Want Your Business To Thrive?
Cultivate Your External Talent
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Executive Insights

The external workforce includes many different types of nontraditional work arrangements, including independent contractors, temporary workers, online task contract workers, freelancers, service delivery contract workers, on-call contract workers, subcontractor workers, and others.

Various estimates suggest that 16.5 million\(^1\) to 56.7 million\(^2\) U.S. workers currently work outside of traditional employer-employee arrangements. More than a third have an external job as a primary or secondary job.\(^3\)

Despite a common belief that workers engage in external work because they can’t find anything better, external workers have a variety of motivations. Almost one in five workers in our study said they preferred external work, and nearly 40% more explained that they saw advantages in both types of work but just happened to be doing external work. The most commonly cited reasons for becoming an external worker were “being able to set my own schedule,” “choosing how many hours I work,” and “choosing my work location.”

Broadly, internal employees working alongside external workers did not think that external workers had changed their work experience. Although they expressed a slightly elevated concern over job security, job satisfaction, and their company’s culture, they noted that working with external workers made their organization’s performance better. Managers felt that the effect of external workers on their internal employees was generally neutral but felt more strongly than internal employees that external workers led to greater gains in worker productivity and organizational performance.

Managers and HR professionals both overestimated the extent to which the chance at an internal position or additional contract work motivated external workers, and somewhat underestimated external workers’ interest in bonus compensation for good work.

Nearly one in five managers said that their organization was slightly effective or not at all effective at “attracting, sourcing, and selecting the right quantity and quality of external workers.” One in five also felt that their organization was slightly or not at all effective at onboarding external workers.

Nearly nine in ten HR professionals agreed or strongly agreed that “external workers positively contribute to the business productivity of my organization.” Yet HR, as a group, is quite worried about the legal implications of external work. Nearly three-quarters of HR professionals reported some level of concern and one in ten was very concerned.

1. HTTPS://WWW.BLS.GOV/NEWS.RELEASE/CONEMP.NR0.HTM
2. Freelancing in America: 2018, Freelancer’s Union and Upwork, October 2018
3. The Gig Economy and Alternative Work Arrangements, Gallup, 2018
Introduction

Much has been written about the “gig economy” and the changing workplace over the last few years. While estimates vary broadly based on study methodology, somewhere between 16.5 million and 56.7 million U.S. workers currently work outside of traditional employer-employee arrangements. Gallup estimates that 29% of U.S. workers have a external job as their primary job, and 36% of all U.S. workers participate in nontraditional work as a primary or secondary job. It is common for people whose main work is as an internal employee to do external work as well. In fact, Deloitte reports that 64% of millennial full-time workers want to “do side hustles to make extra money.” While a strong economy and low unemployment seem to have tempered growth in full-time external work in the last year or two, they appear to have also made available more opportunities for part-time external work, so a holistic view of external nonemployee work suggests that it will only grow in the future. In a recent study of executives, 65% said that the external workforce is important or very important to operating at full capacity and meeting market demands.

While there have been several recent studies exploring the phenomenon of external workers in the last several years, most have either focused on a single component of the nontraditional workforce (e.g., the gig economy) or explored the issue from a single perspective (e.g., executives). In this research program, the Society of Human Resource Management (SHRM) and SAP sought to explore the topic quite broadly, incorporating all types of nonemployee work—which we call “external work”—from the points of view of managers, human resources professionals, internal employees who share their workplaces with external workers, and external workers themselves. Our goals were to explore the landscape of external work, reveal areas in which the constituencies had disparate views of external workers and external work, and find opportunities for organizations to improve business outcomes and the experience of external workers.

5. Freelancing in America: 2018, Freelancer’s Union and Upwork, October 2018
6. The Gig Economy and Alternative Work Arrangements, Gallup, 2018
7. The Forces Reshaping How Work Gets Done, SAP Fieldglass/Oxford Economics, 2018
Who Are External Workers?
Who are External Workers?

Types of External Workers
We looked at six broad categories of external work for this study.\(^9\) It is important to note that a given worker may perform more than one type of external work (figure 1).

In this study, 940 external workers sourced from National Opinion Research Center’s (NORC’s) national representative AmeriSpeak® Panel were surveyed about their experiences as external workers. Their responses were weighted to reflect the U.S. adult general population. (See Survey Methodology for more complete information.) Respondents represented a broad range of external work types (figure 2), and both full and part-time.

