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Unleashing the Power of Direct Sourcing

A Pathway to Workforce Optimization

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Foreword

We live in an era where the accelerating rate of change is the only constant, and the dynamic world of independent workforce management is no exception. The traditional models of hiring and workforce development are undergoing a seismic shift, one in which agility, flexibility, and strategic alignment play pivotal roles. It's against this backdrop that MBO Partners® and Staffing Industry Analysts (SIA) bring you this groundbreaking report on the power of direct sourcing for today's enterprise.

I can't emphasize enough the timeliness of this report. Talent is not just an HR issue; it's a strategic imperative for all enterprises that impacts the bottom line. The agility to adapt to market changes, respond to customer needs, and foster innovation hinges on an organization's ability to source and engage talent effectively. Ask any C-suite leader, and they'll say their most important asset is their people. Those who ignore the totality of their workforce—including their independent labor—are missing the point, and missing access to 64+ million of America's most talented and in-demand workers. Direct sourcing is not merely a trend; it's a strategy that enables organizations to be nimble and targeted in their talent acquisition, thereby driving innovation and strategic growth.

This report conclusively shows leading-edge companies gaining a competitive edge through their sophisticated approaches to talent acquisition.

By using the right technologies, processes, and strategies, leaders in the space are building scalable programs that evolve alongside business needs and market conditions. The ability to start small and then expand ensures that even organizations new to direct sourcing can achieve rapid and sustainable ROI, and, eventually, expand into a full-fledged workforce optimization program that articulates a strategic "mix" of full-time, independent, and even offshore labor.

The advantages of direct sourcing are manifold. They are realizing benefits that span from cost savings to increased productivity, reduced risk, and, above all, a work environment adaptive and responsive to ever-changing business needs. Moreover, direct sourcing promotes a culture of continuous improvement, a virtuous cycle that benefits both enterprise and worker.

At MBO Partners, we have long been advocates for the next way of working, and we believe there is no better time than now to get started. The social contract between worker and enterprise is fast changing; those who don't get on board will be left behind. Direct sourcing is a critical component of the broader ecosystem. Now is the time for organizations to seize the opportunity to not just adapt but thrive in this new paradigm.

I invite you to read this report as a roadmap for the path forward. As you journey through its findings and insights, consider how you, too, can elevate results, thereby setting your organization on a course for sustainable success.

Miles Everson
CEO, MBO Partners

Executive Summary

The changing nature of work and the workforce has fostered the rapid growth of direct sourcing in the last few years, from an approach that few could define to one that is practiced at a “mature” level by nearly half of the marketplace.

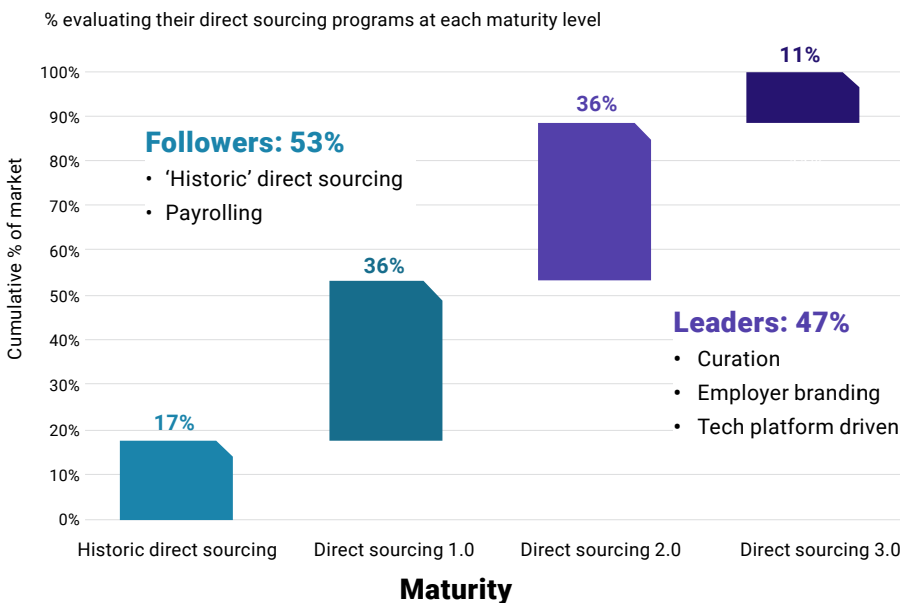
The purpose of this report is to share learnings from organizations that have utilized direct sourcing as a pathway to broader workforce optimization. We outline their approaches and challenges, and provide a practical pathway for implementation in your own organization.

During this growth, direct sourcing has steadily evolved, with direct sourcing 2.0 incorporating talent curation, employer branding, and tech platforms, while direct sourcing 3.0 focuses on scale through automation. As of early 2023, nearly 80% of large organizations either have a direct sourcing program in place or expect to explore the approach within the next two years.

Direct Sourcing

A term commonly used to refer to the process by which a company leverages independent contractors/consultants, temporary workers and third-party experts sourced from an internally developed pool of talent to perform work as contingent/temporary employees.

Half of the market practices ‘modern’ direct sourcing



Source: SIA research report, “Direct Sourcing 3.0”

As of early 2023, nearly 80% of large organizations either have a direct sourcing program in place or expect to explore the approach within the next two years.

These advances in direct sourcing have focused on increasing the sophistication of technique, viewed as a distinct workforce channel. However, many early adopters see even more potential – as an enabler to optimize the workforce itself, viewed as an integrated whole.

Professional service firms have been among the first to embrace this philosophy, motivated by acute talent shortages and the related opportunity costs of lost revenue. They've also set a goal of improving the overall utilization of talent, which, in turn, increases margins and enhances profitability.

However, their best practices have been increasingly adopted in other industries. SIA has confirmed the results of advanced direct sourcing practices in industries as diverse as oil and gas, pharmaceuticals, airlines, software providers and others.

Workforce Optimization

A framework that includes an organization's acquisition and deployment of talent, incorporating full-time employees as well as independent/contingent labor and even use of offshore resources. An employer that practices workforce optimization will identify the best mix of talent, regardless of status, to accomplish corporate objectives as efficiently and effectively as possible.

The fact that only 47% of companies have progressed toward 'mature' direct sourcing shows that it can be difficult to think about contingent talent in new and unconventional ways.

Moreover, several studies by McKinsey show that organizations that are more effective at attracting and managing talent have higher percentages of superior organizational performance than organizations with less effective talent management. Even with this recognition, the fact that only 47% of companies have progressed toward "mature" direct sourcing proves that it can be difficult to think about contingent talent in new and unconventional ways.



