



The **Research** Platform

Engaging the 21st Century Independent Professional Workforce

MBO Partners — Developing a New Work-Arrangement Intermediation Ecosystem

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ENABLING ENTERPRISE ENGAGEMENTS FOR THE GROWING INDEPENDENT PROFESSIONAL WORKFORCE

MBO Partners -- Developing a New Work-Arrangement Intermediation Ecosystem

Summary

Based on its leading position as an Independent Contractor Evaluation and Compliance (ICEC)¹ services provider -- enabling working engagements between professional-level independent contractors and mid-to-large-size organizations -- MBO Partners is developing a new work-arrangement intermediation digital services ecosystem to address the growing workforce segment of independent professionals.

The independent professional class is a growing population of highly skilled knowledge workers that deliver their expertise and services to organizations not by traditional employment, but by contract work engagements. Organizations that are increasingly in need of this scarce talent and willing to procure it on a contingent basis have established a contingent workforce supply chain to engage other traditional temporary labor and contract workers. However, these engagement methods appear unsuitable for the 21st century population of independent professionals, as well as the managers and organizations who need the services of these professionals.

MBO Partners is pioneering a better way of intermediating the organizational demand for the supply of this unique, growing talent population of independent professionals—one that is suitable to both sides, providing service marketplace flexibility and all the needed administrative and legal compliance services to both organizations and professionals.

This paper covers three main trends:

- (1) organizations changing use of labor/talent and evolving work arrangements,
- (2) workers' changing perspectives, needs and preferences, and evolving work arrangements, and
- (3) new digital platforms/ecosystems enabling the prior.

In addition, it establishes how MBO Partners is leading the establishment of an innovative engagement enablement platform and a digital-service ecosystem that will meet the growing support needs of independent professionals and the enterprises/other organizations that wish to do business with them.

THIS RESEARCH PAPER, SPONSORED BY MBO, REPRESENTS ANDREW KAPIE'S INDIVIDUAL PERSPECTIVE ON ENGAGING THE INDEPENDENT WORKFORCE.

¹ Independent Contractor Evaluation and Compliance (ICEC) is a service requiring a provider to evaluate the qualification of a worker to determine if the worker meets the legal requirements to perform services for a client as an IC. This service can also include the ongoing compliance management of independent contractors who provide service/deliverables to the client. ICEC service can include contracting, invoicing and payment for all workers that meet the legal requirements to be bona fide ICs.

Organizations and Work Arrangements: The Changing Business of Engaging and Utilizing Workers and Talent

WHAT ISSUES WILL BE COVERED IN THIS SECTION?

- How work arrangements are the structures which allow organizations and workers to get work done.
- How in past decades, organizations have been increasingly using labor market intermediation to achieve more flexible and efficient workforces (contingent workforce management) and avoiding direct employment work arrangements.
- How a contingent workforce labor market intermediation has taken the form of a supply chain, consisting of different kinds of businesses/service providers, including MSP/VMS source-supplier management entities, and workforce-source suppliers.
- How several major types of workforce-source suppliers have emerged (temporary staffing agencies, professional services firms, etc.) and how they serve an intermediation function for high-skilled, higher paid professional workers.

Organizations and Work Arrangements

The structure and dynamics of work arrangements are evolving in some significant ways, even while certain foundational structures (institutions, regulations, taxation systems, etc.) have been slow to keep up (if they have at all).

Organizations and workers enter into work arrangements (specifically-structured economic exchange relationships) to get work done and to get paid, respectively. Work arrangements between hiring and contributing parties tend to be significantly regulated in most countries, and the US is no exception. Classifications and regulations (legal and tax) imposed by governmental authorities on work arrangements enable uniformity and efficiency, but add a layer of complexity, restriction, and uncertainty for organizations and workers alike (*see Appendix 1: Employee and Independent Contractor – Legal Forms of Work Arrangements*).

In the US, and even more so in other developed economies like the EU and Japan, the employment form of work arrangement has been and still is—overwhelmingly—the dominant work arrangement². But organizations have always been and are becoming increasingly motivated, in different situations, to get certain work done without entering into the employment form of work arrangements. Typically, these are situations where there is a temporary need, such as a limited project or a role with a short duration, et al. However, as we shall see below, there are other less tactical and more strategic reasons that are driving organizations to use non-employment work arrangements.

² In the US in late 2013, for example, there are currently approximately 140M non-farm workers actively engaged in work arrangements, of which well over 120M are engaged in full and part-time employment work arrangements. And the remainder—over 15M—classified by the BLS as self-employed (both unincorporated and incorporated individual workers ranging from non-professional truck drivers or building tradespeople to professional computer programmers, accountants, etc.). As we shall see below, many in this group have strong economic and personal motivations to remain independent of employment work arrangements (i.e., be self-employed).

Organizations' Adoption of Contingent Workforce Management

Beyond internal Human Resource Management of employees, most large and many medium organizations have established managerial disciplines and functions for controlling and optimizing the procurement, utilization, and risk of workers that are not legal employees of the organization (aka their contingent workforce).

One of the reasons this has occurred is because the so-called “contingent workforce spend” of such organizations has become so large (in certain industries, like technology, companies’ contingent workforce can exceed 50% of total workforce) and the various contingent work arrangements have become so complex that these management and control functions and services became necessary to ensure efficiency and contain risk (financial, legal, etc.).

Increasingly in the US and elsewhere, global competitive pressures and the need for cost efficiency and agility/flexibility have led businesses to utilize a core workforce supplemented with contingent or contracted talent. This strategy allows them to quickly and efficiently alter resource levels and organizational configurations to respond to competitive or other strategic changes in the environment, as well as the ups and downs of economic business cycles. In the 21st century, having this kind of flexibility and agility is necessary for an organization’s survival – as well as having a well-managed contingent workforce.

It is clear that there is a new imperative for organizations to have real competence/capability (in-house or outsourced) to interface with the specialized skills of a contingent workforce. However, in our technology-driven environment characterized by specialized work and ongoing change, it is often unwieldy to hire skills and talent as employees, but rather increasingly to engage skills and talent on an as-needed basis outside of an employment work arrangement. Conversely, on the supply side, the needed specialized skills and expertise may no longer best be found or accessed cost-efficiently in staffing agencies or professional services firms. Often, that degree of specialization is present in individual professionals, or tiny—even virtual—microfirms. Thus, with the rise of a global knowledge-based economy where new value is created by know-how instead of not additional labor, that strategic imperative becomes even more pronounced, as the requirements for specialized, professional knowledge workers’ services grow and become ever more critical to business competitiveness and success.

Organizations' Reliance on Labor Market Intermediators and the Contingent Workforce Supply Chain

A large part of the labor market intermediation (LMI)³ industry has adapted to enable organizations to procure and utilize the labor services and talents of individual workers without entering into actual employment work arrangements with those individual workers⁴.

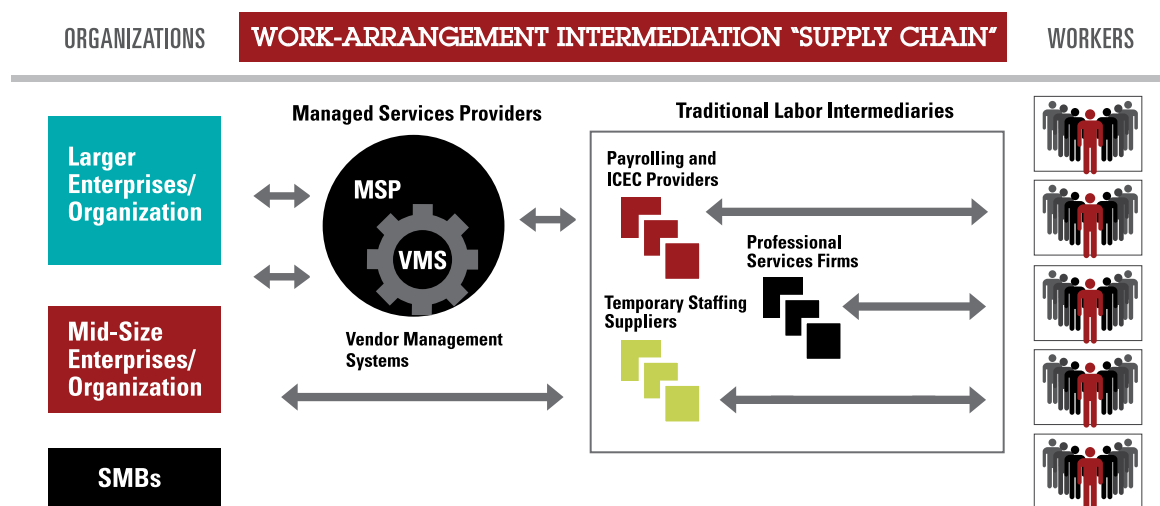
³ Rocio Bonet, Peter Cappelli & Monika Hamori (2013) Labor Market Intermediaries and the New Paradigm for Human Resources, The Academy of Management Annals, 7:1, 341-392, DOI: 10.1080/19416520.2013.774213 To link to this article: <http://dx.doi.org/10.1080/19416520.2013.774213>