FIGURE 1 Types of External Workers

| **Independent contract work** | Workers find customers or companies either online or in person who pay them directly to fulfill a contract or provide a product or service. Examples include an independent consultant or a freelance worker. |
| **Online task contract work** | Workers are paid for doing tasks done entirely online and the companies they contract with coordinate payment for the work. Examples include transcribing information, completing surveys, or completing online personal assistant activities such as booking appointments. |
| **Service delivery contract work** | Workers are paid for performing short in-person tasks or jobs for customers who they meet through a website or mobile app. Examples include using your own car to drive people from one place to another, delivering something, or doing someone’s household tasks or errands. |
| **On-call contract work** | Workers are paid for doing work where they are prequalified and placed in a pool of people who can be called “on an as needed basis” to cover specific work shifts or assignments. This may vary from working a few hours to working several days or weeks in a row. Examples include substitute teachers and construction workers supplied by a union hiring hall. |
| **Subcontractor work** | Workers are paid by a company that contracts services out to other organizations. Examples of work include security, landscaping, computer programming, construction, project management, or maintenance. |
| **Temporary work** | Workers are paid by a temporary service or staffing agency that contracts time out to other organizations to perform temporary tasks and jobs. Examples of work include manual labor, administrative tasks, and other activities that can be performed with little or no advanced training. |
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workers. While independent contractors were the largest portion of our sample, each of the six categories of external work were represented. About half of external workers reported working with a contract company or agency who places them in roles/assignments (49%), while half (50%) found their external work through some other means.

FIGURE 2
Which of the following most accurately describes the majority of the external work that you do?

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>1%</td>
</tr>
<tr>
<td>Temporary work</td>
<td>12%</td>
</tr>
<tr>
<td>Subcontractor work</td>
<td>20%</td>
</tr>
<tr>
<td>On-call contract work</td>
<td>17%</td>
</tr>
<tr>
<td>Service delivery contract work</td>
<td>9%</td>
</tr>
<tr>
<td>Online task contract work</td>
<td>7%</td>
</tr>
<tr>
<td>Independent contract work</td>
<td>34%</td>
</tr>
</tbody>
</table>

External worker motivations

External workers were asked why they do external work, and were provided four options (figure 3). Contrary to common perceptions, the majority of external workers do not say that they are engaged in external work because they can’t find better work. Nearly half of all external workers reported that “this is just the type of work I’m doing right now,” and among the 11% of external workers who selected other, the most common open-ended responses were “for supplemental income” and “to do something I enjoy.” Temporary workers were the only group for whom “I’d prefer an internal job” reached the same level as “this is just the kind of work I’m doing right now.” Independent contract workers were most likely to report a preference for external work, not surprising given that this group includes many highly skilled blue- and white-collar workers for whom independent contractor work often offers autonomy, flexibility, and generous compensation.

Smaller subgroups of internal employees who were former external workers (N=119), internal employees considering external work (N=74), and internal employees not considering external work (N=155) were asked about the reasons for those decisions. In all cases, their responses reflected a largely realistic view of external work as providing greater flexibility and autonomy, but less job security and stability.
Workers’ perceptions of external worker compensation were much less aligned. Although about a third of external workers reported that they can make more money as an external worker, about 42% of those who gave up external work to become an internal employee did so for better pay, and 49% of those employees who are considering external work believe that they would have better pay as external workers.

Interestingly, benefits were valued much more by former external workers (62%) than by those content with internal work (43%). For those who left external work, only better job security and stability (68%) exceeded benefits as a reason for change.

**FIGURE 3**

**Why external workers do external work**

- **Just what I’m doing**
  I see advantages of both internal and external work, and this is just the type of work that I’m doing right now.
- **Prefer internal**
  I would prefer an internal job at one company, but I am an external worker because there are no other good employment options that meet my needs.
- **Prefer external**
  I purposely decided to be an external worker, and I would not want an internal job at one company even if it were available.
- **Other**
Who We Asked—Other Stakeholders
Who We Asked–Other Stakeholders

In addition to the external workers we’ve already introduced, we gathered the perspectives of internal employees, managers, and HR professionals in our exploration of the external work landscape. In the following sections, we’ll introduce you briefly to each of these groups and their perspectives on the external workforce. As we discuss the external worker lifecycle later in this paper, we’ll return to these groups to explore their varied perspectives on external work and external workers.

About the Internal Employees
We asked a group of 350 internal employees sourced from NORC’s AmeriSpeak Panel to share their thoughts about external work and external workers. Just over a third had done external work at some time in the past. Of those who had never done external work, 30% have considered it.

We also asked them about their experience with external workers. Only 22% reported no experience working with external workers at all, while 5% said they had a lot of experience. Just over 40% of internal employees reported that their organization currently employs external workers, with the remainder nearly evenly split between those whose organizations don’t use external workers and those who don’t know if their organization utilizes external workers.

About the Managers
We included a group of 424 managers who supervise external workers sourced from NORC’s AmeriSpeak Panel. The majority manage mostly internal employees, but nearly 40% manage teams comprised of at least half external workers (figure 4). Further, 62% of managers surveyed reported that they have quite a bit or a lot of experience supervising external workers.

FIGURE 4
What is the general composition of the team you’ve managed over the past 12 months?

- Mostly internal employees with a few external workers: 62%
- Mostly external workers with a few internal employees: 23%
- An even split between external workers and internal employees: 10%
- All external workers: 5%
We also looked at the broad types of work that managers reported their organizations are using external workers for, as we suspected that there might be notable differences in organizations that allocate different kinds of work to external workers. Physical tasks were selected by nearly half (48%) of managers, but almost as many (45%) indicated that their organizations use external workers for knowledge-based tasks. Almost 30 percent (29%) indicated their organizations use external workers for customer service tasks, and almost a quarter (24%) indicated that their organizations choose to outsource entire functions (e.g., call center, security, or IT).

