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# UPDATING YOUR MANAGEMENT TECHNIQUES FOR AN EXTENDED WORKFORCE

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# "How do you define your workforce?"

We have posed this question to dozens of executives and asked it in multiple global management surveys. The most common answer is also the most surprising.

A confident minority of executives say their workforce is just their employees. But the overwhelming majority, especially leaders on the front lines of organizational transformations, include a variety of groups–not just employees–in their workforce definitions.

Since we began our study of the future of the workforce a few years ago, it has become clear that the definition of the workforce is changing. We've talked to executives in many Fortune 500 companies concerning how they think about their workforces. Virtually all acknowledge that long-term contractors, temporary gig workers, professional services firms, subcontractors, app developers, and other complementors play an increasingly significant role in their businesses.

Over and over again, we hear different versions of this statement: "Our workforce is made up of those people and groups involved with achieving our business objectives." This broader and more holistic view of who (and what) constitutes a workforce has far-reaching implications.

It implies that the composition and boundaries of the workforce have changed. These shifts in workforce semantics portend real-world shifts in management practices. Hierarchical, command-and-control, internally focused management practices are ill-suited for workforces that span internal and external organizational boundaries.

Using siloed functions to independently manage employees and external contributors, for example, is fraught with challenges; ill-defined decision rights, governance processes, and power dynamics can undermine even the most well-intentioned executives.

In addition, the technology systems that support the management of employees along with the accessing and tracking of external contributors are typically different and disconnected; their lack of integration creates inefficiencies and inconsistencies that can thwart efforts to obtain and maintain strategically valuable capabilities.

Lastly, when a substantial group of workers are not employees, managers have to find ways to lead with less control, which is often an uncomfortable adjustment.

One interview in particular hammered home the significance of intentionally managing both internal and external contributors in an integrated way. An executive of a large global company told us that in March 2020, at the onset of the COVID-19 pandemic,

***We began figuring out how to handle things like pay continuity, absenteeism, and need for leaves of absence for those employees who couldn't work remotely, such as our teammates in distribution centers and company-owned production facilities.***

***But we quickly realized we needed to consider our contingent workforce as well. That was the initial impetus that really drove us to say, 'OK, so how big is that box? Do we know who and where they are? Can we find them quickly if we need to?'***

***And when we say we want to do the right thing for our extended family of workers, are we all defining that family the same way?***

We see similar examples across the business landscape: companies recognizing, belatedly, their dependence on a wide range of contributors and then taking seriously the need to manage their complex, interconnected workforces in a more intentional way.

As more than one executive told us, “We woke up one day to find that 30 to 50 percent of our workforce consists of workers who are not employees.” Some became acutely aware of their situation because of the pandemic. Others had already recognized that the nature of their workforce had changed.

Depending on external contributors to perform work is not a new phenomenon. What has changed?

Ill-defined decision rights, governance processes, and power dynamics can undermine even the most well-intentioned executives.

A growing number of companies are discovering that they have crossed a threshold. Their reliance on an extended workforce—including not only employees but also long-term contractors, gig workers, professional service providers, subcontractors, complementors, and even technologies—has become so essential to their business, brand, and approach to value creation that they need to think differently about, and act differently toward, their entire workforce.

We see this shift happening in organizations large and small, across a variety of industries. Leaders are redefining who and what constitutes their workforce, and experimenting with, searching for, and creating new management practices.

To this end, we share three cases from Novartis, Applause, and Walmart. These three companies are in different industries, operate in different regulatory environments, and have different revenue levels. Yet their stories share a common core. They reflect an expansive view of the workforce and an ongoing search for a more integrated approach to orchestrating a wide range of value creators. Their stories illustrate what companies may encounter as they adopt and embrace workforce ecosystems.

We define a workforce ecosystem as a structure that encompasses actors, from within the organization and beyond, working to create value for an organization. Within the eco-system, actors work toward individual and collective goals with interdependencies and complementarities among the participants.

**NOVARTIS**

"Our workforce is anyone who contributes to executing work toward our purpose and business strategy," says Markus Graf.

Graf, born in Germany, is currently vice president of HR and global head of talent at Novartis, the Swiss pharmaceutical giant. Throughout his career, Graf's roles have spanned HR, IT, project management, and business leadership, and he has worked at the country, regional, and global levels. He is a sought-after speaker globally as a thought leader on new ways of organizing work.

Graf has an expansive view of Novartis's workforce. It includes, he says, "internal people who are on our payroll . . . and we talk right now about 110,000 people at Novartis on our own payroll. We also specifically look at the roughly 50,000 external people that are in our systems."

## This broader and more holistic view of who (and what) constitutes a workforce has far-reaching implications.

He believes the external workforce will continue to increase at a rate of 2 percent per year for the foreseeable future; by contrast, he expects the numbers of internal employees to either hold steady or decrease. In the last twelve to eighteen months, notes Graf, Novartis has increased its emphasis on managing the entire workforce. He adds, "We will continue to focus more on managing the external workforce, our total workforce, more intentionally."

Graf offers several reasons for the growth in the external workforce. Novartis is looking for external help to complete work, access skills lacking among its employee base, and create flexibility.