How Advanced Leaders Are Driving Change

Although there is no single path for navigating the journey to workforce optimization, our research indicates that leaders have relied on key strategies that may be segmented into four general categories:



Designing the Ideal Workforce Mix

Advanced leaders are more deliberate and strategic in how they acquire and deploy talent. They work with line managers to identify which functions and skills must be done by core employees and which can be done by external workers and then define the ideal mix of talent to meet business goals.



Embracing an Agile Talent Approach and Mindset

Early adopters understand that revenue growth and headcount growth don't need to run parallel. Instead, they are driving margin growth and enhanced talent utilization through a scalable workforce. They also embrace the fractionalization of work. Breaking projects down into component tasks facilitates the flow of talent and the alignment of skills to high-priority work.



Proactive Workforce Planning

Our research shows that engaging in disciplined talent forecasting ahead of demand provides insights into the functions and skills that are best done by core employees and those that can be done by external workers. The analysis process also helps identify which talent sources are available to complete an upcoming project at the right time and at the right price, regardless of status. With a complete picture of the workforce ecosystem at their fingertips, managers have greater flexibility in meeting the talent needs of the organization.



Making a Strong Case for Change

Above all, achieving a fully optimized workforce requires a permanent mindset shift that empowers hiring managers to move beyond thinking about recruitment as full-time employees augmented by staffing firms. To that end, advanced leaders outlined the need for change, obtained executive support, and then embedded the direct sourcing of independent workers into an agile talent management framework.

Generally, leaders have found that the resulting increased access to talent, cost savings and improvements in staffing deliverables fuels the mindset and motivation to confidently move forward.

Agile Talent Management Strategy

'A strategy designed to increase the overall productivity and capabilities of the workforce by rapidly shifting, in a coordinated manner, talent management approaches, tools and resources in response to the dynamic economy, a changing talent marketplace and the changing needs of your major business units,' according to Dr. John Sullivan, professor at San Francisco State and speaker and strategic talent advisor.

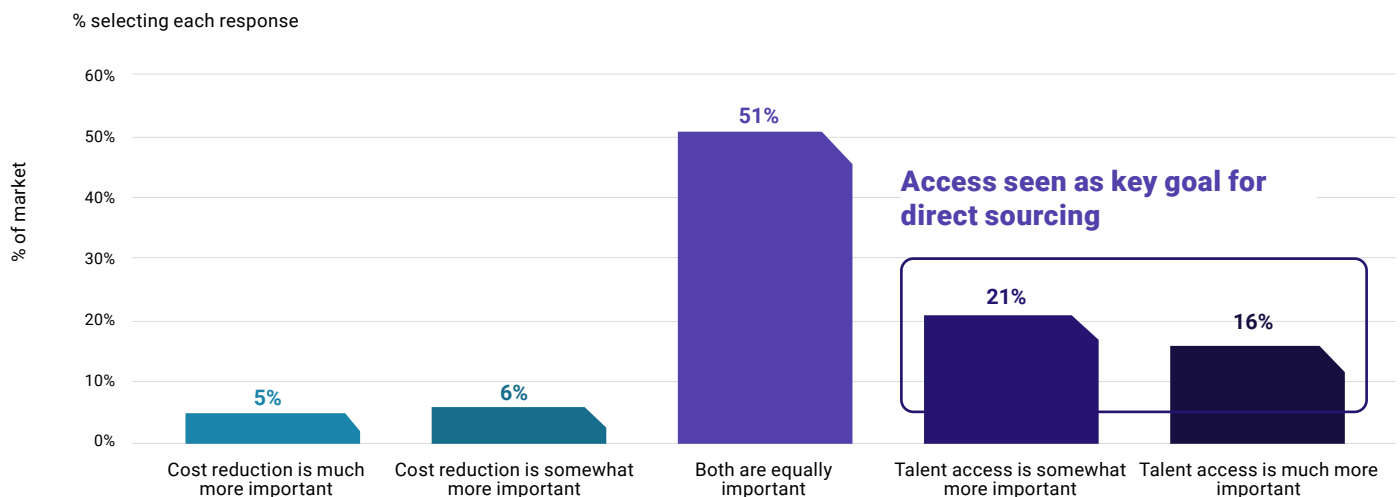
Four Advantages of Workforce Optimization

Leaders have experienced benefits and improvements in the following key areas:

1 Improved Access to Talent

By shifting focus from hiring an employee for a specific job to engaging the best source of talent for a defined project, organizations have gained access to independent workers with specialized expertise and even offshore resources. They have also seen improvements in staffing metrics and deliverables including time-to-hire, worker quality and satisfaction rates. Most importantly, managers now look beyond their own departments for talent; they employ flow-to-work models.

Talent access drives direct sourcing adoption more than cost reduction



Source: SIA research report, "Direct Sourcing 3.0"

2 Cost Reduction and Savings

Companies have saved millions in both direct and indirect labor costs as they increase their usage of directly sourced independent workers. Direct sourcing not only lowers markups and hourly rates when compared to agency-sourced personnel but has the potential to lower recruiting costs by facilitating the reuse and redeployment of talent to other projects.

Other cost savings opportunities that accompany workforce optimization include the reduction in last-minute staffing requests that command premium rates, and unbilled bench time for consultants – or, more broadly, unutilized downtime for workers in ebbs between projects.

It is of note that while cost savings is a benefit to direct sourcing, it is not the primary driver of a program for many who are doing it effectively. A [2022 MBO Partners report on the topic](#) found that while 53% of talent leaders report cost savings as a direct sourcing benefit, equal or greater benefits also include greater access to specialized skills (57%), more consistent work quality (56%), creation of a talent pool/bench for quick engagement (53%) and increased hiring manager satisfaction (52%).

3 Risk Mitigation

Companies are lowering risk and ensuring compliance with local tax and employment laws because managers aren't engaging independent contractors or third-party firms on their own. Over time, this can help reduce costly lawsuits, fines and penalties associated with worker misclassification.

“ Business managers were operating under ‘blissful ignorance.’ Once you become aware of the issues involved with hiring independent contractors and niche vendors, you have to deal with them.

– Principal, professional services network

4 Business Impact

Early adopters are leveraging the increased business flexibility and agility of a fully optimized workforce to launch new service and product lines, expand into new markets and negotiate transformations to new business models.

This assertion is supported by a [McKinsey study](#) which shows that companies with very effective talent management are six times more likely to report higher total return to shareholders (TRS) than competitors, versus those at companies with very ineffective talent management.



Introduction: Why Workforce Optimization Should Be a Top Priority Today

With SIA's Global Gig Economy report indicating that independent contractors are now more than 50% of gig workers by revenue, the traditional model of full-time employees augmented by staffing firm personnel must evolve. To avoid business disruption, organizations need to take a new approach.

