Focus your forces

External Workforce Insights 2018:
The Forces Reshaping How Work Gets Done

Professional Services Industry Report
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>The multi-channel workforce is on the rise</td>
<td>4</td>
</tr>
<tr>
<td>It’s about the core</td>
<td>7</td>
</tr>
<tr>
<td>Cost is not the whole story</td>
<td>10</td>
</tr>
<tr>
<td>Visibility is everything</td>
<td>12</td>
</tr>
<tr>
<td>The external workforce: a C-suite imperative</td>
<td>16</td>
</tr>
<tr>
<td>The Pacesetters lead the pack</td>
<td>17</td>
</tr>
<tr>
<td>About the research</td>
<td>18</td>
</tr>
</tbody>
</table>
The external workforce: is it on your C-suite agenda?

Much is written about the disruption that digital is enabling throughout business today. Professional services companies are not immune—they are facing new entrants and pricing pressure, and are on a continuous quest to break the dependency of revenue growth on headcount growth. Like companies in other industries, they must innovate to remain agile and responsive to customer needs.

Professional services companies depend on external talent to staff their client projects and support their business operations. Finding and engaging the right talent—at speed—is key to organizational agility, and maximizing revenues and profitability. How can these organizations and others gain better value from their external workforce? To find out, we collaborated with Oxford Economics to survey 800 senior executives, including 50 from professional services companies in more than a dozen countries. One-third are C-suite executives.

Given the findings, the rapid growth of the external workforce is one of the most important business stories of our time, with far-reaching implications for both employers and employees. Yet most companies—professional services companies included—are still figuring out the best ways to manage this extended workforce, and C-level executives are not paying close enough attention. Those who manage external labor effectively say it drives competitive advantage, yet others risk being left behind. In our full report, we discuss the performance of the “Pacesetters” (see page 17), companies that report markedly superior performance in extracting value from the external workforce.

The results provide an unprecedented deep dive into the ways the external workforce is sourced, managed, and deployed—and how it can add value.

Key themes from our research

<table>
<thead>
<tr>
<th>The External Workforce: improving agility and competitiveness, driving better business outcomes</th>
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<tbody>
<tr>
<td>The multi-channel workforce is on the rise</td>
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</table>

Who’s who in the extended workforce?

Non-payroll workers (contingent labor): individuals hired by a company to do work on its behalf, but not as traditional employees. They could include independent contractors, consultants, or temporary labor, and could be contracted via staffing agencies, through freelance marketplaces, or sourced directly.

Services providers: organizations such as consulting firms, marketing agencies, and facilities management companies. They are typically contracted to do project-based work via a Statement of Work (SoW).

External workforce: the combination of non-payroll workers and services providers (also known as an extended workforce).

On-demand, online marketplaces for freelancers: digital platforms that provide a mechanism to engage talent and match buyers and sellers of services.
Our research shows that approximately 43% of workforce spending in the professional services industry goes to contingent workers and services providers, slightly lower than the cross-industry average of 44%. These workers are deployed in a wide variety of roles across organizations. The shift to engaging the external workforce to do work is expected to continue in the coming years. As it does, the external workforce will become increasingly critical to business strategy.

The impact of these changes extends well beyond individual businesses. In fact, the growth of the external workforce affects the daily lives of millions of people—and even the performance of major economies. A 2016 study by the National Bureau of Economic Research, a prominent US nonprofit organization, suggests that net job growth in the United States between 2005 and 2015 was due entirely to contingent workers, including temporary and on-call workers, independent contractors or freelancers, and the fastest-growing group: contract employees.

### Fig. 1: There has been a big shift in the way work gets done

What is the split of your organizational spend across employees, non-payroll workers, and services providers?

Mean responses shown
Our survey shows that companies are relying on numerous channels to access external talent. We call this use of talent sourced through a variety of channels the **multi-channel workforce**.

**The multi-channel workforce: the way work gets done**

The most widely used method of accessing external talent for professional services companies is sourcing talent themselves (32%), followed by staffing agencies and on-demand, online marketplaces for freelancers (26% each), services providers (18%), and alumni networks (2%). These channels are expected to show strong growth over the next three years, suggesting ongoing, and even increasing, demand and competition for external workers.

