

Flexible futures: Navigating the evolving external workforce



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About the research

This paper assesses organisations' increasing reliance on the external workforce in light of growing market uncertainty. It spans cost and risk management, workforce skilling and development, technological trends in the uptake of external workers and services, and evolving workforce strategies and models.

For a third consecutive year, Economist Impact conducted a global survey of C-suite executives across organisational functions, including chief financial officers (CFOs), chief operations officers (COOs), chief procurement officers (CPOs), chief supply chain officers (CSCOs), chief human resources officers (CHROs) and chief innovation officers (CIOs).

The 2024 study, which included 2,307 executives, is an expansion of the survey sample of 500 C-suite executives in 2023 and 430 in its initial year (2022). The most recent survey was conducted during January–March 2024. In past iterations of The Procurement Imperative programme,¹ the survey sample offered critical insights disaggregated at the regional level for the Americas, Asia Pacific (APAC) and Europe, Middle East and Africa (EMEA) regions. As a result of the substantial increase in responses in 2024, this executive survey provides more granular insights for each country and persona.

The objective of the research has been to explore how businesses and industries are transforming procurement to meet existing and emerging challenges amid disrupted supply chains, rising costs and growing uncertainty.

Economist Impact gratefully acknowledges the technical experts who provided guidance in their personal or professional capacities. The paper's findings do not necessarily reflect the views of the experts or their organisations:

- Sally Guyer, global chief executive officer, World Commerce & Contracting
- Philip Ideson, founder, Art of Procurement

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- Kelly Barner, head of content and operations, Art of Procurement
- Thomas Ogilvie, board of management, human resources, DHL
- Erik Thornberg, senior vice president, global business services, AgileOne
- Cris Wilbur, chief people officer, Roche

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¹ Economist Impact. "The Procurement Imperative". [https://impact.economist.com/projects/the-procurement-imperative/]. Accessed August 21, 2024.

Executive summary

This paper analyses the trends relating to the rise of the external workforce² globally. The research results—an in-depth look at the data and an extensive interview programme—allow for a deep dive into the views of different C-suite leaders from industries including automotive, chemicals, consumer goods, life sciences and manufacturing.

The report's key findings are:

- **Global uncertainties are driving companies to reconsider their operating models and workforces.** With monetary uncertainty (49%), supply chain visibility (46%) and geopolitical dynamics (34%) topping the list of organisational risks in 2024, companies are increasingly relying on their external workforce. While this shift towards more flexible and cost-effective external workforce solutions aims to reduce risks, companies must balance their permanent and external workers.

- **Gaps in skilling raise the demand for specialised and on-demand talent.** Notably, executives cite addressing short-term internal skills and talent gaps as a crucial way to reduce risks through the external workforce. Despite geographical differences, organisations must prioritise internal training and rethink talent management to foster continuous learning, build flexible workforces, and align talent with organisational demands.

- **Advances in technology are enabling businesses to unlock greater potential in their workforce and realise strategic objectives.** As workforce visibility (69%) and direct contracting (62%) are top priorities over the next three to five years, businesses are looking to integrate their traditional systems with artificial intelligence (AI) and machine learning (ML) to develop real-time predictive competencies, benchmarking capabilities and talent platforms.

- **Traditional staffing and hiring models are now focused on outsourcing and blended workforce to reflect changing business needs.** Effective change management, better talent recruitment and retention, and positive organisational culture are necessary to successfully integrate workforce models. Managed service providers (MSPs) play a unique role in managing talent networks and provide end-to-end services.
- **Strengthening talent networks for seamless external workforce solutions will remain crucial for business agility in the next three to five years.** By 2025, remote and independent work will expand significantly,³ enabling businesses to address talent shortages, adapt to market demands, and enhance their revenue. Simultaneously, businesses must not rely solely on external workforce to manage risks and better embed them into their overall workforce strategy for the medium-to-long term.

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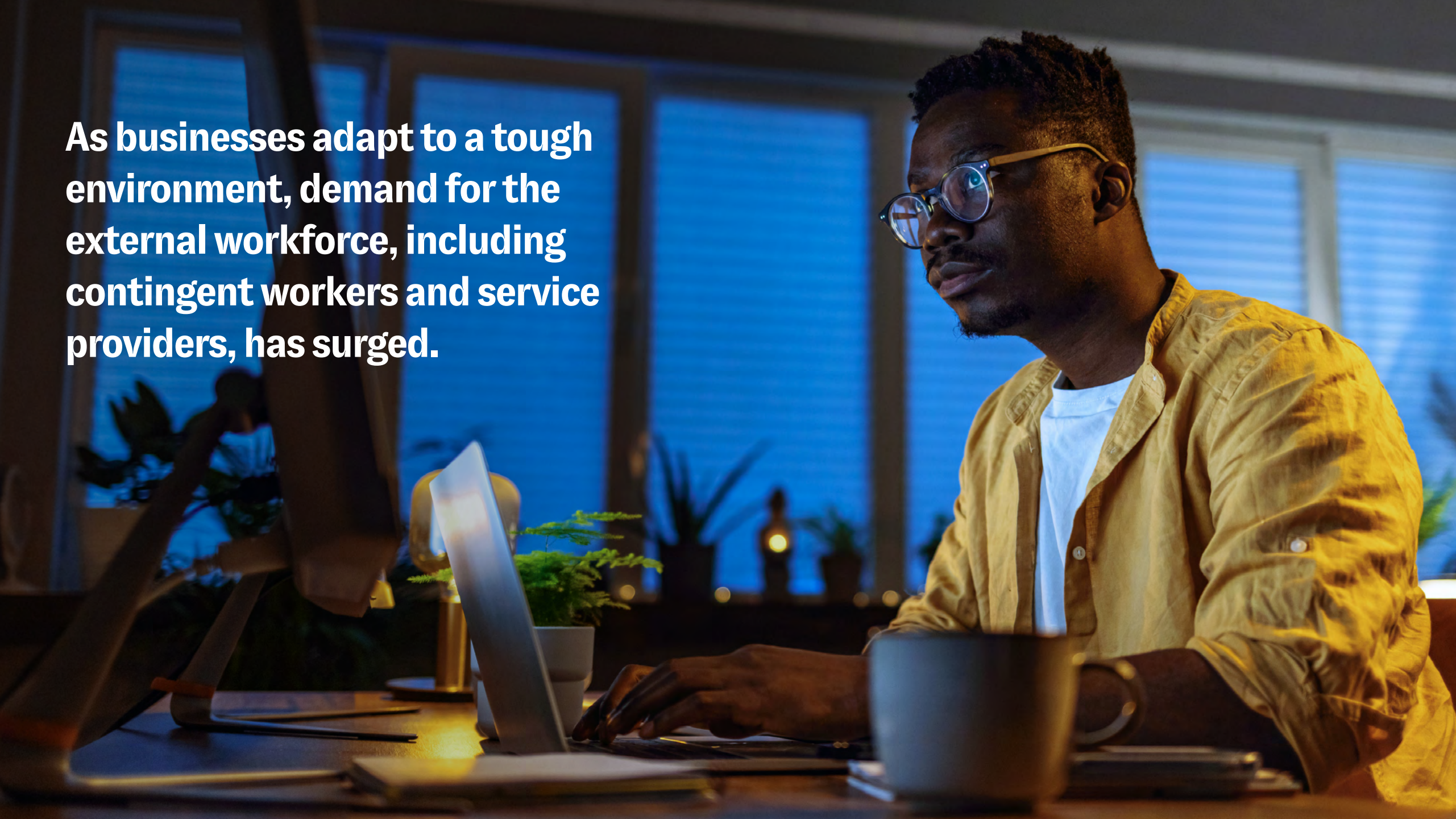
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² The external workforce refers to all types of workers that are employed in a temporary or transactional capacity to deliver a specific service or product. It includes contractors, contingent workers, freelancers, gig workers, SOW service providers, temporary workers (temps), on-call workers, etc. The Society for Human Resource Management (SHRM) and SAP. "External Workforce Management Toolkit". [https://www.shrm.org/content/dam/en/shrm/research/ExternalWorkforceManagementToolkit.pdf]. Accessed September 4, 2024.

