



The Rise of the Invisible Workforce

Contingent workers are a critical but often hidden secondary workforce

Contingent workers are a vital source of skills and flexible labor. However, within large businesses, the hiring and oversight of these external workers is often split between different functions, regions, and hiring managers, providing poor oversight, inefficient use of resources, and difficulty in strategic planning.

Trusted Insights for What's Ahead™

- **While contingent workers are an increasingly important source of skilled and flexible labor, companies often struggle to exactly know the size, composition, and deployment of this group.** This often leads to a tactical, piecemeal approach, with insufficient focus on risks like hidden labor costs, protecting intellectual property, or financial penalties and higher labor costs if regulators judge external workers are permanent employees.
- **To effectively deploy these external workers, companies need to take a strategic and integrated approach,** based on three foundations: strategic governance; integrated workforce planning; and clear guidelines for managers to ensure transparency, consistency, and compliance with regulation such as national and EU laws for temporary workers and a new directive protecting gig workers on digital labor platforms.
- **An integrated and strategic workforce approach requires cross function cooperation** and a unified approach that includes: a clear definition of who your contingent workers are and who has oversight responsibility; comprehensive data on these workers, especially noting tactical or strategic roles and if they hold critical or future focused skills; and consideration of technology-based solutions for global compliance on data and security.

- **Defining Contingent Workers**

These external workers are not employees but work for an organization on a fixed or limited term (i.e., non-permanent). They typically include:

- **Temporary workers** provided by a third-party supplier, such as a staffing agency or an umbrella organization known as an Agency of Record (AOR).
- **Gig workers** obtain work through a digital labor platform.
- **Independent contractors** are self-employed or freelance and contract directly with a company to perform services.

Companies often have their own taxonomies, which might include: Statement of Work consultants, temporarily reemployed returnees, managed services providers, seasonal workers, interns, and volunteers.

The Opportunity—Enhanced Business Agility and Capability

Through a series of discussions with international companies, a small poll and some follow up interviews, we explored whether and how businesses are tapping into new sources of external talent. Contingent workers can comprise a significant segment of an organization's total, extended workforce—Novartis, for example, is on record for having 100,000-plus employees and 50,000 external workers.¹

One interviewee says that while his company will not disclose the size of its contingent workers, the number has grown considerably since the global pandemic. This increase is due to the shift to remote and project-based work. He comments: “Our percentage of ‘unique’ [non-permanent] workers has increased by 33 percent since 2019, while the number of temporary work assignments/projects has increased by 45 percent.”

Our discussions with international companies suggest that amidst tight labor markets and economic uncertainty, these workers are an important and strategic resource.

Business Agility Companies are looking to external workers to help scale up and down their activities to respond to variations in customer demand, business cycles, or economic volatility. With work increasingly deconstructed into tasks and projects, it has become easier and quicker to parcel out discrete work activities to external workers.

More flexible labor costs External workers constitute variable and not fixed labor costs, so this helps businesses adjust labor costs (which can be the largest single cost and account for as much as 70% of total business costs) to business conditions and market demand.

Building Capability Tapping into external workers can help graft new skills into the permanent workforce, helping build future-focused capability. Another benefit is the ability to try out potential future hires.

External workers are increasingly performing highly skilled tasks and roles. According to one study, the top 10 titles held by contract workers globally include software/web developers, project managers, business analysts, and marketing specialists. This global analysis suggests that businesses are hiring external workers for increasingly experienced positions.²

The global contingent work economy posted an estimated \$5.4 trillion in revenue during 2021, with independent workers generating over 56 percent of this total revenue—equivalent to earning \$3.0 trillion in 2021.³ In the United States, one estimate is that there are 59 million contingent workers, comprising 35 percent of the total US workforce.⁴ Within the Europe Union, external, non-permanent workers numbered 24 million people in 2022, comprising 11 percent of the total workforce.⁵ Although the total number of external workers in Europe hasn't changed significantly in the last five years, the profile of workers is changing. One study suggests that 2.8 million self-employed workers are in digital related activities (tech and data, marketing, communications, art and design).⁶ Another strong growth area is 'gig workers'—an estimated 28 million people access work through digital labor platforms across the EU. This segment has been predicted to grow to 43 million by 2025.⁷

Another significant change is the rise of so-called umbrella organizations as a new form of intermediary (like temp agencies and subcontractors). Professor Pat Leighton, Professor of European Social Law at L'IPAG Business School, France explains: "Umbrella agencies are commercial organizations that aim to take some of the risks out of self-employment by providing business support, especially in terms of guaranteeing income promised by clients. Some directly employ self-employed workers. Examples are Invoicery, based in the Nordic states and France, and Parasol, based in the UK. They are new and controversial—in the UK, tax authorities are currently conducting over 10,000 investigations into umbrellas."

