



THE ALTERNATIVE WORKFORCE: NOT SO ALTERNATIVE ANYMORE

SRM EXECUTIVE NETWORK
HR PEOPLE + STRATEGY

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I. INTRODUCTION

THE ALTERNATIVE WORKFORCE

We have been reading about the gig economy and growth in alternative work arrangements for years. Research now shows that we have reached a tipping point and the concept of independent work arrangements has gone mainstream. Freelance, gig, and contract workers now make up more than a third of the global workforce.¹ And almost 40 percent of workers under the age of 35 now do some kind of contract work in addition to working full-time jobs.

For employers, the alternative workforce represents an enormous opportunity to access skills, passion, and expertise in more flexible, on-demand business models. Learning how to effectively manage this workforce is new, and as research points out, companies are just starting to access alternative workers strategically. In this report, we carefully examine all aspects of independent work and identify a set of well-defined best practices that help employers take advantage of this trend.

Let's start with a bit more data. Researchers believe that freelance workers may comprise as much as half of the U.S. workforce by the year 2027.² In Europe, freelancers are the fastest-growing segment² of the employment market, with the number doubling between 2000 and 2014. The growth in freelancing is outpacing employment growth in the United Kingdom, France, and the Netherlands.³

Why this massive growth? There are many reasons, but the primary factor appears to be technology. It is now possible to work from any location, collaborate and interact with colleagues around the globe, and produce services, products, and intellectual property as if you were a traditional, full-time employee. In fact, in a study conducted by Upwork and Freelance Union, 64 percent of freelancers find their work online. There are thousands of gig work locations and tools to make this easy, and many people enjoy the more flexible lifestyle freelance work can offer. In fact, nine out of ten gig workers believe “the best days of freelance work are ahead.”¹

Economically, this represents a significant trend. A detailed academic report in 2016⁴ found that “a striking implication of the economic recovery is that almost all of the net employment growth in the U.S. economy from 2005 to 2015 appears to have occurred in alternative work arrangements.” Business models such as Uber and Airbnb, coupled with the ease of setting up a website or e-commerce store, have turned millions of people into entrepreneurs.

Many people take on alternative arrangements for financial reasons. A recent study by BankRate shows that 40 percent of workers now do “side hustles” to make extra cash⁵ and Deloitte’s millennial research⁶ found that 14 percent of millennials already do this and 62 percent plan to so (15 percent of Gen Zers already do this today). Older workers, many of whom are forced to leave work before they desire, are also looking for extra income so they re-enter the workforce as contractors, specialists, or service workers.

These shifts may have caused a permanent change. ADP reports that between 2000 to 2015, the number of W-2s (annual employment tax reporting) dropped by 4 percent, while the number of 1099s (used by independent workers for tax reporting) increased by 23 percent.

NEW SERVICES EMERGE TO SUPPORT ALTERNATIVE WORK

Coupled with this trend, an entire industry of service providers has emerged to make independent work easier. For example, WeWork, which redefined the physical office, is now expected to generate nearly \$2 billion in revenue in 2019 and is valued around \$16 billion.⁷ The company’s “shared office” spaces have exploded to 551 offices in 32 countries, and WeWork is now the number one tenant in New York City.⁸

Gig work sites and talent networks have also grown rapidly. Figure 1 is a representative list of popular freelance websites serving tens of millions of creative, technical, and other professionals around the world.

Figure 1: List of popular freelance websites

BIGGEST FREELANCE WEBSITES	SIZE	TOTAL TRANSACTION VOLUME	HEADQUARTERS	GLOBAL WEB RANKING (LOW IS BETTER)
Freelancer.com	30 million users in 247 countries ⁹	\$588 million ¹⁰	Australia	#1337
Upwork.com (formerly Elance-oDesk)	14 million freelancers in 180 countries	\$1 billion ¹¹	United States	#488
Fiverr	Millions of creatives in 190 countries	\$350-400 million	Israel	#405
99Designs.com	Tens of thousands of designers	\$200-300 million	Australia	#4838

I. INTRODUCTION

THE IMPLICATIONS FOR EMPLOYERS

The growth of the independent workforce puts new pressures on employers. As found in this research, most companies view contract workers as an outsourced talent pool and look at this workforce as a temporary or flexible source of talent for transitional or tactical needs. Companies have outsourced secretarial, administrative, IT, and financial tasks for decades, and the staffing industry has successfully filled these gaps in most companies.

Today, however, as more and more highly talented and skilled professionals work independently, the outsourced staffing model falls far short. Consider some of the issues we found:

- » Companies now outsource their research and development to specialist groups because hiring full-time scientists is too difficult.
- » Contract designers, engineers, and technical specialists are often far more expert at specific domains than internal employees, which raises the question of whether internal development would even work to build skills.
- » Long commute times and inflexible work hours make it difficult for workers with small children, aging parents, other needs to work in traditional, full-time roles, yet they may have senior experience and deep skills in many domains.
- » Competition for talent is fierce, and as companies escalate their benefits and wages to compete, it starts to make sense to pay a higher price for an external specialist than to pay a high wage for a newly hired, full-time employee who may leave in a short period of time.

We are fully aware that managing the independent workforce is complex and often not a core responsibility of HR. In fact, almost two thirds of the companies surveyed told us their alternative workforce is managed by purchasing, not HR. But this trend is changing, and as companies compete even more aggressively for top talent, we believe a strategic model to access talent and enable talent from the alternative workforce is now a business imperative.



I. INTRODUCTION

INDEPENDENT WORKERS

To lay the groundwork for this research, we'll begin with a discussion on independent worker types. For this report, we define independent worker as:

An individual who has a high level of control and autonomy and receives payment by task, assignment, or project during a short period of time and is known as a: freelancer, contractor, alternative, contingent, gig, on-call, or temporary worker.

Throughout this report, we include people in both professional and nonprofessional roles in our use of the term “independent worker.” Figure 2 provides definitions and examples of independent worker types. Identifying and

defining the more common types of independent workers provides an understanding of just how big the alternative workforce is and may spark ideas about untapped worker pools you have not yet explored.

This list is by no means exhaustive. As work itself continues to change, we fully expect this list to grow and change with it. However, beginning with these definitions allows us to view the rest of the data in context. When we talk about independent workers, we are not just talking about Uber drivers and seasonal temps. There is a broad range of categories that companies tap into, and, unfortunately, our research shows that we have a long way to go before we can fully leverage the potential of the alternative workforce.

Figure 2: Definitions and examples of independent worker types

INDEPENDENT WORKER TYPE	DEFINITION	EXAMPLE
Day Laborer ¹²	Selected by an employer to perform a job for a single day	Generalist who performs a job for the day (e.g., paint a house, landscaping, construction, etc.)
Diversified Worker ¹	Has multiple sources of income that include a mix of traditional employment and freelance work	Part-time administrative assistant at an insurance company, who also manages a vacation rental property, and does data-entry as a freelancer
Freelance Business Owner ¹	Self-identifies as both a freelancer and business owner, and as a team of one or more individuals	Corporate trainer who hires a team of other trainers and operates under a small business model, but still self-identifies as a freelancer
Freelance Retiree ¹³	Retired from the workforce but chooses to work on specialized short-term projects, often in the company he/she left	Retired software engineer with 30+ years of experience who builds a mobile application during a short period of time
Freelance Consultant ^{14,15}	Provides consulting services to a single employer, client, job, or contract project on a temporary basis	Sales consultant who provides sales and client pipeline expertise to a boutique market research firm during a six-month stint
Independent Contractor ¹	Performs freelance, temporary, or supplemental work on a project-to-project basis	Graphic designer hired to create a logo and web page for a new business
Moonlighter ¹	Has a professional, primary, traditional job but also “moonlights” doing freelance work (also called a “side hustle”)	Tenured university professor who advises a non-profit organization in the evenings or weekends
On-Call Worker ¹²	Called to work on an ‘as-needed’ basis	Call center or customer service representative available 24/7 to fill a quick on-demand need or serve as back-up
Paid Apprentice or Intern ¹⁶	Works on a per-project basis in an unstructured manner to gain experience in a field or area	Paid apprentice or intern photographer who assists at weddings without a formal agreement or minimum hours required per week and gains professional expertise/skills
Temporary Worker ¹	Has a single employer, client, job, or contract project; works on a temporary basis; often assigned by a staffing or outsourcing agency to perform a job for another company	Warehouse associate hired and paid by a staffing agency to work for another company on a three-month assignment

II. STATE OF THE ALTERNATIVE WORKFORCE

Despite all of the talk about the alternative workforce, the gig economy, and the future of work, our research found that most leaders are not yet prepared to fully take advantage of independent workers. In fact, in both the survey data and interviews conducted for this research, we were surprised to see a fundamental misalignment between many leading practices that organizations use for their permanent employees and those they consider important for independent workers.