In fact, talent shortages are already a daily cause of businesses failing to deliver their products and services, and the problem is only going to get worse. In 2022, 75% of employers worldwide reported talent shortages and difficulty hiring, according to research from ManpowerGroup. If left unchecked, by 2030, talent shortages could result in about \$8.5 trillion in unrealized annual revenues, according to Korn Ferry.

“ Why limit yourself to just 25% of the available workforce when there’s a human capital scarcity problem and companies are struggling to hit investor returns?

– Miles Everson, CEO, MBO Partners

Understanding the trends that are fundamentally changing how work gets done and how workers want to engage can help contingent workforce program leaders find the motivation to move forward.



The Changing Nature of Work

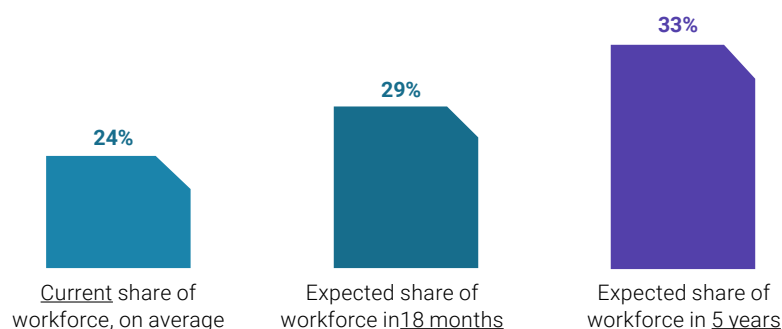
Work is becoming more variable, and in response, organizations are “fractionalizing” work – breaking it down into tasks or projects – which makes it easier to migrate internal and external talent and skills to critical workflows.

Systems and policies have evolved to allow organizations to complete tasks in a less centralized and often asynchronous manner. The nature of how we work is changing fast, and fractionalization of work is just one example. Another key shift alongside this fractionalization is a move from jobs to skills. Organizations practicing direct sourcing at scale – workforce optimization – are also seeing a shift from the “one person, one job” model of the past to a skills-based talent model, where problems are solved by a diverse group of talent with varied skill sets. The COVID-19 pandemic also opened the door to remote and hybrid work, which can be broken down into small components and assigned to freelancers.

Our research confirms that organizations are increasingly turning to highly skilled or external expert talent to achieve their business objectives. MBO Partners’ recent study, “The Contingent Labor Imperative,” found that most corporations have increased their use of independent workers over the past few years, and two-thirds (67%) plan on increasing their use even more over the next 18 months and then further out five years. Companies that don’t embrace this trend will be at a competitive disadvantage.



Contingent labor’s current and expected share of total workforce



Source: MBO Partners, “Private Cloud and Direct Sourcing Study”

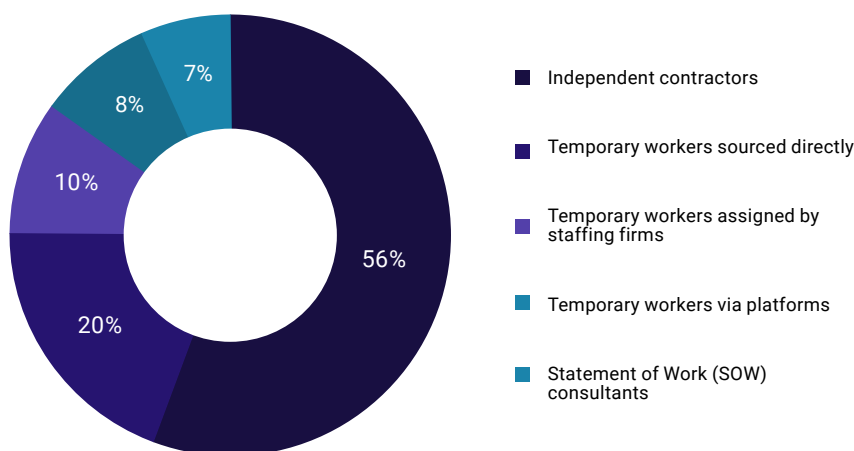
Utilizing a blended workforce also creates talent agility. For instance, the head of global resource management for a professional services firm said they were able to ramp up projects quickly without overcommitting full-time staff, once they started engaging contractors with specific subject-matter expertise. She also found that keeping the full-time head count in check limits non-utilized time as projects progress to new phases.

The Changing Workforce

Highly skilled independent contractors are now the largest and fastest-growing segment of the freelance workforce, representing more than half of contingent workers by revenue. The figure below provides a detailed revenue breakdown for the global contingent workforce, per SIA's Global Gig Economy Report (2022).

Independent contractors are the largest contingent worker segment by revenue

% of workers by type



Source: SIA report, "The Global Gig Economy 2022"

Today, the independent workforce has 64.6 million people, the largest number in history and a 69% jump in size from 2020. The vast majority (64%) of workers who engage in some form of independent work do so by choice, and most report being satisfied to very satisfied (89%) with their careers. In fact, 67% even say they feel more secure as independents than in a traditional job, and 33% of full-time workers agree that independence is a less risky route than full-time employment, per MBO's State of Independence research in 2022, a 12-year trending look at the American independent workforce.

“ The really mature companies recognize where society is going. They want to make sure they can adapt, attract, and retain the right type of talent.

**— Bob Lucas, SVP
corporate development,
MBO Partners**

Direct Sourcing Is a Launchpad

While directly sourcing independent talent is a step in the right direction and provides numerous benefits, in its fullest realization, it represents more than just another channel for sourcing independent talent. Simply put, it wasn't intended to be a stand-alone solution for talent scarcity problems or achieving the maximum return on talent investments. The most advanced practitioners go much further.

Leaders view direct sourcing as a tool that enables strategic workforce planning and the ability to consider and select the best source of talent to complete a task or project regardless of status. They use direct sourcing as a launchpad for new processes and as one cornerstone of a workforce optimization framework that utilizes data and analytics to inform talent decisions and align business and people strategies to improve results and profits.

Moreover, they recognize that direct sourcing helps create an ongoing relationship with independent talent. When companies have the ability to redeploy independent workers who have successfully completed projects, it greatly increases the chances that a new project will also be successful. It also helps to retain institutional know-how, reduce learning curves and improve productivity, communication and customer satisfaction. In many ways, it's a win-win-win because the worker, the company and its clients benefit from familiarity and the trust established over time.

The first step on the journey is workforce planning, which we outline in the next section.

“ Many companies say they hire the best and the brightest. But with the independent workforce reaching 64 million people in the last three to four years, that can't be true if all you hire is full-time people.

– Miles Everson, CEO, MBO Partners



Start with Proactive Workforce Planning

Why is workforce planning important? It ensures that all talent investments are directly aligned with the company's business plans. It also allows talent leaders to proactively forecast future talent needs, build talent pools ahead of demand and consider all sources of talent when making build, borrow or buy decisions.

