



Dare to Work Differently™

INTELLECTUAL ARBITRAGE

How a Dazzling Global Reservoir of Highly Skilled Talent Shatters Employment Paradigms

What Is Intellectual Arbitrage?

A vibrant global marketplace of highly skilled independent talent is opening up vast opportunities for businesses to operate 24-7. We call it intellectual arbitrage. Leading companies are increasingly leveraging independent highly talented workers to do the most complex work their institutions undertake.

“Companies operating in numerous markets can now source ‘like-for-like’ talent capabilities across locations and time zones, and they can acquire these capabilities at scale,” said a CFO at a global pharmaceutical company. “By having access to independent workers who have skill sets that were not previously affordable or available, organizations can create greater innovation, new services and new capabilities. These workers allow businesses to act and react faster with amazing agility.”

According to RGP, an unprecedented reconceptualization of the global workforce is underway that allows for organizations to create continuous transformation. The most successful companies are creating a very intentional ecosystem that includes an almost 50-50 split between full-time employees and outside talent. The underlying constraint of seeking talent in a particular region no longer exists, nor does the underlying constraint that workers need to be employed by an organization to create enormous value.

In the United States, 36% of the workforce is comprised of independent workers — including contract, freelance, temporary, or gig workers — up from 27% in 2016, according to McKinsey & Company.¹ Statista reports that some 86.5 million people will be freelancing in the U.S. by 2027 — just over half of the entire workforce.²

Globally, World Bank estimates the total number of independent workers to be 1.57 billion out of a total global workforce of 3.38 billion.



24/7
operational opportunities



1.57 billion
independent workers
worldwide

The need for skilled expertise comes at a critical time when companies with revenue over \$1 billion have an average of 20 transformation efforts in play this year alone — defined as strategic initiatives costing at least \$1 million — according to a recent report by RGP.³ Most of these companies predict an even greater number of transformation efforts by 2026. Over 85% of organizations surveyed in 2023 by the World Economic Forum identify increased adoption of new and frontier technologies and broadening digital access as the trends most likely to drive transformation in their organization.⁴

Indeed, amid this whirlwind of transformation, about four in 10 companies indicated they lacked the internal skills needed to make big operational changes. Forty-two percent said they did not have enough internal talent to staff their transformation initiatives in 2022. Sixty percent said they suffered delays in the start of transformation initiatives, and 53% said it pushed out the completion dates. What's more, 41% missed critical goals, while 37% said it increased the difficulty of making important operational changes.³

Intellectual arbitrage is now accessible to firms of any size, including startups seeking to develop high-quality applications at a fraction of the cost.

Intellectual arbitrage leverages the near-elimination of once formidable barriers to cross-border collaboration: language, culture, communication gaps, education, advanced skills and high-value work experience. It takes advantage of advances in education, training and skill-development programs in emerging countries, leading to deep pools of expert talent. Intellectual arbitrage is now accessible to firms of any size, including startups seeking to develop high-quality applications at a fraction of the cost.





Capitalizing on Intellectual Arbitrage

Numerous locations around the globe offer intellectual arbitrage opportunities. India and the Philippines are highly attractive. Both countries have been evolving along with the maturity curve of outsourcing for three decades. Both have talented, experienced expats who are returning to build businesses.