Capgemini, a global IT consultancy, views its extended workforce as critical for its future success. In the words of CHRO, Anne Lebel: "In the current scenario of a scarcity of skilled talent, an enlarged talent pool is a requirement to fuel our continued growth. From a business perspective, offering a more flexible employment framework that incorporates the gig economy not only helps attract new talent, but it reduces attrition, giving us a competitive edge over our peers as an innovative and agile organization."⁸

The Challenge: A 'Hidden' Secondary Workforce

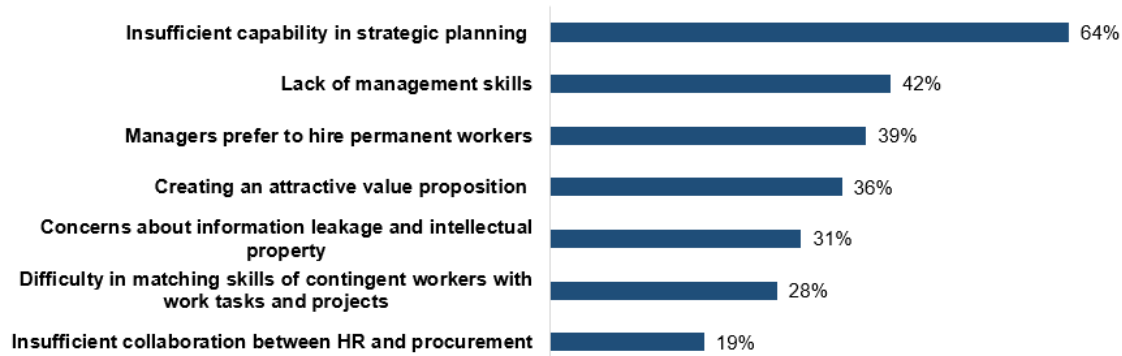
Companies that are expanding their external workforce are beginning to recognize that an ad hoc, tactical approach has serious drawbacks. Responsibility for external workers is typically split between different functions or devolved to local hiring managers, leading to siloed thinking and inefficient use of valuable resources.

A poll by The Conference Board of 33 multinational companies based in Europe shows the top three challenges as: (1) insufficient capability in strategic workforce planning; (2) lack of

management skills in managing contingent workers; (3) managers prefer to hire permanent staff (perhaps partly due to the first two challenges).

Main challenges of managing an extended workforce

Q: What do you think are the top three challenges of managing an extended workforce?



Note: 36 HR executives in Europe responded to the survey between February and April 2023.
Source: *New Strategies for the Extended Workforce*, The Conference Board, 2023

Practitioner Voice, a Global Head of Workforce Planning:

» *The reality is, compliance cares about compliance, procurement cares about cost and spend, and HR cares about talent. Historically, it's been very rare for these players to work together on a holistic workforce plan that sets the business up for success in the future.*

The HR Solutions Director for a chemicals company shares his company's recent experience:

How we managed our contingent workforce became a serious topic in late 2021, when we conducted a corporate audit. We were surprised to discover the significance of the contract labor force to the day-to-day operation of the business. They were an invisible workforce—we had been managing them in a very fragmented and diversified way, with different countries taking different approaches and working with different suppliers. The audit set off alarm bells. We weren't in full control of our global contract workforce. We realized that we had a sizeable secondary workforce being managed piecemeal by managers at a functional or plant level, without any real planning or risk management. The amount of spending on these workers was significant.

Risk of worker misclassification

The hidden costs of a significant external workforce can be an unwelcome surprise. Even more unwelcome may be discovering some of these workers could legally be classified as permanent employees—with all the employment and social rights this status entails (paid time off, sick leave, pension contributions, or health insurance).

Employers that are found to have misclassified workers risk fines and back payments to these individuals. The recent experience of Nike is sobering. Despite the sports manufacturer working with a third-party vendor, FLEX, to manage contract positions in the US, an external audit concluded that Nike faces a “misclassification risk” of over \$530m for its entities in the US, Belgium, UK, and Netherlands.

It is vital for a company utilizing external workers to ensure a tight coalition between key C-suite members to reduce the risk of worker misclassification—ideally this should be the Chief legal Officer, CHRO, Chief Risk Officer, and Chief Operating Officer. Professor Patricia Leighton believes the current legislative climate is suspicious of companies’ use of external workers. She says: “Several legal systems around the world—for example, the EU, the UK, and California—are developing or have developed new legal tests of status with the explicit aim of seeing independent workers, especially gig/platform workers, in reality as employees. These developments have likely increased the reluctance of some employing organizations to use freelancers.”

A Strategic and Integrated Approach: Three Foundations

Maximizing the benefits and minimizing the risks of an extended workforce requires transitioning from a tactical to strategic approach. This transition is built on three foundations:

- Integrated workforce planning;
- Consistent and transparent management processes for global constancy and compliance; and
- Cross-enterprise governance frameworks to oversee the deployment of external workers.