66% of professional services executives expect to use on-demand, online marketplaces for freelancers in three years.
The multi-channel workforce is on the rise

Fig. 2: Strong growth ahead across talent channels

Through which of the following sources do you hire your external workforce today? In three years?
“Very often” and “Always” responses

<table>
<thead>
<tr>
<th>Source</th>
<th>Today</th>
<th>In 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source ourselves</td>
<td>32%</td>
<td>86%</td>
</tr>
<tr>
<td>Staffing agencies</td>
<td>26%</td>
<td>72%</td>
</tr>
<tr>
<td>On-demand, online marketplaces for freelancers</td>
<td>26%</td>
<td>66%</td>
</tr>
<tr>
<td>Services providers</td>
<td>18%</td>
<td>56%</td>
</tr>
<tr>
<td>Alumni</td>
<td>2%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Talent strategy is increasingly dependent upon sourcing strategy.
Only 16% of professional services executives stated that they strongly agree that their organization has a talent strategy that encompasses employees and the external workforce, despite the latter comprising 43% of their workforce spend.
In a global economy in which digital skills and other specialized capabilities can make or break a business, meeting the demand for talent at the right time and in the right place is essential. Our survey shows that external labor has become an important means of doing so, while also creating a rich well of talent for staffing core functions across the enterprise.

One stand-out data point for professional services executives in our study is that 58% of executives report that they would be unable to conduct business as usual without an external workforce (versus 46% for the industry average). This is the highest of all industries, tied with aerospace & defense. Half (50%) state that their external workforce is critical to operating at full capacity and meeting market demands, lower than the industry average of 65%, yet a significant statistic for organizations that rely significantly on labor to provide services to other organizations.

**Fig. 3: The external workforce is critical to keeping the lights on**

- 58% say they would be unable to conduct business as usual without an external workforce.
- 50% say their external workforce is critical to operating at full capacity and meeting market demands.
The demand for external labor is widespread, across organizational functions. In professional services, the business functions that rely most heavily on the external workforce are customer support, facilities management, administration, and digital.

**Fig. 4: The external workforce is being used widely across organizations**

Which business functions rely most heavily on an external workforce?

- **Customer service**
  - Rank 1: 30%
  - Rank 2: 8%
  - Rank 3: 16%

- **Facilities management**
  - Rank 2: 10%
  - Rank 1: 10%
  - Rank 3: 18%

- **Administration**
  - Rank 2: 20%
  - Rank 1: 20%
  - Rank 3: 14%

- **Digital**
  - Rank 1: 14%
  - Rank 2: 12%
  - Rank 3: 4%

- **Field services**
  - Rank 1: 10%
  - Rank 2: 10%
  - Rank 3: 6%

- **Legal**
  - Rank 1: 8%
  - Rank 2: 12%
  - Rank 3: 4%

- **Manufacturing**
  - Rank 1: 10%
  - Rank 2: 12%

- **IT**
  - Rank 1: 8%
  - Rank 2: 6%

- **Product development/R&D**
  - Rank 1: 4%
  - Rank 2: 6%
  - Rank 3: 4%

- **Cybersecurity**
  - Rank 1: 2%
  - Rank 2: 10%

- **Finance**
  - Rank 1: 6%
  - Rank 2: 4%
  - Rank 3: 2%

- **Marketing**
  - Rank 1: 8%
  - Rank 2: 4%

- **Sales/Seasonal sales**
  - Rank 1: 6%
When asked about the importance of external workers in meeting business needs today, professional services executives cited sourcing skills in scarce supply (72%), outsourced projects (70%), and support services (68%). In three years, executives expect the external workforce will be most important for corporate staff (98%), support services (96%), skills in scarce supply (92%), and outsourced projects (92%).

The #1 labor market trend cited by professional services executives as impacting their business is the availability of talent that prefers to work on a contract basis versus being an employee. This is followed by millennials and younger generations in the workforce, and the globalization of labor supply creating greater access to talent.