Our research took a look at how organizations implemented 17 different practices with respect to their independent workers. The practices we included in our study were based on a brainstorming activity with some of the thought leaders of our day. They were drawn from the literature about the future of work, the gig economy, and established best practices that organizations employ for permanent employees.

These practices fall into three distinct, statistical groups:

- 1. Integration and Alignment** - the systems, processes, and mindset that organizations put into place in order to integrate and align independent workers with permanent employees.
- 2. Talent Acquisition and Onboarding** - the practices to recruit, onboard, and integrate independent workers, including the development of a positive candidate experience.
- 3. Management, Growth, and Development** - the way organizations set goals, develop, coach, and provide feedback, recognition, career options, and personalized learning.

Over the last few decades organizations have made tremendous investments in these areas for permanent employees (those we hire full-time). But for independent workers (those we call alternative), we are far behind.

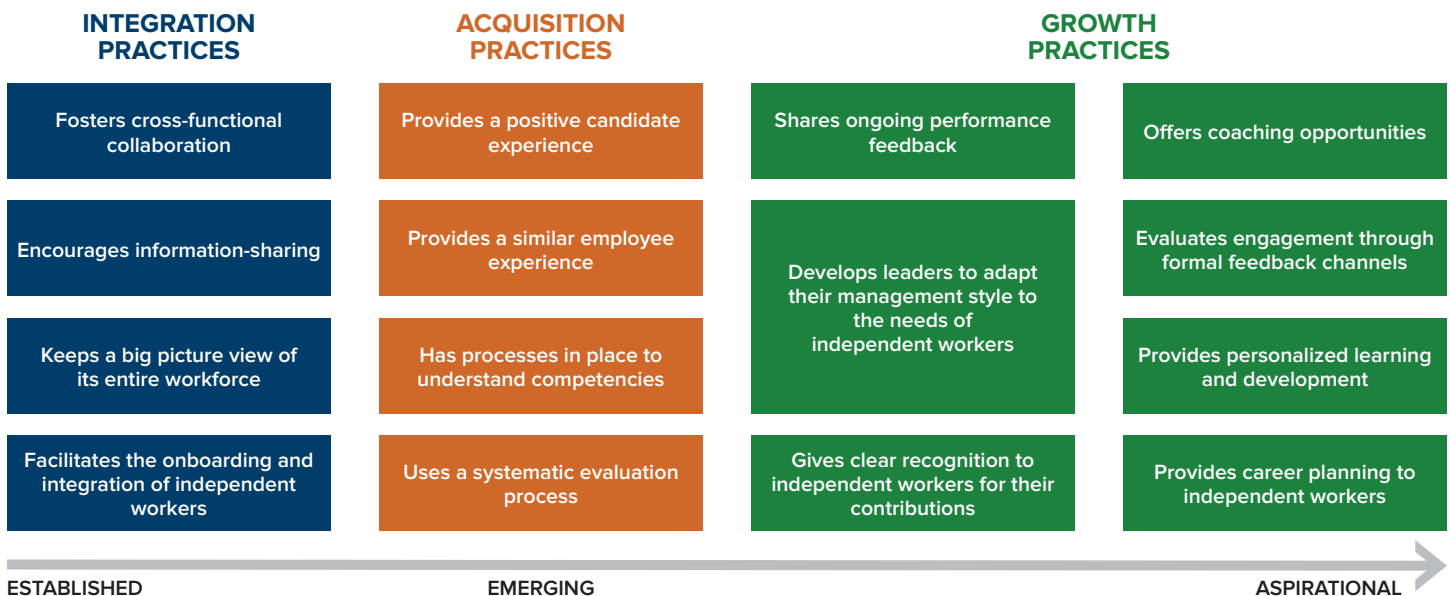
As we studied these practices, we found companies fall on a spectrum from established to aspirational (see Figure 3). When we say established, we mean that practices are widely adopted and accepted by the majority of organizations. The term aspirational means that practices are just making their way into workforce strategies involving independent workers.

And as we studied companies, we found that the effort to reach toward aspirational solutions takes investment. Some companies understand the reason for this investment, others do not. Our hypothesis is that some companies still look at independent workers as task outsourcing while others look at them as a strategic talent pool.

Consider the most common use of independent workers: the traditional manpower services contract that provides contract janitors, cleaners, secretaries, accountants, IT support staff, and other tactical roles. These arrangements have been around for years, and they were justified on the basis of flexibility, making it easy for the company to rapidly ramp up and rapidly ramp down.

Today the world is different. While this type of outsourcing relationship is still very popular, a high percentage of independent workers are professionals, experts, highly skilled craftsmen, engineers, designers, and other hard-to-find technical, creative, or management professionals. Now, as our research found, many companies go well beyond the task outsourcing model to use independent

Figure 3: Practices for leveraging the alternative workforce



ESTABLISHED

EMERGING

ASPIRATIONAL

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workers for highly strategic work, including outsourcing research, scientific projects, software development, and many other critical business functions.

And to make this process even more valuable, talent networks provide significant value-add by letting employers find precisely the right skills, rating independent workers by quality of work, and skills analysis to help employers find precisely the right person.

Integration and Alignment. In this area, most organizations can integrate independent workers into established processes for communication and collaboration with very little change. We have processes to let contractors into buildings, email systems, and internal IT systems. They show up to meetings, participate in projects, and interact with full-time employees in a seamless way. Sometimes there is a tag on their emails or a badge color to identify their status.

Talent Acquisition and Onboarding. Moving beyond this, however, we found that companies have to work much harder. A company that truly believes the independent workforce is a source of valuable, competitive-edge talent will focus much more strategically on finding and recruiting these people. They may build databases of independent workers; they will sign agreements with highly strategic talent networks or gig networks; they vet and analyze independent networks; and they give managers specific guidelines about when to look for full-time compared to independent workers.

Management, Growth, and Development.

In these areas, the challenges are even greater. While many companies provide some amount of basic training to independent workers (it may be as simple as learning the security rules and work hours), there are barriers—legal, cultural, and financial—to using the same systems that apply to permanent employees for independent workers. The majority of organizations have not undertaken the extra effort needed to find a solution for independent workers, so these practices remain aspirational.

That said, regardless of whether practices are already established or largely aspirational, we also found that organizations varied in their ability (or willingness) to adopt these practices. Those that we consider high performing scored significantly better than their low-performing counterparts on every practice.

What do we mean by high performing? For this research, our interests lay not just in what all organizations were doing with respect to these practices, but how well high-performing organizations did them and what the differentiators were for these organizations.

In order to distinguish high-performing organizations, we focused on two variables: the ability of organizations to innovate and their ability to respond to the market in an agile manner. These two measures, innovation and agility, were chosen for two reasons. First, they had the strongest correlation with the drivers outlined by this paper; and second, we think they indicate, better than a financial measure, how well an organization is thinking toward the future—a key challenge that is addressed by leveraging the alternative workforce.

High-performing organizations are comprised of those companies with combined scores on agility and innovation in the top third of all companies surveyed. Likewise, low-performing organizations are those with combined scores in the lowest third of all companies surveyed.

The following sections will focus on each of the three major practice areas: integration, acquisition, and growth. We'll discuss the practices in each, point out the differences in the way high-performing organizations execute, and provide an example of an organization that is ahead of the curve.

As you read our research you will see the benefits of pushing forward on the maturity curve. It's important to realize that in today's highly competitive talent market it may take many months to find the perfect full-time candidate. Tapping into part-time, independent, contract, or gig workers has become a critical success factor in many industries, so we encourage you to think about how you push your maturity forward.

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1. Integration and Alignment

In our opinion, practices that fall in the area of integration and alignment are akin to table stakes in a game of poker. Logically, all organizations need to have some plan for integrating independent workers and effectively using them. This study identified four distinct practices, as shown in Figure 4.