⁴ There is almost always some degree of 3rd party labor market intermediation in nearly any work arrangement, though the extent varies (depending on whether there is an employment or non-employment work arrangement involved, the type of worker and the nature and circumstances of the work, etc.).

In employment work arrangements (which offer the efficiency of an almost one-size-fits-all model to both organizations and workers), intermediation can be as heavy as an HRO/PEO (that effectively outsources an organizations employment/HR function) or as light as using a 3rd party recruiter or job board (to simply find the right employment candidate that will be hired), et al.

But outside of traditional employment work arrangements, non-employee work-arrangements between organizations and workers are much more frequently 3rd-party-intermediated by entities like temp staffing agencies, consulting and outsourcing firms, and to a lesser degree by so-called payrolling businesses and independent contractor evaluation and compliance providers. In this contingent workforce supply chain, some businesses have developed to enormous global scale, with different lines of business providing a range of different work arrangement intermediation services

LMI, as such, consists of a range of different kinds of businesses that provide work arrangement intermediation services, many of which exist to enable non-employee work arrangements and the procurement, engagement, deployment of contingent workers/workforce. These businesses (i.e. Temporary Staffing Suppliers, Professional Services Firms, et al) and service/system entities (e.g., Managed Services Providers, Vendor Management Systems, et al) have taken shape as a true enterprise supply chain for work arrangements and supply of non-employee, contingent workforce.



Within this non-employee/contingent workforce supply chain, all three of the above-depicted established labor market intermediation businesses – Temporary Staffing Suppliers, Professional Services Firms, and Payrolling and ICEC Providers – enable the intermediation of high-skilled/ knowledge-based professional workers, but each to a different extent and with different service and business models.

Temporary staffing suppliers find (source/recruit) and engage, legally employ (technically employer of record), and payroll workers who are deployed under contract. In effect, staffing firms bundle recruitment, employment-of-record, and payroll services with a worker and then connect that person to an organization (under a service agreement that includes adding a mark-up to the worker's pay rate). Staffing Industry Analysts estimates that in the US alone, temporary staffing agencies account for well over \$100B paid by organizations to utilize the talent and labor services of well over 2M temporaries.

For decades, organizations have relied on temporary staffing agencies (e.g. Kelly, Manpower, etc.) to meet certain kinds of contingent workforce (largely clerical and industrial) needs. Over the last 20 years, organizations' needs for contingent workforce have expanded to include more professional types of workers (software programmers, engineers, for example). According to Staffing Industry Analysts, in the US today, the Professional temporary staffing segment today accounts for about \$60B in annual spend by organizations for about 500,000 professional workers (IT, creative, finance/management, healthcare, scientific, legal, architecture/engineering, etc.).

Professional services firms are another source of non-employee, high-skilled professional contingent talent. These businesses employ skilled workers and provide their expertise, competencies and outputs to organizations indirectly under contract as services. Whereas temporary staffing agencies simply supply specific individual workers (ranging from janitors to physicians), professional services firms typically do not contract to provide "bodies." Rather, they provide services performed

by skilled professionals, including projects or fulfillment of certain activities (e.g. IT projects, legal representation in a law suit, etc.) According to the Bureau of Labor Statistics, the Professional, Scientific, and Technical Services Sector employs and delivers services aggregated from over 6M skilled professionals under service agreements, dwarfing the number of skilled professionals—roughly 0.5M—employed by Temp Staffing Agencies for delivery to organizations that wish to hire professional temps.

Payrolling and ICEC providers represent the third kind of traditional intermediary that functions between organizations and non-employee talent. In many instances and for various reasons, organizations (and increasingly many professional workers) find temporary staffing agencies and professional services firms are not the optimal labor market intermediaries for procuring and engaging non-employees/contingent workers. For example, organizations may wish to find, select, and recruit the workers they want⁵. Often, both organizations and professional workers do not want the heavy intermediation services and high-mark-ups that come with temporary staffing agencies and professional services firms, but want only the essential work arrangement intermediation services provided by Payrolling and ICEC Providers. These essential intermediation services provided by Payrolling and ICEC Providers are explained in *Appendix 2*.

The following chart summarizes some of the key differences among these intermediaries and how they support non-employee professional workers.

	Temporary Staffing Agency	Professional Service Firm	Payroller	Independent Contractor Engagement Service (ICES)
Nature of Service Offerings	Provides specific workers (temporaries on specific assignment), with bundled staffing services (recruiting, employer-of-record, management, payroll/taxes, etc.)	Provides specific, defined services or solutions for specific applications (e.g. accounting) that consist of a bundle of the assets and work of firm's employed professionals	Provides just "transactional" payrolling/tax reporting and employer-of-record (EOR) services for clients engaging "non-employee" workers. See Appendix 2	Provides the specialized range of "compliance assurance" services (including agent-of-record services) for clients engaging "non-employee" professionals. See Appendix 2
Focus to Higher-paid, High-skill, Enterprise-based Professionals	A segment of agencies focused only on Professional Staffing, accounting for only about 0.6 M of all the 2.7 M temps in the US	By definition, exclusive focus on the "professional"	Focus and application of service can be to almost any kind of worker	By definition, exclusive focus on the "professional"
Sustainability for Higher-paid, High-skill, Enterprise-based Professionals	Derived directly from the "industrial staffing model" designed for repetitive supply of commodity workers. Not optimized for "professional" grade workers	Designed to "employ" professionals within a firm. In effect, designed to support "professionals" who want to be employed, not non-employee "independent professionals"	Designed to support payroll or EOR of any kind of worker on an efficient, transactional basis. Not specifically designed for high-paid professionals	Designed specifically to enable work arrangements and specific engagements between mid-large sized organizations and "independent professionals"
Delivery model scope and cost burden (Essential/Low to Heavy/High)	Heavy/High	Heavy/High	Essential/Low	Essential/Low

⁵ These tend to be the more high-talent workers who do not need a staffing agency or recruiter to find them the work as their skills are in high demand. According to our research, we have found that more than 90% of the time, these high talent workers get their next assignment from people they know or people seeking them out based on their reputation.

In the US today, organizations' direct engagement of non-employees is a complicated and risky business due to the legal complexities, uncertainties, and risks associated with non-employee work arrangements (multiplied by the increasing number of and spend for high-skilled professional non-employee workers who are more frequently avoiding work engagements intermediated by Temporary Staffing Agencies and Professional Services Firms). There is a trend toward flexible, open talent work arrangements (making it easier for enterprises to engage the right talent as needed and for professionals to market their services and engage in work they want), but they must all deal with complex administrative and legal realities of organizations engaging independent professionals. Consequently, over the past 10 years, the lower cost, more specialized, essential services providers have begun playing an increasingly important intermediation role between organizations and independent professionals.

WHAT ARE THE KEY TAKEAWAYS FROM THIS SECTION?

- Contingent (non-employment) work arrangements are becoming increasingly critical for the success of 21st century organizations—and an increasing population of workers.
- Over the past two decades, organizations have developed the discipline of contingent workforce management to administer and control this increasingly important set of work arrangements.
- Over that same time, a labor market intermediation (LMI) industry sector has developed, consisting of various service providers (with a large part focused on enabling contingent work arrangements).
- Several different types of intermediary businesses have arisen to enable various work arrangements between organizations and high-skilled, higher paid professional workers.