Specifically, experts interviewed for this research find that performing the analytical steps of the workforce planning process helps organizations address these fundamental questions:



Do we have the talent to execute against our business plan?



Are we well positioned to change course or expand?



What are the experiences, professional skills and educational qualifications of our current employees, and what are the gaps?



What is the most efficient, cost-effective way to get the talent we need to close those gaps?

“ Forecasting is critical because it helps you determine the full cost of the future demand for talent and the resources needed to meet the demand.

– Martin Thomas, head of Total Workforce Strategy, Philips

What are the phases of workforce planning?



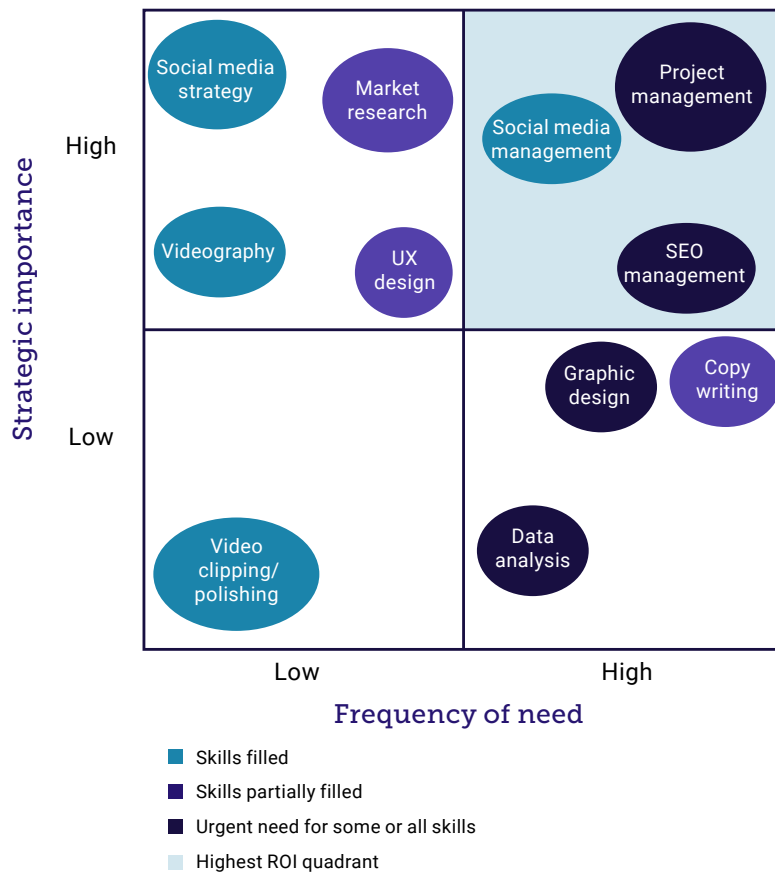
Source: NIH Office of Human Resources

Supply Analysis

After engaging in supply analysis, some leaders discovered that the best sources of talent were hiding in plain sight. Creating a skills inventory helps organizations understand their internal capabilities, uncover gaps and take proactive steps to close them – including hiring, upskilling, reallocating tasks and talent, or outsourcing work to freelancers or offshore firms.

A skills assessment creates an accurate picture of the current state of the enterprise, the areas where skills are needed and the recommended distribution of skills across the blended workforce.

Sample skills assessment



Source: *MBO Partners*

“Very few companies understand the talent they already have,” said Holly Kehrer, a vice president with MBO who leads its professional services practice. With skills inventories, you can learn more about your company’s capacities and build inventories of talent ahead of demand.

Demand, Gap and Solution Analysis

While nearly half of large companies have implemented direct sourcing, most use it in a reactive way. Despite populating talent pools in advance of demand, many fail to proactively forecast the nature of that demand. This reactive recruiting puts unnecessary time pressure on sourcing the right candidates, which can cause hiring managers to compromise or engage contractors from niche staffing firms, often at a high price.

Proactive demand forecasting has become a defining feature of companies that have moved up the maturity curve to workforce optimization. It allows them to predict the future needs for specific skills, identify shortfalls and scan the global labor market to identify the most cost-effective sources of talent, including independent contractors, SOWs, freelancers, staffing firms or even full-time hires.

Leading companies use internal and external talent intelligence powered by data, not habits or intuition, to identify the best sources of talent for a specific project.

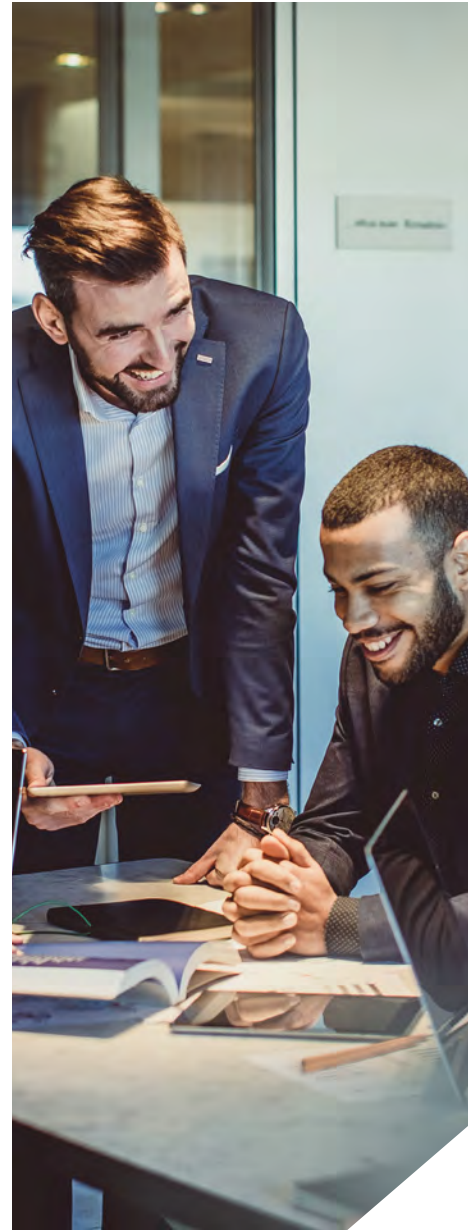
For instance, the team at Philips benchmarked the rates for agency contingent workers against external talent sources and also considered talent availability and geography to determine the best sources of talent for each job or project according to Martin Thomas, head of Total Workforce Strategy.

In the process, they also seized opportunities to combine roles, eliminate repetitive tasks or handle seasonal peaks. As Thomas said, "Everything was on the table."

“ If you don't have a workforce strategy, you are going to be at a huge disadvantage in five to 10 years.

