SECTION 2: STRATEGY

Best Practices for Creating an External Workforce Governance Model, Philosophy, and Strategy
The use of external workers by a company often grows out of an immediate need, with the decision to hire an external worker being initially tactical and reactive, rather than strategic and proactive.

Over time, the size and importance of the external workforce can increase dramatically inside an organization, though this often occurs with minimal structure, oversight, or standardization in place to leverage this workforce segment as a strategic asset for the business.

In fact, only a little over half of managers (51%) rate their organization’s planning – or development of a total workforce strategy – as “very” or “extremely” effective.

Most organizations know they need to put better infrastructure and practices in place to oversee their external workforce, but they are often overwhelmed by the best place to begin to do so.

“The external workforce is the ‘hot potato’ in an organization – no one wants to ‘own’ these workers because there is a lot of complexity and ambiguity associated with this segment of the workforce.”
KEY TAKEAWAYS

• To achieve maximum return on your external workforce investment, there are important philosophical elements and critical infrastructure that need to be put in place prior to developing your external workforce practices.

• Organizations must identify the groups who are stakeholders to external workforce sourcing and management, then involve these stakeholders to build a governance structure with roles and responsibilities identified, charter established, and operating rhythms implemented.

• The governing body overseeing external workforce management should articulate an external workforce philosophy, which should reflect the reason(s) the company employs external workers, the company’s expectations for those workers, and what is offered to the external workforce in exchange for their contributions.

• Using an external workforce philosophy as a “north star,” organizations should create an external workforce strategy that outlines the different “types” of external workers the company utilizes and the people and operational practices that will be put in place for each type of external worker.

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THE BASICS

First, establish an external workforce governance model that includes all the various stakeholders associated with the process of sourcing, managing, and engaging external workers.

This governing body will articulate an external workforce philosophy, develop an external workforce strategy, and oversee external workforce practice

Consider these questions when establishing a governance model:

- What departments, divisions, and/or functions should have influence over and involvement in the management of the external workforce?

- What roles from these groups should be primary stakeholders, developing and overseeing the execution of an external workforce strategy? What should be the responsibilities of each of these stakeholders?

- What roles from these groups should be secondary stakeholders, providing high-level input into the external workforce strategy?

These are the types of departments that should be considered for inclusion in an external workforce governing body:

- Operations
- Procurement
- External agencies
- HR
- Legal
- Internal employees with prior external work experience

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After the primary and secondary stakeholders have been identified, common governance practices need to be put in place, including the following:

- What the governing body will be called, such as External Workforce Oversight Committee or External Workforce Engagement Committee;

- What the charter is for the group (what the group is commissioned to do), such as providing senior leadership oversight for the sourcing, management, and engagement of the external workforce or serving as advocates and ambassadors for our external workforce; and

- How and how often the group will convene, which will likely require more face-to-face sessions and more often in the beginning to establish an external workforce philosophy and strategy, and then an ongoing regular cadence to oversee its execution.

39% of respondents stated that HR and procurement do not collaborate closely on managing external workers.
With a governance model in place, those that have been identified as primary stakeholders of the external workforce portfolio should collaborate on articulating an external workforce philosophy.

An external workforce philosophy focuses on the company’s motives for employing external workers and what type of work arrangement and environment will be created that allows the total workforce to be successful.

It could include the following types of elements:

- Why does the organization employ external workers? As a company, what are the benefits that are being sought by employing external workers? Some examples include to outsource low-value tasks, save money, meet increased production demands, respond to fluctuating customer needs, temporarily manage a workload while finding an internal employee replacement, or access unique knowledge or skills for a specific project.

- How will the company communicate the external workforce philosophy to the total workforce, both external workers and internal employees? The company might also consider publicly sharing at least parts of its external workforce philosophy so that prospective external and internal applicants understand it and can take it into consideration when making a decision about joining the organization.

- What is the psychological contract that the organization wants to create with their external workers?

- What should external workers be called, which is an important cultural signal for how their role is implicitly perceived in the company?

- Is there an intention to convert exceptional external workers to internal employees (e.g., temp-to-hire, "try before you buy")?

A psychological contract includes the unwritten understandings and informal obligations between an employer and its employees regarding their mutual expectations of how each will perform their respective roles. Within a typical business, the psychological contract might include such things as the level of employee commitment and the quality of working conditions.
Will the company remain in contact and maintain a relationship with its external workers post-employment?

What will be offered to external workers?

What is expected from external workers in return?

"Until we have a clear philosophy about why and when we utilize external workers that is endorsed and communicated across the business, bad practices like hiding headcount by hiring external workers will continue to be an issue."

ADVANCED

After the governing body articulates the company’s external workforce philosophy, they then use the philosophy to inform an external workforce strategy. The importance of this step is corroborated by the fact that managers rated the development of this strategy – or rather the planning stage in the external workforce life cycle – as the most critical stage in order for organizations to have an effective external workforce business process.

An important part of an external workforce strategy involves identifying and establishing some core elements that should be put in place for all external workers. At the same time, the strategy should recognize that there are different types of external workers and external workforce management practices need to be “fit for purpose” based on the type.