The Non-employee Workforce and the Rise of the Independent Professional Class

WHAT ISSUES WILL BE COVERED IN THIS SECTION?

- How economic shifts are not only changing the behavior of organizations, they are also changing how workers approach work arrangements.
- How there is a growing population of high-skilled, high-paid professionals who, for a variety of reasons, wish to pursue their work independently of employment.
- How this new rising class of independent professionals offers services that are critically required by organizations, and how these professionals have their own needs for business support.

While organizations have been evolving in the ways that they procure/engage their workforces and talent, so have the workers they seek to engage (and in many cases, worker motivations align to the changes happening in organizations). From the standpoint of organizations, these workers are collectively considered contingent workforce, but there are different kinds of contingent (non-employment) work arrangements and workers that are being engaged. Additionally, attitudes, preferences, and behaviors among those workers have evolved.

Besides there being some 2.7M temporary workers (employed by temporary agencies) and 6M workers in professional services firms with more than 4 workers in the US, there are likely to be twice as many other independent, non-employee workers⁶ engaged in work arrangements with various organizations across the US. Organizations typically engage these types of workers on a contractual basis— if unincorporated, as an independent contractor or IC, and if incorporated, as a (micro-business LLC or S corp entity) service provider. These independent workers, whether incorporated or not, are usually considered self-employed.

There are many signs that increasing numbers in the workforce are preferring—not just being compelled—to opt out of traditional employment to pursue work arrangements that allow for independence and self-management of time, human capital and the ability to pursue different projects/organizations. As we know, self-employed workers, independent contractors, freelancers, etc. are not new; what is new is the emergence of a perspective on the part of many kinds of workers that non-employment is a career path preferable to employment.

⁶ According to the State of Independence report (prepared by independent research firm Emergent Research), in 2012, there were 16.9 million independent workers in the United States who work at least 15 hours per week as independents—a number forecasted to rise to 23 million in 2017. Including part-time independent workers who work less than 15 per week, the number could reach 65–70 million, or half of the private US workforce, by 2023. Some sectors of the economy are already witnessing the steady movement of knowledge workers to independent and ad hoc status. The higher education sector (university and college levels) in the United States is a case in point. Over the past 35 years, the percentage of full-time faculty has steadily declined (from 56 percent to 39 percent), with a corresponding increase in part-time and adjunct faculty (from 24 percent to 41 percent). We also know that there is growing proportion of non-employee independent workers among other professional fields, including IT, architecture and many others.

The reasons for this shift include:

- Response to changing employment conditions offered by organizations
- Lifestyle choices or needs (baby boomers at retirement age, millennials with different values about how to engage in work, people with life requirements such as parenting, location-based employment, etc.)
- Improved economic outlook for independent careers (more learning, more flexibility, better self-assessed economic outcomes, etc.)
- Digital platforms such as Work Market and LinkedIn are making it easier for independent contractors to find opportunities

Within this overall non-employee population, there is a group of workers who may be classified as “professional” - having high-level skills or expertise (often with a specific discipline focus), having significant education/training, and having above-average earnings capacity. Emergent Research estimated that there are as many 7M independent professional, non-employee workers (working over 15 hours a week) in the US today, including in these important knowledge work categories:

- Consultants - 1.2 million
- Creative Professionals - 1.5 million
- Independent Contractors, Professional Services - 2.7 million

7M independent professional, non-employee workers would be an understatement if part-time workers and freelancers were included in the tally. Additionally, this population is continuing to grow, driven by many factors.

WHAT ARE THE KEY TAKEAWAYS FROM THIS SECTION?

- Organizations, as well as an increasing number of workers, are seeking non-employment work arrangements for more flexibility, independence, and economic optimization.
- In particular, driven by the knowledge economy, there is an increasing population of high-skilled, high-paid independent professionals who are choosing to reject traditional work arrangement intermediaries like temporary staffing agencies and professional services firms.
- The rising independent professional class of individuals and microfirms already numbers several million, and is continuing to grow.

The Emergence of Digital, Platform-based, Work-Arrangement Intermediation Services Ecosystems

WHAT ISSUES WILL BE COVERED IN THIS SECTION?

- How the existing contingent workforce industrial supply chain is proving limited in meeting organizations' and workers' needs for support/enablers of new kinds of contingent work arrangements.
- How, based on advances in information technology, Digital, Platform-based Services Ecosystems are providing an alternative means of supporting these work arrangements.
- How these ecosystems tend to be catalyzed by and form around keystone platforms.
- How Digital, Platform-based Services Ecosystems have started to form around global-spanning freelance marketplace platforms.
- How Digital, Platform-based Services Ecosystems for work arrangement intermediation are evolving and differentiating into specific-purpose ecosystems that are led/organized by different kinds of keystone platforms offering different core services.

The history of organizations and work, as suggested above, is a history of change and evolution—one that is continuing to be driven by an increasingly global, competitive, knowledge-based economy, which itself is increasingly inseparable from powerful and ubiquitous information technologies and their applications. In this context, the work that organizations must get done and how they are getting it done is changing, and digital information technology is increasingly a driving factor of those changes.

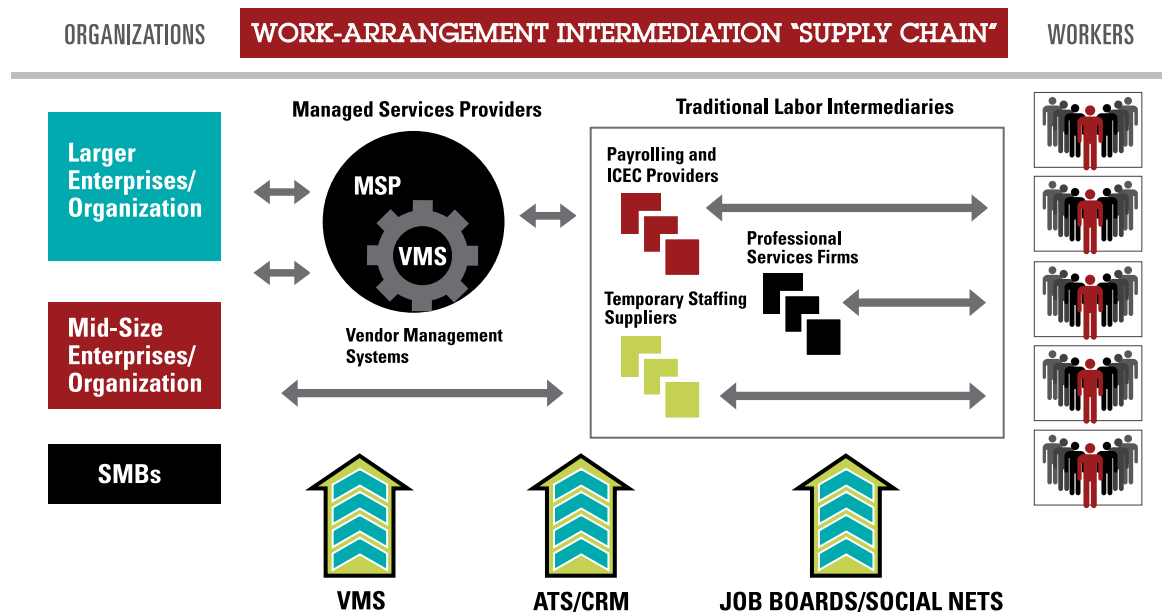
As noted above, organizations have had to engage and deploy workers outside of the traditional employment model, and doing so has been supported by a) the development of management competencies and functions within organizations (contingent workforce management programs) and b) the emergence of a work-arrangement intermediation supply chain and a range of 3rd party intermediaries (temporary staffing agencies, professional services firms, payrolling, and ICEC providers).

Limitations of the Contingent Workforce Industrial Supply Chain

The organization and management of contingent work arrangements has, until recently, been dominated by a model of an industrial supply chain for the controlled, managed procurement of contingent workers. This model has been borrowed from other physical materials, procurement supply chain models and applied to the procurement of workers.