Organizations participating in our survey execute integration and alignment better than anything else we asked about. Physically and technologically, there tend to be few barriers to adding independent workers to existing communication or collaboration tools—unless independent workers are only working on discrete, separate work. In order for work to get done, there has to be some level of integration.

Let's address these practices in two categories: practices for communicating, collaborating, and onboarding; and practices for keeping a bigger picture of the entire workforce.

COMMUNICATION, COLLABORATION, AND ONBOARDING

In the areas of communication, collaboration, and onboarding, survey respondents fell into two groups: those who think very tactically about how they use independent workers, and those who are beginning to think more strategically about how they use independent workers (there was no one who has completely figured it out). Only about 65 percent of organizations say they somewhat or definitely foster cross-functional collaboration and encourage information-sharing between their permanent employees and independent workers. Onboarding came in slightly less at 60 percent.

This indicates that although using independent workers is becoming more mainstream, it is taking organizations some time to figure out some of the nuances associated with sharing information fully or encouraging full collaboration. Our conversations with business leaders unearthed some of these reasons:

- » Organizations who pay independent workers hourly often do not see the value in including them in company or staff meetings, as it does not apply directly to the work they have been contracted to do.
- » Organizations often provide the tools necessary for them to do their work but exclude independent workers from social and team-building events.
- » Organizations are often careful about the types of information they share with independent workers—particularly if it is considered proprietary—even if it would provide context for the work they are contracted for.
- » Organizations have separate onboarding processes; while it is important that independent workers understand the basics and are compliant, their onboarding is much more limited.

Figure 4: Practices necessary for integrating independent workers

Fosters cross-functional collaboration between permanent and independent workers

65%

Encourages information-sharing among permanent and independent workers

64%

Facilitates the onboarding and integration of newly hired independent workers

60%

Keeps a big picture view of its entire workforce

56%

These are all valid points of view. There are likely tradeoffs that need to be made in order to leverage independent workers. However, we also heard a different side to this story.

For example, one organization leader told us that he willingly paid for his independent workers to attend company meetings and after-hours events because he felt that the benefit of having an integrated team far outweighed the cost.

Another organization outsources the majority of its research and development, requiring the establishment of clear lines of communication and a tremendous amount of trust.

We imagine that as organizations leverage more independent workers, and leverage them more strategically, we'll see them get more comfortable and therefore more effective with their communication and collaboration as well.

UNDERSTANDING THE TOTAL PICTURE OF THE WORKFORCE

The one integration practice that appears to set high-performing organizations apart from the pack is that these organizations have a big picture view of the entire workforce.

What does this mean? Many organizations told us “I don't really know how many contractors I have” or “I'm not sure how much of our work is outsourced.” The reason for this that up to 68 percent of independent workers are not usually accounted for as part of organizational budgeting, planning, and forecasting activities.¹⁷ These types of workers look like contracts, not necessarily people, so they don't appear on the workforce balance sheet at all.

On the other hand, companies that focus on the total picture can tell you what percent of their labor cost or

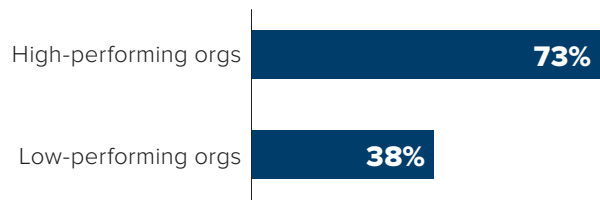
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headcount is independent, they can tell you what types of tasks and work these people do, and they can tell you how they sourced them and where the best candidates come from.

Our research clearly shows this matter. A full 73 percent of high-performing organizations say that they keep a big picture of the entire workforce (see Figure 5), while only 38 percent of low-performing organizations make this claim.

High-performance organizations are significantly better at understanding their entire workforces—permanent employees and independent workers. And this makes sense.

Figure 5: Percentage of high- and low-performing organizations with a big picture view of their entire workforces



For example:

- » **Flexibility.** Companies that understand the nature of their independent workforce can make quick decisions about when to scale up, scale down, or change the nature of these teams. This gives these companies tremendous flexibility to quickly build new products, grow into new geographies, or scale up new operations.
- » **Skills and Team Performance.** More than half of hiring managers (59 percent) are experiencing a severe shortage in skills and capabilities.¹⁸ When team leaders, managers, or executives see a skills gap, they want to fill it fast. If a company has a good understanding of talent pools within and outside the company, it can more quickly find independent workers to fill identified needs. Companies without this ability may simply atrophy with lesser skills, they may try to use an internal candidate who is not ready, or they must wait for an internal candidate to come up to speed.
- » **High-Performance Hiring.** In today's job market, certain skills, such as those in machine learning and cyber security, are in very high demand. A company that is entirely dependent on full-time hiring may never find the best candidate in these areas, so it may bog down or overburden its recruiting staff to fill such roles. Such a hiring approach is very expensive and can divert recruiting resources into hiring efforts that may not be in the company's best interest. A company with a strong understand-

ing of its talent pool may train recruiters and HR business partners to coach managers when to hire independent workers and when to seek full-time employees. This can be a vitally important consulting function that line managers would never know how to do on their own.

- » **Efficient Use of Resources.** Finally, several of the business leaders we spoke with indicated that having a high-level view of their workforce allowed them to make more efficient use of resources—time, money, and people. For example, many of our respondents told us they are reluctant to use independent workers because of the high cost. However, while an independent worker may charge a higher hourly fee than what a full-time employee makes, yet if one examines the overall cost of recruitment and retention of permanent employees, it may be that independent workers are a more cost-effective solution. Such analysis is difficult or impossible when the company is not keeping track of these resources.

There was not one leader who didn't want a better view of their workforce. How do you accomplish this? We found two important practices among the leaders: the effective use of HR technology systems, and advanced analytics and detailed data.

HR TECHNOLOGY SYSTEMS

How do most companies manage independent workers? In many cases, the business leader simply cuts a contract and hires someone to do some work. This may be tracked in a spreadsheet, the expense management system, or some vendor management system.

Vendor management systems (VMS) platforms were created to manage these contracts, and traditionally, these systems did a decent job of keeping track of various contractor relationships. Older versions of these systems did nothing to keep track of the type of workers, their skills, or any of their traditional HR attributes. They kept track of the vendor but not necessarily the worker.

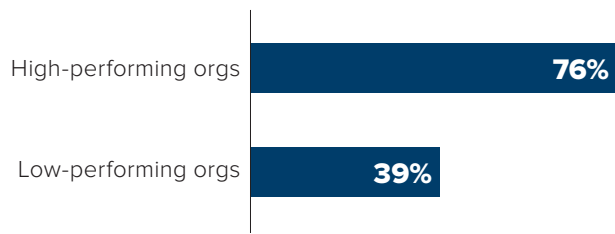
Luckily, a new breed of VMS or contingent workforce management systems now makes this possible, and more of these applications are being built into core human capital systems.

Our research found these systems can make an enormous difference. 76 percent of high performing organizations use technology to track independent workers—almost double that of low-performing organizations (Figure 6).

Moreover, 40 percent of high performing organizations integrate these types of systems directly with their HR technology. Using technology, particularly where it integrates with technologies used to manage and track permanent workers, leads to a more complete view of the entire workforce.

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Figure 6: High-performing organizations leverage HR technology more than low-performing organizations



What type of technology is available to help organizations get a full picture of their workforce? While systems for managing permanent employees have been around for years, managing independent workers has been done largely by hand, and generally on the local level.

However, technology solutions are beginning to pop up to help organizations get better information on their independent workers. For example:

- » Point solutions exist that make it easier to track independent workers and their skills. Providers focus on helping organizations manage their diverse talent pools, both inside and outside the organizations.
- » Freelancing platforms continue to make it easier to find, hire, and manage independent workers. They have also simplified the process.
- » Established service and technology providers have also begun to accommodate independent workers with additional products. The market for these types of technologies is growing, and we expect the solutions to become more prevalent in the near future. Additionally, each of these solutions provides

rich data that can help the organization make more strategic decisions about its combined workforces.

- » Human capital management systems are all building various features for contingent and independent workforce management directly into their systems. We believe this is an important new functionality area in these systems and may eventually replace the VMS market.

We're at the beginning of this technology movement. As organizations become more comfortable with the use of independent workers and as their needs become more strategic, we expect that point solutions will continue to enter the market and existing talent management vendors will build in functionality to manage independent workers as well.