Finally, as a measure of the change in use of external workers, we asked managers how the number of external workers they supervise has changed over time. Results were very balanced: about half (49%) report the number to be about the same, while about a quarter (27%) said they have fewer external workers, and another quarter (23%) said they have more.

About the HR Professionals
Our understanding of the view of external workers held by HR professionals was informed by a SHRM survey that included a total of 1,175 members in a broad variety of sectors, industries, organization size, and parts of the United States. Of those members surveyed, 83% reported that their organization uses external workers.

Of those who reported not using external workers, the most popular response (50%) when asked “Why does your organization not use external workers?” was a simple preference for internal employees. Only 7% indicated that they do not hire external workers because of legal risk or difficulty maintaining compliance.

The appeal of external workers among organizations not already using them was minimal; only 15% of HR professionals from these organizations thought that using external workers would probably or definitely add value. Only one in five HR professionals in organizations not using external workers wished they had the option of using them. But more than two-thirds of those HR professionals nonetheless acknowledged that doing so would allow them to access talent with special skills or expertise.
Among the 975 HR professionals who reported that their organization uses external workers, almost half (46%) indicated that they have quite a bit or a lot of experience with external workers. In most organizations, external workers make up a small portion of the workforce. Ninety percent of HR professionals said that external workers make up less than 20% of their workforce, and more than half said that external workers comprise less than 5% of their workforce.

Though it is often speculated that organizations turn to external workers to save money, less than 20% of HR professionals indicated that their organization uses external workers to save money. Instead, the three most commonly cited reasons for utilizing external workers were the following:

- Flexibility to increase and reduce workforce based on business demands (53%)
- Access to specialized talent with specific skills or expertise (48%)
- Staff-specific projects and initiatives (48%)

In fact, our results suggest that external work can be a gateway to internal work—almost nine of ten HR professionals report that their organizations often (21%) or sometimes (67%) convert external workers to internal employees.
Different Points of View
We asked external workers, managers, and HR professionals parallel questions about the kind of external work they primarily do (external workers) and the kinds of external workers in their organizations (managers and HR). We believe it is important to point out the differences in the kinds of external work with which each of these groups are familiar, as these varied perspectives will no doubt influence their thinking about and experience of the stages of the external worker lifecycle.

While external workers are influenced by others around them, their thoughts about external work are grounded in their own experiences. Likewise, managers who supervise several or many external workers will have a perspective from interacting with different kinds of external workers and observing how they fit into teams. HR professionals are likely to have the broadest view of external work in organizations, but not all external workers come into organizations through HR. In fact, the number of HR professionals who reported that their organizations bring external workers in through a combination of means was nearly as great as the number who reported that external workers come through HR only (figure 5). Nonetheless, more than three-quarters (77%) of HR professionals reported that HR’s role in hiring external workers was appropriate, with 20% wishing that HR had a larger role.

These varied experiences lead to some striking differences. While temporary workers were one of the smallest groups represented in the external worker survey, they dominated the external workers reported in workplaces by both managers and HR. Online task contract work, service delivery

**FIGURE 5**

Which of the following groups are involved in the hiring of external workers in your organization?

- 39% Through HR only
- 40% Through a combination of more than one department or function
- 13% Through another function, without the involvement of HR (e.g. Procurement, Operations)
- 8% Operational managers bring in external workers directly
contract work, and on-call contract work were all reported more often by managers than by HR, likely reflecting the fact that workers in these categories are more likely to enter an organization through direct manager hires or procurement than through a traditional HR pathway. We caution the reader to bear in mind these different points of view when evaluating the other findings of this study. That being said, we undertook this research to investigate the full spectrum of organizations’ and workers’ experience of external work, so the questions we’ve asked are generally applicable across all different types of external workers/work, with the conclusions drawn being broad in nature. Further, where there are notable differences based on type of external worker, type of external work, or organization, we have noted these accordingly. If they aren’t noted, the findings that have been shared and conclusions that have been drawn are generally applicable to the external workforce and organizations that employ them.
The External Worker Lifecycle
Each of the groups we talked to during this project has a different perspective on the stages of the external worker lifecycle, but the stages of the lifecycle are important to all of the stakeholders in external work (figure 7).

**Planning**

For an individual, he or she needs to engage in a decision-making process about whether to pursue internal or external work. When asked to identify the factors that made them decide to become an external worker, the top three reasons external workers identified all addressed flexibility—setting one’s own hours, schedule, or work location (figure 8). As evident in the chart below, responses indicating that the worker had little choice in becoming an external worker were the least endorsed.

For workers looking for increased flexibility, external work may have greater appeal than an internal position, and organizations hoping to reap the benefits that an external workforce provides (most notably, organizational flexibility) must be aware that flexibility is often also crucial to those they are employing as external workers (figure 8).

From the organizational point of view, effective organizations plan which kind of work or roles make strategic sense to fill with external workers. We asked HR professionals about how external workers were distributed in their organizations and learned that, in most organizations, external workers are concentrated in certain functions (figure 9).