– Senior director of recruiting for a global network of professional services firms

Organizations can no longer survive by being reactive. With a forecast of future demand and the workforce ecosystem at their fingertips, contingent workforce leaders can rethink the way work is performed and become more intentional and strategic in how they engage and deliver talent.



Engage Early and Often

Our research also shows that moving from reactive to proactive recruitment doesn't happen overnight.

Part of the problem is that too many engagement teams see resource management and talent acquisition as a necessary evil, rather than a strategic value-add business partner, Kehrer said.

As a solution, contingent workforce leaders have implemented structural and process changes, such as inserting HR and talent acquisition teams into sales meetings and business planning sessions, so they could get the information they needed to stay ahead of demand.

The typical siloed approach to talent acquisition discourages the sharing of information and causes the entire organization to think of talent in silos as well.

To position your organization for future success, talent acquisition needs to be involved much earlier in the business planning and forecasting process, not when a deal is about to be signed.

At Philips, for instance, Thomas says MSP, talent acquisition and procurement are now "joined at the hip." Each talent acquisition VP is assigned to a business function to keep the flow of information moving smoothly.

“ Don't wait for an invitation. Request a seat at the table.

– Holly Kehrer, vice president, enterprise solutions, MBO Partners



Become a Client of Choice

Finally, early adopters have found that highly skilled independent talent prefers a direct relationship with just five to seven clients. But to compete for their services, companies need to engage them in a strategic way.

The best independent talent is no longer looking for work – they are turning it down. According to research by MBO partners, more than 90% of independent workers say they have some or a lot of choice in who they work with.

“ Talent is a continuum that is open to being engaged, but you have to be strategic in how you go about it.

– Senior director of recruiting for a global network of professional services firms

This means attracting and retaining workers with in-demand skills is a constant challenge.

Rather than simply figuring out how to access labor, leading-edge companies have taken steps to become the “client of choice” for highly skilled independent workers. SIA data shows that this is a critical step, especially over the last two years as companies require greater access to talent and a faster hiring process.

But is your business leveraging cutting-edge projects and unique value proposition in the best way possible? This is where branding might be a solution.

“The best direct sourcing programs have developed a brand like KPMG’s ‘Assignment Select’ or PwC’s ‘Talent Exchange’ which helps them communicate, differentiate and engage top independent talent,” said Kristian Rayner, director, Enterprise Sales, MBO Partners.

The best programs treat independent contractors like a valuable part of their team, not a transaction. They provide opportunities for learning and building skills. Since an effective employee value proposition (EVP) needs to be written with the ideal worker in mind, they also highlight the unique set of benefits that contractors receive in return for their commitment.



“ Don’t make the mistake of thinking that contractors will be attracted to the same things as your full-time employees. They have different priorities and needs.

– Senior director of recruiting for a global network of professional firms

For example, to compete against high-paying tech giants for contractors with in-demand skills, Philips geared its EVP around supporting its mission and the opportunity to impact patient outcomes.

Highly effective programs also create reasonable processes and procedures and eliminate barriers to access. For instance, many have revised bring your own device (BYOD) policies and payment terms, and have streamlined the onboarding process to become a destination of choice for independent workers.

Mini Case Study: The Quest to Become a 'Client of Choice'

Situation: When a global network of professional firms set out to foster an intentional relationship with highly skilled members of the independent talent community, becoming a “client of choice” was viewed as a logical first step and a worthwhile investment.

Action: They surveyed current contractors as well as full-time staff to discover how various types of talent wanted to be engaged and used the results to tailor a specific value proposition for contractors.

Their research found that for most independent workers, the things that make up a compelling EVP include flexibility (work your way), monetary rewards commensurate with contributions, and stability.

Leaders also streamlined the onboarding process after discovering it was taking nearly four weeks to complete.

Results: Over time, the firm’s mix of talent and its talent pools have evolved to meet the changing preferences of workers. Today, roughly 72% of contingent labor comes from directly sourced freelancers and independent workers.

Companies in highly competitive industries have traditionally made it a goal to be an “employer of choice.” Now, given their increasing reliance on highly skilled independent workers, they must figure out how to become a “client of choice” as well.

Build a Case for Support

Support is critical to the success of any direct sourcing program or major change initiative, especially one that requires a change in thinking and engrained talent acquisition practices. In the absence of a sponsor or compelling evidence-based case study, even the most well-designed programs will struggle to succeed.

Recruit an Executive Sponsor

Many leaders address this need by presenting executives and business leaders with a formal business case that explains the benefits of pursuing a workforce optimization plan, its potential for cost savings and why it should be executed.

This approach can be highly effective in organizations where managers make decisions and take actions independently.

“Our business environment is more entrepreneurial,” explained the senior director of recruiting for a global network of professional firms. “We needed to secure buy-in from the partners before moving forward. Everyone needed to feel good about it.”

Others leaders took the opposite approach: They educated executives on the systemic changes in the labor market but placed the greatest emphasis on the risks and costs of staying the course. The increasingly fierce competition to attract and retain top talent and the potential for cost savings provides a powerful argument for engaging in direct sourcing as part of a workforce optimization framework.

While research suggests that contingent workforce leaders don't necessarily need a formal business case to get executives on board, the most impactful discussions focus on education, including technological advancement, outsourcing and changing worker attitudes and values.

Ideally, however, executives should push for change from the top down and tie manager compensation to multichannel sourcing goals, because they are linked to the company's business strategy and have been successful in driving meaningful change in professional service organizations.

“ We needed to secure buy-in from the partners before moving forward. Everyone needed to feel good about it.