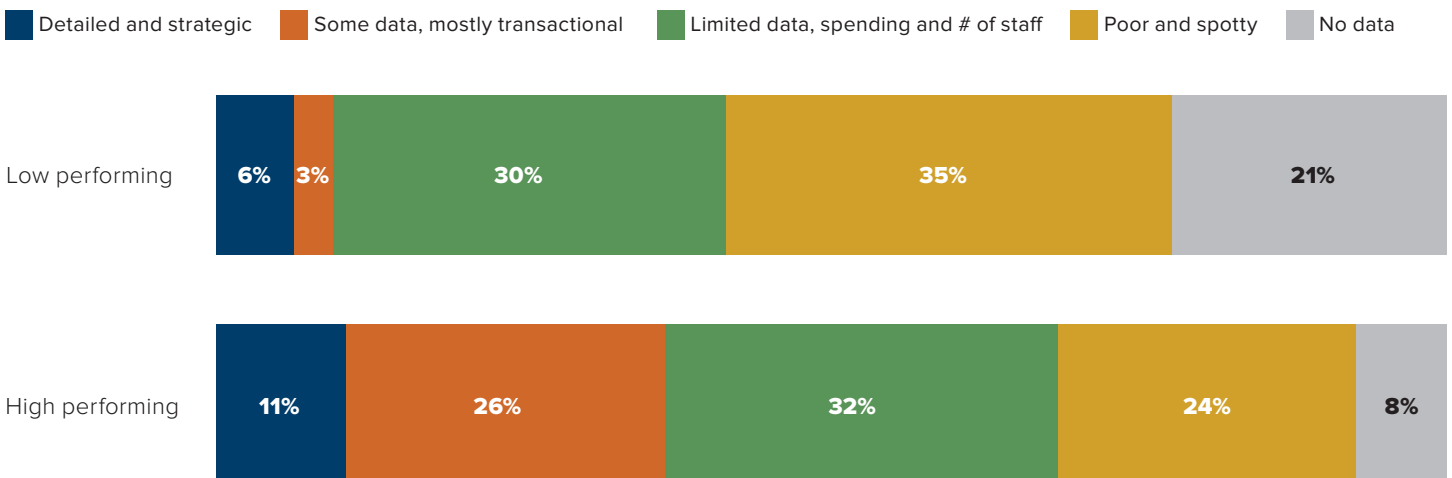
ANALYTICS AND DATA

To our surprise, few organizations—whether they are high-performing or not—have detailed and strategic data about their independent workforces. Figure 7 provides a breakdown of what types of data organizations are leveraging.

The results in this area are striking. High-performing organizations are twice as likely to have strategic data on worker performance, skills, and availability and almost ten times more likely to have core transactional data about their alternative workforce. These companies see the value of keeping track of these workers and they are gaining tremendous benefit as a result.

In fact, the research seems to show a pattern of companies either “getting it” or “not caring at all.” The low-performing companies in our study hardly know anything about their alternative workforces: 56 percent have no real data at all and 86 percent have limited data of very little use. Tactical or non-strategic employers simply may not understand the money they're spending (or the benefit

Figure 7: Comparison of high- and low-performing organizations and how they leverage independent worker data



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they're getting) or perhaps have not awoken to the opportunity in this area.

As HR leaders know, good technology makes data easier to manage. While some companies manage their independent employees on spreadsheets, the type of information we can now capture demands some type of platform.

Consider the opportunity for strategic data in this area. Following are the types of questions addressed by advanced analytics found through this research:

- » What percentage of wage spending is spent on independent workers?
- » Who are the highest performing independent workers, as measured by output and managerial feedback?
- » Where did the highest-performing workers come from? What were their backgrounds? What experience did they bring to the job?
- » Which teams best leverage independent workers and what do they do to make the team work well?
- » Which independent agencies and talent pools best meet company needs?
- » What areas may be spending overspending on independent workers and how might the spend be better managed?
- » How are independent workers contributing to (or detracting from) cultural goals, diversity and inclusion goals, and engagement rates for full-time people?
- » How happy are independent workers and are they serving as brand ambassadors?

Considering that close to 40 percent of the U.S. workforce operates independently,¹ these are very strategic questions to answer. Companies that have this data can fine tune and optimize this part of the workforce far better than those who are flying blind.

CASE STUDY

One example of a company utilizing alternative work arrangements is a leading player in the pharmaceutical industry. In addition to its large permanent workforce of about 25,000 employees, this company has a large alternative workforce, including people who work for them as for them as contractors, consultants, and temporary workers.

This company found itself with more medicines in its portfolio than it could fully resource. Because diseases change so quickly, the company's internal research and development team was finding it difficult to keep up.

As a solution, the company partnered with an external organization with a strong competency in delivery and execution to outsource a significant portion of its research and development.

This partnership gave the company several advantages:

- » **Speed to market.** The company is able to leverage the external partner's competencies in research and execution in order to deliver medicines faster.
- » **Agility.** The external partner's workforce and access to talent in certain areas also allows the pharmaceutical company to pivot faster. Experts can be quickly moved from one project to another—taking far less time than required for hiring or developing skills internally.
- » **Expertise.** The complex work on which the company and its external partner collaborate is very specialized. The company is able to leverage its partner's expertise in areas such as regulatory and legislative requirements. The partner excels in executing to those and other rigorous standards.

In order for this relationship to work, the company had to rethink how it viewed its work and partnership relationships. In fact, the entire company went through a transformation. Instead of a 'work for hire' mindset, the company now sees the external organization as a valuable partner. The company sets product direction and desired outcomes, while the partner sets specific goals and gives feedback on how best to get there.

Transitioning to the new relationship required a year of hard work. Managers spent a lot of time describing the rationale behind the decision and how it related back to the company's overarching purpose. They also had to help people impacted by the change transition or redeploy elsewhere.

Company leaders also spent significant time thinking through communication with their new partner. In this case, it was important to clarify language, processes, and ways of communicating to ensure that both parties were comfortable with the arrangement.

Finally, senior leaders had to be dedicated to the idea. Implementing this type of partnership was much more complicated than other alternative work arrangements and required significantly more commitment. This change impacted the company's strategic direction; it could not be viewed as an experiment.

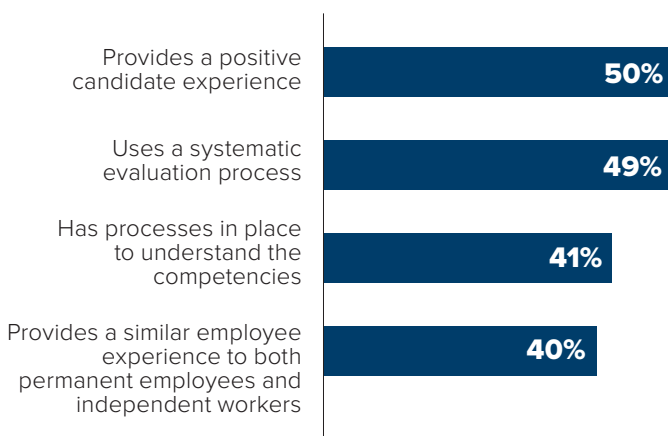
Since implementing the partnership, the company has seen an increased pace for moving its drugs through the pipeline, and leaders believe it will help the company more strategically manage its portfolio in the future.

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2. Talent Acquisition and Onboarding

The second human capital area in our framework focuses on how organizations attract and acquire independent workers (see Figure 8). This appears to be an area of focus for organizations, and those that perform better in this area also see a slight boost in performance. What's more, it is the only human capital area in our framework that was predictive of higher innovation and agility.

Figure 8: Overview of talent acquisition, onboarding, and integration practices



Our research shows that performing well on talent acquisition practices accounts for about 12 percent of the variance associated with innovation and agility performance. While this is not a large variance, it does tell us that paying attention to talent acquisition will provide

a measurable benefit to the organization.

Figure 8 numbers show much room for progress. For most talent acquisition practices, fewer than half of the organizations polled have confidence in their ability to execute them. As the chart shows, the greatest number of organizations feel confident in candidate experience, and the fewest are confident in providing a similar experience to both permanent and independent employees.

These practices are considered emerging for the alternative workforce. In reality, they should look familiar, as most of them are fairly well-established when recruiting permanent workers. However, organizations may struggle to apply them to independent workers right out of the box. Acquiring independent workers throws a wrench into the system and requires organizations to rethink both their methods and their mindsets.