The skills of an organization’s current internal workforce and possible external talent pool are also key to effective “total workforce” planning. About 60% of HR professionals report that they use external workers to fill skills gaps in their internal workforce, but 45% of them also feel that there is a skills shortage among external workers. Most HR professionals (52%) report that their organization hasn’t had difficulty recruiting external workers in the last year, and 50% reported that it is somewhat or extremely easy to hire external workers (figure 10).
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FIGURE 8

Please select the top three most important factors that made you decide to become an external worker.

- Being able to set my own schedule: 49%
- Being able to choose how many hours I work: 40%
- Being able to work from any location: 33%
- I can make more money as an external worker: 31%
- Choosing my own assignments or projects: 28%
- I can use my specialized knowledge/expertise: 25%
- Choosing the way in which I complete my work: 20%
- I don’t have any better employment options: 18%
- The type of work I do is mostly done as an external worker: 17%

FIGURE 9

Generally, what has been the distribution of external workers across your organization in the past 12 months?

- External workers are concentrated in specific functions: 50%
- External workers are concentrated in specific roles across functions: 24%
- External workers are distributed in a variety of roles across all functions: 18%
- External workers are uncommon in my organization: 4%
- External workers are evenly distributed across all functions: 3%
- Other: 2%

FIGURE 10

Difficulty hiring external workers

- 2% extremely difficult
- 21% somewhat difficult
- 22% neither easy or difficult
- 40% somewhat easy
- 10% extremely easy
Sourcing
As external work is, by nature, temporary, the sourcing of external workers by organizations and sourcing of work by external workers are ongoing processes for both constituencies. HR professionals report that they use a wide variety of methods for sourcing external workers, in part reflecting the diversity of external work roles. The majority of HR professionals (59%) report that their organization uses several hiring or talent agencies, and nearly a third (31%) report that personal connections with external workers are important. The use of web platforms (e.g., Upwork, Fiverr) was cited by 9% of HR professionals.

In order to evaluate the degree to which external workers and those who manage them are aligned in understanding the motivations of external workers, we asked them about the three most important factors that they value (as external workers) or thought external workers value (as managers) when deciding to take a specific project or assignment (figure 11).

**FIGURE 11**

**Three things that are most important to external workers when they decide to take a specific project or assignment**
In general, external workers and their managers are fairly well aligned in their perspectives, but there are some striking differences. Managers underestimated the extent to which location is important to external workers. They greatly overestimated the extent to which external workers are motivated by the chance to do more work at their organization (27% of managers versus 17% of external workers) and by the chance to become an employee (24% of managers versus 11% of external workers). Finally, although 28% of managers thought that external workers want a clear scope of work, only 12% of external workers cited this as one of their top three motivations. Instead, along with good location, external workers prioritize fair compensation, a good fit between their skills and the project, and good timing when selecting a role or assignment.

**Onboarding**

Even organizations with robust onboarding for new internal employees may fall short when it comes to orienting and socializing new external workers. Less than half of external workers (44%) report that most workplaces make a point to make them feel welcome when they begin a new assignment or project, and 11% report that most workplaces do nothing to make them feel welcome. Less than half of HR professionals (47%) report that they have a standard onboarding process for external workers, and 11% report that they have no onboarding. Interestingly, among those organizations with external worker onboarding, 61% say they provide similar onboarding to that used with internal employees.

Managers and external workers are fairly well aligned on what new external workers need to get started, both citing “training necessary to help them do their work” and “opportunity to get to know the people they will be working with” as the most important prerequisites (figure 12).

**FIGURE 12**

**Three factors that are most important in helping new external workers get started**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Workers</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Coworker introduction</td>
<td>45</td>
<td>40</td>
</tr>
<tr>
<td>Leadership welcome</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Company equipment</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>IT integration</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>Policy orientation</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Paperwork assistance</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Onboarding buddy</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Values orientation</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>
Working and Engaging

When we look at the extent to which external workers, their internal employee colleagues, and managers view their treatment by internal employees and supervisors, the differences, though not large, are quite striking (figures 13 and 14).

External workers feel more strongly about their treatment, being both more likely to say they are treated well and more likely to say they are not treated well, as compared to the views of internal employees and managers.

**FIGURE 13** Welcome extended to external workers by internal employees

- **Internal employees make a special effort to support external workers as part of the organization.**
- **Internal employees treat external workers the same as their other coworkers.**
- **Internal employees treat external workers poorly (e.g. isolate them, don’t value their opinion, exclude them).**

**FIGURE 14** Welcome extended to external workers by supervisors

- **Supervisors make a special effort to support external workers as part of the organization.**
- **Supervisors treat external workers the same as their other coworkers.**
- **Supervisors treat external workers the same as their other coworkers.**
We asked external workers both how important it is for them to feel valued by and connected to the company or individual they are working for and how often they feel valued and connected. More than half (54%) rated it as very important or absolutely essential, and although only 14% reported that they always feel valued, another 59% reported that they feel valued very often or often.