Fig. 5: Staying competitive in the digital age

How important are the following kinds of external workers to meeting your business needs today? In three years?
“Important” and “Extremely important” responses

<table>
<thead>
<tr>
<th>Type</th>
<th>Today</th>
<th>In 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills in scarce supply</td>
<td>72%</td>
<td>92%</td>
</tr>
<tr>
<td>Outsourced projects</td>
<td>70%</td>
<td>92%</td>
</tr>
<tr>
<td>Support services</td>
<td>68%</td>
<td>96%</td>
</tr>
<tr>
<td>Corporate staff</td>
<td>60%</td>
<td>98%</td>
</tr>
<tr>
<td>Field services/Manufacturing</td>
<td>60%</td>
<td>86%</td>
</tr>
<tr>
<td>Staff augmentation</td>
<td>56%</td>
<td>80%</td>
</tr>
<tr>
<td>Seasonal work</td>
<td>50%</td>
<td>74%</td>
</tr>
</tbody>
</table>
Cost is not the whole story

One of the big ideas behind the use of the external workforce is that it saves companies money, giving them the flexibility to scale their workforces up and down depending on demand—and reduce overhead in the process. Yet our survey shows that many other strategic goals are more important—in fact, managing costs was lowest on the list for professional services executives. They see the external workforce as important or very important to achieving goals including increasing organizational agility (70%), developing or improving products and services (62%), increasing speed to market (58%), and operating at full capacity/meeting market demands (50%).

Fig. 6: The external workforce delivers on strategic goals

How important is the external workforce in meeting the following business goals? “Important” and “Very important” responses

- Increasing organizational agility: 70%
- Developing or improving products and services: 62%
- Increasing speed to market: 58%
- Operating at full capacity/meeting market demands: 50%
- Reducing risk: 42%
- Achieving sustainability goals/shrinking carbon footprint: 40%
- Managing costs: 38%
This new and expansive outlook on the value of the external workforce includes the expectation that it provides the flexibility to respond to opportunities when and where they arise (56%), and more than half (54%) say their external workforce helps them compete in a digital world.

**Finding value beyond the hard numbers**

Non-traditional work arrangements can improve company performance in ways that go beyond traditional business metrics. Professional services executives mostly report positive cultural benefits from the external workforce as it raises the bar for their employees by bringing in new sources of skills and talent (56%), improves their culture by bringing in new people with different backgrounds and experiences (52%), and connects their workforce to new ideas (52%). Just under one-half (44%) say the external workforce dilutes their culture by including people who are not invested in the company, and more than one-third (36%) say the external workforce creates uncertainty among their full-time workforce about job longevity and pay levels.

Maximizing the value of the external workforce calls for thoughtful and effective management. This includes training and educating these workers, and integrating them into the company culture. Given the size and expected growth of the external workforce—and its importance to achieving a variety of business goals—it should be on the C-suite agenda.

**Fig. 7: Cultural impacts of the external workforce**

To what extent do you agree with the following statements about the impact of the external workforce on your organization?

“Agree” and “Strongly agree” responses

- **Raises the bar for our employees by bringing in new sources of skills and talent**
  - Professional services: 56%
  - Cross-industry: 54%

- **Connects our workforce to new ideas**
  - Professional services: 52%
  - Cross-industry: 49%

- **Improves our culture by bringing in new people with different backgrounds and experiences**
  - Professional services: 52%
  - Cross-industry: 54%

- **Dilutes our culture by including people who are not invested in the company**
  - Professional services: 44%
  - Cross-industry: 46%

- **Challenges our employees to do their best work**
  - Professional services: 42%
  - Cross-industry: 61%

- **Creates uncertainty among our full-time workforce about job longevity and pay levels**
  - Professional services: 36%
  - Cross-industry: 46%
A fundamental truth of business is that you can’t manage what you don’t measure. That makes the lack of visibility into the external workforce a serious problem for most companies. New work arrangements require a new kind of management, and senior executives—the C-suite included—are not paying close enough attention.

When it comes to the who, what, where, and when of their external workforce, professional services executives are not as well informed as executives in other industries. While 40% consider themselves highly informed regarding who they are (above the industry average of 35%), and compliance with negotiated rates (52%, above the industry average of 47%), they consider themselves less informed in other areas. For example, only 16% are highly informed about their access to systems and confidential company information (the industry average is 35%), and 30% are highly informed about their responsibilities (the industry average is 46%). The C-suite executives who are leading their functions are generally less in the know.