Over the last decade, this worker supply chain has developed into a large collection of many (often substantial) 3rd party service providers (including MSPs, VMSs, Staffing Agencies, Payrollers, ICECs, et al) which organizations chain together to establish a controlled, managed flow/supply of contingent workers across categories ranging from warehouse workers to emergency room physicians.

Like physical materials supply chains, these worker supply chains have adopted technology (such as VMS, ATS, Job Boards and Social Networks) as way to make procurement and fulfillment processes speedier, more efficient, and more controlled.



However, while these linear/serial contingent worker supply chain models have delivered on their promises of making contingent worker procurement and deployment faster, more efficient and more tightly controlled, there remain many gaps, and there also appear to be signs that these supply chain models are starting to approach their limits of reach (in terms of them supporting different kinds of work arrangements) and effectiveness (in reducing inefficiency, cycle times, and other labor market friction).

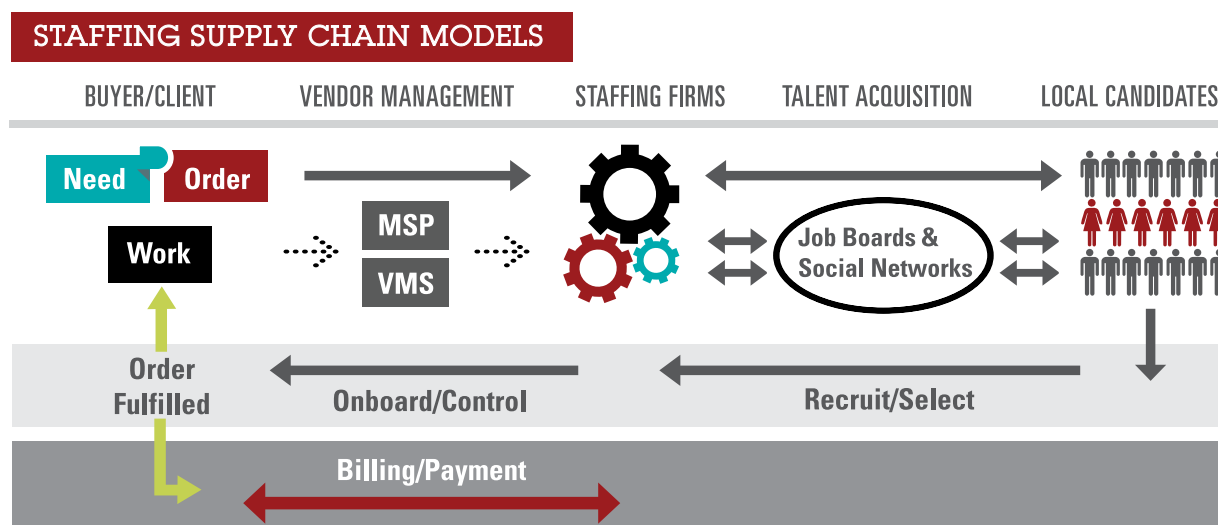
There are three key reasons for this change:

- Work arrangement requirements of organizations and workers are evolving in various ways with respect to specific types of work, workers, and work arrangements (and especially with respect to skilled, independent professional, knowledge workers)
- The architectures of these supply chains are geared to economy-of-scale transaction processing, which is not designed to handle complex, diversely-attributed human agents that must be matched and delivered against specialized and unpredictable requirements.
- Information technology has been advancing rapidly over the past two decades in ways that are fundamentally transforming business models (economic exchange and demand-supply-fulfilment models for goods, labor, services), leading to a shift from a monolithic, industrial supply chain and procurement/sourcing/ delivery model to more self-service, with digital services, platform-centric ecosystems models. This has been seen in consumer retail goods and services like travel, and the shift is now becoming apparent in LMI/work arrangement intermediation as well.

In fact, we are starting to see the emergence of new work arrangement intermediation models outside of the more traditional, transaction-based supply chain models⁷. This is being driven by technological advancement and the demand for new 21st century work arrangements.

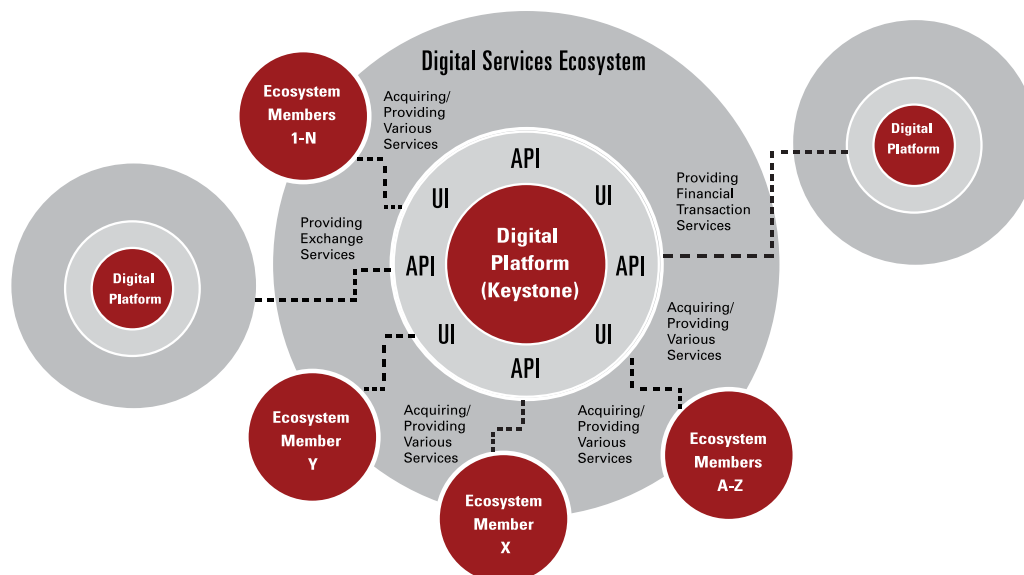
⁷ This is well-documented and studied by Staffing Industry Analysts and others. See Staffing Industry Analysts Report on Human Cloud Platforms and other SIA reports on these platforms and trends (www.staffingindustry.com).

Supply chain models consist of multiple, asynchronously-linked, variously automated 3rd party entities and processes, and they are primarily oriented around financial transactions (purchasing and payment) and control over the delivery of uniform physical commodities (products or materials) to the place of consumption or use. The diagram below depicts the many moving parts (entities and processes) that are rigged together (as well as automated and linked) in a typical temporary staffing work arrangement intermediation supply chain.



Digital, Platform-based Services Ecosystems – A 21st Century Model for How Business Gets Done

The contrast between late 20th century supply chain models and emerging digital, platform-based, services ecosystem models is stark. The new models consist of one or more digital platforms that enable different transactions and processes—and a broader range of services—in a more direct, synchronous, and highly integrated way (and for many different ecosystem members—including, but not limited to, buyers and sellers of products or services).



An interesting feature of this model is that a platform enables both its own core services and the services of other ecosystem members (including other platforms) to be obtained or exchanged. As such, all active ecosystem members are service providers or consumers (or even co-creators)⁸. So, a digital, platform-based services ecosystem model allows for further decomposition (unbundling) and even reconfiguration of services across service providers, but at the same time provides a robust network that can achieve higher levels of service delivery and efficiency, even as scale increases. Due to their digital nature, these ecosystems can be formed more readily and specifically than ordinary supply chains.

The Significance of Keystone Platforms in Ecosystems

Digital, platform-based services ecosystems tend to organize and develop around keystone⁹ platforms that are most often developed and owned by particular firms (example: the firm Apple develops and owns the iTunes platform, around which an entire ecosystem has been built up).

A keystone platform functions to:

*...improve the overall health of their ecosystems by providing a stable and predictable set of common assets...
Keystones can increase ecosystem productivity by simplifying the complex task of connecting network participants to one another or by making the creation of new products by third parties more efficient. They can enhance ecosystem robustness by consistently incorporating technological innovations and by providing a reliable point of reference that helps participants respond to new and uncertain conditions¹⁰.*

A firm that pursues a keystone platform strategy is, in effect, an ecosystem leader/organizer. It does this by providing a stable, common, and critical set of assets (broadly speaking) that can be utilized by ecosystem members to create value for themselves and other ecosystem members. To be successful with a keystone platform strategy for a particular ecosystem, the keystone platform must extend the correct assets and services that are critical to that particular ecosystem.