Even those external workers who work with others in a company setting have varied levels of interaction with the internal employees of the company they are working for. About a quarter of external workers said they interact sometimes, often, or very often, respectively, 19% said always, and only 5% said they never interact with internal employees.

We asked both managers and HR about how integrated external workers and internal employees are on teams within their organizations, and the extent to which they thought complete integration was ideal. Endorsement of complete integration was high in both groups, though the managers felt more strongly that integration is ideal, and also agreed more strongly that this is the current situation in their teams (figure 15).

**FIGURE 15**

*Generally, what has been the distribution of external workers across your organization in the past 12 months?*

<table>
<thead>
<tr>
<th></th>
<th>Managers actual</th>
<th>Managers ideal</th>
<th>HR actual</th>
<th>HR ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>Disagree</td>
<td>15%</td>
<td>22%</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Neither agree or disagree</td>
<td>20%</td>
<td>44%</td>
<td>25%</td>
<td>31%</td>
</tr>
<tr>
<td>Agree</td>
<td>43%</td>
<td>29%</td>
<td>39%</td>
<td>38%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>20%</td>
<td>11%</td>
<td>11%</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Actual** = Managers'/HR’s perception that external workers and internal employees are completely integrated on a single team

**Ideal** = Managers'/HR’s belief that complete integration of external workers and internal employees on teams is ideal
To understand what motivates external workers, we asked those workers and managers about the top three things that encourage external workers to perform at their best. Both groups cite “being recognized for contributions at work” as the most motivating factor by a considerable margin, and place high priority on “receiving feedback on my performance,” although managers seemed to overestimate external workers’ interest in becoming employees and being involved in team activities (figure 16).

**FIGURE 16**

**Three factors that encourage external workers to perform their best**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Workers</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions recognized</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Monetary incentives</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Get feedback</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Leadership interest</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Professional development</td>
<td>25</td>
<td>40</td>
</tr>
<tr>
<td>Give feedback</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Future internal position</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Team activities</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>All-hands meetings</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Social events</td>
<td>10</td>
<td>25</td>
</tr>
</tbody>
</table>

**Internal employees’ views on what should be made available to external workers vs. what is made available**

Similarly, we asked internal employees which of these things they thought should be made available to external workers, and which are actually available to external workers. In all cases, they believed that external workers are being given these things at rates equal to or lower than what internal employees thought they should get. Although only 28% of internal employees thought external employees should get bonuses for meeting performance or productivity targets (monetary incentives), only 12% say that external workers do get these bonuses (figure 17).
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As external workers, managers, and internal employees all placed a high priority on external workers getting feedback, we wanted to know how organizations actually handle performance management for external workers. The largest group of HR professionals (35%) said that their organization leaves performance management up to individual managers, while another quarter reported that they give performance feedback to a third party (e.g., staffing agency). A small number (5%) said that their organization has a system just for external workers.

We also wondered what HR did for the engagement of external workers. This was an area in which there was little agreement across organizations. A similar number of organizations included external workers, excluded them, or left engagement up to managers. Only a small number (6%) had engagement programs specific to external workers (figure 18).

The final element of the external worker experience concerns when something goes wrong. We asked HR professionals if they have “a specific process in place to handle issues that external workers may face (e.g., conflict management, discrimination).” Again, organizations were rather evenly split: 27% use the same policies as for internal employees; 26% refer the problem to a third party (e.g., staffing agency); and 23% have formal policies that apply specifically to external workers. A small number (9%) have no policies or practices to handle external worker issues.
Paying

Compensation of external workers can be a fraught issue for the workers and the organizations where they work. First, from the worker perspective, external work has the potential to pay more in some circumstances but can also come with less job and financial security. To better understand the financial worries of external workers, we asked them to what extent they agreed with the following statements:

- As an external worker, money challenges are not a concern for me.
- As an external worker, I feel confident that I have enough money and financial resources to retire comfortably.
- I feel secure about my future as an external worker.

No strong picture emerged; respondents were roughly evenly divided between agreement, disagreement, and a neutral position across the three statements, conveying, once again, that external workers have very different perceptions about their experiences working in this capacity.

Second, from the organizational perspective, HR professionals were asked how their organizations “set appropriate pay for external workers.” The diversity of responses seems to reflect the wide variety of external workers that organizations engage, although setting pay prior to finding candidates was by far the most common response (figure 19).

While the current regulatory landscape curtails the options that organizations have for providing compensation beyond just pay, we wanted to know what external workers would most value, and what organizational representatives believed they would most value if all options were open. There were some notable differences.
Managers and HR thought healthcare benefits would be more appealing to external workers than they conveyed; we hypothesize that many people who become external workers have benefits from another source. On the other hand, external workers expressed a greater interest in retirement benefits than managers or HR expected.

Organizations have opportunities to compensate workers in ways other than pay. For example, other studies suggest that independent workers may find it harder than internal employees to find opportunities to develop new skills and that opportunities for self-improvement are often cited as appealing by external workers. We asked HR professionals if their organizations “have professional development opportunities (e.g., mentoring, stretch assignments) for external workers.” Although 65% responded that they don’t provide professional development opportunities, 19% reported providing them for some external workers and 8% for all external workers.