"It's becoming even more important in areas where skilled talent is less inclined to join a traditional workforce, such as data scientists and other data workers," he explains. "We see huge opportunities to tap into this external workforce."

Like many other companies, Novartis engages external workers to perform lower- and higher-value work, and in high volumes. Companies like Novartis are able to access highly skilled workers through online platforms such as Toptal as well as via partnerships with staffing agencies that increasingly work with specialized workers such as software engineers and scientists. Nearly a third of Novartis's workforce are external, contingent workers. Novartis is a prime example of a firm rapidly changing how it conceives of and manages its workforce.

Given its dependence on external workers, Novartis is aiming to develop a cross-functional approach that will inform workforce strategies. This effort has already led to new relationships.

The procurement function, for example, was often responsible for obtaining external contingent workers. But as external contributors became increasingly significant to Novartis's strategic workforce and efforts to become more agile and flexible, Graf recalls that led to a change:

***We set up steering committees to really bring together these units (procurement and human resources) that should have been interrelated, but have not been interrelated fully. We're also working toward what we call a "talent skills ecosystem" because we recognize at the end of the day, it's about skills and getting access to specific skills, and really building up a common taxonomy, common language, of how do we categorize and codify specific skills.***

Data is a major impediment to building a skills taxonomy for Novartis's entire workforce. Graf says the company has good data on only 20 percent of its external contributors.

"The number one challenge for us is getting proper data on external workers," he acknowledges. "There's a lot we need to learn about this group."

In essence, the challenge is that companies can access résumés and potentially performance rankings on external platforms, but they can't yet obtain skills data that is as granular as they might have related to their own employees.

Also, systems compatibility remains an issue, so even if detailed data did exist in some form on an external platform, it might not port easily into a company's internal systems. Thus this learning about external contributors requires investment and new processes to collect, sort, and integrate data on their skills, interests, and experience.

Even with a skills taxonomy, Graf recognizes that his team needs to work closely with hiring managers to kick the habit of posting a job whenever they need someone.

"That's the barrier that I want to break," he says. "You want to help them to understand their different pools of talent and recommend to them suitable options: in terms of costs, but also speed, capability, or skills level so that they can identify the right mix."

Novartis recognizes and is actively managing the changing nature of its workforce. The company is beginning to cross-functionally orchestrate its workforce, with new organizational architectures, management practices, and technology systems. It acknowledges that operational managers need new tools and behaviors to operate within this ecosystem. Leaders are redefining their roles and responsibilities as well.

## APPLAUSE

"Applause provides software testing services," says Doron Reuveni. "But we don't employ a single tester. You know why? Because we use our community to test our software. That's rule number one."

Born and raised in Israel, Reuveni, executive chairman of the board and former CEO of software testing company Applause, started his career in the Israeli army. As a member of the elite Unit 8200 intelligence corps, he attended Technion, the Israel Institute of Technology, to study computer science. Opportunity brought him to Boston, where he worked through the internet bubble and crash of the late 1990s and early 2000s, after which he returned to Israel.

In 2007, along with a cofounder, Reuveni began exploring software testing and software quality. They recognized that regardless of how much money firms were spending on testing, quality, tools, and applications, users often had trouble using software. Different device configurations, browser fragmentation, localized versions, and so forth led to buggy and unreliable software.

At the time, online communities were a relatively new phenomenon. Facebook, launched in 2004, didn't open up to noncollege students until 2006. LinkedIn, which currently boasts eight hundred million members, had only nine million users in January 2007, but was growing at a rate of a hundred thousand members per week. Reuveni and his partner recognized that people were increasingly connecting via online communities, and they saw the value of harnessing online digital communities to perform work.

> "Culturally, we treat them like they're employees. No difference."

Reuveni moved back to Boston and successfully raised funding to get Applause off the ground. Eventually, the company grew from a desktop and web-based system to one that tests software on more than 2.5 million devices, including cars, fitness trackers, enterprise applications, and more.

A growing, nimble company, Applause manages a large-scale business due primarily to its ability to harness an enormous, crowd-sourced community through its uTest subsidiary.

The company employs roughly four hundred people, but its community of testers is over one million people strong and growing by more than ten thousand new testers per month. The Applause tester community is the largest in the world. The company pays millions of dollars monthly to its community of testers comprised of individuals working on distinct test projects.

At any given time, about 25 to 30 percent of the testers, called uTesters, work on revenue-generating projects for Applause. The rest participate in the Applause software testing community by taking courses on testing, participating in webinars, or contributing content to the community. Anyone can join the community and take classes, says Reuveni. Membership does not depend on how one chooses to participate. Testers can choose assignments (based on interest and the pay offered) or decline them.

As Reuveni explains, “They don’t have to do anything, they don’t have a boss,” and elaborates, “Culturally, we treat them like they’re employees. No difference. Technically, from a legal perspective, they’re different.”

Reuveni notes that data plays a critical role in validating testers’ competencies: “It’s much better than hiring someone to do a job because when you hire someone you look at their résumé and you check references. Here, you actually have data of what that person did in the last three years, which projects did they work on, what grading, which bugs did they submit or whatever. You have real data on their value.”