DIFFERENT METHODS FOR SELECTING AND RECRUITING INDEPENDENT WORKERS

As we talked with business and HR leaders, we quickly realized that while the recruiting goals for independent workers are similar as those for full-time employees (a positive candidate experience, sound evaluation of fit, competency analysis, background checking), the actual processes must be different.

We have outlined just a few of the differences in Figure 9.

While these differences are challenging, high-performing organizations are figuring them out. Leaders in these organizations are adapting their recruiting efforts and messages to the independent workforce. In fact, our data tells us that they are more likely to use freelance markets to meet their needs and maintain control of the recruiting process, rather than outsourcing it to agencies.

Figure 9: Differences in recruiting permanent employees and independent workers

	PERMANENT EMPLOYEES	INDEPENDENT WORKERS
Talent pools	Most organizations recognize two categories when recruiting: entry level and experienced workers.	Independent workers come from many talent pools and many categories, each of which may require organizations to rethink their marketing and outreach practices.
Value propositions	<ul style="list-style-type: none"> • Security • Opportunities to move up • Growth and development in a given field 	<ul style="list-style-type: none"> • Interesting projects • Opportunities to work for name-brand companies • Autonomy¹⁹
New ways of working	<ul style="list-style-type: none"> • Role-based • Organizationally focused • Traditional work arrangements 	<ul style="list-style-type: none"> • Project-based • Team-focused • Flexible work arrangements
Purpose and fit	<ul style="list-style-type: none"> • Cultural fit • Long-term potential • Leadership abilities • Competence 	<ul style="list-style-type: none"> • Competence for task/project • Availability • Flexibility • Culture fit, work ethic

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This hints at a more strategic approach for talent acquisition. High-performing organizations are beginning to consider different talent pools and understand the importance of controlling the message about what it means to work for them. In short, these organizations appear to be looking for talented independent workers, not stop gaps, and may be seeing a competitive advantage because of it.

CREATING AN OPEN MINDSET

Not surprisingly, in order for organizations to strategically leverage the alternative workforce, there must be a change in mindset. For at least the past 100 years, full-time, permanent employees have been seen as normal, and part-time or independent work has been seen as alternative.

There are many reasons behind such thinking:

- » **History.** The history of employment in most companies started with independent work (the barter and agrarian age of the last century lacked employment contracts) and worker organizations such as labor unions and works councils developed political power to force employers to create full-time positions.
- » **Security.** Over the last 100 years, most employees grew up looking for full-time work because it was secure, predictable, and led to ever-increasing wages, healthcare, and retirement benefits. This is no longer true for many people. An individual who has been laid off once or twice may see more security in being independent as compared to full-time employment.
- » **Healthcare and Social Benefits.** Companies and societies understand that without employer-funded healthcare and other benefits, it may be difficult or impossible for many people to live well. Many workers look for full-time work simply to gain health insurance and other benefits. While certain efforts are being made to minimize employee dependence on these benefits, they are often hard to replicate on an individual basis.
- » **New Tools and Systems.** Before the internet, it was virtually impossible for a skilled worker to find independent work without the help of an agency. Today, temporary and contingent work agencies are not always necessary. Highly skilled people can join a talent network, promote themselves online and through social media, and start doing independent work fairly easily. It is easier now than it has ever been for highly skilled workers to leave full-time, permanent work arrangements and make their way as independent workers.

Do employers understand this shift? Not quite yet.

Despite the lofty ideas we have about the alternative workforce, the gig economy, diverse talent pools, and the future of work, the majority of organizations use inde-

pendent workers tactically. Specifically, we found these tactical hiring practices:

- » Hiring independent workers to quickly meet immediate needs rather than to fulfill long-term strategies (i.e., Companies hire to get the work done quickly rather than thinking about long-term hiring.).
- » Hiring in response to local market challenges rather than hiring as a part of the overall workforce strategy (i.e., In a given labor market, it may be hard to find a full-time resource, so the company falls back on independent workers.).
- » Hiring reactively to put out fires rather than to proactively build the business²⁰ (i.e., Companies may not see a long-term need for growth.).

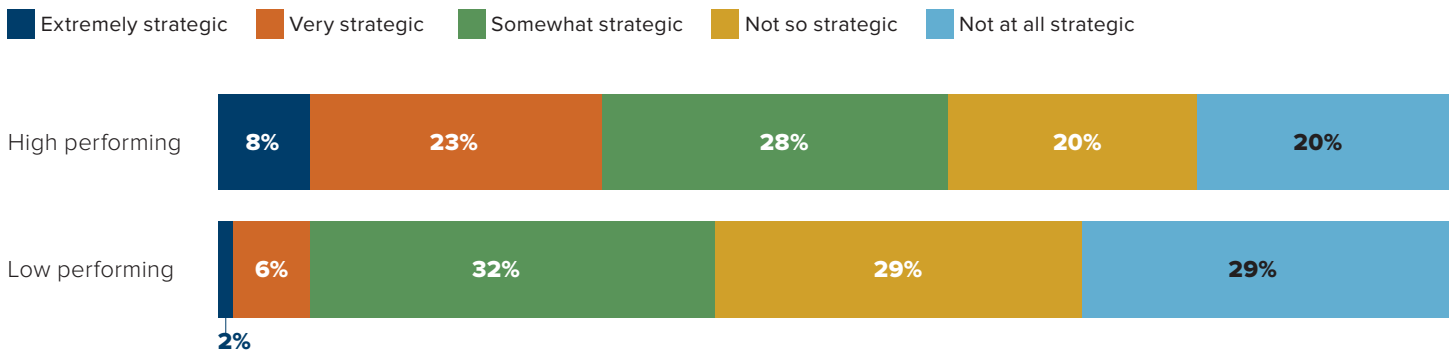
Consider Figure 10. Every time a hiring manager needs a new person, there is a talent acquisition or talent access decision to make.

Figure 10: Talent acquisition or talent access decision matrix

	HIRE AN INDEPENDENT WORKER	HIRE A FULL-TIME EMPLOYEE
Time frame	Can quickly fill gap and may have excellent skills but disappears at the end of a project	Becomes a commitment for many years and can grow into new roles over time
Investment	Investment in training and onboarding is limited	Training and development become an investment to build skills and capability over time
Speed	Can be done fairly quickly if talent sources are well established	May take many months and may cost 20-40 percent of total annual salary ²¹
Risk	Risk may be reduced; independent worker can quickly be terminated	Risk may be high or low, depending on quality of hire
Culture	May be neutral, positive, or negative to organizational culture	Hopefully adds to culture if hired well
Total cost	Typically higher on hourly or project basis, but costs are offset by flexibility and savings on benefits and healthcare	May be lower, but must account for benefits and potential need to train

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Figure 11: Strategic hiring in high-performing vs. low-performing organizations



These are not all the issues at stake. In some countries, employment contracts are mandatory, there may not be a pool of independent workers, and factors like language, culture, or time zone can be challenges.

What the research shows, however, is that companies that think strategically about these issues far outperform those that don't (Figure 11).

Strategic organizations are taking a more holistic and proactive view when it comes to their workforces and their labor needs. A strategic approach:

- » Enables them to look at the alternative workforce as an opportunity instead of as an immediate fix, which results in more innovation and market agility.
- » Prompts less worry about higher talent turnover and not meeting the quality requirements they expect.

Additionally, high-performing organizations are beginning to realize the great, untapped potential of independent workers. When we asked leaders, what benefits they realize from using independent workers, the answers appear more strategic in nature, as shown in Figure 12.