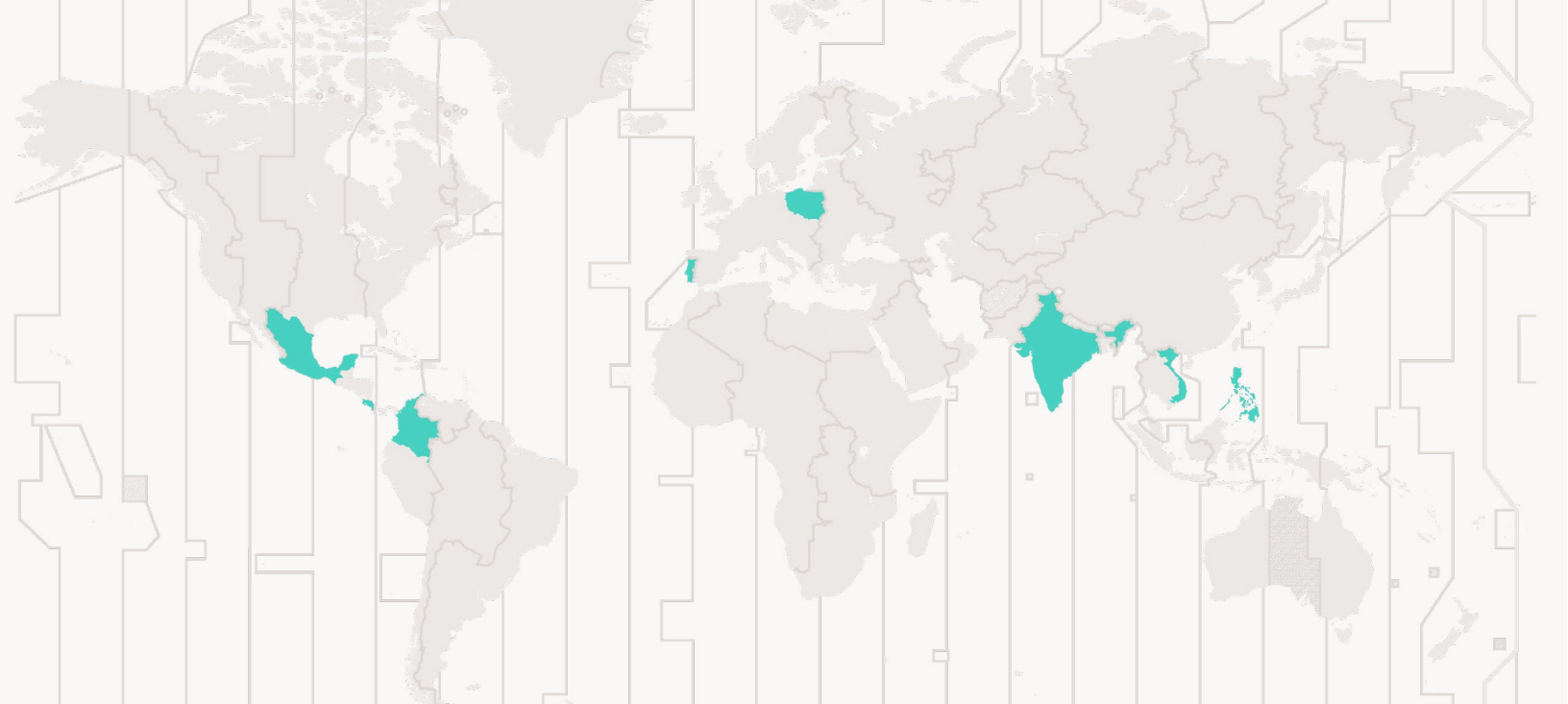
For companies or processes that require real-time collaboration, various Latin American countries are beginning to offer premium talent in time zones similar to those in the U.S. Mexico is promising. Costa Rica and Colombia are gaining momentum. In Europe, Portugal offers talent with strong skills at costs below the norm in its neighborhood. Some Eastern European countries offer intellectual arbitrage opportunities but are becoming expensive (Poland, Czechia) and/or experiencing tight skilled labor markets (Poland).

Skill and Education Advances Drive Intellectual Arbitrage: Various factors determine the quality and appropriateness of a destination for intellectual arbitrage, including language skills, education, talent availability, cultural fit, demographics, wage levels, real estate costs, and the business environment.

What Defines a Dynamic Workforce?

RGP coined the term [Dynamic Workforce™](#) in a 2023 whitepaper to describe the powerful revolution that is underway to intentionally employ roughly equal mixes of internal full-time employees and external independent experts. This large proportion of external experts builds enormous flexibility into the workforce and allows intellectual arbitrage to occur. It also provides opportunities for the large and growing cohort of independent contract and gig workers around the globe.

In fact, intellectual arbitrage is a key driver of the Dynamic Workforce model. Teams with advanced skills can be assembled in many parts of the world at costs significantly below what businesses traditionally pay for premium work at home. The world has become flat, as The New York Times opinion writer Thomas Friedman predicted in his 2005 book predicted in his 2005 book on the topic.⁵



All the countries below have become favored destinations of companies using intellectual arbitrage because they check many of these boxes. Below is a brief overview of what makes each country unique.

- **India's** education system is the envy of many markets. STEM graduates exceed 2.5 million annually, compared to 800,000 in the U.S.⁶ A highly developed technological ecosystem and lower costs for talent and office space make India a prime destination for outsourcing.
- **The Philippines** offers a large population with strong English skills, and an education system similar to the U.S. More than 200,000 Filipinos graduate with business degrees each year,⁷ making the country a popular destination for U.S. accounting firms.
- **Mexico** ranks seventh in the world in STEM graduates,⁶ and is favored for its proximity to U.S. tech hubs. It has a diversified manufacturing base, although corruption, violence and instability have been persistent issues.
- **Costa Rica** is among the most politically and economically stable countries in Central America. It offers educated talent at a relatively modest price, in a country with a high quality of life, well-developed infrastructure and a government that welcomes foreign investment.⁸
- **Colombia** has been emerging as a destination since the waning days of its five-decade civil war. Although still relatively small, the tech scene is significant enough for Google, Facebook and Microsoft to open offices.⁹ Companies willing to invest can access well-educated talent at a discount to regional rivals.
- **Portugal** may not be the lowest cost destination, but it has one of the highest rates of engineers and developers in Europe, in a country with a high quality of life strategically located within the eurozone in Western Europe.¹⁰
- **Poland's** location bordering Germany, European culture and highly educated populace make it another prime destination in Europe. It is a member of the European Union, facilitating trade, but still uses the zloty as its currency.
- **Vietnam** is emerging as a strong choice for affordable talent in Southeast Asia. The country offers low production costs and a skilled and abundant workforce with many specializations. Although language barriers are still an issue, much of that is rapidly changing.