When it comes to services providers, there are also mixed results. While 46% of professional services executives consider themselves highly informed about their access to systems and confidential information (the industry average is 43%), and 44% regarding where they are located (the industry average is 35%), they consider themselves less informed in other areas. For example, just one-third (34%) are highly informed about their responsibilities (the industry average is 53%), who is doing the work (38% versus the industry average of 47%), and access to facilities (34% versus the industry average of 46%). The C-suite executives managing their functions are generally much less in the know.
Visibility is everything

**Fig. 8: Poor visibility goes all the way to the top**

How informed are you personally about the following details of your non-payroll workers?

“Highly informed” responses

<table>
<thead>
<tr>
<th>Professional services</th>
<th>Cross-industry average</th>
<th>Pacesetters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with negotiated rates</td>
<td>52%</td>
<td>47%</td>
</tr>
<tr>
<td>Labor rates</td>
<td>44%</td>
<td>50%</td>
</tr>
<tr>
<td>Who they are</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>Number of resources</td>
<td>36%</td>
<td>43%</td>
</tr>
<tr>
<td>Quality of work</td>
<td>34%</td>
<td>45%</td>
</tr>
<tr>
<td>Duration of work (tenure)</td>
<td>32%</td>
<td>45%</td>
</tr>
<tr>
<td>Responsibilities (what they are doing)</td>
<td>30%</td>
<td>46%</td>
</tr>
<tr>
<td>Where they are located</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td>Access to facilities</td>
<td>28%</td>
<td>40%</td>
</tr>
<tr>
<td>Compliance with licenses, certifications, etc. required to perform their role</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>Access to systems and confidential company information</td>
<td>16%</td>
<td>35%</td>
</tr>
</tbody>
</table>

How informed are you personally about the following details of services providers doing work for your organization?

“Highly informed” responses

<table>
<thead>
<tr>
<th>Professional services</th>
<th>Cross-industry average</th>
<th>Pacesetters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to systems and confidential company information</td>
<td>46%</td>
<td>43%</td>
</tr>
<tr>
<td>Contract terms</td>
<td>44%</td>
<td>51%</td>
</tr>
<tr>
<td>Where they are located</td>
<td>44%</td>
<td>35%</td>
</tr>
<tr>
<td>Duration of work (tenure)</td>
<td>38%</td>
<td>49%</td>
</tr>
<tr>
<td>Who is doing the work</td>
<td>38%</td>
<td>47%</td>
</tr>
<tr>
<td>Quality of work</td>
<td>36%</td>
<td>42%</td>
</tr>
<tr>
<td>Compliance with required licenses and certifications</td>
<td>34%</td>
<td>35%</td>
</tr>
<tr>
<td>Responsibilities (what they are doing)</td>
<td>34%</td>
<td>53%</td>
</tr>
<tr>
<td>Access to facilities</td>
<td>34%</td>
<td>46%</td>
</tr>
<tr>
<td>Progress against milestones and/or deliverables</td>
<td>32%</td>
<td>41%</td>
</tr>
</tbody>
</table>
Visibility is everything

Fig. 9: Management challenges abound

How challenging are the following aspects of managing your external workforce?

- Finding high-quality resources at the right time and in the right place:
  - Extremely challenging: 22%
  - Really challenging: 32%
  - Somewhat challenging: 44%
  - Minimally challenging: 2%

- Tracking resource and project quality:
  - Extremely challenging: 14%
  - Really challenging: 36%
  - Somewhat challenging: 42%
  - Minimally challenging: 8%

- Managing digital/cyber security:
  - Extremely challenging: 16%
  - Really challenging: 38%
  - Somewhat challenging: 42%
  - Minimally challenging: 4%

- Managing physical security:
  - Extremely challenging: 16%
  - Really challenging: 48%
  - Somewhat challenging: 18%
  - Minimally challenging: 16%
  - Not a challenge: 2%

- Compliance with local tax laws, labor laws, regulatory, and candidate privacy requirements:
  - Extremely challenging: 16%
  - Really challenging: 34%
  - Somewhat challenging: 44%
  - Minimally challenging: 6%

Financial and risk issues also abound, although professional services executives report fewer issues with managing external talent than other industries. The issues cited by most executives are managing physical security (64% find it really or extremely challenging versus the industry average of 56%), administrative issues (58%, same as the industry average), finding high quality resources at the right time and in the right place (54% versus the industry average of 70%), managing digital/cyber security (54% versus the industry average of 59%), and inconsistencies in talent or project quality (52%, versus the industry average of 56%).