Organizations have shied away from providing training to external workers due to ambiguity in interpretation of the Internal Revenue Service (IRS) guidelines stating that periodic or ongoing training about procedures and methods is strong evidence that the worker is an employee. Yet the Occupational Safety and Health Administration (OSHA) rules make staffing agencies and host employers jointly responsible for maintaining a safe work environment for temporary workers—including ensuring that OSHA’s training requirements are fulfilled. We asked HR professionals if their organization “provides training (e.g., safety, process/procedure) for external workers.” Only 11% of HR professionals indicated that they didn’t provide training for any external workers; 38% provide training for some; and 48% provide training for all external workers (figure 20).

FIGURE 19

Which of the following methods does your organization employ to set appropriate pay for external workers?

- Set pay and then find candidates
- Find a candidate and then negotiate pay
- The hiring agency sets pay
- Every contract is negotiated separately
- We pay a 3rd a flat fee and they set worker pay
- Don’t know
- Pay based on performance (e.g., timeline, product quality)
- Other

We pay a 3rd a flat fee and they set worker pay
Exiting

In discussions with HR professionals and business leaders, it became clear that few organizations do much planning for the end of an external worker engagement. Even organizations that have invested effort in the employee exit experience have often overlooked the external worker’s exit, even though an inherent feature of using external workers is frequent and planned exits.

We asked external workers to reflect on their experiences ending their assignments and exiting organizations. The chart below shows the three statements to which external workers responded. Three-quarters of external workers said that all three statements applied at least somewhat, and more than a third reported that they applied a great deal. Yet, less than a third of HR professionals (30%) report that their organization maintains contact with previous external workers. This suggests that organizations might quickly see value in developing systems to allow them to keep track of and stay in contact with prior external workers.

When we look at the exit experience of an external worker from the organizational and worker perspectives, we once again find managers and HR somewhat out of step with external workers (figure 21). While the chance at another contract with the company was one of the two things that external workers most value, both managers and HR overestimated its importance, and they underestimated the importance of a bonus (drastically, on the part of HR). And managers did...
not think that external workers value being thanked as much as they actually do (figure 22).

Although external workers don’t say that providing feedback to their worksite is a top priority, HR professionals have shared anecdotes about how valuable the information is that they gain from external workers during exit interviews. Yet, only 41% of HR professionals indicate that their organizations do exit interviews with external workers. For many organizations, interviewing departing external workers may be a missed opportunity.

**FIGURE 21**

How much do the following statements apply to you as an external worker?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Not applicable</th>
<th>Not at all</th>
<th>Very little</th>
<th>Somewhat</th>
<th>A great deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>The work you’ve completed on an assignment or project helps you get your next engagement</td>
<td>6%</td>
<td>4%</td>
<td>14%</td>
<td>39%</td>
<td>36%</td>
</tr>
<tr>
<td>You maintain relationships (e.g. continue communicating) with the previous companies or individuals that you have worked with</td>
<td>6%</td>
<td>5%</td>
<td>16%</td>
<td>35%</td>
<td>39%</td>
</tr>
<tr>
<td>It is useful for your career to maintain relationships (e.g. continue communicating) with the previous companies or individuals that you have worked with</td>
<td>5%</td>
<td>7%</td>
<td>12%</td>
<td>33%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Top three things that make external workers feel the most positive about a work experience:

- Being thanked
- Another contract
- Bonus
- Paid correctly on time
- Reference
- Receiving feedback
- Easy exit process
- Clear end expectations
- Giving feedback
- Other

[Bar chart showing worker, manager, and HR perspectives]
Perceptions of Risk/Reward in the Use of External Workers
The Internal Employee View

We asked internal employees if they have had a positive experience working alongside external workers, and 58% of them agreed or strongly agreed that they had. An additional 36% neither agreed nor disagreed. We also wanted to know to what extent internal employees find external workers to be a threat. Overall, the main theme was that internal employees do not think that external workers have changed their work experience very much. Many noted that working with external workers has made their organization’s performance better. There were only 5% who have had a negative experience working with external workers.
three areas in which internal employees expressed somewhat elevated concern that external workers are making their experience worse: job security, job satisfaction, and their company’s culture (figure 24).

Finally, we asked internal employees to tell us how likely they would be to take several actions, based on their experience working with external workers. Less than a quarter of internal employees said that they were likely or extremely likely to look for external work themselves, but 44% of them would be likely or extremely likely to recommend that their organization hire an external worker to fill a needed role.

FIGURE 24

In your overall experience, what effects have external workers had on you and your organization?
The Manager View

One of our interests with managers was to learn how different they found the experience of managing external workers from that of managing internal employees. We asked them to consider the external workers that they’ve been managing in the last twelve months and rate their level of agreement on a number of statements. While a quarter of managers (26%) agree or strongly agree that legal requirements limit their ability to manage their external workers, and a third (32%) don’t find it easy to engage and motivate their external workers, managers of blended teams generally report positive experiences managing external workers (figure 25).