³ Forbes. March 20, 2023. "How To Properly Navigate The Gig Economy And The Large Pool Of IT Experts". [https://www.forbes.com/councils/forbestechcouncil/2023/03/20/how-to-properly-navigate-the-gig-economy-and-the-large-pool-of-it-experts/]. Accessed September 2, 2024.

As businesses adapt to a tough environment, demand for the external workforce, including contingent workers and service providers, has surged.

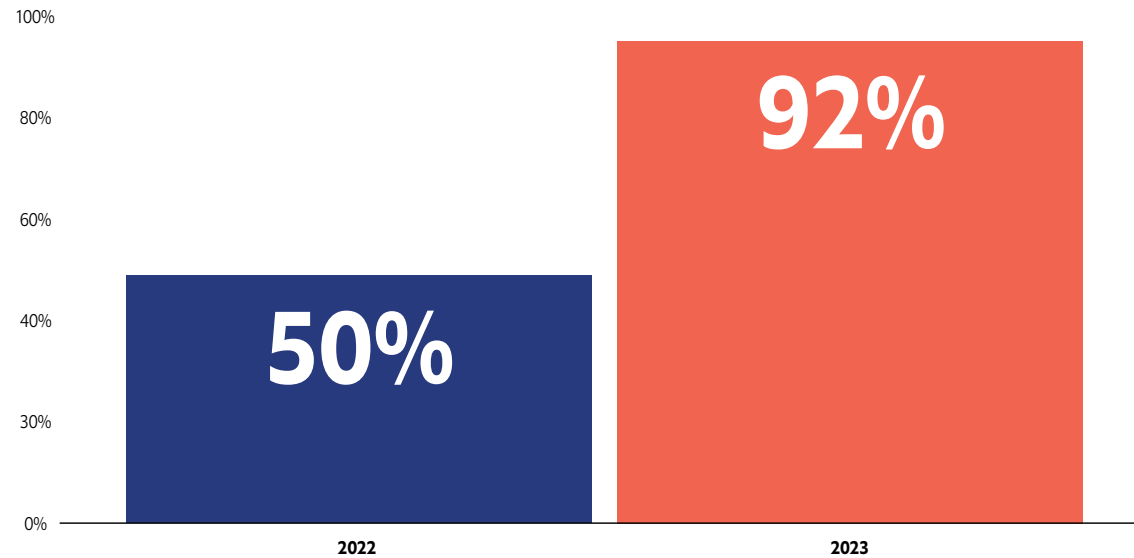


Introduction

As businesses adapt to a tough environment, demand for the external workforce, including contingent workers⁴ and service providers⁵, has surged. Recent disruptions, including US-China trade tensions, the Red Sea shipping crisis and the ongoing wars in Ukraine and Palestine, mean businesses are prioritising workforce strategies that allow them to diversify operations and invest in local and remote talent.^{6,7,8} This includes reevaluating insourcing and outsourcing workforce strategies to deepen relationships with service providers who saw them through the early stages covid-19 pandemic, a sentiment expressed by 27% of C-suite executives in last year's survey.⁹

Technological advancements are contributing to the rise of the external workforce. Increased use of AI and ML, in particular, are prompting businesses to quickly address gaps in their technical and specialised skills. The external workforce offers quick solutions to these resourcing challenges.¹⁰

Figure 1: How many executives are planning to increase the use of external labour?*



Source: Economist Impact executive survey on procurement 2022 and 2023

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4 Contingent/External workers refer to non-permanent workers who are hired on a needs basis, including temporary workers, freelancers, contractors, consultants, and gig workers. Source: Forbes, May 29, 2024. "What is a Contingent Worker? Definition, Pros and Cons". [https://www.forbes.com/advisor/business/what-is-contingent-worker/]. Accessed September 4, 2024.

5 Service providers are external businesses that provide services such as consulting, software development and outsourcing to supplement the skills and resources of in-house talent. Source: Gartner. "Information Technology Glossary: External Services Provider (ESP)". [https://www.gartner.com/en/information-technology/glossary/esp-external-services-provider#:~:text=An%20external%20services%20provider%20]. Accessed September 4, 2024.

6 World Bank Blogs, May 16, 2024. "Navigating troubled waters: The Red Sea shipping crisis and its global repercussions". [https://blogs.worldbank.org/en/developmenttalk/navigating-troubled-waters--the-red-sea-shipping-crisis-and-its-]. Accessed September 4, 2024.

7 World Economic Forum, May 2023. "Future of Jobs Report 2023". [https://www3.weforum.org/docs/WEF_Future_of_Jobs_2023.pdf]. Accessed September 4, 2024.

8 Sustainability News, December 4, 2023. "Leveraging Contingent Workers for Energy Industry Climate Goals". [https://sustainability-news.net/industries/energy/leveraging-contingent-workers-for-energy-industry-climate-goals/]. Accessed September 4, 2024.

9 Boston Consulting Group, February 23, 2021. "Postpandemic Outsourcing Trends for CEOs". [https://www.bcg.com/publications/2021/post-pandemic-outsourcing-strategies-for-ceos]. Accessed September 4, 2024.

10 Procurement Magazine, September 18, 2023. "Managing a Blended Contingent Workforce". [https://procurementmag.com/articles/managing-a-blended-contingent-workforce]. Accessed September 4, 2024.

11 Note: this question was not asked in the 2024 iteration of the Economist Impact executive survey on procurement

Demographic shifts and employee preferences are also influencing worker regulations. A growing preference for remote, flexible and temporary working arrangements is reflected in increased legal protections for independent workers in countries such as Australia, Turkey, Canada, France, South Korea and the US.^{12,13}

Accordingly, as non-traditional work opportunities become more accessible, the evolving technology-enabled workforce will likely prioritise autonomy, work-life balance, career development, experience diversity, company culture and working environment over permanent work.

This is reflected by the increasing use of the external workforce in the 2022 survey (50%) and 2023 survey (92%). Studies from 2024 show even greater use of non-permanent employees.^{14,15}

Our 2024 survey reveals that companies currently spend up to 35% of their total budget on the external workforce—a significant portion of the total organisational spend on non-permanent labour and services.

Cristina Wilbur, chief people officer at Roche, a global healthcare company, identifies three main categories within their external workforce: contractors, who are hired independently or through external parties; consultants, who provide specific expertise on a time-and-materials basis; and managed services, which are partnered to deliver outcomes-based solutions.

In this paper, we examine this shift towards the external workforce and how it is reshaping organisational structures, financial strategies, and talent management. Understanding these dynamics is crucial for businesses to remain competitive in an evolving global market.



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¹² Victorian Government. 2024. "Gig Worker Support Service". [https://www.vic.gov.au/gig-worker-support-service]. Accessed September 4, 2024.

¹³ International Labour Organization. January 2023. "Providing adequate and sustainable social protection for workers in the gig and platform economy". [https://www.ilo.org/media/366091/download]. Accessed September 4, 2024.