– Senior director of recruiting for a global network of professional firms

Define What Success Looks Like

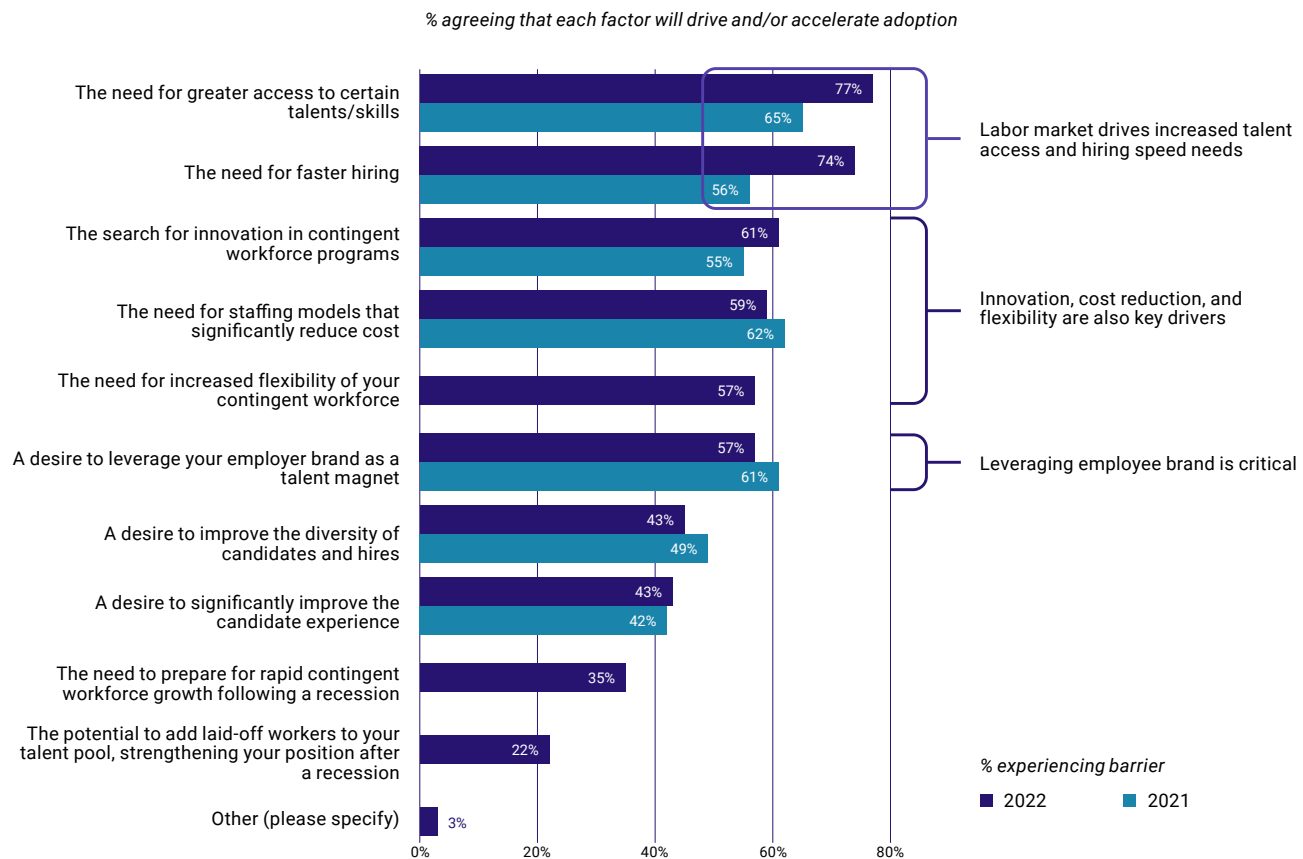
Although the shift to workforce optimization ultimately happens at the manager level, successful contingent workforce leaders take actions to support those changes.

First and foremost, they define success from the outset.

What does success look like? What are the goals? The leaders we interviewed stressed that achieving success in direct sourcing and beyond requires clear ownership and accountability. And to have accountability, managers must have shared expectations.

For a rapidly expanding professional services company, the initial objectives included access to talent, productivity, ramp-up time for projects, and improving independent contractor compliance.

Access to select talent and faster hiring are key drivers of adoption direct sourcing in 2022



Source: SIA research report, "Direct Sourcing 3.0"

These goals are very similar to those of other companies, based on SIA research that confirms three tiers of priorities: talent access/speed, program innovation, and leveraging the employer brand.

Business managers need to see the benefits, the value-add of making the change. Otherwise, it becomes a push vs. pull and makes it harder to get business traction, several leaders noted.

Defining expected improvements in areas such as time to deployment, talent reuse, talent satisfaction and cost is central to building awareness of the need for change and the desire to support and participate in the direct sourcing of contingent workers, work redesign and other initiatives that create a fully optimized workforce.

The power of defining goals up front is that it serves as a road map for measuring progress and making adjustments along the way. Leaders also cite progress toward building initial support for change and then following this virtuous circle to expand their programs.

“ It’s critical to identify the problems you are trying to solve up front.

– Senior director of recruiting for a global network of professional firms



Emphasize the 'Why'

Explaining the “why” helps paint a clear picture and enables everyone involved to work toward common goals and benefits such as better access to talent, improved agility and, of course, cost savings.

“The idea of moving to direct sourcing and workforce optimization is not really something you can mandate,” said Rayner. “Communicating the why is absolutely critical to getting people on board and gaining traction.”

Our research shows that followers walk hiring managers through the “what” and the “how” behind the shift to direct sourcing but fall short on the “why.”

Unfortunately, skipping this step can be the make-or-break factor in the success of implementing a direct sourcing program.

Managers who understand the rationale for the change – why it’s important to the organization and to them – feel inspired rather than directed, and are more inclined and motivated to support the change.

“ Ultimately, you need to measure performance and effectiveness. You need to know whether direct sourcing and a total talent approach will not only perform as expected, but deliver on business goals.

– Principal, global network of professional service firms





Commit, Then Iterate

To deploy the direct sourcing of contingent talent and evolve to broader workforce optimization, organizations must fully commit to making the change but are better off taking a phased approach to implementation.

Phased Rollout vs. Pilot

SIA's research among early direct sourcing adopters reveals one key commonality: Each started with one department, job description or geography, learned quickly from its mistakes and made mid-course corrections before moving on to broader implementation.

What's the difference between a pilot and a phased rollout? Commitment.

Pilot programs are generally new initiatives implemented on a limited test or trial basis. The implication is that a new initiative like direct sourcing may be discontinued if it doesn't gain traction.

A phased rollout is less risky than a big bang deployment, but after testing and refinement, the implementation continues in phases across the entire organization. Adopting a phased strategy implies that the company is committed to moving toward a new approach and model for sourcing contingent workers and maximizing talent. It also helps leaders identify and eliminate the chokepoints that inhibit rapid adoption, and scale their programs with speed and agility.

A phased implementation, which breaks up the deployment of direct sourcing into smaller, more manageable "chunks," also facilitates the workforce planning process, the rollout of new technology and the opportunity to build talent pools ahead of demand.

You need a robust talent acquisition infrastructure (with the right people, processes and technology) to achieve rapid deployment and scalability, said the senior director of recruiting for a global network of professional service firms. If you don't have that, then you definitely need to take a phased approach.

Assemble an Implementation Dream Team

Direct sourcing is a strategic change initiative that requires design input and support from other functions across the enterprise. Consider including the following stakeholders and departments when assembling your implementation dream team:

- ⇒ Talent acquisition
- ⇒ Procurement
- ⇒ Legal and finance
- ⇒ Communications and branding
- ⇒ IT
- ⇒ Executive sponsor
- ⇒ Internal and external customers

As an example, Thomas has taken a phased, sequential approach at Philips, ultimately rolling out new technology, MSP and multichannel sourcing to managers in 25 countries over several years.

