300 billion dollars per year on such contingent labor (2). Indeed, temporary and contract labor is one of the fastest-growing line items on corporate operating statements (3).

• The recent emergence of online independent contractor talent platforms that enable companies to access “talent in the cloud”—like Elance, oDesk and TopCoder—is a rapidly growing market, with more than 1 million workers having earned $1–2 billion over the past 10 years in this industry (5).

• In some industries, such as oil and gas, 77 percent of the workforce now reportedly resides outside of the core organization (6).

• Outsourcing contracts with Fortune 100 companies have more than doubled since 2000. According to some studies, about 20 percent of global companies have outsourced or offshored workers (7). Outsourcing is now an estimated $6 trillion global industry and is expected to keep growing (8).

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Consider outsourcing. Today, companies are no longer using outsourcing just for augmenting staff who perform administrative processes. In addition, they’re using it strategically, to gain staff who can handle higher-level, knowledge-related processes. In a survey conducted by Accenture and the International Association of Outsourcing Professionals, 40-plus percent of respondents indicated that outsourcing at their organizations was increasingly focused on knowledge-based activities.²

Likewise, the sort of work done by the contingent workforce is changing. With the increase of specialization in the workplace and the heavy reliance on project work in knowledge-based organizations, highly educated specialists and professionals are serving as contingent workers in positions as varied as engineer, information technologist, healthcare worker and accounting and finance professional.³ As much as 80 percent of freelancers on Elance have a professional degree, and their assignments can last as long as several months, reflecting the shift to knowledge and project work.⁴

Even top-level managers and executive teams are being replaced by temporary CEOs, CFOs, COOs and other highly skilled troubleshooters brought in for their expertise in solving specific problems. For example, Wall Street—from boutique investment banks to private equity funds—is bringing in experienced, often Ivy League-educated financial professionals on an hourly, contractual basis to tackle sporadic but critical projects. These projects may range from evaluating transactions, building financial models and researching markets to assembling client pitch books and developing board presentations.

Stafing company Accordian, which specializes in such Wall Street temps, is growing almost 100 percent each month—and executives there believe that the use of on-call deal makers could revolutionize the investment banking industry.⁵ Netik LLC, a New York data management services firm, recently used Accordian for 95 hours of work on a private-equity financing round. "These are guys that sat around for five years eating cold pizza in conference rooms and working on deals," explained Rob Flatley, chief executive, to The Wall Street Journal. "We could just plug them into our models." About half of the temporary analysts, say Accordian representatives, have "Lehman" or "Bear Stearns" on their résumés.⁶

Many of today's contingent workers have high-level skills, deliver top performance and are deeply engaged in their work. Often, they have consciously chosen this type of work over permanent employment. Their reasons include flexibility, the chance to work on a variety of interesting projects, the opportunity to build and exercise skills more quickly than permanent employees can and superior financial rewards. For instance, many retiring baby boomers have joined the extended workforce because they want the stimulation and income from working as well as the benefits of flexibility. Contractors who are Millennials or working parents in two-income households cite the chance to quickly develop new skills or to better balance work and family life.

In addition, newly emerging healthcare exchanges and portable care in places like the United States have made it easier for people to have healthcare access without being tied to a single, full-time employment relationship.

The new extended workforce is also increasingly mobile, global and borderless, thanks to technology advancements that let people easily find opportunities and work remotely. This is giving rise to nearly unlimited opportunities for workers and organizations alike to match talent to task, unencumbered by regional constraints.

The rise of new online contractor exchanges has also fueled the growth of the extended workforce. Just as "cloud computing" has recently emerged as a way for organizations to get on-demand, affordable access to a dynamically scalable, shared pool of computing resources over the Internet paid for on a transactional basis, so too has "cloud talent sourcing" emerged as a new model whereby organizations can get on-demand, affordable and global access to a dynamically scalable, shared pool of skilled workers over the Internet paid for on a transactional basis. With cloud computing, companies pay only for the transactions they want handled.
With cloud talent sourcing, they pay only for the tasks they want handled. Some tasks are tiny, like copying text from a business card on Amazon’s Mechanical Turk talent marketplace (which pays pennies). Other tasks are large, such as selling products for a fee using LeadVine’s talent marketplace. Yet others consist of complex project work, including software design and programming. (See also: Tapping Skills Anywhere, Anytime).