Consider these questions when creating an external workforce strategy:

• What types of external workers are utilized by the company? Start by identifying different roles or functions but then consider clustering these based on other dimensions like tactical vs. strategic impact and levels of cultural and operational embeddedness (the extent to which this type of external worker is expected to represent the company’s culture, work alongside internal employees, and use the company’s operational systems and processes)
What foundational policies, processes, or practices should be put in place for the entire external workforce?

What policies, processes, or practices should differ based on the type of external worker, and how should they differ?

The output that is created from this exercise then serves as the basis for designing external workforce practices across the external worker lifecycle. Now, it is unlikely that a company is starting from scratch with this effort and has no external workforce policies or processes already in place. Instead, it is more likely that the governing body will need to review existing external workforce policies, processes, and practices in light of the newly articulated philosophy and established strategy, making updates and changes to the existing processes as necessary to align them to this new shared view of how the company wants to approach its external workforce management moving forward.

Further, once the practices aligned to the external workforce strategy are implemented, the governing body has the responsibility of overseeing the decisions being made regarding the external workforce to ensure that the practices are aligned with the established strategy. This may involve appointing a lead person or subcommittee to review practices or decisions at certain milestones or regular intervals.

For example, the governing body should review the decision-making process to hire an external worker, both monitoring compliance to the overall established practice and reviewing specific hiring decisions on occasion, ensuring that the logic behind the hiring of any given external worker is aligned with the philosophy in place regarding the appropriate use of external workers and the correct sourcing and selection process based on the type of external worker. If a manager cannot justify the need for an external worker in a way that is consistent with the philosophy and strategy, then the request should be denied, which may include a recommendation to hire an internal employee instead. Another example is when a manager requests to retain an external worker beyond the initial scope of their work and contract period. The rationale for keeping the external worker should also be deemed consistent with the philosophy and strategy established by the governing body to be approved.
While this type of oversight may require a sizable devotion of time and attention from the governing body, ultimately it will ensure that the established external workforce philosophy and strategy carries through to actual organizational practices and decision-making in a consistent way. Further, it will provide greater clarity and understanding for managers regarding the organizational perspective on the external workforce and the appropriate processes, allowing managers to better align to this moving forward. Finally, it will convey to both internal employees and external workers alike that the company is committed to not only developing a vision for how they want to manage their external workforce but also following through on it with its actions.

TECHNOLOGY APPLICATIONS

This section of the toolkit is focused on setting the organization and its external workforce up for success by identifying (1) clear ownership over the external workforce, (2) a shared mental model about the role and value of external workers in the business, and (3) a strategy for how the company will manage its external workforce over their lifecycle with the business.

Given this focus, this scope of work does not really include practices that would necessarily benefit directly from technology.

Instead, given the objective here, technology such as a cloud-based collaboration platform may best be used to enable the teamwork that is necessary to create and deploy the governance structure, foster ongoing communication and alignment amongst the “external workforce steering committee,” and support the partnership needed to develop and implement the external workforce philosophy and strategy.
DEFINING POPULATIONS

External workers—workers who complete contract-based or temporary assignments for companies or other people. These workers are often referred to as “contingent workers,” “gig workers,” “contractors,” and “temps,” though there are many labels for these workers. They might be employed by a contracting organization (for example, a contractor company or staffing agency) who helps them find assignments or they might work for themselves.

Internal (non-management) employees—employees who are employed full or part-time by one organization on a more permanent basis. Employees are paid directly as part of the organization’s payroll.

Managers—employees who have managed external workers within the past 12 months.

METHODOLOGY

Survey of Managers, External Workers, and Internal Employees
Surveys conducted by NORC at the University of Chicago for the Society for Human Resource Management (SHRM) and SAP SuccessFactors. Data were collected using the AmeriSpeak® Panel. Supplemental sample was obtained from a non-probability sample source, Lucid. In total NORC collected 1,714 interviews, with 1,612 from the AmeriSpeak Panel and 102 from the Lucid Panel.

Survey of Human Resource Professionals
This survey was conducted by SHRM. 20,000 SHRM members were invited to complete the survey. 1,178 HR professionals completed the survey.
Focus Groups
12 focus groups were conducted with SHRM members from across the country, including members in Chicago, Illinois; Washington D.C.; Indianapolis, Indiana; Nashville, Tennessee; Boston, Massachusetts; and Atlanta, Georgia.

Semi-Structured Interviews
12 semi-structured interviews were conducted with SAP SuccessFactors customers from across several industries, including utilities, oil and gas, manufacturing, technology, finance, consumer goods, and hospitality.

Micro Survey
The SAP SuccessFactors online External Worker Microsurvey was conducted with 44 organizations across North America in 17 industries, including 24 executive level respondents with the remaining contributors in various HR staff positions.

Nano Survey
This survey was conducted by SHRM. 1,092 HR professionals were randomly sampled from SHRM membership.

Omnibus Question
A sample of 1,021 Americans was surveyed using the AmeriSpeak Omnibus survey, NORC at the University of Chicago's probability-based panel designed to be representative of the U.S. household population.