¹⁴ Staffing Industry Analysts. March 20, 2024. "Workforce Solutions Buyer Survey 2024: Initial Findings Global". [https://www.staffingindustry.com/Research/Research-Reports/EMEA/Workforce-Solutions-Buyer-Survey-2024-Initial-Findings]. Accessed September 4, 2024.

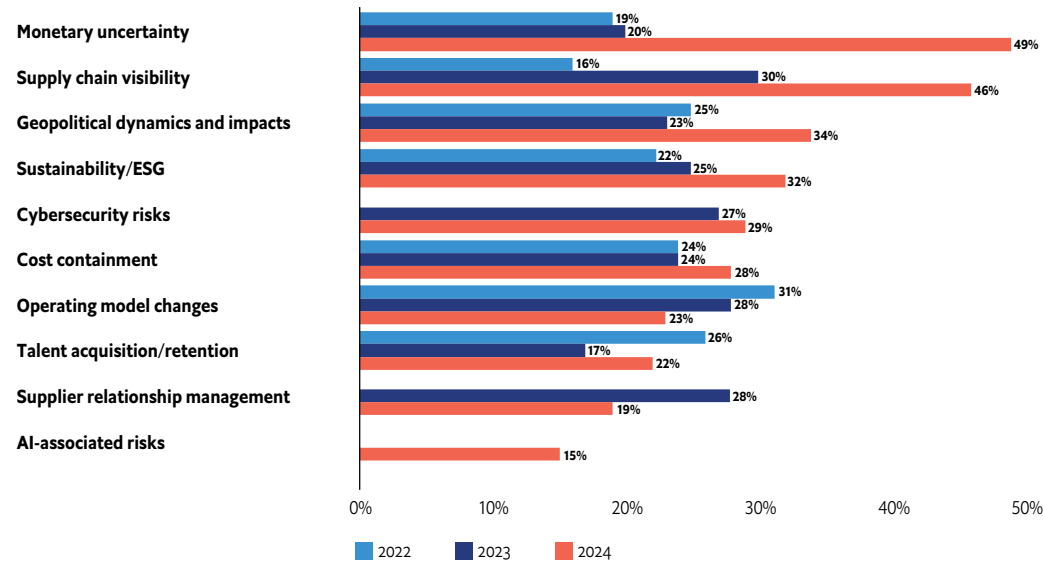
¹⁵ ProcureAbility. March 2024. "5 Bold Procurement Predictions for 2030". [https://procureability.com/wp-content/uploads/2024/03/5-bold-procurement-predictions-for-2030.pdf]. Accessed September 4, 2024.

The external workforce mitigates organisational risks

Since 2022, the C-suite's priorities for managing organisational risks have shifted due to continued geopolitical, macroeconomic, technological and regulatory changes.^{16,17} Our analysis reveals that monetary uncertainty followed by supply chain visibility and geopolitical dynamics are top of mind for the C-suite in 2024. Meanwhile, operating model changes¹⁸, once a top-three concern, has fallen to sixth place.

Philip Ideson, founder of Art of Procurement, a procurement consultancy, explains: "With economic uncertainty, companies need to realign their cost structure so that as revenue declines, companies can move quickly and cut costs at the same rate. In this regard, full-time employees (FTEs) are more akin to a fixed cost because even if business slows, the cost of the FTE remains on the books unless the company does layoffs. And, when the company does do layoffs, there is a cost involved in this (eg severance and legal hurdles in certain countries)."

Figure 2: What are the top priorities for organisational risk that you will focus on for procurement over the next 12-18 months? Please select up to three.¹⁹



Source: Economist Impact executive survey on procurement 2022, 2023 and 2024.

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¹⁶ Moody's Analytics, January 4, 2024. "Top three 2024 supply chain challenges and opportunities". [https://www.moody.com/web/en/us/insights/compliance-tprm/top-three-2024-supply-chain-challenges-and-opportunities.html]. Accessed September 4, 2024.

¹⁷ Association for Supply Chain Management, December 6, 2023. "ASCM's Top 10 Supply Chain Trends in 2024". [https://www.ascm.org/ascm-insights/ascms-top-10-supply-chain-trends-in-2024/]. Accessed September 4, 2024.

¹⁸ Operating model changes include workforce changes, insourcing/outourcing, organisation culture and governance.

¹⁹ AI-associated risks were polled for the first time in 2024. This is a new addition to the original survey question, resulting in data only being available for 2024 and not for 2023 and 2022.

“With economic uncertainty, companies need to realign their cost structure so that as revenue declines, companies can move quickly and cut costs at the same rate. In this regard, full-time employees (FTEs) are more akin to a fixed cost because even if business slows, the cost of the FTE remains on the books unless the company does layoffs. And, when the company does do layoffs, there is a cost involved in this (eg severance and legal hurdles in certain countries).”

Philip Ideson,
founder,
Art of Procurement

Mr Ideson highlights the advantages of hiring external or temporary labour. “Swift onboarding and offboarding procedures and increased flexibility turn that fixed cost into a variable cost.”²⁰

Lessons from recent layoffs across industries accelerated the move to a model of flexible, non-permanent employment. Consequently, both employers and workers have embraced adaptability, reshaping the modern work environment.^{21,22}

The growing business case for an external workforce

Creating an agile workforce goes beyond changing the workforce composition. It is consistent with the trend of nearly a third of the C-suite favouring centres of excellence²³ (32%) and centre-led operating models²⁴

(28%) for procurement in 2024.²⁵ This shift indicates a preference for outsourcing specialised or peripheral procurement operations as these models offer greater flexibility.

Timely, agile solutions and technologically-enhanced employee services are being prioritised to respond to market forces while the core, daily operations sit at the heart of the human resources (HR) function.²⁶ This shift in operating models will likely increase demand for the external workforce by 2030.^{27,28}

CIO and CHRO roles are also expanding to include responsibility for developing infrastructure that can support the organisation and workforce. This includes using an external workforce with specialised skills for short periods and fostering collaboration across different business units.²⁹

Businesses must also have the ability to adjust operations over short periods to navigate external risks. This includes managing temporary supply disruptions, filling gaps in the labour force, managing legal and regulatory changes, reducing operational costs, and making innovative changes to processes and offerings.



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20 In the context of the workforce, fixed costs refer to expenses like salaries, benefits, and office space that remain constant regardless of the number of employees, their productivity or how the business performs. Meanwhile, variable costs fluctuate based on businesses’ needs or the number of contractors hired. Source: NextSource. April 11, 2018. “Balancing Fixed and Variable Labor Costs in Workforce Management”. [https://www.nextsource.com/blog/balancing-fixed-and-variable-labor-costs-in-workforce-management/]. Accessed September 4, 2024.

21 Staffing Industry Analysts. January 3, 2024. “Must-have program improvements for 2024”. [https://www.staffingindustry.com/editorial/cws-30-contingent-workforce-strategies/must-have-program-improvements-2024]. Accessed September 11, 2024.

22 ProcureAbility. March 2024. “5 Bold Procurement Predictions for 2030”. [https://procureability.com/wp-content/uploads/2024/03/5-bold-procurement-predictions-for-2030.pdf]. Accessed September 11, 2024.

23 A centre of excellence is a specialised central management team formed to advise and centralise procurement best practices across an organisation while the rest of procurement is decentralised. Source: Art of Procurement. 2023. “Agility in Motion: Procurement Operating Model Design”. [https://5217324.fs1.hubspotusercontent-na1.net/hubfs/5217324/PROCUREABILITY%20Agility%20in%20Motion%20The%20Future%20of%20Procurement%20Operating%20Model%20Design.pdf?__hstc=75095245.87410d840fd269389f0209496fc11fc.1700142279806.1704341200964.170562610050.8&_hssc=75095245.1.170562610050&_hsfp=242801724]. Accessed September 4, 2024.