Forty-two percent (42%) of professional services respondents report they have experienced physical security breaches—higher than the cross-industry average of 37%, and 28% report digital security breaches (lower than the cross-industry average of 31%). Just under one-third (32%) say they have experienced unauthorized spend without approval of procurement, slightly higher than the average (28%). They also cited compliance issues (30%) and quality issues regarding resources and/or projects (30%), similar to the industry average.

The fact is that a workforce managed ineffectively won’t deliver on its full potential. **While most respondents say their company considers all types of labor when starting new projects, and that they look at the total workforce strategically, in reality the current lack of visibility means management does not have a truly holistic view.**

How can that visibility be improved? One solution may lie in technologies like advanced analytics and machine learning, which can give companies better insight into their external workforce.
When it comes to using analytics and artificial intelligence (AI)/machine learning to inform overall workforce decisions, sometimes professional services executives are ahead of the industry average, and sometimes behind. In terms of informing workforce strategy, they are behind the industry average in their use of data and analytics (62% versus 68% cross-industry), yet ahead in their use of AI/machine learning (60% versus 57%).

Half (50%) of professional services respondents say they use AI/machine learning to source talent (close to the industry average), and nearly half (48%) use AI/machine learning to anticipate talent shortfalls (48% versus 41%).

**Fig. 10: The professional services industry’s use of advanced technologies to inform workforce decisions**

To what extent do you agree with the following statements about your use of analytics and artificial intelligence (AI)/machine learning to inform your overall workforce decisions?

“Agree” and “Strongly agree” responses

<table>
<thead>
<tr>
<th>Professional services</th>
<th>Cross-industry average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>We use data and analytics to help inform our workforce strategy</strong></td>
<td></td>
</tr>
<tr>
<td>62%</td>
<td>68%</td>
</tr>
<tr>
<td><strong>We use AI/machine learning to help inform our workforce strategy</strong></td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td>57%</td>
</tr>
<tr>
<td><strong>We use predictive analytics to inform workforce scenarios</strong></td>
<td></td>
</tr>
<tr>
<td>58%</td>
<td>53%</td>
</tr>
<tr>
<td><strong>We use AI/machine learning to source talent</strong></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td><strong>We use predictive analytics to anticipate talent shortfalls</strong></td>
<td></td>
</tr>
<tr>
<td>48%</td>
<td>56%</td>
</tr>
<tr>
<td><strong>We use AI/machine learning to anticipate talent shortfalls</strong></td>
<td></td>
</tr>
<tr>
<td>48%</td>
<td>41%</td>
</tr>
<tr>
<td><strong>We use AI/machine learning to get real-time visibility into payroll and rate data to inform workforce decisions</strong></td>
<td></td>
</tr>
<tr>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td><strong>We use AI/machine learning to inform workforce scenarios</strong></td>
<td></td>
</tr>
<tr>
<td>44%</td>
<td>45%</td>
</tr>
</tbody>
</table>
The external workforce: a C-suite imperative

Take a moment to consider that on average, professional services executives report that 43% of their overall workforce spend is on non-payroll workers and services providers.

We believe the external workforce must now be a C-suite imperative—not only because of the sheer numbers involved, yet also because it enables such an impressive range of business outcomes such as increasing organizational agility and speed to market.

Professional services executives also see contingent workers and services providers as a means to access the critical skills and capabilities essential for core operations, and to position themselves for future growth.

At the same time, these vital assets are often critically undermanaged. The key question for every business is this: shouldn’t the same rigor you use to manage your internal workforce be applied to your external workforce? In other words, shouldn’t the external workforce be on your C-suite agenda?

Take action today

Capture the full value of the workforce transformation by managing your external workforce more effectively:

✔ Ensure your leadership has visibility into the scope, activities, and quality of your external workforce, the challenges at hand, the benefits realized—and those that could be realized.