Technology is facilitating the rapid adoption of the extended workforce in other ways, too. To illustrate, new Internet sites enable individuals to inexpensively rent unused office space in an organization for the short term. Interacting face to face with each other and with permanent employees helps these workers feel a sense of community, enjoy some social contact and gain access to resources needed to do their work. Social networking groups such as Facebook and LinkedIn also enable extended workers to connect with others, share potential collaboration prospects and forge a community. In fact, many users of these groups take their friends and colleagues with them when they stop working for one organization and start working for another. Moreover, technology now helps organizations easily apply talent management practices—such as performance feedback, learning and knowledge management—to the extended workforce.
Impact on the Business

Over the last decade, companies have changed how they tap into the extended workforce. Initially, they did so as a tactical response to an immediate need. But then they began making this workforce a key component of corporate strategy. This shift has enabled organizations to achieve two of the most sought-after competitive capabilities: agility in the face of a highly turbulent business environment and access to high-performing, highly skilled talent.

These twin capabilities are essential for success. For instance, in today’s competitive global market, time to market can make the difference between success and failure. By bringing in people when they’re needed who can hit the ground running without time-consuming training, businesses can get a product or service out in front of the competition. Likewise, they can quickly adjust to changing global demand patterns, scaling staff up and down fast and efficiently to meet shifts in demand in various parts of the world. By using the extended workforce, organizations can also quickly change the mix of skills available to them, which can help them adapt swiftly to changing customer preferences.

The relentless pressure to innovate and the pronounced shift to knowledge work mean that today’s world is far less predictable than yesterday’s, and that companies that have developed greater agility can often outperform the competition. Employers’ focus on stable, predictable job roles is giving way to an emphasis on project work, which lends itself to hiring more workers on a project basis. Increasingly, jobs may become replaced by projects. This could give rise to a highly mobile workforce whose members rapidly assemble and reassemble around projects. In today’s organizations, people are often pulled onto teams because of their formally defined role in the organization. We believe that enterprises could radically boost their performance by sourcing talent for each task from anywhere inside or outside the organization on one criterion: who is the best person to perform the task?

Indeed, evidence suggests that the traditional model of employees holding static jobs doesn’t help organizations get the most value from workers’ skills. In a recent Accenture survey of 1,088 US workers, only 34 percent of respondents reported feeling that they could easily move to other roles or jobs in their organization where their skills would best be utilized, and only 62 percent felt that their employer fully leveraged their unique skills to achieve corporate goals. By drawing on extended workers, organizations may be able to unleash the full potential of their human assets by more fluidly matching task to talent. In addition, companies could gain access to a much wider range of expertise and skills that may not be readily available in their existing talent pools. This can be particularly important for small organizations, because accessing an extended workforce helps them access the same level of talent and services as large enterprises.

A big extended workforce can also improve talent-pool quality overall. In one study carried out by the Human Capital Institute, many respondents reported that outsourcing and temporary staffing significantly improved the organization’s talent quality (69 percent and 68 percent, respectively). Using contingent workers may also help an organization hire better-quality regular employees: A company can try out workers on a temporary basis before hiring them permanently. Actual performance on a temporary assignment is a far better predictor of future performance than job interviews, resumes or assessments.
Impact on HR

As guardians of their organization’s talent strategies, HR will need to redefine its mission and activities—and perhaps create new roles and organizational structures to maximize the extended workforce’s strategic value. It will have to create new strategies that reflect new realities (see “The Extended Workforce: Old and New Realities”). In particular, HR could benefit by taking the following actions:

Redefine HR’s customers. Traditionally, HR’s “customers” have been employees. Now, they should also include members of the extended workforce. To serve all of these customers, HR professionals need to develop a broader perspective on talent management and create a permanent strategy for extended workers. This means establishing a seamless approach to everything from recruiting to performance management to learning. The goal is to balance the needs and expectations of each type of talent with the strategic goals of the business.

Integrate processes and systems. Instead of using vastly different processes and systems to acquire and manage talent, leading organizations will develop a unified strategy and set of processes and information systems that span all talent segments, including the extended workforce. Technology advancements like the development of SaaS (software as a service) will make it easier for companies, for example, to capture data on contingent workers and manage it in the same system that they use for employees. Although this may add additional costs to licensing agreements from HR information system vendors, benefits can far outweigh the costs. Understanding all the talent that performs work for an organization can help managers make better decisions regarding whether to “buy” vs. “build” vs. “borrow” talent in specific geographic areas or specific talent pools, as well as help an organization better manage risk through tracking certifications or training, or through establishing standard security access and provisioning processes. In addition, skill gaps in the entire workforce can more easily be tracked, as well as performance levels that can help a hiring manager decide whether to rehire a contingent worker, convert them to permanent employee status, or even consider them in an organization’s succession plans. Creating an integrated talent management system will be a critical responsibility for HR in the future, and will enable organizations to gain greater agility and maximize the performance of their entire workforce.
## The Extended Workforce: Old and New Realities