With that data, Applause can identify and invite specific uTesters to participate on a project. The testers, in turn, can choose to participate or not.

He describes uTesters as a community. They share a name. They are affiliated with a brand (Applause). They have a shared affinity around software testing and software quality. And uTesters have access to a uTest university. The community, Reuveni says, "is really an ecosystem" that cuts across demographics, geographies, and cultures.

***If you look at demographics within our community, the ratio between women and men is 42 percent women and 58 percent men. It's so much better than what you would get in regular high tech. Why? Because we provide for different types of diversity. You can work from home. You can work on your own time. You can have a day job. You can have a life, right? The diversity is much stronger. Plus, because we have so many different cultures within the community and within the employee base, there's a much better understanding of the needs and behavior of different cultures than I've seen before.***

Given this structure, it is not surprising that Reuveni, like Novartis's Graf, has an expansive view of the workforce. He remarks,

***When I think about the workforce, I think about everyone that basically works for a company in order to get things done. From my perspective that includes a broad range, starting with employees to different types of vendors and service providers. Maybe the old traditional offshore, onshore model in certain types of markets. Expanding to communities and crowdsourcing, and even expanding to different types of betas and feedback around separate communities that you create for your products or your brand. I truly think about workforce in a big holistic way.***

In sum, the Applause business model, retaining a smaller central organization while building and managing an extensive digital community, offers an extreme case of an effective workforce ecosystem. By integrating internal and external contributors, Applause can provide services well beyond those that would be customary for an organization of its size; its workforce ecosystem, to borrow a boxing metaphor, allows it to punch well above its weight.

> Leaders are redefining who and what constitutes their workforce, and experimenting with, searching for, and creating new management practices.

## WALMART

"I believe the workforce is the composition of all the people who contribute to the strategy or the business objectives of an organization," says Donna Morris.

Morris is the executive vice president and chief people officer at Walmart Inc. in Bentonville, Arkansas. Walmart is the world's largest company by revenue ($559 billion in fiscal year end 2021). Morris is a member of the executive committee and responsible for all company talent-related activities. Morris has served on the board of directors of the Society for Human Resource Management (SHRM), with over 300,000 members globally. In short, she is a seasoned executive who has operated at the highest levels of the HR profession.

Like Graf and Reuveni, Morris has an expansive view of her company's workforce, which includes Walmart's 2.2 million employees worldwide (almost 1.6 million in the United States) and many other external contributors as well.

In her view, everyone who contributes to Walmart's strategic goals is part of its workforce. She explains,

***When I say all the people, they could be directly employed or they could be indirectly employed. Those are two big buckets. When I say indirectly employed, that could mean individuals employed by a third party that you have a relationship with or temporaries who may not be on your payroll. They could be directly employed by you. But at the end of the day, it's all the people who are contributing to driving your business outcomes.***

External contributors are playing a larger role in Walmart's workforce, in part because of advances in technology. Platforms enable Walmart to manage flexible workforces at scale in an efficient way (e.g., with sophisticated scheduling) that wasn't possible in the past.

"You can use a platform to engage services for the needs that you have, whether those are very transitional in nature or longer term," Morris says.

In the future, Morris anticipates that Walmart will use digital platforms to collect a community of workers near a store to help with fulfillment and distribution. She notes that freelancers and contractors will play a more prominent role in Walmart's workforce, and individuals will have increasing control over where and when they work. As she puts it, people will be "the agents of their own opportunity."

The growth in external contributors has implications for how leaders think about inclusion. "Leadership is something we should all be acutely quizzical about in terms of the future of the workforce," Morris asserts, adding,

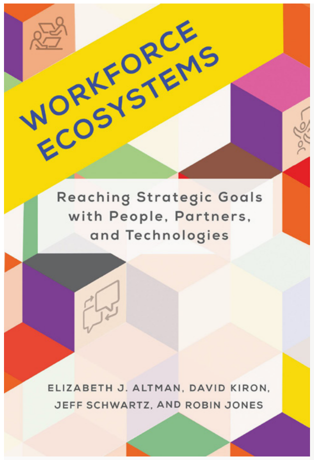
***Wherever you get your workforce, you need to determine how to best engage the strengths and capabilities of as many people who want to be engaged in the workforce as possible.***

***If you're really going to drive creativity and innovation, you have to engage people across the diversity spectrum. Leaders have to bear in mind all the opportunity to unlock the human potential of people who want to contribute in some fashion.***

Novartis, Applause, and Walmart are in different industries, at different scales, and operate in different regulatory environments. Yet all three companies find themselves considering ways to manage a workforce that extends across internal and external organizational boundaries. Their approach to workforce management goes far beyond the HR function, touching leadership, organizational behaviors, technology and data systems, and a wide range of management practices.

Their efforts reflect a central theme of our work: many companies are embracing the complexity of their workforce and **adopting a more proactive, intentional approach to orchestrating their entire workforce, not just their employees.**

# Info

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This document was created on May 31, 2023 and is based on the best information available at that time.