✔ Know the true value of your external workforce, whether they are most critical to getting products to market faster, providing difficult-to-access skills, driving digital transformation efforts, or controlling costs.

✔ Anticipate the skills you will need in the future—and those in short supply. Determine a strategy to acquire, retrain, or source these skills through the multi-channel workforce.

✔ Apply workforce strategies to all labor sources, both external and traditional. Embrace the external workforce for the skills and ideas that this talent brings and make them a part of organizational objectives and purpose.
The Pacesetters lead the pack

The journey to better business outcomes

Around one in ten companies that responded to our cross-industry survey demonstrate markedly superior performance in managing and extracting value from the external workforce. These “Pacesetters” are charting the way forward for others in this still evolving field. They stand out from the crowd in three important ways:

- **Their visibility** into the external workforce. Pacesetters are much more informed on details regarding their non-payroll workers and services providers and are more likely to say that their C-level executives are informed as well.

- **Their effective management** of this workforce. Pacesetters find it much less challenging to perform a wide range of external workforce management duties more effectively.

- **The business impact** of the external workforce. Pacesetters are more likely to say their external workforce enables them to improve their company’s overall financial/business performance and/or compete in a digital world.

These Pacesetter criteria were used to assign each respondent to a particular group. Even the Pacesetters have much to do to fully capture the value—and mitigate the risks—of this dramatic transformation in the way work gets done.

<table>
<thead>
<tr>
<th>Beginners</th>
<th>Followers</th>
<th>Fast Followers</th>
<th>Pacesetters</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 Respondents</td>
<td>290 Respondents</td>
<td>372 Respondents</td>
<td>77 Respondents</td>
</tr>
<tr>
<td>8%</td>
<td>36%</td>
<td>46%</td>
<td>10%</td>
</tr>
<tr>
<td>Do not meet any Pacesetter criteria</td>
<td>Meet 1 of 3 Pacesetter criteria</td>
<td>Meet 2 of 3 Pacesetter criteria</td>
<td>Meet all 3 criteria</td>
</tr>
</tbody>
</table>

Are you a Pacesetter? Access our full report at [externalworkforce.fieldglass.com](externalworkforce.fieldglass.com) for a detailed definition of our Pacesetter methodology.
About the research

Oxford Economics conducted an in-depth telephone survey with 800 senior executives from mid-sized to large companies including 50 from the professional services industry. Executives in more than a dozen countries were surveyed in late 2017 and early 2018. The survey focused on labor trends, including the use and management of an external workforce, today and in the future, and its impact on business and financial performance.

Visit externalworkforce.fieldglass.com to access the full report and shareable content including an executive summary, SlideShare and infographics.

About Oxford Economics
We are a world leader in economic analysis for business and government. Founded in 1981 as a joint venture with Oxford University’s business college, we specialize in evidence-based thought leadership, forecasting, and economic impact analysis. Headquartered in Oxford, with offices around the world, we employ more than 250 people, including over 150 economists, industry experts, and business editors. Oxford Economics has a worldwide client base of over 1,000 corporations, financial institutions, government organizations, professional firms, and universities.

About SAP Fieldglass
SAP Fieldglass, a longstanding leader in external talent management and services procurement, is used by organizations around the world to find, engage and manage all types of flexible resources. Our cloud-based, open platform has been deployed in more than 180 countries and helps companies transform how work gets done, increase operational agility and accelerate business outcomes in the digital economy. Backed by the resources of SAP, our customers benefit from a roadmap driven by a continuous investment in innovation.

Survey demographics

Countries: Australia, Belgium, Brazil, Canada, France, Germany, Italy, Japan, Mexico, the Netherlands, the Nordics, the Philippines, Spain, the United Kingdom, and the United States.

Industries: aerospace and defense, banking, capital markets, construction, consumer packaged goods, healthcare, high-tech, industrial manufacturing, insurance, life sciences, oil and gas, professional services, public service, rail, retail, and utilities.

Executives interviewed: procurement (55%), HR and talent management (30%), IT (10%), and finance (5%). A third were C-suite executives; a further third were their direct reports; and the final third were director-level leaders.

Company size (USD):
$500 million–$1 billion: 10%  
$1 billion–$5 billion: 35%  
$5 billion–$20 billion: 40%  
$20 billion+: 15%