We also asked managers to select the top three benefits and challenges of using external workers. Managers were most pleased with the flexibility and agility that external workers bring to their teams, but they also acknowledged that turnover and transitions, logistics, and cultural alignment of external workers all presented management challenges (figures 26 and 27).

We also asked managers to evaluate the effect of external workers on their internal employees and organization, much as we asked the internal employees themselves. Managers, like internal employees, generally saw no difference in the experience, but did report greater gains in worker productivity and organizational performance than did internal employees (figure 28).

To better understand how effective managers find their organizations’ use of external workers, we had them evaluate each phase of the external worker lifecycle. At least half of managers rated their organization as very or extremely effective with each stage of the lifecycle except staffing and onboarding. Nearly one in five managers (17%) said that their organization was slightly effective or not at all effective at sourcing, defined for managers as “Attracting, sourcing, and selecting the right quantity and quality of external workers.” One-fifth (20%) also felt that their organizations were slightly or not at all effective at onboarding (figure 29).

These results are more alarming when paired with the information that nearly one-quarter of managers (24%) selected sourcing as the most critical stage for an organization to have an effective external workforce process, and another 14% said that onboarding was the most critical stage (figure 30).
**FIGURE 25**

Considering the external workers you’ve managed in the last 12 months, rate your agreement with the following statements:

<table>
<thead>
<tr>
<th>Statement</th>
<th>15%</th>
<th>26%</th>
<th>28%</th>
<th>23%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I’m less actively involved with my external than internal employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have the same control over managing externals &amp; internals</td>
<td>16%</td>
<td>14%</td>
<td>43%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>The external workers I manage are competent</td>
<td>16%</td>
<td></td>
<td>52%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>The external workers I manage are motivated and engaged</td>
<td>6%</td>
<td>20%</td>
<td>48%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>I am satisfied with the quality of external worker work</td>
<td>18%</td>
<td></td>
<td>53%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>I have had sufficient training to manage external workers</td>
<td>10%</td>
<td>21%</td>
<td>45%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>I am confident I can manage a blended team</td>
<td>13%</td>
<td></td>
<td>55%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>I have enough visibility into my external workers’ work</td>
<td>16%</td>
<td></td>
<td>53%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>I find it easy to engage and motivate my external workers</td>
<td>9%</td>
<td>23%</td>
<td>49%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>I am able to hold my external workers accountable</td>
<td>15%</td>
<td></td>
<td>52%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Legal requirements limit my ability to manage my external workers.</td>
<td>12%</td>
<td>25%</td>
<td>33%</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>I have had a positive experience managing external workers</td>
<td>14%</td>
<td></td>
<td>59%</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

- **Not sure/don’t know**
- **Strongly disagree**
- **Disagree**
- **Neither agree or disagree**
- **Agree**
- **Strongly agree**
Please select the top three benefits of using external workers

- To bring people in without having to involve HR
- To fill jobs that are unappealing to internal employees
- To save costs on talent
- Boosts to overall team productivity
- To assess people prior to hiring them as full-time employees
- Access to specialized skill sets
- To increase workforce agility/speed to get tasks or projects done more quickly
- Ability to staff specific projects and initiatives
- Ability to increase and decrease the number of workers based on business demands
FIGURE 27

Please select the top three challenges of using external workers

- Tracking external worker utilization
- Assessing their impact
- Including them in HR programs with internal workers (training, PM)
- Complying with relevant org policies & employment laws
- Providing performance feedback
- Ensuring their engagement and well-being
- Motivating them to deliver high quality work
- Avoiding conflict/tension between external & internal workers
- Aligning/engaging them with company’s purpose & culture
- Scheduling hours, tracking time, and other logistical issues
- Managing their turnover and transition
- Other
FIGURE 28

In your overall experience, what effects have external workers had on your employees and your organization?
FIGURE 29

Please rate your company’s effectiveness with each of the following stages of the external worker lifecycle?

- Planning
- Staffing
- Onboarding
- Working
- Paying
- Closing

Rating options:
- Not sure/don't know
- Not at all effective
- Slightly effective
- Moderately effective
- Very effective
- Extremely effective

FIGURE 30

Which stage is most critical for an effective external workforce business process?

- Planning: 28%
- Staffing: 24%
- Onboarding: 14%
- Working: 27%
- Paying: 7%
- Closing: 0%
The HR View

Nearly nine in ten HR professionals (88%) agreed or strongly agreed that “external workers positively contribute to the business productivity of my [their] organization.” Yet HR, as a group, is quite worried about the legal implications of external work. Nearly three-quarters of HR professionals reported that they are somewhat concerned, concerned, or very concerned about the legal landscape of external work, with 11% reporting that they are very concerned. While HR is among those responsible for making sure that organizations comply with external worker employment law, in 84% of organizations, this is a shared responsibility. More than a quarter of HR professionals cited staffing agencies (32%), managers (27%), and legal (25%) as responsible, and another 8% felt that external workers themselves are among those responsible for compliance. When asked what was the biggest issue or challenge that they would like to see resolved related to external workers, many HR professionals cited legal ambiguity regarding the use and management of external workers as their greatest concern.
Are You Ready for Your External Workforce?
Are You Ready for Your External Workforce?