Intellectual Arbitrage in Context

To understand intellectual arbitrage, it is useful to recap the evolution of outsourcing. Modern outsourcing gained traction roughly three decades ago with the advent of business process outsourcing (BPO). The initial goal of BPO was labor cost arbitrage. U.S. companies sought to handle mainly routine back-office business processes at lower costs in locales with large, educated, English-speaking labor forces, such as the Philippines and India.

Not only did they achieve cost savings, but they gained supplemental benefits. For example, they realized that by contracting with BPO firms, they could scale more quickly and focus on the core strategic aspects of their business without having daily responsibility and accountability for the back office.

BPO was so successful that companies and individuals pushed the boundaries of what was possible. Recognizing that local talent could perform more challenging tasks, managers with deep BPO experience developed “shared services” overseas, consolidating redundant operations used by multiple business units or departments into centralized, shared-service centers. Companies capitalized on the technological skills of workers in India, the Philippines, Eastern Europe, and elsewhere to manage IT systems and undertake digital transformation projects.

Next came “global business services,” in which large organizations expanded shared services worldwide and elevated expectations. Rather than simply handling tasks, teams were expected to improve the bottom line, for instance, by boosting efficiency and analyzing data to inform business strategy. These teams had to evolve this way to ensure their continued existence. Companies had come to understand that simply outsourcing back-

office and administrative tasks was not a long-term solution. Moreover, as technology progressed, companies were increasingly automating the type of lower-value or repetitive processes that outsourcing had initially handled.

Shared service centers had to become more strategic to survive, and companies realized that destinations like India offered far more than smart labor at a low price. They offered talented, highly educated experts with a work ethic that was hard to beat.

The time it takes to fill job openings in these locations is far shorter than in the U.S. and Europe, enabling more rapid scaling.

The next step up the value chain was the development of “global capability centers” (GCCs), also known as “centers of operational excellence” (COEs). Companies now rely on COEs – leveraging intellectual arbitrage – to handle new and advanced tasks, such as innovation, analytics, and, more recently, AI development. These centers tackle mission-critical endeavors, including advanced R&D, innovation, and product development at a high level and more modest cost. Additionally, they capitalize on the greater availability of talent in outsourcing destinations, particularly in countries like India, Mexico, Portugal, and Poland.

The time it takes to fill job openings in these locations is far shorter than in the U.S. and Europe, enabling more rapid scaling. India alone hosts more than 1,800 GCCs, employing more than 1.3 million people.¹¹



Over time, outsourcing destinations benefited from a positive feedback loop. Work and income fueled local educational opportunities and motivated people to obtain degrees in relevant STEM topics. The education systems and general skill-development climate in key emerging markets advanced significantly, resulting in a deep pool of capable talent for companies seeking to take advantage of intellectual arbitrage.

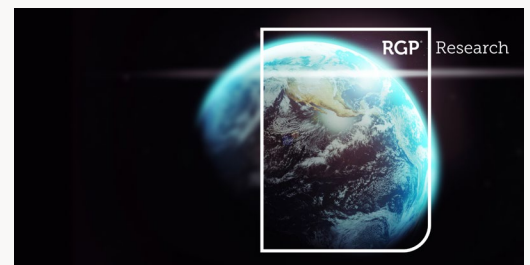
Skills have moved up the value chain and now match or exceed those of sought-after professionals in the most developed countries. These days, as CEOs race to leverage AI amid a talent shortage in high-income countries, outsourcing destinations are poised to fill the void.

A generation of progressively higher-value outsourcing has enriched the talent with valuable knowledge and experience. Skills have moved up the value chain and now match or exceed those of sought-after professionals in the most developed countries. As CEOs race to leverage AI amid a talent shortage in high-income countries, outsourcing destinations are poised to fill the void.

About RGP:

RGP has helped a variety of companies across sectors to take advantage of intellectual arbitrage. We assist at the high end of the value chain. For instance, recently we assembled a team of 45 people in Bangalore to plan and execute the most critical research and innovation projects each year for a large European consumer-oriented multinational. The team handles everything from package design to product updates to new product development.

No matter where your company is on the outsourcing maturity curve, there's an opportunity for you to benefit from intellectual arbitrage. [Contact us](#) for more information on how to get started.



The Transformational Impact of a Dynamic Workforce™

Discover how forward-looking C-suites are driving a revolution in workforce strategy.

[Download the Report](#) →

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