So, to develop a particular ecosystem, is it sufficient for the keystone platform to provide only, for example, exchange/marketplace services? Or are other services more important, like financial transaction or regulatory services? Is it sufficient for one type of service to be core to the platform, or are more required? Should some services not be core to the platform, and be provided by other platforms? In the end, a keystone platform will succeed by getting these choices right and executing on them well.

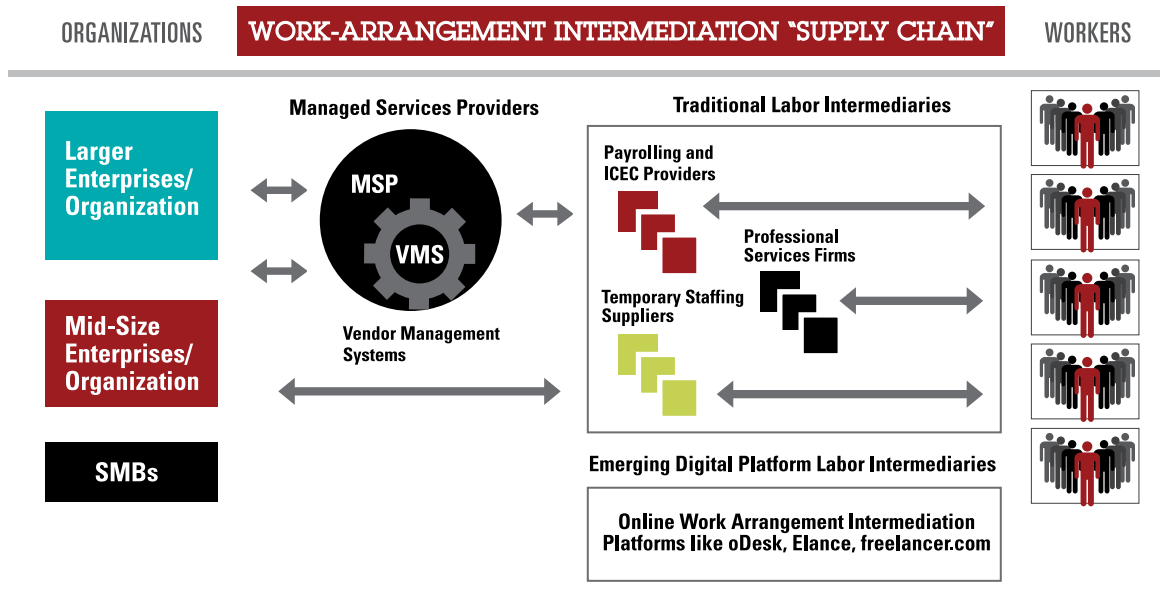
Ongoing Evolution of Contingent Workforce Digital Platform-based, Services Ecosystems

Digital, platform-based services ecosystem models have been gradually taking root alongside the more traditional contingent workforce work arrangement intermediation supply chain.

⁸ An example of the emerging model can be found in retail and ecommerce in the music industry (how it is selected, how rights to access it are purchased and obtained, how it is consumed, etc.). This can be expressed in one word: iTunes. In this case, there are ecosystem members that are music providers and music consumers. While the iTunes platform may be providing exchange/marketplace and other services, other platforms may be providing financial transaction services or regulatory services (such as digital rights management) or qualifying services (such a crowd-based music curation).

⁹ Creating Value in Your Business Ecosystem <http://hbswk.hbs.edu/item/3967.html>

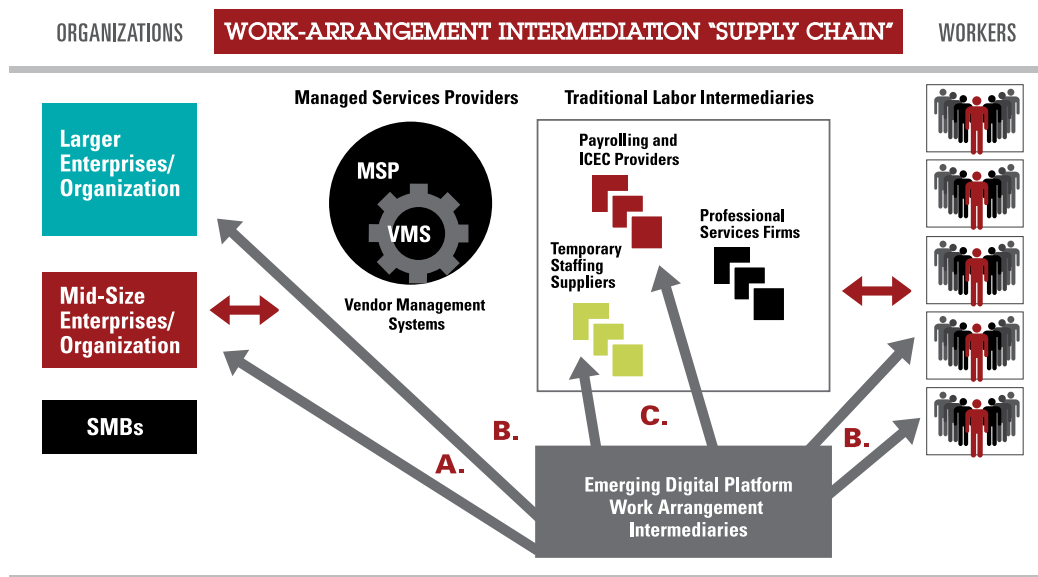
¹⁰ Ibid.



Different kinds of ecosystems for different kinds of work, workers, and organizations are forming gradually. To date, most of these have been ecosystems that support work arrangements (typically to perform tasks or limited projects) between skilled freelancers all over the world and small businesses in the mainly Western economies. The platforms, like Elance, freelancer.com and oDesk, have been succeeding in establishing these ecosystems (on the scale of millions of ecosystem members), and they have been doing so by relying on providing exchange/marketplace services as primary/core in their platforms (*see Appendix 3 for more details*).

For this specific type of remote freelance, small project, SMB work arrangement ecosystem, it is probably optimal for the keystone platform to provide exchange/marketplace services as core through owned platform assets and capabilities, but with financial transaction services and others (such as curation) provided indirectly by other platforms or provider ecosystem members. However, this does not mean that all kinds of different work arrangement ecosystems can be developed based on the same formula. For example, as we shall see, for a high-level independent professional ecosystem, exchange/market services will not be core. Instead, other services—such as engagement services—will be the necessary core to a keystone platform. Digital, platform-based work-arrangement intermediations ecosystem models are evolving along a range of different pathways¹³:

¹³ See Staffing Industry Analysts 2013 Report on Human Cloud Platforms and other 2013 SIA reports on online staffing platforms and trends (www.staffingindustry.com).



- A. One or two of the freelancer platforms are extending to attempt to establish ecosystems that support work arrangements between larger enterprises (not only SMBs) and online/virtual contingent workers. Example: Elance's Private Talent Cloud.
- B. Several new platforms are focusing on developing ecosystems that support work arrangements between different types and sizes of organizations and various specific kinds of contingent workers (even those which do not work remotely, but must work at designated locations for example, technical field service contractors). Examples: Work Market, Field Nation.
- C. Some platforms are being offered to temporary staffing agencies as a way to create their own online staffing ecosystems. Example: NextCrew.

In the future, the development of numerous digital, platform-based work-arrangement intermediations ecosystems will serve different kinds of LMI needs arising between different kinds of organizations and different kinds of workers. Each successful ecosystem and associated keystone platform will have its own characteristics and core services. To develop a thriving ecosystem, keystone platforms will have to bring into play and stabilize those unique assets that are critical in enabling ecosystem members to create value for themselves and other ecosystem members.

WHAT ARE THE KEY TAKEAWAYS FROM THIS SECTION?