Integrated workforce planning

The Global Head of External Workforce at a multinational software company explains the advantages of an integrated workforce planning approach. She comments:

Once we acknowledged the importance and growth of our external workforce, we realized we couldn’t continue the split responsibilities between external and internal workers. We want a sustainable workforce model, and this requires an integrated and strategic approach. We realized that to leverage the full potential of our extended workforce, we needed the capability to understand and make sense of the full picture. The first step is understanding where everything is and putting it in one place: who does the work, where you are buying workers from—it is about visibility.

As our poll of executives reveals, companies lack expertise in strategic planning for an extended workforce. This more holistic planning enables the business to track total workforce spending against revenue; model the projected impacts of different staffing options (buy, build, borrow, or automate), and find the optimum balance between external and internal employee

segments for different regions, functions, operating units, and workstreams.⁹ Integrated workforce planning also enables independent workers to be factored into talent strategies.

A big challenge for integrated workforce planning is collecting external workforce data that usually resides mainly with procurement and finance or with external intermediaries like staffing agencies or umbrella agencies. But data management is also a significant risk and challenge due to different laws around the world—for example, EU regulation stipulates that companies must store data on employees and external workers in different systems. The legal requirement for data storage results in a paradox, as one interviewee explains:

» *We need to make better data driven decisions about our whole workforce, so we need one source of truth. We need an integrated strategy, yet we also need internal systems to keep our two workforces separate.*

Technology to the rescue

Unsurprisingly, companies are turning to technology to help them adopt integrated workforce planning and reduce the risks of compliance and security. These applications claim to simplify and streamline the procurement and management of both service providers and external workers (including their on and off-boarding). They also promise the ability to generate data and analytics for key metrics on the outcomes and productivity of external workers and for data-informed workforce planning.

Helped by advances in AI, the global contingent workforce management market is fast expanding. According to KVB Research, the key market players are SAP, Coupa Software, Ramco Systems, Avature, and Beeline.¹⁰ Another recent development is that the vendors of internal talent marketplace platforms are adding applications in contingent workforce management. For example, leading provider Eightfold recently added Talent Flex, an application to source and deploy external workers, to its suite of AI based talent matching platforms.

Guidelines and training for managers

It is essential to provide employees with clear guidance and processes to ensure the deployment and treatment of external workers is consistent, transparent, and compliant.

Classification of working relationships vary across jurisdictions, but generally includes specifications about the nature of the work, degree of control and extent of supervision, how the work is evaluated etc. Managers need to understand how to manage the working relationship without contravening these specifications.

A global pharmaceuticals company has put in global and local planning to ensure managers are clear about their responsibilities for external workers. The Global Lead External Workforce comments: “We are clear that we are not integrating our external workers into our organization—integration is at the strategic level through an integrated talent and workforce planning strategy.”

Strategic governance

The final pillar for harnessing an extended workforce is a strategic governance framework. This framework provides critical oversight and guidance to ensure external workers are deployed with maximum impact and minimal risk. The governance council or committee can take responsibility for several critical priorities:

- Overseeing the formulation and execution of an integrated workforce strategy;
- Monitoring costs and evaluating the productivity and business impact of external workers;
- Agreeing a “taxonomy” to standardize job titles across employees and external workers—this standardization creates vital clarity around worker classification, expectations, and treatment;
- Deciding how external workers should be deployed, providing guidance on critical questions such as the ideal ratio of external workers to employees, in which region or organization they can be deployed, which roles can be sourced externally and which roles should be staffed internally to preserve knowledge, business capability, or intellectual property; and
- Monitoring business risks, such as worker misclassification, cybersecurity issues, compliance with national employment and data protection law, and protection of intellectual property.

Cisco has opted to relocate responsibility for contract workers from procurement to a newly created cross-functional steering committee. The committee’s remit provides strategic oversight of the company’s extensive number of contract workers. Meeting monthly, the committee comprises function leaders who report to the C-suite, underpinning the global governance committee specialist teams or workstreams providing expert advice. Cisco has 10 workstreams spanning governance, technology, people and communities, finance, commercial, provisioning, legal, business intelligence, controls, and global procurement operations.¹¹

A global pharmaceuticals company has taken a different route by creating a centralized shared governance model, led by the Integrated Work Strategies Unit, within the HR organization. The unit, created in 2020, coordinated discussions with other key players such as operational leaders, Procurement, and Legal to agree a global external workforce framework. This framework includes key principles and processes for deploying external workers. The goal of the framework is to enable a consistent approach across the organization to external workforce management. Various governance bodies (led by HR) now lead cross-functional coordination across the global organization.

A global software company has adapted the existing organization by evolving its decade old “External Workforce Center” from a tactical and compliance-based focus to one that is strategic and future focused and led by a member of the global HR team. The External Workforce Center partners with the Future of Work Team. The board recognizes that an extended workforce is a source of technical talent and critical for future-proofing the business. One important

consideration is how to move from treating external workers as part of procurement spend—with cost savings as the main KPI—to more strategic metrics such as time to productivity, enhanced innovation, business agility, or business capability.

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Endnotes

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