He recognizes that some locations and tactics didn't work initially, but his team has been able to persevere by learning from their mistakes and implementing changes.

Leaders who weren't given the green light for phased implementation identified an area where direct sourcing could make a significant impact or improvement, such as IT or call centers. They used a feasibility study to test viability and then leveraged the results to expand to other areas.

“ Launch quickly, fail fast and learn.

– Martin Thomas, head of Total Workforce Strategy, Philips

Mini Case Study: Evolving in Phases

Situation: For a partner at a global network of firms, building a prototype and pressure testing the direct sourcing platform was the only logical and viable option.

“It's not feasible to roll out a workforce optimization initiative across the entire enterprise when you're changing your fundamental relationship with talent,” he said. What type of talent will we attract and how many? Will contractors know how to deliver the necessary results? These questions needed to be answered, and the results needed to be statistically relevant to get partners on board.

Actions: Testing for an entire year helped his team validate the new processes they were developing, garner advocates and get the green light to expand.

Results: The firm's contingent workforce program has evolved from a top-down initiative to the preferred way of bringing in contingent talent. “We've been successful in winning people's hearts and minds,” the partner said. After starting from zero, 90% of contingent labor now comes through our direct sourcing network.

Teach Managers to Think Differently About Talent

Our research shows that mindsets play a significant role in determining the success of direct sourcing and broader workforce optimization efforts. Left to their own devices, most managers will stay in their full-time hire comfort zone and turn to staffing firms as a last resort.

Building for the future requires teaching your managers to think differently about talent and how to hire the best person for the job, regardless of status.

Provide Decision Support

Leaders increasingly recognize this dilemma and address the need by creating a robust decision support system that lets managers compare internal and external sources of talent, cost, availability and geography to determine the best source of talent for each position and project.

However, the best decision models provide flexibility. Every project and regulatory environment is different; pioneering leaders give managers the option to consider intangibles and variables when deciding to build, buy or borrow talent.

“ Today, we mine and parse data to make talent decisions and proactively add talent to the pool.

– Senior director of recruiting, global network of professional firms



For instance, after considering their options, managers at one accounting firm decided to tap offshore resources to help with SOX audits. They also engaged contractors to handle short-term projects in remote locations, reducing travel expenses and improving work-life balance for full-time staff.

“We have been able to expand contingent workers from roughly 5% to 15% of our total workforce while maintaining valuable client relationships, now that managers look beyond their own four walls for talent,” said the senior manager for talent acquisition.

Mini Case Study: The Benefits of a Robust Decision Support System

Situation: Philips has restructured into a health technology company. Achieving that mission would require a more holistic, cost-effective talent strategy and the ability to compete for digital talent. However, managers were accustomed to hiring full-time staff and contingent workers through staffing agencies.

Action: Martin Thomas and his team implemented a multichannel sourcing strategy and started posting jobs for independent workers, but most importantly, they gave managers the data and support to consider their options before deciding what type of talent to engage. Philips’ team helped managers consider the characteristics of the work, costs, availability, location and any local tax and employment laws when decision making.

Results: In some countries, 50% of freelance workers now come through direct sourcing, contributing to significant cost savings. Philips’ transition to the healthcare technology space has not only rejuvenated the company but is now positively impacting people’s lives throughout the world.

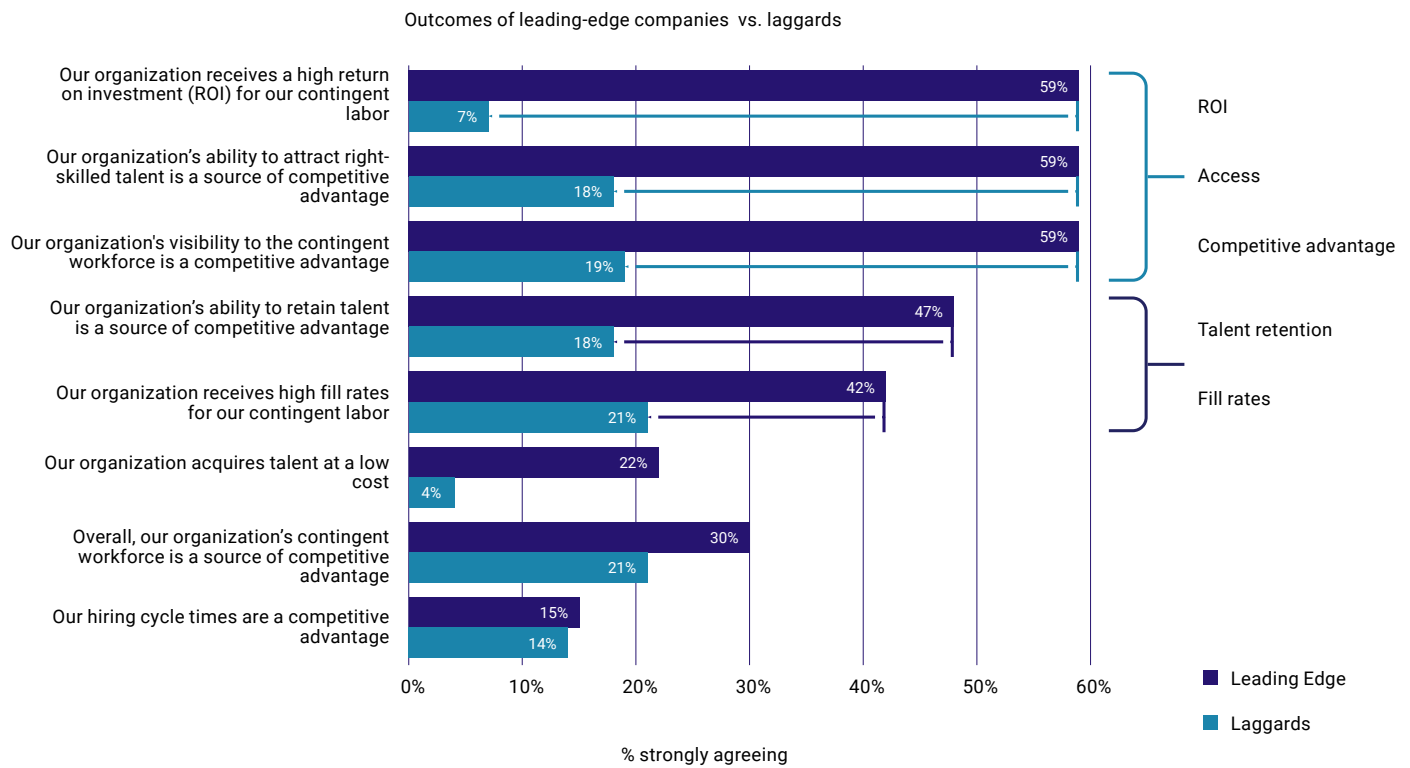


Key Findings and Takeaways

What we know is that when integrated into a broader ecosystem, direct sourcing results in faster time-to-fill, higher manager and worker satisfaction rates, lower costs and improved regulatory compliance and risk management. But most importantly, matching the right talent to the right roles irrespective of their status supports initiatives that drive the strategic growth of an organization.