24 In a centre-led model, the central procurement team makes decisions in key areas while leaving business units to decide on unit-specific procurement matters. Source: Spend Edge. April 15, 2024. “Exploring Procurement Models: Decentralized, Centralized, or Center-Led?”. [https://www.spendedge.com/resources/exploring-procurement-models-decentralized-centralized-or-center-led/]. Accessed September 4, 2024.

25 Economist Impact executive survey on procurement 2024.

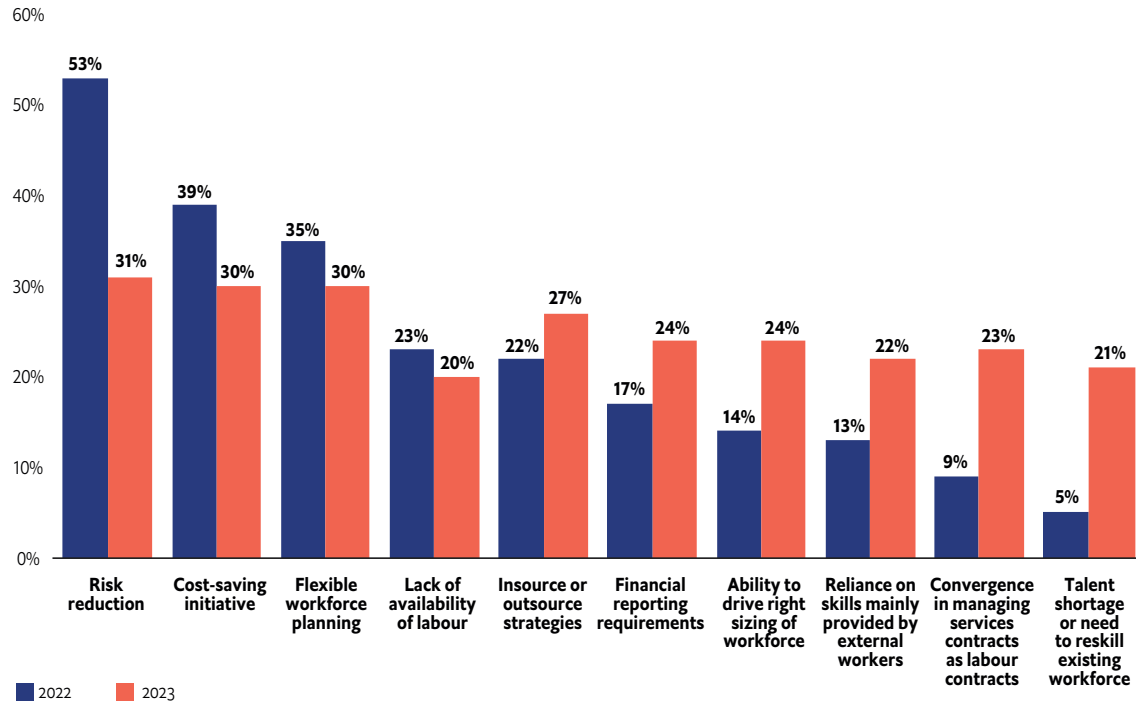
26 Gartner. “Gartner for HR: Playbook for Increasing HR’s Strategic Impact”. [https://emt.gartnerweb.com/ngw/globalassets/en/human-resources/documents/trends/increasing-hr-strategic-impact.pdf]. Accessed September 4, 2024.

27 ProcureAbility. March 2024. “5 Bold Procurement Predictions for 2030”. [https://procureability.com/wp-content/uploads/2024/03/5-bold-procurement-predictions-for-2030.pdf]. Accessed September 4, 2024.

28 ProcureAbility. March 2024. “5 Bold Procurement Predictions for 2030”. [https://procureability.com/wp-content/uploads/2024/03/5-bold-procurement-predictions-for-2030.pdf]. Accessed September 4, 2024.

29 Workday. April 11, 2023. “5 Reasons the Rapidly Expanding Contingent Workforce is a CIO Priority”. [https://blog.workday.com/en-us/2023/5-reasons-rapidly-expanding-contingent-workforce-cio-priority.html]. Accessed September 4, 2024.

Figure 3: What are the top reasons your organisation is increasing the use of an external workforce? Please select up to 3.³¹



Source: Economist Impact executive survey on procurement 2022 and 2023.

For these reasons, demand for external workers and services has increased and made them widely appealing to businesses. This is reflected in the 2022 and 2023 surveys, in which risk reduction, cost savings and flexible workforce planning, respectively, rank as the top reasons for the use of an external workforce.³⁰

Unlike permanent employees, external workers offer flexibility and cost efficiency for adjusting workforce needs and addressing immediate tasks, while service providers bring specialised expertise and scalable solutions to manage more complex challenges.³²

Balancing business priorities and external workforce risks

When asked how businesses reduce organisational risks by employing external workers, 53% of respondents pointed to a reduction in their legal and financial obligations as the main benefit.

Unlike for permanent employees, laws regarding external workers allow businesses to more easily restructure their workforce in response to changing needs, thus enabling them to focus on core areas where they are more confident about long-term commitments.

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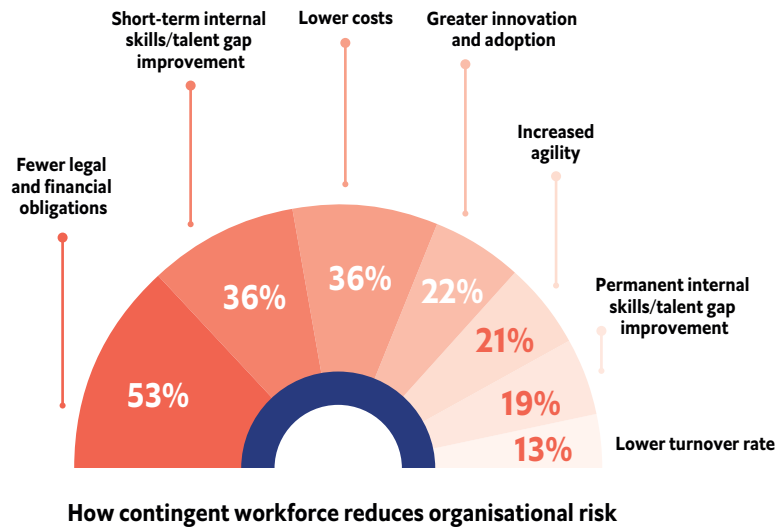
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³⁰ Ibid.