We at SHRM and SAP believe that the external workforce is a central part of the future of work. As organizations strive to respond to a world of work in which flexibility and agility are instrumental for competitiveness, external workers will be a key element of their success. Those organizations that view their external workforce as an essential part of their human capital and plan and prepare for the strategic use of external workers will be more successful than those whose use of external workers falls outside of their strategic objectives and HR practices.

Based on the results of the survey research program described here, along with focus groups conducted with HR professionals across the country and interviews with business leaders, SHRM and SAP are developing an External workforce management toolkit. This toolkit will enable organizations to understand the current maturity of their approach to external workforce management and engagement, and create policies, programs, and practices that maximize organizational results while fostering positive outcomes for external workers, their internal employee colleagues, and their managers.

The toolkit will include:

**FOUNDATIONS**

The external workforce maturity model
A framework to help you understand the current maturity of your external workforce strategy, and which areas to focus on given your current state.

The external worker experience
A profile of who external workers are, including their motives, preferences, and experiences inside companies, to dispel stereotypes and help organizations understand how they can best manage and engage this part of their workforce.

The business case for investing in your external workforce
Suggestions for how to build a business case for investing in your external workforce that speaks to the unique needs of your organization.

**STRATEGY**

External workforce strategy and governance
Best practices for creating an external workforce philosophy, strategy, and governance model.

Legal facts versus myths about your external workforce
How to deal with the complexity and ambiguity of law around the external workforce, including how to balance rewards and risks effectively.

**THE EXTERNAL WORKER LIFECYCLE**

Planning
Why organizations hire external workers and tips for making that decision-making process more strategic and effective. Decision tree for choosing an external worker versus an internal employee for any given role.
Sourcing
Best practices for creating an external worker employment brand, and how external workers may impact your internal employee employment brand. Sourcing analytics that companies should utilize for their external workforce.

Onboarding
Best practices for onboarding your external workforce.

Working and Engaging

Paying
Considerations for external worker compensation.

Closing
Best practices for exiting your external workforce.

The “External workforce management toolkit—Strategies and tactics for optimizing your external workforce” will be available at externalworker.com.
Survey Research Methodology
Survey Research Methodology

The surveys of managers, external workers, and internal employees were conducted by NORC at the University of Chicago for the Society for Human Resource Management (SHRM) and SAP. Data were collected using the AmeriSpeak Panel. Supplemental sample was obtained from a nonprobability sample source, Lucid.

The AmeriSpeak Panel is NORC’s probability-based panel designed to be representative of the U.S. household population. During the initial recruitment phase of the panel, randomly selected U.S. households were sampled with a known, non-zero probability of selection from the NORC National Sample Frame and then contacted by U.S. mail, email, telephone, and field interviewers (face-to-face). The panel provides sample coverage of approximately 97% of the U.S. household population. Those excluded from the sample include people with P.O. Box only addresses, some addresses not listed in the USPS Delivery Sequence File, and some newly constructed dwellings.

This study was offered in English-only and self-administered on the web. Interviews for this survey were conducted between April 9 and April 22, 2019. A sample of U.S. adults age 18+ who were either currently employed, or not currently employed but potentially seeking employment, was selected from NORC’s AmeriSpeak Panel for this study. Respondents who indicated that they were currently employed and met one of the following criteria qualified to complete the survey.

- 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.
- Internal (management) employees who have managed external workers within the past 12 months.

In total, NORC collected 1,714 interviews, with 1,612 from the AmeriSpeak Panel and 102 from the Lucid Panel. The screener completion rate is 23.8%, the weighted recruitment rate is 34.2%, the survey completion rate is 46.3%, and the weighted household panel retention rate is 85.1%, for a cumulative response rate of 3.2%. The overall margin of sampling error is +/- 4.2 percentage points at the 95% confidence level, including the
design effect. The margin of sampling error may be higher for subgroups.

The survey of HR professionals was conducted by SHRM. Twenty thousand SHRM members were invited to complete the survey and interviews were conducted between March 28 and April 28, 2019. Interviews were conducted in English on the web, and 1,178 HR professionals completed the survey. The survey completion rate was 5.9% and the survey margin of error is ± 2.85% at a 95% confidence level. The data were not weighted.
About the Partners
About the Partners

SHRM, the Society for Human Resource Management, creates better workplaces where employers and employees thrive together. As the voice of all things work, workers and the workplace, SHRM is the foremost expert, convener, and thought leader on issues impacting today’s evolving workplaces. With 300,000+ HR and business executive members in 165 countries, SHRM impacts the lives of more than 115 million workers and families globally.

The SAP SuccessFactors HCM Suite helps customers deliver exceptional workplace experiences at every moment that matters, use intelligence to strengthen engagement across the entire workforce, and join a community defining the future of work. The industry-leading SAP SuccessFactors solutions help more than 6,700 customers around the world turn purpose into performance.

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