In fact, nearly 60% of leading-edge companies cite their visibility into the broader talent market and ability to attract right-skilled talent as a competitive advantage, compared with 18% of laggards.

Leading-edge companies significantly outperform others in ROI, attraction and competitive advantage



Source: SIA research report, "Direct Sourcing 3.0"

Elevating Results Through Talent Optimization

Across the board, the leaders we interviewed have experienced near-term benefits from engaging in the direct sourcing of independent talent regardless of the size or maturity of their contingent workforce program. However, those who implemented a set of strategies and processes to achieve broader workforce optimization and engaged in continuous improvement have identified a pattern of cumulative advantages including the following:



Changing Workforce Composition

Leaders have evolved from using staffing firms to fill occasional skill gaps to engaging more independent workers and directly sourcing up to 90% of freelance staff.

This strategy appears to be especially relevant for companies that lack internal talent and bandwidth to respond to changing business conditions or expansion plans. It can also be an important source of revenue for firms that provide consulting and expertise to clients.



Cost Savings

Leaders have experienced benefits from controlling both the direct and indirect costs of labor. They report saving millions annually due to lower markups for directly sourced contingent workers, but also reductions in bench or idle time and conversion fees. Over time, organizations have been able to retain and redeploy valuable freelancers by becoming “clients of choice,” lowering recruitment costs while maintaining productivity. Based on prior SIA research, almost half of leaders said their organization’s ability to retain talent is a source of competitive advantage, compared with 18% of followers.



New Applications for Talent

Managers have been inspired to engage in work redesign that supports both the organization’s goals and the employees’ goals. They have identified new opportunities to utilize independent talent and now use flexible resourcing to enter new markets and blaze paths to renewed growth.

“Direct sourcing has become an expansion vehicle. We have been able to pursue work in banking, manufacturing and healthcare now that we have better access to talent.

– Principal, network of professional service firms



Mindset Shift

Workforce optimization has become the new normal at leading-edge companies. Leaders report that managers are more involved in the talent acquisition process and are willing to share talent across the organization. Most importantly, they now have the knowledge, processes and technology to make informed decisions about whether to build, borrow or buy talent to drive business growth.



Risk Reduction

Using technology and a formalized process to vet and engage independent contractors and third-party suppliers can significantly reduce risk and ensure compliance with global employment and tax laws.

Having visibility into the total workforce can also be an important factor for employers in countries where labor laws and high severance requirements can make hiring full-time employees less appealing.

The Path Forward

Now's the time for followers and newcomers to start building their direct sourcing capabilities and moving toward a fully optimized workforce. Following these steps leads to smoother implementations and faster ROI.

1 Start Small, But Start

Early adopters point out that organizations don't need to figure out the entire path to start thinking differently about talent. Instead, work on small changes that produce modifications in the sourcing and selection of talent.

"It's possible to grow the program organically and still make a big impact on talent acquisition," said the director for the global contingent workforce program at a life sciences company. Within a short time, time to select for hard-to-source talent has been reduced from 3–6 months to 1–2 weeks, and manager satisfaction has climbed to 80%, she added.

“ It's possible to grow the program organically and still make a big impact on talent acquisition.

– Director, global contingent workforce program, life sciences company

2 Find an Executive Sponsor

If managers doubt that members of the C-suite are fully committed to change, there will be resistance.

By tying direct sourcing and workforce optimization goals to manager compensation, executives can strengthen accountability for progress and send a clear signal about the company's priorities.

3 Create Alignment

Involving talent acquisition, HR and legal from the outset can create positive momentum. Also, consider removing the divisions between groups involved in talent acquisition and realigning tasks to create a holistic view of talent and encourage everyone to work collaboratively toward workforce optimization.

4 Explain the 'Why'

Leaders have found that "why" is the most important message to communicate, as this is what inspires managers to support direct sourcing initiatives, embrace new ways of sourcing talent and take action.

5 Launch, Refine and Expand

Use data analysis to find the "sweet spot" to launch direct sourcing, engage change agents and set realistic and achievable goals. Then, overcome inertia by benchmarking outcomes, developing use cases, teaching managers to fish and expanding sequentially.

6 Overcome the Fear of the Unknown

Some 41% of organizations are resistant to trying direct sourcing for fear that it will reduce the commitment from staffing suppliers, according to a survey by Rockbridge Associates for MBO Partners.

However, the reality is that companies will still need managed service providers, offshore talent, recruitment process outsourcing and even staffing agencies to meet their future talent needs.

About the Research

Staffing Industry Analysts (SIA) was commissioned by MBO Partners to conduct interviews among experts and pioneering contingent workforce leaders to collate their experiences, best practices, processes and roadmap to success when it comes to using direct sourcing to acquire independent talent and achieve broader workforce optimization.

As part of the project, SIA also reviewed numerous proprietary research reports and customer outcome data to validate the anecdotal evidence, identify trends and confirm our conclusions. This report represents a summary of what we heard about the role of direct sourcing in driving program maturity and access to talent, as well as reducing costs, lowering risks and driving top- and bottom-line improvements.

Quotes from the interviews, case studies and supporting data have been included in this report. We would like to thank all interview participants for their contributions to this important topic.



About MBO Partners and SIA



About MBO Partners

MBO Partners is a direct sourcing platform that connects and enables independent professionals and microbusiness owners to do business safely and effectively with enterprise organizations. Its unmatched experience and industry leadership enable it to operate on the forefront of the independent economy and consistently advance the next way of working. For more information, visit [our website](#).



About Staffing Industry Analysts (SIA)

Founded in 1989, SIA is the global advisor on staffing and workforce solutions. Our proprietary research covers all categories of employed and non-employed work including temporary staffing, independent contracting and other types of contingent labor.

SIA's independent and objective analysis provides insights into the services and suppliers operating in the workforce solutions ecosystem including staffing firms, managed service providers, recruitment process outsourcers, payrolling/compliance firms and talent acquisition technology specialists such as vendor management systems, online staffing platforms, crowdsourcing and online work services. We also provide training and accreditation with our unique Certified Contingent Workforce Professional (CCWP) program.

Known for our award-winning content, data, support tools, publications, executive conferences and events, we help both suppliers and buyers of workforce solutions make better-informed decisions that improve business results and minimize risk. As a division of the international business media company Crain Communications Inc., SIA is headquartered in Mountain View, California, with offices in London, England.

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