³¹ Note: this question was not asked in the 2024 iteration of the Economist Impact executive survey on procurement

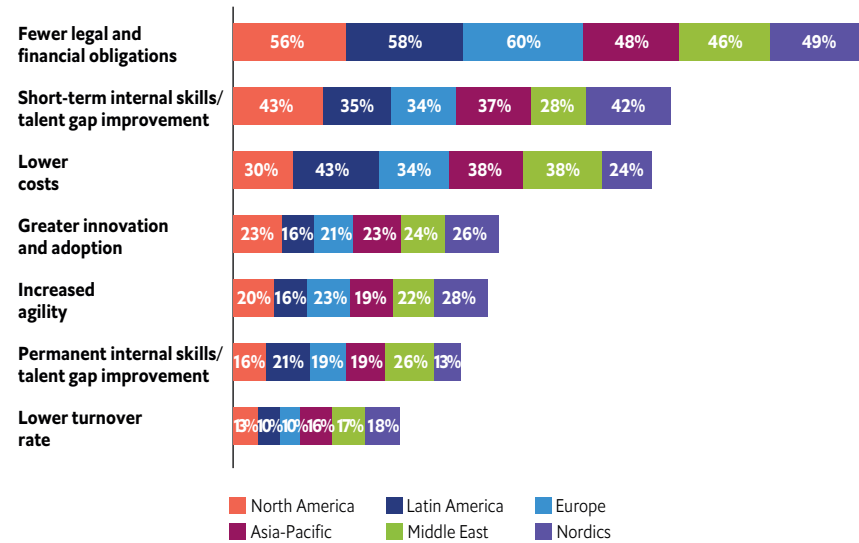
³² Bamboo HR, March 29, 2020. "Advantages of Contingent Workers". [https://www.bamboohr.com/blog/advantages-of-contingent-workers]. Accessed September 4, 2024.

Figure 4a: How the use of the external workforce reduces organisational risk



Source: Economist Impact 2024 executive survey on procurement

Figure 4b: Regional reasons for employing external workers



Source: Economist Impact 2024 executive survey on procurement

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For instance, the EU's new Corporate Sustainability Reporting Directive mandates transparent reporting on employee composition, increasing costs for gap analysis, third-party audits, and data management.³³ Businesses may use an external workforce to offset the risks associated with noncompliance.^{34,35}

Over a third of the C-suite (36%) also selected short-term internal skills gap improvement and reduced costs (eg onboarding, offboarding, retrenchment) as key benefits of utilising an external workforce, underscoring a preference for flexibility in 2024.

Across regions, this is most notable in Latin America (43%) and the Middle East (38%), where the lower costs associated with hiring external workers is a greater motivating factor, unlike in the Nordics (24%) and North America (30%), which are more dependent on varying industry needs (eg specialised skills) and legal requirements (eg the need to comply with changing labour laws).

Kelly Barner, head of content and operations at Art of Procurement, notes that companies in North America and the Nordics may have already realised cost benefits from outsourcing and automation by third parties. As such, their focus has shifted to their need for higher-level skills offered by consultants or subject matter experts.

Erik Thornberg, senior vice president of global business services at AgileOne, a talent and technology service provider, notes that external workers may often be more expensive than permanent workers globally, influencing outsourcing decisions, highlighting the importance of a balanced strategy that considers both external and internal workers to optimise cost, risk and deliveries.

Poor vendor visibility, for example, was a major concern for 41% of executives, according to last year's survey, and has consistently been a long-term focus for organisations in managing their external workforce. Other issues include, compliance with different occupation safety codes, risk of breaches in data privacy and proprietary information, limited quality control, and disconnected workflows.^{36,37,38,39}

For instance, in 2021, Meta paid US\$52m to third-party content moderators to review sensitive material, neglecting mental health impacts and safety measures—a risk of relying on external parties.⁴⁰

Courts and regulatory bodies are also treating companies and third-party staffing agencies as jointly responsible for the risks and costs associated with external workers.⁴¹ Evidently, offloading responsibilities and risks to third parties is unlikely to succeed in the current environment, demonstrating a need for more responsible management of the external workforce by companies.

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 39 Harvard Business Review. August 2, 2023. "A More Ethical Approach to Employing Contractors". [https://hbr.org/2023/08/a-more-ethical-approach-to-employing-contractors]. Accessed September 4, 2024.
 40 Ibid
 41 Ibid

Matching skills with organisational goals

The type of skills demanded by employers has changed by 25% each year over the past eight years.⁴²

This demand for new skills is expected to grow up to 65% per year by 2030 due to advancements in AI.⁴³ Employers need to rapidly adapt to changing business needs and narrow the widening skills gap, predicted to cost US\$2.5trn by 2028.⁴⁴

Mr Ideson says, “Hiring for generalists vs. specialists has long been debated when building internal operating models. Today’s operating models are supported by the growing gig economy. When traditional return on investment calculations do not support the hiring of a specialist, this specialist expertise is now hired on demand to supplement a generalist, thus significantly increasing the impact and outcomes driven by the generalist.”

It is important that organisations leverage specialist skills to address the gaps across business departments as they adapt to these new models.

Uncovering the skills gap

Mapping skills shortages across business units before aligning them with organisational needs is vital for cohesion. In 2024, over nine-in-ten jobs require some level of digital proficiency as these skills have become critical for improving productivity, innovating and adapting to a fast-paced workplace.⁴⁵

A digital skills gap could slow digital transformation and undermine an organisation’s ability to be competitive. A UK job market survey further revealed that 93% of businesses reported a gap in IT skills (eg AI, ML and IT support) due to rapid technological advancements and insufficient training opportunities. According to another study, 31% of businesses now choose to outsource their IT projects to help bridge this gap.⁴⁶

Despite being a critical risk for a third of businesses in 2024, businesses are slow to fill their cyber skills gaps and prioritise other digital skills, such as cloud computing and data science. This highlights an area that service providers are increasingly taking up to provide around-the-clock threat monitoring in order to augment internal expertise and reduce costs of developing internal defences.^{48,49}

In this context, firms must also consider skilling for AI in order to effectively engage with these capabilities whilst balancing the risks posed by malicious use of AI.^{50,51}

Technical skills, however, aren’t the only gaps organisations need to fill to meet future needs. The return to workplaces post-pandemic has highlighted a need to re-train workers on behavioural skills. Problem solving, leadership, stakeholder management, and communication have become a pain point for businesses since the transition from siloed and remote workplaces.⁵²

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42 Harvard Business Review. December 4, 2023. “Talent Management in the Age of AI”. [https://hbr.org/2023/12/talent-management-in-the-age-of-ai]. Accessed September 4, 2024.

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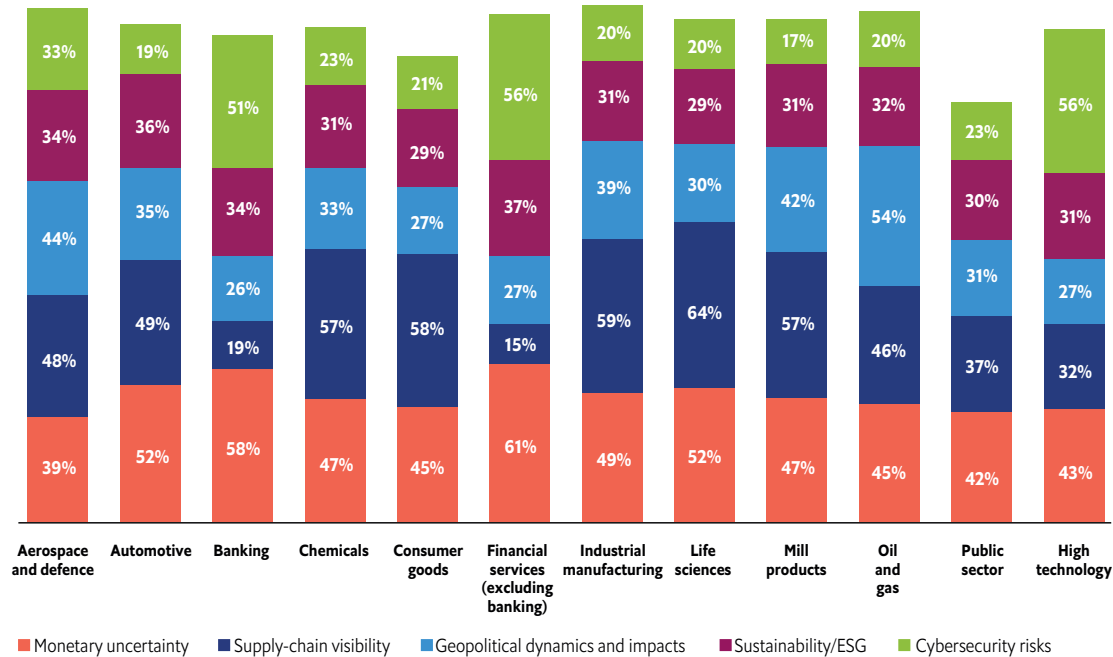
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Figure 5: Top organisational risk priorities in procurement across industries over the next 12-18 months. Please select up to 3.