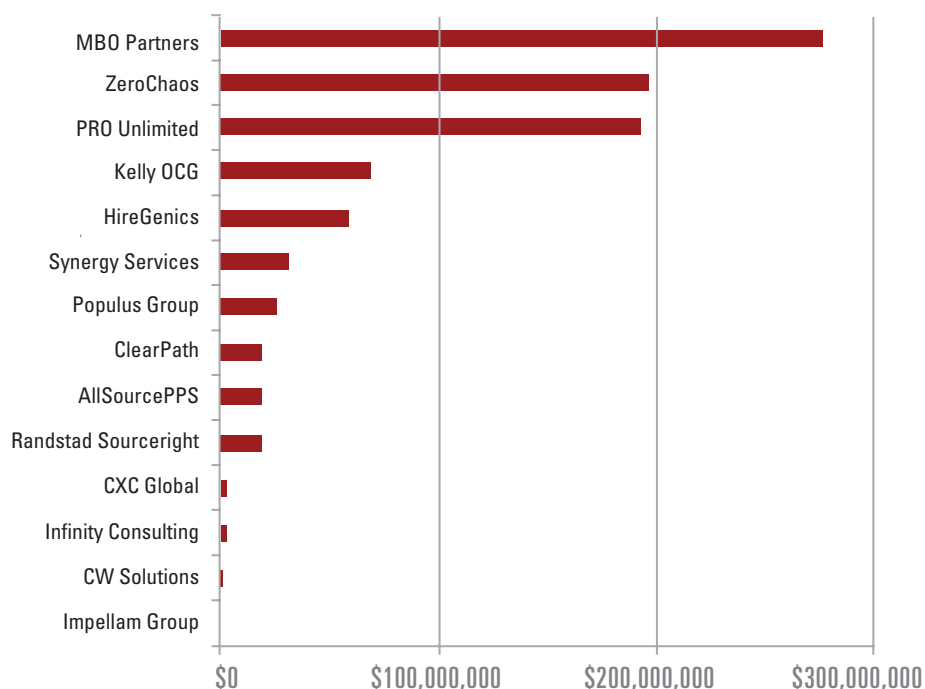
- The existing contingent workforce industrial supply chain is proving limited in meeting organizations' and workers' needs for support/enabement of new kinds of contingent work arrangements.
- Based on advances in information technology, 21st century Digital, Platform-based Services Ecosystems are providing an alternate means of supporting these work arrangements.
- In general, ecosystems tend to be catalyzed by and form around keystone platforms.
- Digital, Platform-based Services Ecosystems have started to form around global-spanning freelance marketplace platforms.
- Digital, Platform-based Services Ecosystems for work arrangement intermediation are evolving and differentiating into specific-purpose ecosystems that are led/organized by different kinds of keystone platforms offering different core services.

MBO Partners, Engagement Enablement, and an Emerging Platform/Ecosystem for the Independent Professionals

WHAT ISSUES WILL BE COVERED IN THIS SECTION?

- How MBO Partners is not only a highly successful ICEC services provider, but also how it has been investing in developing a platform/ecosystem to serve mid-to-large-size organizations and high-skilled, high-paid independent professionals.
- How Engagement Enablement assets and services are necessarily the core of a keystone platform (and associated ecosystem) that can enable the 21st century work arrangements of mid-to-large-size organizations and high-skilled, high-paid independent professionals.
- How MBO is therefore the leader in establishing a 21st century engagement enablement platform/ecosystem that compellingly addresses the needs of mid-to-large-size organizations and the rising independent professional class.

Within the LMI/work-arrangement intermediation space, MBO Partners has, over the past 10 years, established itself as the leading ICEC specialist in the US (in terms of managed spend, MBO Partners would rank around the 50th largest Temp Staffing Firm in the US).



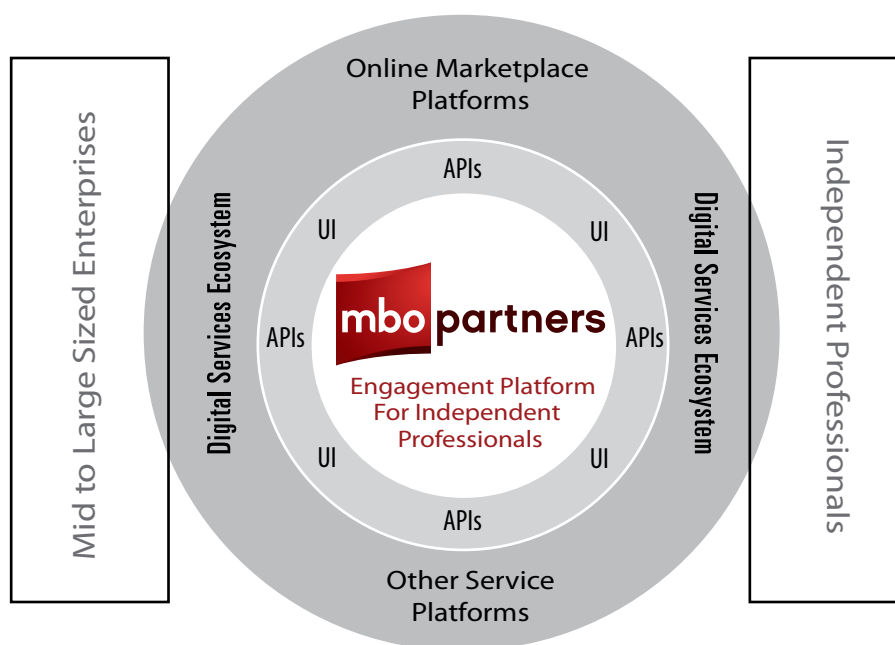
Source: "2013 Payrolling & ICEC Landscape Summary," Staffing Industry Analysts (www.staffingindustry.com)

However, MBO Partners is different from Temporary Staffing Agencies (which provide temp workers through the traditional staffing delivery model). It is also clearly different from Professional Services Firms, Payrollers and even the majority of Online Staffing Platform businesses that exist today. The fundamental difference is that MBO has been developing itself as the definitive labor market/work-arrangement intermediary, specialized in serving:

- a) the growing population of high-paid, high-skill, expertise-based independent professionals (a class of workers unto themselves with unique needs, expectations, preferences, and behaviors) and
- b) the increasing number of organizations –especially mid-to-large-size enterprises—that need to (have a competitive imperative to) tap into and leverage this often elusive, sophisticated, highly specialized talent, while also managing the legal, regulatory, and other engagement complexities that go with these kinds of work arrangements/engagements.

MBO has established itself as the gold standard for independent contractor compliance assurance services used by large enterprises for their engagement of independent consultants and other high-level professional independent contractors. MBO also understands that independent professionals are and will increasingly be a tech-savvy group of individuals who will be looking to manage their own practices and businesses by leveraging current and advancing technology and business models.

Therefore, MBO has also been developing itself as an engagement enablement platform that is forming a unique ecosystem that will intermediate work arrangements between a) mid-to-large-size enterprises and b) the already large and increasing population of millions of independent professionals who are not able or are not satisfied to work through other intermediaries (like Professional Services firms or Temporary Staffing Agencies).



MBO does not see the emerging world of online work arrangement intermediation platforms as one-size-fits-all; rather, they see a world in which different platforms and associated ecosystems are developing to serve different constituencies or work arrangement market segments. MBO is very clear about the particular work-arrangement/work-engagement market segment it focuses on (work-arrangements between high-paid, high-skill, expertise-based independent professionals and mid-to-large-size enterprises) and corresponding key characteristics and needs within the whole supporting ecosystem:

CHARACTERISTICS	NEEDS
<ul style="list-style-type: none"> • High-paid, high-skilled, expertise-based independent professionals • Formal organizations that recognize their key challenges with compliance responsibilities • Relatively complex, often long-duration project engagements • Relatively high dollar value projects 	<ul style="list-style-type: none"> • Complete, well-designed interfaces, services and tools to enable independent professionals and to support mid-to-large-size organizations to establish work arrangements and conduct individual engagements in a complex organizational, legal/regulatory, and management information systems environment geared to financial control and risk mitigation

To provide a specialized set of services (what it calls “engagement services”), MBO has developed a 21st century engagement enablement platform/ecosystem that compellingly addresses the needs of mid-to-large-size organizations and the rising class of independent professionals in a world where work arrangements are changing and where new digital platform/ecosystem models are becoming the de facto standard for organizing and conducting business (increasingly now in the world of human capital and work-arrangements).