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<th>Old Reality</th>
<th>New Reality</th>
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<td>Small percentage</td>
<td>Large percentage</td>
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<td>Type of work performed by the extended worker</td>
<td>Primarily low-skilled, low-value</td>
<td>Increasingly high-skilled, high-value knowledge work</td>
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<td>Location of work performed by the extended worker</td>
<td>Local; workers live close to the organization</td>
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<td>Personal profile of the extended worker</td>
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<td>Engagement level of the extended worker</td>
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<td>Who manages the extended worker</td>
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<td>Talent management practices</td>
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Create new organizational structures or roles that cross boundaries and disciplines. Everyone from procurement to finance to line managers could conceivably take responsibility for the extended workforce. But HR should play a central role. To do so, HR will need to collaborate with other functions that also have a stake in the extended workforce or create roles that integrate a diverse array of skills typically found in different functions. At Royal Bank of Canada, for example, a steering committee comprising representatives from procurement, human resources and enterprise operations is responsible for managing the company’s extended workforce. Other organizations are designating new extended workforce manager roles staffed with people who have skills not typically found in any one job description. Such skills include knowledge of employment law; contract negotiation; and project, talent and organizational management. Companies can even set up an extended workforce talent management office that reports directly to the executive level.

Use analytics to become an expert advisor on the talent landscape. Deciding when to use which talent pools, for which tasks, today and in the future will become an increasingly critical HR capability. HR professionals will need to perform fact-based analyses to make staffing decisions across their talent pool. They will have to use data from a variety of sources to identify labor trends for different talent pools and geographic markets and to anticipate risks of sourcing from particular talent pools. Having a strong analytics capability can also help an organization develop closer relationships with talent suppliers. These suppliers can better anticipate an organization’s needs, prepare the talent pipeline and provide just-in-time resources.

Become a talent broker. HR practitioners will need to become talent brokers—facilitating matches between specific workers (extended or permanent) to specific tasks or teams. To serve in this role effectively, HR professionals or hiring managers will have to evaluate the talent coming from other organizations (such as outsourcing providers or consulting organizations) and select the right talent for each project/assignment. HR also will need to mine and analyze the vast array of highly predictive data (beyond workers’ skills and experience profiles) that is now available on online labor platforms such as Elance, Inno360, Behance, Guru and Empire Avenue. Consider a few types of data that HR could analyze to find the right worker for a task:

- Performance on key indicators from previous assignments
- Peer/team feedback, perhaps signaled by badges in a game-like format
- Feedback, reviews, recommendations and referrals
- Cultural fit assessments
- Competency, skill and knowledge assessments
- Willingness to work in particular geographies
- Training transcripts
- Test scores in massively open online courses
- Samples of previous work performed
- Individual work preferences (type of work, hours willing to work, location, etc.)
- Expertise and knowledge as indicated in people’s journal entries, blog postings and social media contributions

Forge new relationships with partner organizations. Increasingly, work is getting accomplished through a network of organizations. For this reason, companies may have to redefine the nature of their relationships with one another. Today, organizations often identify specific key performance indicators for partners such as outsourcing providers or consultants. But they leave it up to partners to determine which talent can deliver on those indicators and how best to motivate and develop that talent. In the future, HR organizations may need to evaluate their partner organizations’ talent management practices and write talent management practices into service agreements.
Apply talent management practices to the extended workforce. The rise of the extended workforce will require HR organizations to rethink talent management practices and determine how each practice can be extended to include workers other than employees in order to best maximize their potential. For example:

- **Onboarding and collaboration.**
  Extended workers should be able to quickly join teams, orient themselves and collaborate on tasks. HR—as well as recent technology advancements—will be instrumental in facilitating this process. For example, technology can now help all workers understand how each is contributing to the organization’s goals. It can also help workers understand their relationships with one another through the creation of a dynamic organizational chart based on analysis of e-mail and other electronic communications that reflects how work is really being accomplished and by whom. In addition, workers can use technology to find one another, collaborate, explain and track tasks, and look up previous work samples or related work in knowledge repositories. All of this knowledge helps them to hit the ground running on a new assignment.