Source: Economist Impact 2024 executive survey on procurement

Long-term freelance project managers, for instance, may be required to fill gaps in interpersonal communications and leadership when relying on external workers. As such, the behavioural skills gap highlights the growing need for organisations to invest in re-skilling and up-skilling their permanent workers, in addition to temporary contract-based solutions, to effectively meet business needs.⁵³

Businesses are addressing the gap between organisational needs and talent qualifications. Recent reports reveal that 81% of employers globally are using skills-based hiring in 2024, over 59% of which only adopted this strategy in the last two years.⁵⁴ This shift enhances efficiency in talent identification, hiring, and retention by focusing on skills rather than traditional metrics like academic qualifications.^{55, 56}

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⁵³ Supply Chain Dive. April 11, 2024. "Employers worry training won't keep pace with tech advancement". [https://www.supplychaindive.com/news/train-employees-artificial-intelligence-world-employment-confederation/712756/]. Accessed September 4, 2024.
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⁵⁶ Harvard Business Review. May 13, 2024. "What Companies Get Wrong About Skills-Based Hiring". [https://hbr.org/2024/05/what-companies-get-wrong-about-skills-based-hiring?tpcc=orgsocial_edit&utm_campaign=hbr&utm_medium=social&utm_source=linkedin]. Accessed September 4, 2024.

This skills-based approach is shown to improve retention, with such hires being 20% more likely to stay with their companies compared to those hired based on traditional qualifications.⁵⁷ It also aligns with employee preferences, particularly among younger workers (aged 25-34), who prioritise diversity and view skills-based recruitment favourably.⁵⁸

Companies like Steelcase and DHL offer examples of this transformation, using data-driven strategies and mentorship programs to enhance diversity and link skills with job roles.⁵⁹

However, overcoming biases and adopting new evaluation methods remains a challenge, requiring effective communication and stakeholder buy-in for successful implementation according to Thomas Ogilvie, global chief human resources officer at DHL, a global logistics company.

Skilling tomorrow's workforce

Nearly 90% of HR leaders believe that up to half of their workforce will need to be reskilled in the next five years due to AI uptake alone.⁶⁰ This has raised concerns amongst business leaders that training initiatives will not keep pace with required skills in the near future.⁶¹

Hiring external workers to complement in-house talent remains critical to meet immediate business needs. Along with years of diverse experience, external workers reduce time and organisational costs on training due to their specialised skill set.⁶²

Onboarding is critical for hiring external workers and services to ensure both regulatory compliance and quality benchmarks to achieve the required business outcomes. When properly conducted, workers understand the context and the processes they need to adhere to.

While external workers can provide temporary relief, a multi-pronged approach will be required for long-term success. To stay ahead of evolving trends, businesses must invest in re-skilling and upskilling their permanent employees, regardless of industry.⁶³

Automotive manufacturer, Mercedes Benz, for example, is investing US\$2.1bn (€2bn) in employee learning, training and development worldwide by 2030, aiming to upskill workers for higher-value tasks and transition them to different roles as the company adapts to market changes, including net-zero targets.^{64, 65} These are crucial to retaining expertise and ensuring work continuity.

In 2024, only 19% of executives employed external workers to address permanent skill gaps, with the lowest figures in Nordic countries. This underscores that there is still a trend to utilise external labour for short-term needs, but it is not viewed as a substitute for developing internal talent. Conversely, in sectors like defence, external resources are leveraged both for temporary workforce needs and to fill permanent gaps, particularly in STEM fields.⁶⁶

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58 Test Gorilla. 2024. "The state of skills-based hiring 2024". [https://www.testgorilla.com/skills-based-hiring/state-of-skills-based-hiring-2024/]. Accessed September 4, 2024.

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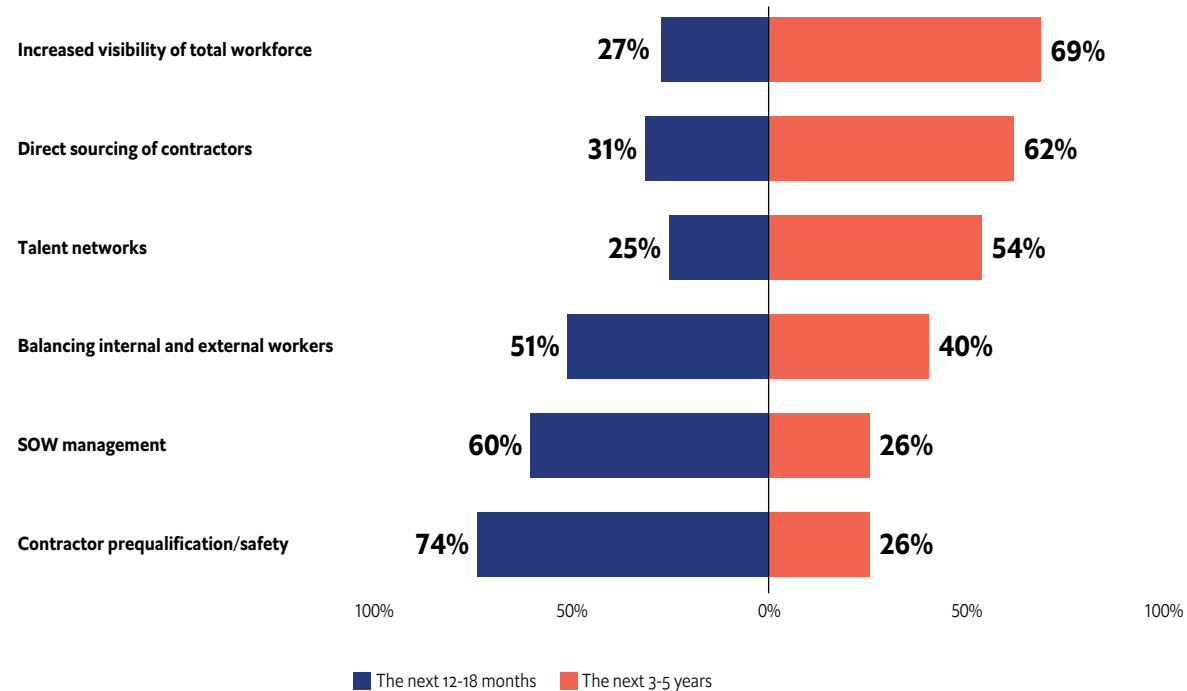
Nearly 90% of HR leaders believe that up to half of their workforce will need to be reskilled in the next five years due to AI uptake alone.

Aligning workforce priorities with technological solutions

Managing the external workforce is heavily dependent on sophisticated systems and software due to hiring complexity, compliance requirements, cost efficiencies and need for talent data analysis.^{67, 68, 69} Businesses are using technologies to harness the full potential of their workforce and realise strategic objectives.