While work arrangement intermediation ecosystems may depend on a whole range of different services to develop and take root (for example, Talent Exchange/Market Services, Financial Transaction Services, Qualification/Curation Services, et al), there are always services that are core and end up being provided by a keystone platform. In the ecosystem for mid-to-large organizations and the new class of independent professionals, Engagement Services are core, and they include the following:

1. The legal compliance-related services that MBO has developed in its unrivaled ICEC assets over the years
2. The independent professional services that MBO has established to engage and support this unique professional group in critical ways; not just ensuring they are compliant (and thus safe for large organizations—IC status, IP/confidentiality agreements, security status, etc.), but also providing important administrative, financial, and other business management support
3. The mid-to-large-size organization services that MBO has established to engage and support this class of organizations, including ICEC services as well as services related to interfacing with organizations of that size, complexity, sophistication (for example, being able to interface with contingent workforce management regimes and entities like MSPs or systems like VMSS)

MBO is bringing together the above elements by developing a new keystone platform empowered by core engagement services, as well as leading the development of a new digital ecosystem that will enable 21st century organizations and the emerging population of independent professionals.

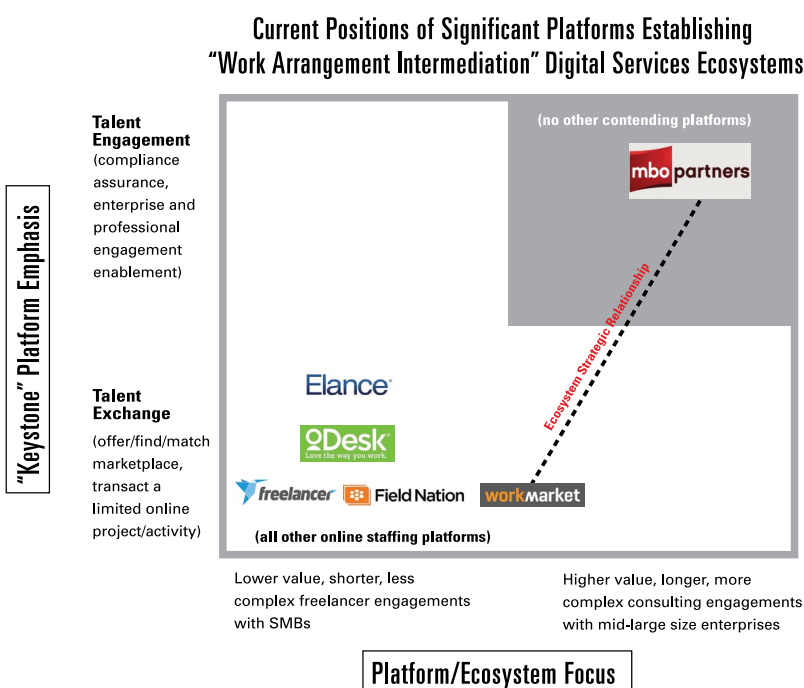
To fully enable non-employee work arrangements now and in the future, the MBO keystone platform will also integrate and make available the services of other platforms and service providers. For example:

- Workforce Procurement Services (for organizations) can be provided by service or solution providers/platforms (like MSPs, VMSs) that specialize in this function
- Talent Exchange/Market Services (for organizations and professionals) can be provided by online staffing platforms (like Work Market and others)
- Skills Qualification/Curation Services may be provided by the hiring organizations themselves (or other third parties may provide the services partially or fully), and certain Talent Exchange/Market Services platforms may bundle proprietary services with their Exchange/Market platform offerings
- Financial Transaction Services (for both organizations and professionals) can be provided by service providers/platforms that specialize in payroll and other financial transactions
- Small Business Office Tools (for professionals or micro-firms) can be provided by service providers/platforms (such as Intuit for accounting, Zoho for CRM, etc.) that perform these specialized functions well and efficiently for small businesses

These services, combined with the above-mentioned critical, non-substitutable Enablement Services, made available through an open technology platform supporting a unified user experience and exposing state-of-the-art SOA integration, allow MBO to develop a keystone platform position in this potentially large and valuable ecosystem, supporting many millions of high-value, contingent professional work arrangements.

The developing market for supporting work-arrangement intermediation between mid-to-large organizations and the new class of independent professionals is an attractive and (with the increasing numbers of high-level independent professionals) increasingly underserved one. Professional Services Firms do not support the independent business aspirations of the new class of independent professionals, and the business/commodity supplier model of Temporary Staffing Agencies is a mismatch for the growing population of entrepreneurial, self-directed independent professionals.

As discussed earlier, new ways of intermediating, enabling, and supporting these 21st century work arrangements are taking shape, and new forms of platform-based, work-arrangement intermediation, digital services ecosystems are emerging. New platforms are establishing positions and developing ecosystems to support different kinds of work arrangements. MBO is leading this development in the specific work arrangement intermediation ecosystem it has been serving for more than a decade.



Other digital work arrangement intermediation platforms have been established by successful, growing firms such as Elance, oDesk, freelancer.com, Field Nation, Work Market, et al. But most of these businesses have been establishing Talent Exchange/Market-dominant platforms which are suitable keystones for ecosystems that support SMB organizations and online freelancers (often outside of the US) and transact lower-cost projects and activities. Though both oDesk and Elance have introduced recent enterprise-oriented offerings, they are still trying to gain acceptance with larger organizations, as the main thrust of platform investment over many prior years has been directed to Talent Exchange/Market core services for freelancers and SMBs (and relatively little to Talent Engagement services).

In comparison to the other platforms, companies like Work Market (now 2 years old) are targeting larger organizations to which they could channel a broad range of medium to high-skilled contract workers. However, Work Market is almost exclusively a Talent Exchange/Marketplace (albeit a strong one), and such a platform emphasis is not sufficient to act as a keystone platform in the very specific ecosystem enabling work arrangements and engagements between mid-to-large organizations and the new class of independent professionals. Consequently, Work Market has recently joined the MBO ecosystem as a best-of-breed platform for Exchange/Marketplace services designed for large organizations to use for finding and/or managing talent and curated pools of talent.

At this time, only MBO seems well positioned—with the requisite assets, engagement services and technology capabilities—to lead the development of the supporting work-arrangement intermediation ecosystem for 21st century mid-to-large organizations and the new class of independent professionals. Temporary Staffing Agencies and Professional Services firms are not solutions to the problem of requirements for new work arrangement and engagement between organizations and the new class of independent professionals, and the leading digital work arrangement intermediation platforms so far have developed assets and services that do not address the top issues. Conversely, MBO Partners has already spent years investing in precisely those needed assets and services, and —without any rival firms—MBO can be seen as the segment leader, far ahead in establishing a keystone platform position in the work-arrangement intermediation ecosystem for 21st century mid to large organizations and the new class of independent professionals.

WHAT ARE THE KEY TAKEAWAYS FROM THIS SECTION?

- MBO Partners is not only a highly successful ICEC services provider, but it also has been investing in developing a platform/ecosystem to serve mid-to-large-size organizations and high-skilled, high-paid independent professionals.
- Engagement Enablement assets and services are necessarily the core of a keystone platform (and associated ecosystem) that can enable the 21st century work arrangements of mid-to-large-size organizations and high-skilled, high-paid independent professionals.
- MBO is the leader in establishing a 21st century engagement enablement platform/ecosystem that compellingly addresses the needs of mid-to-large-size organizations and the rising independent professional class.

APPENDIX 1: Employee and Independent Contractor Work Arrangements in the US

For many decades now, there have been two dominant (institutionally accepted and legally regulated) models in the US for how organizations and workers arrange their work relationships: employment and independent contracting. While work arrangements can theoretically vary more extensively, US law and regulation currently require that they conform to one of these two forms.