Despite *seeking* independent workers for fairly tactical reasons, organizations are realizing benefits that, we think, will eventually lead to different ways of working. Take the top three benefits:

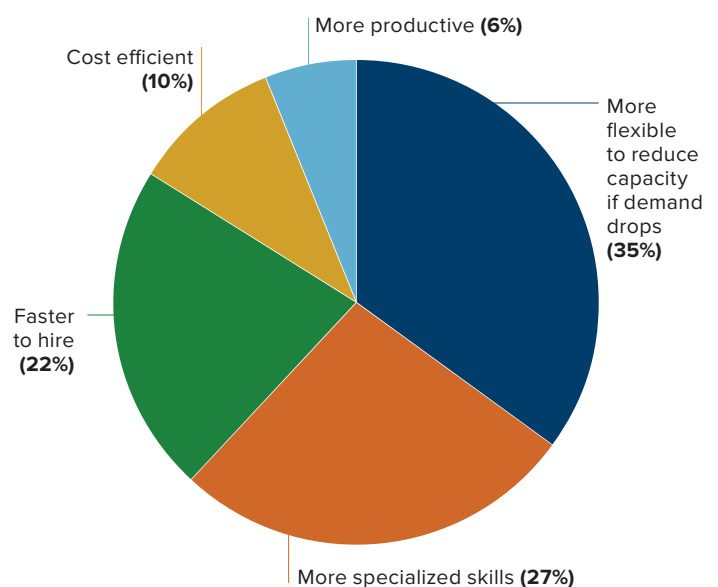
- » **Flexibility.** While this benefit is most likely the most traditional or longstanding of the group, organizations are increasingly attempting to build flexibility into their structures. A more flexible workforce allows organizations to sunset business units or products that are no longer serving the market and allow them to react more quickly.
- » **More Specialized Skills.** The tech industry, specifically, has embraced independent workers for the more specialized skills they bring to the table. As the half-life of a workplace skill continues to shrink, we imagine that more organizations will leverage the opportunity to rent talent (rather than building it or buying it), particularly in situations where there is a race to the market or where the

need is short-term.

- » **Faster to Hire.** Organizations often have lengthy and involved processes for bringing on permanent employees that do not exist for independent workers. Often, business units can leverage their own budget to bring someone on more quickly, rather than waiting for yearly budgeting and headcount discussions.

Leveraging any one of these benefits requires a fundamentally different relationship between worker and organization. In all three cases, the practices we introduced at the beginning of this section will become crucial to helping both the independent worker and the organization find the right balance that will make both parties happy.

Figure 12: Realized benefits to hiring independent workers



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CASE STUDY

Patagonia is a designer and retailer of outdoor clothing and gear for various sports: climbing, surfing, skiing, snowboarding, fly fishing, and trail running. It hires independent workers based in the United States as seasonal staff to work during the holidays in its retail and warehouse locations.

Patagonia uses local staffing agencies for its talent sourcing and acquisition process in the warehouse and maintains a traditional relationship with them. The agencies screen and place candidates based primarily on skill requirements, and, to a lesser extent, culture fit. The staffing agencies also handle payroll. Patagonia handles retail seasonal staffing in-house and screens candidates based on culture as well as skill—often hiring off-season ski instructors, surfers, and river rafting guides.

Onboarding and integration are crucial to Patagonia’s mission of protecting the environment, although it is accelerated for its seasonal and independent workers. Onboarding covers a bit of

culture and lot of technical skills such as customer service.

In retail stores, managers train seasonal workers to behave as if they were regular employees. The best performers with the seasonal staff often become a pool of talent hired for regular positions. Customers do not notice the difference between regular and seasonal employees at the retail store since there are no special badges, nametags, or other forms of identification that would indicate otherwise.

Patagonia has a unique culture and mission. Using a staffing agency to hire and manage independent workers in its warehouses has posed challenges. Patagonia wants to make sure that anyone brought into the organization as a permanent employee or independent worker shares the organization’s mission and core values. Thus, as the company rethinks its talent acquisition, onboarding, and integration approach, it is bringing in-house a significant portion of its warehouse staffing this year.

3. Management, Growth, and Development

The last group of practices we’ll explore in this report were those associated with helping independent workers grow and develop. In general, these practices are aspirational.

Given the emphasis on these practices for permanent employees, we expected to find greater support for independent workers’ growth. In fact, we were surprised to find that most organizations offer very little in the way of traditional growth and development opportunities. (See Figure 13.)

At present, the majority of organizations stop short of offering intentional development opportunities. Given that, it isn’t surprising that we didn’t find a significant relationship to business outcomes—too few organizations are providing these benefits to allow for accurate measurement.

We saw one exception: smaller organizations (\$5 million or less) are slightly better at supporting the growth and development of independent workers. This may be because smaller organizations have more flexibility in how they relate to independent workers or are unfettered by complex internal processes and systems and legal departments designed to keep the organization from being sued. In short, we believe that smaller organizations aren’t yet bound by more established processes that often limit larger ones.

However, while the integration drivers help organizations work with their independent workers, and talent acquisition practices help organizations find the right independent workers, growth and development drivers help organizations develop and retain strong relationships with independent workers.

Think about Uber, for example. Its gig workforce is highly strategic. While these independent workers may not receive benefits and other perks of full-time workers, they do receive excellent training and tools. The Uber app

Figure 13: Overview of growth and development practices

Shares ongoing performance feedback with independent workers

43%

Gives clear recognition to independent workers for their work contributions

41%

Develops the capacity of its leaders to adapt their management style to the needs of independent workers

31%

Provides personalized learning and development

30%

Evaluates the engagement of its independent workers through formal feedback channels

27%

Offers coaching opportunities to independent workers

26%

Provides career planning and development to independent workers

16%

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and its related functions help drivers learn how to work with passengers, deal with emergencies, and find the right location quickly.

Given the benefits that organizations have seen for many of these practices, we believe it is a matter of time before they will be more widely adopted and adapted. Why? Because there is already a fairly significant difference between how many high-performing organizations provide these things and how many low performing organizations do (Figure 14).

High-performing organizations are doing all of these things better than their low-performing counterparts. In our conversations with leaders, several best practices were identified:

- » Offer optional work/skill-related learning and development opportunities that independent workers may access, such as a free membership to online learning platforms.
- » Provide job-related training opportunities that mirror what top employees do, which can further the ability to build relationships with other team members and can fuel their sense of belonging.
- » Welcome ideas from independent workers and make it easy for them to provide suggestions by establishing clear communication guidelines.
- » Give clear recognition to independent workers that demonstrate their value to the organization's business objectives.
- » Explore options to offer growth and development opportunities through staffing or outsourcing agencies used to indirectly support independent workers while still maintaining legal compliance.