Our survey results for priorities for external workforce management in the three-to-five-year horizon marks a shift towards a strategic, data-driven and agile workforce approach. In contrast, the short-term emphasis on contractor prequalification and statement of work (SOW) management points to a need for mitigating current risks and optimising existing processes.

Figure 6: Top priorities for managing the external workforce



Source: Economist Impact 2024 executive survey on procurement

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Reflecting on this shift, Ms Wilbur shares, “We discovered that the external workforce wasn’t being closely managed. Once we collected data on our external workforce, it highlighted that some decisions weren’t aligned with top priorities and gave us the opportunity to ask questions about the scope of work being conducted and how the workforce was being utilised.”

At the forefront of technology bridging gaps in visibility, direct sourcing and talent management, Vendor Management Systems (VMS) offer a centralised system for tracking real-time insights into workforce trends, performance and costs. VMS⁷⁰ are now enhanced with AI and ML to develop predictive capabilities, simulate future workforce scenarios and prepare organisations for market changes.⁷¹

These systems are elevating the worker experience through personalised candidate interactions and data-driven insights on quality scores and pay rates.^{72,73} These can provide the end-to-end visibility that 69% of the C-suite are prioritising for the next 3-5 years, particularly CIOs (76%) and CHROs (71%).

Executives are focusing on aspects of technological integration that correspond with their priorities in managing the external workforce.

For instance, 70% of CPOs and 67% of CSCOs are prioritising SOW management in order to enhance productivity, refine engagement models and strengthen participation incentives for key stakeholders, moving beyond their traditional focus on cost savings.^{74,75}

As demand for the external workforce rises, along with more complex vendor agreements and reduced executive oversight, studies note the need for proactive management of services spending and integration of SOW for real-time insights.⁷⁶

Integrating effective SOW workforce solutions into external workforce strategies can enhance visibility. By capturing the workforce data required to build strong processes, it improves vendor performance through real-time monitoring and enforces compliance.⁷⁷ However, extending staffing categories through MSPs alone may lead to poor adoption of these solutions and negligible impact of the services.⁷⁸

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⁷⁰ Traditional VMS tools work with predefined rules for tasks like candidate matching and automated sourcing.

⁷¹ Spend Matters. April 2, 2024. "Meet AI in Vendor Management Systems". [https://spendmatters.com/2024/04/02/meet-ai-in-vms/]. Accessed September 4, 2024.

⁷² Ibid

⁷³ Forbes. June 27, 2023. "3 Ways The Latest Technology Can Help Optimize Your Contingent Workforce". [https://www.forbes.com/sites/magnit/2023/06/27/3-ways-the-latest-technology-can-help-optimize-your-contingent-workforce/]. Accessed September 4, 2024.

⁷⁴ Randstad Sourceright. July 20, 2022. "Re-imagine services procurement and SOW management". [https://insights.randstadsourceright.com/sow-management/randstad-sourceright-ardent-partners-reimagine-services-procurement-sow-management-white-paper-july-2022]. Accessed September 4, 2024.

⁷⁵ Staffing Industry Analysts. January 3, 2024. "Must-have program improvements for 2024". [https://cwstrategies.staffingindustry.com/must-have-program-improvements-for-2024/]. Accessed September 4, 2024.

⁷⁶ Ardent Partners. April 2023. "The next generation of services procurement: Data-driven and optimised for the future of work". [https://magnitglobal.com/content/dam/pronilimited/content/whitepapers/ardent-partners-fowx-next-generation-services-procurement-magnit.pdf]. Accessed September 4, 2024.

⁷⁷ CXG Global. March 6, 2024. "Mastering SoW Engagement for Strategic Services Procurement". [https://www.cxcglobal.com/blog/contingent-workforce-management/statement-of-work-contract-strategy/]. Accessed September 4, 2024.

⁷⁸ Randstad Sourceright. July 20, 2022. "Re-imagine services procurement and SOW management". [https://insights.randstadsourceright.com/sow-management/randstad-sourceright-ardent-partners-reimagine-services-procurement-sow-management-white-paper-july-2022]. Accessed September 4, 2024.

Meanwhile, invoice automation is streamlining recruitment, management and payment processes for external labour.⁷⁹

Looking ahead, technology can help organisations adjust to changing workforce demographics as they move towards external and skills-based hiring. For example, AI-driven chatbots with real-time translation improve communication and break down linguistic barriers across diverse teams.⁸⁰

Cloud-based project management and collaboration tools can also create clear communication channels within the workforce that ensure effective information exchange, constructive feedback and business alignment.⁸¹

Integrating technology and expertise in external workforce management

As businesses adopt new technologies and processes to manage their workforce, they must re-calibrate their overall workforce strategy. Results from our 2022 survey crystallised this trend, as adoption of new technologies was the second most important driver of workforce expansion.

Most organisations currently use technologies for contractor compliance and candidate verification, a priority for 74% of our survey respondents. Looking ahead, many plan to adopt benchmarking tools and develop talent platforms to help achieve goals over three-to-five years like enhanced workforce visibility (69%), direct sourcing (62%), and talent network creation (54%).

While technological advances, such as VMS, offer powerful capabilities for automating and standardising external workforce management, its successful implementation requires a deeper understanding of the industry and prevailing market conditions.⁸² Businesses need the necessary resources to effectively adopt and integrate these tools within their strategies.

This is where the human element remains crucial. Outsourced expertise can provide more realistic insights on labour laws, competitive market rates and sourcing strategies regarding external workers. This specialised knowledge complements the technological solutions being adopted by businesses to enhance overall workforce management.⁸³

The key to success lies in balancing technology with expertise.⁸⁴ By combining the two, organisations can optimise workforce management, navigate risks and capitalise on opportunities in today's digital-first environment.

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Managing external workers in an evolving workforce ecosystem

While technology is fundamental to scalability and external workforce management, businesses need to look beyond hiring and engagement to assess the impact of external workers on the broader ecosystem.

The blended workforce requires streamlined technology ownership to improve user experience and reduce compliance- and pay-related complexities. Procurement and HR are becoming joint custodians of the external workforce and VMS by integrating procurement data and systems with core HR, talent and collaboration tools.⁸⁵

As workforce models evolve, businesses can benefit from a comprehensive, data-driven talent management system⁸⁶ strategy that combines technology with thorough assessments of all workforce types to identify the right resources for different business needs.⁸⁷

Total workforce intelligence (TWI) is one such approach that harnesses external labour market insights, such as job postings, talent profiles and census data to etch a fuller picture of the talent landscape. This results in smarter, more cost-effective and improved workforce decision-making.⁸⁸



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⁸⁵ Society for Human Resource Management. May 13, 2021. "Technology Helps Meet Challenges of Managing Contingent Workforce". [https://www.shrm.org/topics-tools/news/technology/technology-helps-meet-challenges-managing-contingent-workforce]. Accessed September 4, 2024.

⁸⁶ A total talent management or workforce management strategy is the practice of bringing permanent and contingent talent under the same umbrella to create a holistic approach to talent management.

⁸⁷ Procom Services. February 15, 2022. "Best practices for how to manage a contingent workforce". [https://procomservices.com/en-us/best-practices-for-how-to-manage-a-contingent-workforce/]. Accessed September 4, 2024.

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⁸⁵ Society for Human Resource Management. May 13, 2021. "Technology Helps Meet Challenges of Managing Contingent Workforce". [https://www.shrm.org/topics-tools/news/technology/technology-helps-meet-challenges-managing-contingent-workforce]. Accessed September 4, 2024.

⁸⁶ A total talent management or workforce management strategy is the practice of bringing permanent and contingent talent under the same umbrella to create a holistic approach to talent management.