- **Performance feedback, rewards and incentives.** HR will need to facilitate performance feedback for extended workers and motivate them with the right rewards and incentives. To do so, HR will increasingly use tools like work.com, which enables workers to provide real-time feedback and recognition to one another, track projects and set goals. HR professionals may also need to tap into extended workers’ intrinsic motivation. LEGO did this by encouraging enthusiasts to help develop the new version of the MINDSTORM product; the fun of indulging in their passion was their reward. Interweaving game-like features into the work itself can also help. For example, Netflix offered a $1 million prize for members of the general public who could create the best software algorithms used to offer customer video recommendations.

- **Learning.** Most organizations seek extended workers who already bring the requisite skills to the table. Managers may wonder why they would invest in learning for such workers when they can easily take newly learned skills to other companies, including competitors. But the best HR organizations of the future will offer learning opportunities to extended workers. Why? Doing so improves their value to the organization. It also helps the company attract the best of the extended workforce. In fact, learning can go both ways; organizations themselves may also learn valuable insights from extended workers by capturing the knowledge extended workers have developed by working at a variety of organizations. To gain these advantages, HR might extend e-learning and social media learning platforms to extended workers as well as provide opportunities for informal learning. HR can also facilitate knowledge transfer from extended workers to regular employees and provide incentives for knowledge sharing. This is especially important at the project level, where new online, collaborative tools can capture knowledge and conversations, email chains, document versions and other information related to a project. When an extended worker leaves, the project keeps running smoothly, because everyone who remains has access to all the essential information.

- **Advancement and career development.**
  HR will also need to provide opportunities for extended workers to advance and grow. Providing such opportunities will enhance these workers’ value and help the company attract and retain the best of this workforce. Leading companies may track the performance, skills and career aspirations of their extended workers just as they do for permanent employees. This approach can help companies source top talent.
A company might also want to include high-performing members of the extended workforce in its succession planning, regardless of whether workers will convert to permanent employment or continue on to other assignments in the organization. To support effective succession management, HR could use technology to access a global pool of free agents. The technology lets users advertise themselves as free agents, enables companies to search for available free agents and helps employees nominate free agents to succeed them.

**Segment the extended workforce.** Like permanent employees, extended workers are a highly diverse lot. What motivates a worker in an Eastern European outsourced call center will likely differ markedly from what motivates a scientist participating in a crowdsourcing competition to develop a new product. Leading companies are tailoring their people practices to meet the needs of a highly diverse employee base. (See: Workforce of One: Revolutionizing Talent Management through Customization, Harvard Business Press, 2010 and Managing Each Employee as a Workforce of One). Companies must apply this same approach to extract maximum value from extended workers as well. For instance, they can customize their talent management strategies to extended workers’ performance, potential, geographic location or any other meaningful criteria. But an organization should always think carefully as to whether a specific initiative will work with all or only some segments of the extended workforce. An organization may open its knowledge management and learning systems to temporary professional employees, for example, but not to people participating in crowdsourcing competitions. Or an organization may extend learning and career development to individual contractors, but not to employees of an outsourcing provider. To be successful, an organization will want to create targeted talent strategies for various segments of its extended workforce based on their unique needs and requirements.

**Bottom Line**

Yesterday, work was organized in hierarchies according to jobs and roles. Tomorrow, it will be characterized by dynamically configured teams of workers who may not be an organization’s permanent employees. Instead of a single enterprise with full-time employees and a recognizable, enduring hierarchy, companies will increasingly be comprised of formal employees and an ever-shifting global network of contractors, temporary staff, business partners, outsourcing providers and members of the general public. As talent supplies span regional, national and organizational boundaries, HR professionals will need new talent practices to ensure that their organizations are performing at the top of their game. Quickly bringing together globally dispersed, blended workforces to achieve an organization’s goals will require no less than a management revolution. And that revolution is only just beginning. HR practitioners who can capitalize on and harness the power of the new extended workforce will position their companies to gain unique advantages and outperform the competition.
Sources


7. For more details on this study, see “Solving the Skills Paradox: Seven Ways to Close Your Critical Skills Gaps,” by David Smith, Diego S. Leon, Breck Marshall and Susan Cantrell, Accenture, 2011.


15. Ibid.

Sources (for page 3)


3. Ibid.


About Our Research

The primary objective of the Accenture Future of HR research initiative is to develop insights that can be useful to both HR and business executives as they seek to maximize the role of HR as a critical function within the organization. We are exploring how current business trends might reshape the nature of the function—in terms of HR’s mission and mandate, the key activities HR performs, the skill set necessary for HR professionals, the metrics on which to evaluate HR’s performance, and the organization and governance models and roles that will most effectively help HR maximize its value to the business. We also are examining current best practices in HR, as well as some of the obstacles HR is facing and how those obstacles can be overcome in the future.

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