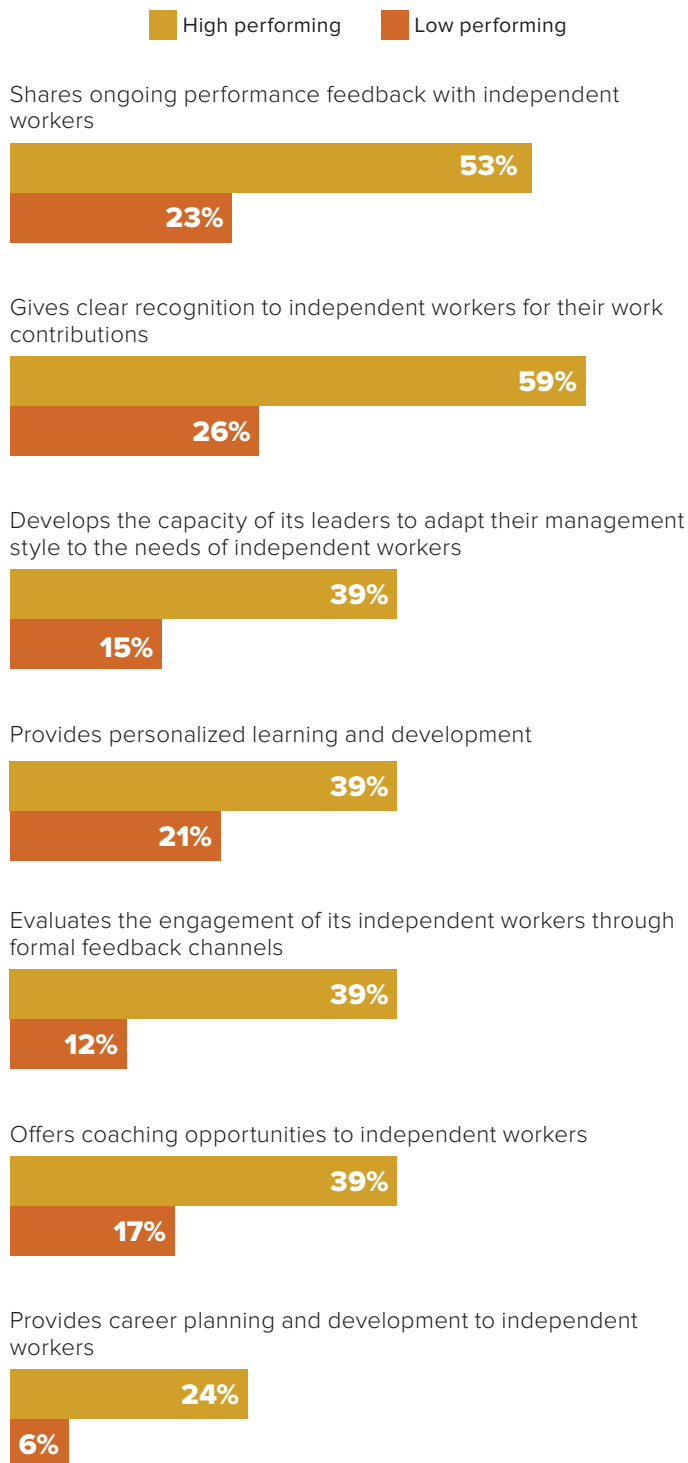
A WORD ON COMPLIANCE

Unfortunately, the use of independent workers comes with legal implications and increased compliance risk—at least currently. Organizations face challenges with worker classification, which have a negative impact on independent workers by limiting their access to healthcare, retirement, illness, vacation, and other benefits. Organizations have to juggle labor laws and policies along with business and human capital needs, which limits their ability to fully leverage independent workers and compromises the experience independent workers have with their organization.

Given the little interest in updating employment laws and regulations and the massive effort from government and private sector leaders required to change them,²² some companies are finding creative solutions to address gaps that affect independent workers, such as their access to healthcare benefits.

For example, Thumbtack, an on-demand staffing platform that helps customers to find and hire small service providers, recently launched a program to facilitate independent workers' access to benefits.²³ To do so, Thumbtack

Figure 14: Growth practices compared by high- and low-performing organizations



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announced a pilot partnership with Alia, a portable-benefits app initially designed for use by house cleaners, where users can access benefits such as life and accident insurance and even paid time off. Another example is Wanolo, an on-demand staffing platform that provides front-line independent workers. Candidates who sign up on Wanolo's platform have access to benefits such as Stride Health and occupational accident insurance.²⁴

To address this challenge, organizations must establish a strong partnership with their staffing or outsourcing pro-

vider that is rooted on a strategic and collaborative model to hire and manage independent workers. A clear alternative workforce strategy, coupled with a strong partnership with your staffing agency, can yield a more positive experience and satisfaction for your independent workers, hiring managers, and permanent employees—thus benefiting the entire organization.

We also urge policymakers to revisit outdated employment laws and policies to adapt them to the current trends in the rising alternative workforce.

CASE STUDY

Even though most organizations shy away from offering developmental opportunities to independent workers, the Eastman Kodak Company has managed to provide a creative way of supporting its alternative workforce by building an internal on-demand talent platform to support the growth of its independent workers.

Prompted by a desire to expand revenue sources and strengthen its brand name, the organization launched Kodakit, an on-demand photography platform in January 2017 that provides benefits to the independent photographers who use the platform to find jobs and the clients who use the app to post jobs and find qualified talent.

The platform operates as an on-demand service app and links professional independent photographers around the world to travel, food, lifestyle, and real estate customers in need of photography services. The platform currently manages over 10,000 qualified photographers across 120 countries who can access the app to see and sign up for available jobs.

Photographer onboarding is done through Kodakit's platform which includes modules with standards around different types of photoshoots. Photographers can also sign up for work using the platform. Onboarding focuses on ensuring quality by communicating expectations for photoshoots and photo quality. Kodakit also trains photographers on specific customer needs (based on recurring jobs). Once photographers are trained, they are ready to take on photoshoots available through the app.

Upon the completion of a photoshoot, a client can provide instant feedback through ratings, which are immediately available to the photographer. The feedback serves as an opportunity to continue developing photography skills in subsequent photoshoots.

The platform is unique because it is also a resource for community building, knowledge sharing, and networking. For instance, Kodakit also hosts networking events in given cities for Kodakit members.

The partnership between Kodakit and its photographers works well because these individuals are often artists with limited business knowledge and administrative clout who want to minimize the time spent invoicing and want to increase their experience and maximize their photography skills. As photographers, they



also have a lot of appreciation for Kodak as brand and find value in associating themselves with the organization. Retention of photographers using Kodakit is around 90 percent—impressive given the fragmented nature of the profession.

The company continually looks for ways to further active engagement. For example, Kodak understands that educational opportunities are a priority to photographers, so it aims to offer more educational opportunities such as seminars featuring successful photographers or the latest trends in technology. The goal is to continue building a tight community ecosystem around photography where photographers can learn what peers are doing and exchange leading practices.

III. CONCLUSION AND RECOMMENDATIONS

Conclusion

Overall, organizations currently use a transactional, cost-driven approach in viewing and managing independent workers. Most organizations offer minimal human capital practices to independent workers, which makes for a poor overall experience.

Talent shortages and the continued growth of the alternative workforce are creating a collective sense of urgency to understand and better utilize this new workforce. Yet organizations, leaders, and policymakers first need to move away from outdated talent management models and develop new and more relevant human capital practices.

Following are our top 10 recommendations to jumpstart the move to a more strategic and relevant human capital model for the new alternative workforce.

Recommendations



1 Update your organization's management of independent workers from a siloed, procurement-only (cost control) approach to a collaborative (value-driven) procurement and HR partnership through shared strategies and success metrics that maximize visibility and collaboration and minimize risk.



2 Embrace a total talent management approach that bridges the gap between procurement and HR by centralizing data about your permanent and alternative workforce in one system to facilitate the establishment of contracts, issue payments, and analyze annual spending on independent workers compared to permanent employees. Such a change will also maximize the effectiveness of your employee operations.



3 Shift your organization's mentality from employee engagement to a total workforce experience. Boost the psychological safety of your independent workers by moving from a transactional and economic relationship to a strategic and collaborative partnership.



4 Understand your organization's alternative workforce practices and update HR policies, processes, and philosophies to provide a more positive experience to your independent workers.



5 Leverage technology to facilitate more effective and efficient human capital practices for independent workers such as a VMS to allow for better on/offboarding of independent workers, a human capital management suite, and project workflow or information-sharing collaboration tools.



6 Build a true strategic partnership with your staffing or outsourcing agency. Identify and agree on success measures, address the quality of hires and expectations, clarify responsibilities for maintaining high standards, establish a relevant and streamlined independent worker onboarding and integration process, and ensure compliance among stakeholders.



7 Identify opportunities to have greater influence and control over your organization's talent sourcing strategy and minimize the need for a staffing or outsourcing agency. Use a digital on-demand platform to find qualified independent workers to bring the talent recruitment process in-house.



8 Foster an organization culture that welcomes ideas from your alternative workforce and encourages collaboration and building positive relationships with independent workers. Implement processes that create an inclusive and positive experience for your independent workers.



9 Educate your organizational leaders on the diverse talent pools of independent workers. Develop their capacity to adopt a holistic total workforce management approach, adapt their leadership style to the needs of independent workers, and address any associated challenges. Maintain ongoing communication with them to gauge their perspective on processes that impact independent workers.



10 Give clear and ongoing recognition to your independent workers that demonstrate their value to your organization's business objectives.

APPENDICES

Appendix A: Methodology

The New Workforce Study began in October 2018. Our research aimed to understand the way organizations treat independent workers, identify the most prevalent organizational practices when managing independent workers, link human capital practices to business outcomes, and provide a framework to recommend the most critical practices when managing independent workers.

First, we conducted a literature review on nonsalaried workers (independent workers), workforce of the future, and the alternative workforce. Second, we developed a survey with questions on the most common human capital practices: talent acquisition, learning and development, performance management, career management, leadership effectiveness, engagement and retention, team development, and management strategy. Next, we added additional questions on their overall human capital strategy. This study utilized a final survey with 24 items that covered eight human capital management areas and seven items on overall human capital strategy.

After regularly monitoring full completion rate on the 24 items, the survey collected responses from November 2018 to January 2019 from leaders with strategic HR and talent management oversight in organizations with a frequent and consistent use of contingent, gig, or other form of contract workers in the past 12 months. While thinking of independent workers at their organization, respondents

indicated their level of agreement on five-point scale that ranges from strongly disagree (1) to strongly agree (5). The following list provides an example of questions included in the survey for the 24 items.