⁸⁷ Procom Services. February 15, 2022. "Best practices for how to manage a contingent workforce". [https://procomservices.com/en-us/best-practices-for-how-to-manage-a-contingent-workforce/]. Accessed September 4, 2024.

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We discovered that the external workforce wasn't being closely managed. Once we collected data on our external workforce, it highlighted that some decisions weren't aligned with top priorities and gave us the opportunity to ask questions about the scope of work being conducted and how the workforce was being utilised.

Cris Wilbur,
chief people officer,
Roche

Evolving workforce models and strategies

Organisations are exploring alternative workforce models to balance staffing demands with business goals and build external flexibility. According to our 2023 survey, flexible workforce planning (30%), risk reduction (31%) and cost savings (30%) were the top reasons organisations prefer to employ external workers.

Turning to new workforce models in light of the above priorities underlines the limitations of current, traditional hiring models.⁸⁹ The latter are inadequate to meet expanding business objectives, especially when permanent workers are at full capacity.

Hiring models for organisational resilience

To boost efficiency and enhance value creation, businesses are adjusting their operating models to focus more on outcomes and projects, leading to greater reliance on outsourcing services.⁹⁰ Outsourcing includes strategic and support services, routine processes and transactional tasks.

Commonly outsourced areas include IT, third-party logistics, customer service and facilities management. These sectors benefit from specialised knowledge, infrastructure or standardised processes that are managed well by outsourcing providers. This reduces upfront and overhead costs and creates synergies through economies of scale.^{91, 92}

Ms. Wilbur emphasises the need for outsourcing and hiring independent specialists to access trusted expertise in a timely way. “The landscape moves very quickly, so we need trusted partners who can deliver high quality work at speed and scale.”

The shift toward independent workers has accelerated due to market forces such as mass layoffs and increased use of AI/ML.⁹³ In 2023, this shift received little C-suite attention (24%), but online platforms like Upwork and Fiverr now swiftly connect businesses with candidates, addressing labour shortages more cost-effectively.^{94, 95, 96}



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89 Traditional hiring models are those in which companies rely on education, degrees and previous work experience to match talent with roles
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However, businesses must be cautious about risks associated with independent workers, such as limited stability, ineffective communication, and potential information leaks, necessitating proactive risk management.⁹⁷

To seamlessly navigate this landscape, many organisations partner with MSPs for end-to-end management and compliance.^{98, 99} MSPs offer access to external expertise and state-of-the-art technologies, invigorating decision-making.¹⁰⁰

Additionally, companies and MSPs are increasingly using AI-powered direct sourcing platforms to recruit from their own talent pools.^{101, 102} Correspondingly, direct sourcing ranked as the second-highest long-term priority (62%) for external workforce management in 2024 as it improves deployment, candidate experience, and retention.¹⁰³

Workforce planning for the future

For flexible and performance-driven workforces in the future, there are a range of factors to consider when redesigning forward-looking strategies. These include change management, talent engagement and retention, organisational culture, skill gap analysis and cross-functional collaboration.

The successful integration of the external workforce hinges on effective change management to gain buy-in from stakeholders, smooth integration, and clear communication.^{104, 105} This process helps achieve proper alignment between workers and end users, without which, the benefits of the external workforce are unlikely to materialise. In this regard, MSPs are immensely valuable.¹⁰⁶

This flexible work culture has also led to the rise of fractional executives or chief experience officers (CXOs), offering SMEs and start-ups affordable, part-time leadership, observes Ms Barner.¹⁰⁷ “It helps mid-tier companies access enterprise-level skills and qualifications at an affordable rate, enabling them to reach the next level”.

Further, an environment that rewards performance, fosters trusted relationships, and promotes career growth is vital to job satisfaction—valued by both permanent and external workers.¹⁰⁸ Studies also show that off-site and remote workers value regular communication to build community at their place of work.¹⁰⁹

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Mr Ogilvie explains the importance of motivating both permanent and temporary talent to the business, observing that at DHL, it posed an opportunity to assimilate temporary workers into the business and enrich the talent network.

Despite their potential to join the business permanently, external workers are seldom included in Diversity, Equity, and Inclusion (DEI) initiatives.^{110,111} Only 26% of executives prioritise DEI for external workers, compared to 64% for permanent employees according to studies.¹¹² This gap affects job satisfaction and productivity and is likely to become more critical as younger generations place higher value on DEI when choosing employers.^{113,114}

Regular analysis of gaps in skilling, motivation and communication can help businesses prepare for future needs and provide a long-term view of talent development by capturing shifts in the demand and supply of skills.¹¹⁵



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“The importance of motivating both permanent and temporary talent to the business, observing that at DHL, it posed an opportunity to assimilate temporary workers into the business and enrich the talent network.”

Thomas Ogilvie, board
of management,
human resources, DHL

Conclusion

The need for a flexible, diverse, high-performing and continuously improving workforce has never been greater as businesses navigate multiple crises at once.

Strategic workforce planning that is aligned with business strategies has emerged as a top priority for HR in 2024.¹¹⁶

The rise of the blended workforce¹¹⁷, with external workers playing a significant role, will transform organisational approaches as businesses will focus on contractor prequalification, SOW management, and balancing workforce dynamics over the next 12-18 months.

Over the next three-to-five years, the focus is shifting to increased visibility of the total workforce, direct sourcing of contractors, and strengthening talent networks. This change indicates a move towards a more strategic, data-driven approach to realise broader organisational objectives.

Since 2022, the C-suite's risk management priorities have evolved to address monetary uncertainty, supply chain visibility, and geopolitical dynamics. The external workforce has become crucial for managing these risks, offering flexibility and reducing fixed costs.

Various workforce models—from outsourcing to MSPs—provide a toolkit for resilience. These help companies meet immediate needs, bridge skill gaps, and achieve strategic goals supported by advancements in digital tools for vendor management and analytics. Their success, however, depends on strategic planning and maintaining a high-performing talent pool.

“Having a clear picture about our total workforce and capabilities is critical to our long-term strategy,” shares Ms Wilbur. “It ensures compliance, drives accountability and gives us the data to assess if we have the resources to meet business goals while improving efficiency and productivity.”

In the future, those who adeptly blend workforce strategies with advanced technologies are poised to thrive. Investing in training and skilling and aligning workforce practices with business goals holds the key to remaining competitive.



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In the future, those who adeptly blend workforce strategies with advanced technologies are poised to thrive. Investing in training and skilling and aligning workforce practices with business goals holds the key to remaining competitive.



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ECONOMIST IMPACT



LONDON

20 Cabot Square
London, E14 4QW
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
Email: london@eiu.com

GENEVA

Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
Email: geneva@eiu.com

SYDNEY

Level 14, Unit #138,
5 Martin Place
Sydney
Australia
Tel: (61) 2 8551 0023

NEW YORK

750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
Email: americas@eiu.com

DUBAI

Office 1301a
Aurora Tower
Dubai Media City
Dubai
Tel: (971) 4 433 4202
Fax: (971) 4 438 0224
Email: dubai@eiu.com

GURUGRAM

Skootr Spaces, Unit No. 1
12th Floor, Tower B,
Building No. 9
DLF Cyber City, Phase – III
Gurugram – 122002
Haryana, India
Tel: +91 124 6409 300

HONG KONG

1301
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
Email: asia@eiu.com

SINGAPORE

8 Cross Street
#23-01 Manulife Tower
Singapore
048424
Tel: (65) 6534 5177
Fax: (65) 6534 5077
Email: asia@eiu.com