Employment, whether full-time or part-time, is considered to be an economic exchange relationship of indefinite, presumably long-term, duration and a broad scope relative to defining specific work outcome. An employee contributes labor and/or expertise to an employer and is usually hired to perform specific duties, which are packaged into a job. An employee is a person who is hired to provide services to a company on a regular basis in exchange for compensation and who does not provide these services as part of an independent business. There is a common law-based employer-employee contract implicit in this relationship that is further regulated through extensive federal and local laws and treated in specific ways for purposes of taxation (i.e., direct payroll withholdings). Employment relationships have also become institutionally coupled with other forms of non-pecuniary employee benefits (the most significant of which have been employer-sponsored health insurance plans for most full-time and some part-time employees).

In contrast, an independent contracting (IC) work arrangement is one in which both parties, the organization and the individual worker, are considered independent businesses. They are bound by specifically determined contractual terms that both of these parties agree to for a given/limited work arrangement/engagement. Such work arrangements tend to be less extensively regulated under federal and local laws, and income tax assessment relies on the parties' compliance with tax reporting and collection procedures (i.e., no withholdings mechanism). Beyond direct payment for labor services or specific labor outcomes, this work arrangement typically does not include the other elements of non-pecuniary economic benefits that often define the employment relationship.

In general, then, organizations and workers tend to engage in employment work arrangements where longer-term or relatively more permanent work relationships are needed or desired, while IC work arrangements are availed of where more flexible, temporary or contingent work relationships are needed or desired.

APPENDIX 2: Payrolling and ICEC Providers Explained

Organizations outsource only the engagement and payrolling part of the contingent work arrangement to Payroll and/or ICEC (IC Evaluation and Compliance) providers, which serve as the employer of record for the contingent workers who will perform work for the organizations. These types of service providers and responsibilities are clarified here:

PROVIDER TYPE	GENERAL ROLE	LEGAL RELATIONSHIP RESPONSIBILITY
Payrolling Provider	<u>Payrolling</u> is the provision of temporary workers to a client where the workers have been recruited (possibly interviewed, tested and approved) by the client but become employees of a payrolling services company (also known as employer-of-record service).	<u>Employer of Record</u> is a service whereby a payrolling provider legally acts as the administrative and tax employer for workers that a client recruits and identifies. The employer of record typically handles benefits, insurance, state and federal withholding and deposits, and employee taxes and reporting.
IC Evaluation and Compliance (ICEC) Provider e.g. MBO Partners	<u>(ICEC)</u> is a service requiring a provider to evaluate the qualification of a worker to determine if the worker meets the legal requirements to perform services for a client as an IC. This service can also include the ongoing compliance management of independent contractors who provide service/deliverables to the client. ICEC service can include contracting, invoicing and payment for all workers that meet the legal requirements to be bona fide ICs.	Agent of Record denotes ICEC service whereby the provider acts as a third-party intermediary on behalf of the client and pays the IC on behalf of the client. Not all ICEC service falls under agent-of-record service. For instance, sometimes an ICEC provider evaluates an IC candidate for a new assignment but does not stay on as the agent of record.

Source: "2013 Payrolling & ICEC Landscape Summary," Staffing Industry Analysts (www.staffingindustry.com)

APPENDIX 3: Prototypical Freelance Marketplace Platforms

According to SIA, most of the platforms in the category of Online Staffing (intermediating a specific hirer and a specific individual freelancer) have been prototypical Freelance Marketplace models, which (usually with a global scope) have allowed mainly small organizations to engage IT, creative, language-proficient freelancers on a remote/virtual basis (for example, these platforms may allow a small company in Minneapolis to contract to have a website developed by a software developer in Bangladesh). The average project value on these platforms is relatively low (freelancer.com, just under \$200; oDesk and Elance, several hundred dollars). These projects are generally of short duration (hours/days, not weeks/months). While workers are all knowledge workers, many are pursuing their freelancing on a part-time basis (see SIA Landscape and Forecast Reports).

Some companies in this sub-segment of online Freelance Marketplace models have grown quite large over the past several years (oDesk has grown to a global freelancer platform supporting over \$400 M in spend annually). Elance, the second largest platform in this sub-segment, has also begun to form a more extended ecosystem of other online digital service platforms (“Smarter” for skills testing and “Skilled” for skill development and training¹²). Therefore, we see how keystone platforms and firms, in the new era of digital services, begin to establish ecosystems of different agents and entities (hirers, workers, other 3rd party service platforms) that co-create and exchange value on an on-going basis.

Thus, work arrangement intermediation platform and ecosystem development has been underway for several years now—mainly for the online/digital work arrangement intermediation between small businesses and global freelance workers. However, these are specific platforms and ecosystems that support certain kinds of businesses and certain kinds of workers (basically, small businesses and predominantly online/virtual remote workers performing smaller gigs averaging several hundred dollars per gig). While these are complete platforms and emerging ecosystems, they function primarily as marketplaces for online work and only to a certain extent as platforms of engagement. While workflow, project management and payment processing are available, contractor compliance evaluation and assurance have been questioned, especially for US-based contractors being hired by US-based firms.

What is clear is that the development of work arrangement intermediation platforms and ecosystems is at a very early stage, and based on what has been emerging so far, it will not serve every type of independent worker. According to SIA, it appears that different platforms and ecosystems are developing to meet the unique needs of different work arrangement intermediation constituencies.

These constituencies may be defined by geographic focus, reach of the platform/ecosystem or by whether the work is performed onsite or remotely. However, they can also be defined by dimensions, such as the segment of the work or worker (e.g. a warehouse worker vs. a software architect), the nature of the organization (e.g. small business vs. a larger enterprise), or the type of worker (e.g. a task rabbit vs. a consultant with high levels of specialized expertise).

¹² Is Elance Pointing the Way to A New Labor Market Function for the Staffing Industry? <http://www.staffingindustry.com/Research-Publications/Blogs/Andrew-Karpie-s-Blog#sthash.tELKXrrT.dpuf>

About The Research Platform

The Research Platform (TRP) serves small to large businesses, investors, and entrepreneurs with information, analysis, and advisory services focused to emerging areas of opportunity or threat, especially where communications and information technology (CIT) is increasingly having a transformative and/or disruptive impact on businesses, industries, supply chains and ecosystems. TRP will tend to engage multiple clients which have interests/needs within TRP's established research focus areas (generally, TRP will not pursue research for a client in a new area, unless it is likely it can become an established area of on-going research focus for TRP).

The types of services TRP offers to its clients range from live briefings to physical reports that address basic information about dimensions of a particular area (e.g., market size, type, number and identity of suppliers, trends, etc.) to more in-depth, customized analyses of certain questions or issues which may be relevant to a particular client. Specialized business advisory services are also provided to support strategic planning, forecasting/scenario building, product-marketing planning, investments and M&A.

About the Author, Andrew Karpie

Andrew Karpie has over 30 years of experience in business analysis and research related to the application of information technology in a range of different services businesses (in particular, businesses that perform intermediation functions in a "service (supply) chain" or "service ecosystem"). He has worked extensively in the roles of analyst, senior manager, consultant, advisory board member, and entrepreneur across different industries (including telecommunications, software, information services and publishing, employee benefits, and workforce staffing/human capital management, et al). He has worked in and with numerous companies (young and mature, small and large), including ADP, Constellation Software, Crain Communications (Staffing Industry Analysts), and a range of small software companies and emerging online work platform businesses. He holds a Master of Science degree from Carnegie Mellon University in quantitative policy analysis and is the author of numerous research reports, analyses, and articles.

About MBO Partners

For more than 25 years, MBO Partners has led the \$250 billion-and-growing independent consulting sector in America. We offer two services that make it easy for independent consultants and their clients to do business. For independent consultants, we provide a proprietary process to handle taxes, expenses, benefits, invoicing, contract negotiation and more. To guide each consultant through the process, MBO assigns a dedicated business manager. We also provide direct vendor access into enterprises we work with. For enterprise clients, our Enterprise Solutions service provides a complete independent contractor engagement program, including compliant payment solutions for 1099s, sole proprietors and micro-businesses.