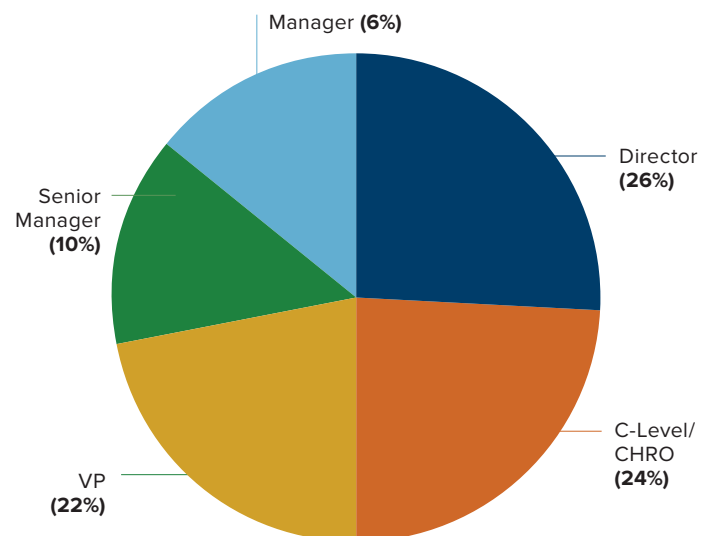
- » My organization provides a positive candidate experience to attract contingent workers during the recruitment process.
- » My organization facilitates the on-boarding and integration of newly hired contingent workers.
- » My organization understands the learning and development needs of our contingent workers.

Upon further analysis, the list of 24 items was further reduced to 16 items in order to capture the most relevant areas associated with each of the three distinct human capital practices. Respondents also selected the most applicable option for questions that focused on their organization's overall human capital strategy for hiring independent workers. Questions in this section addressed: percent of independent/non-employee workers, level of benefits provided, organizational strategy, drivers, benefits, and challenges when hiring independent workers. Respondents also indicated if their organization uses a workforce management system to manage independent workers, the usefulness of their organization's alternative workforce data, and their alternative workforce sourcing approach.

Appendix B: Demographics

This survey collected data from a total of 197 respondents after data cleaning based on partial and/or duplicate responses. Of these respondents, 50 percent were vice president or higher (see Figure 15) and 59 percent worked in HR/human capital management roles (see Figure 16). Respondents represented a variety of industries; 28 percent worked in professional services (see Figure 17). 56 percent of responses were from North America (see Figure 18). More than half of respondents were from organizations with annual revenues above \$50 million (see Figure 19).

Figure 15: Research participants by job level



APPENDICES

Figure 16: Research participants by job function

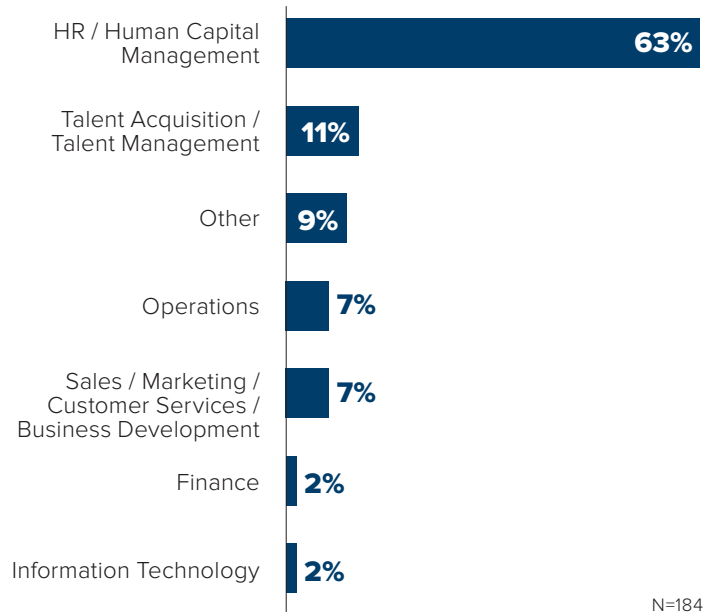


Figure 17: Research participants by industry

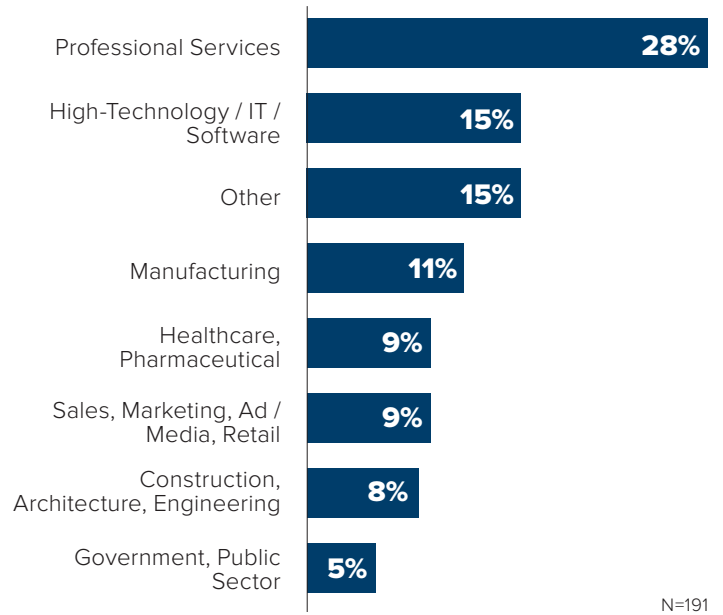


Figure 18: Research participants by headquarters location

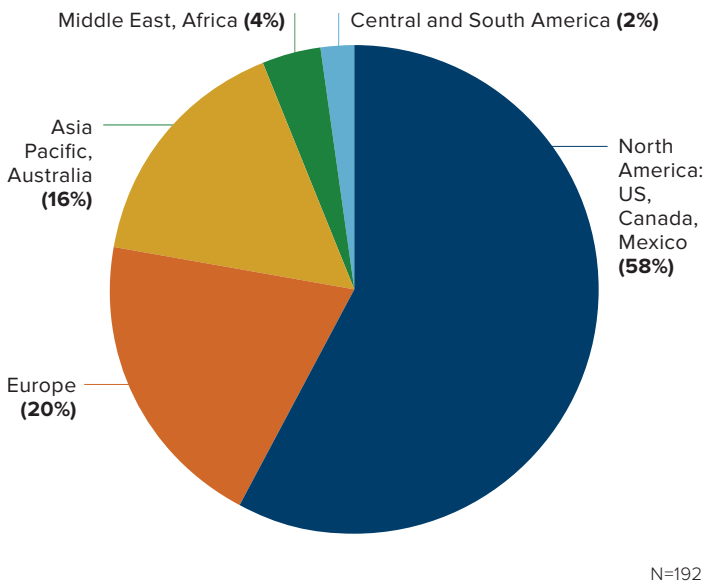
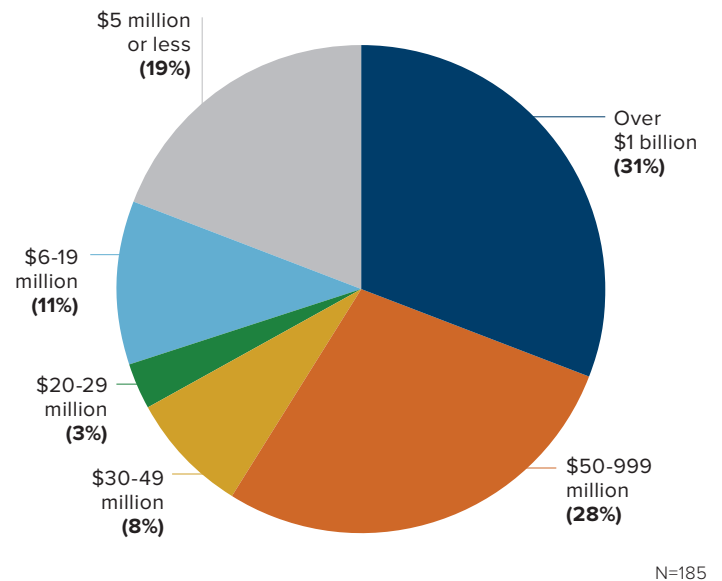


Figure 19: Research participants by organizational annual revenue



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