

Recruitment Process Outsourcing: Despite its potential, HR Executives continue to resist the outsourcing culture

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In years gone by, most companies would never have dared move the management of recruiting processes over to a third party provider, however, will this ethos change in today's uncertain environment?

The squeeze of an uncertain post-recession economy, combined with fresh thinking from company leaders to explore business support models that can bring expertise and flexibility, is elevating services such as Recruitment Process Outsourcing (RPO) up the corporate agenda for many organizations. RPO providers are gearing up for a renewed assault on their clients and prospects to convince them to handover a greater piece of their recruiting function to manage. But are organizations now ready to let go of their recruiting processes and what are the drivers and inhibitors behind their doing so? The latest HfS Research study of 238 HR executives (of which 34 percent were senior VPs or VPs of HR), conducted in conjunction with *Human Resources Executive Online* in May 2010, explores these issues in-depth.

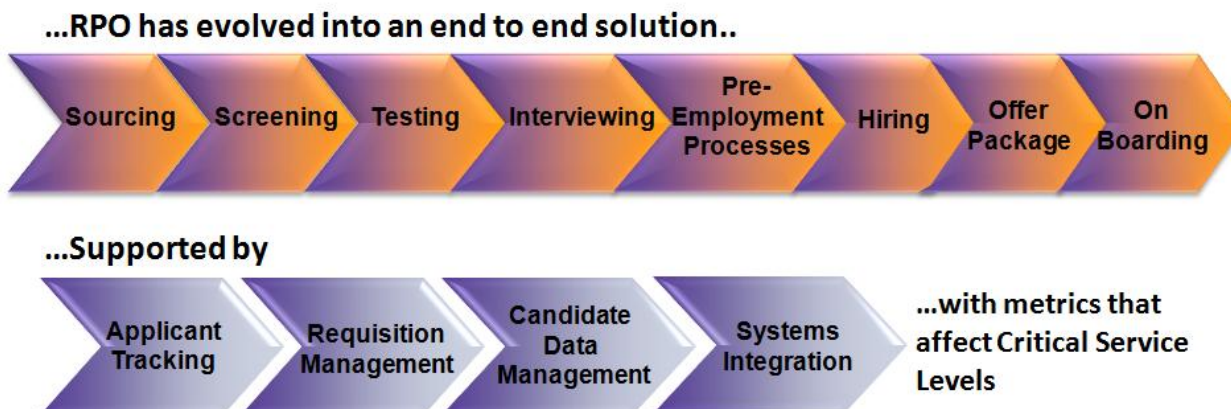
What, exactly, is RPO and why is it gaining in appeal?

The study reveals there is significant confusion about what RPO really is. In the U.S., RPO is defined as:

"A form of BPO in which an employer transfers all or part of its recruitment function to an external service provider. This can include assuming the staff, technology, methodologies, recruiting reporting, sourcing, recruiting, selection, assessment, administration and new hire on-boarding for a client company". Europeans add contingency hiring into the definition mix.

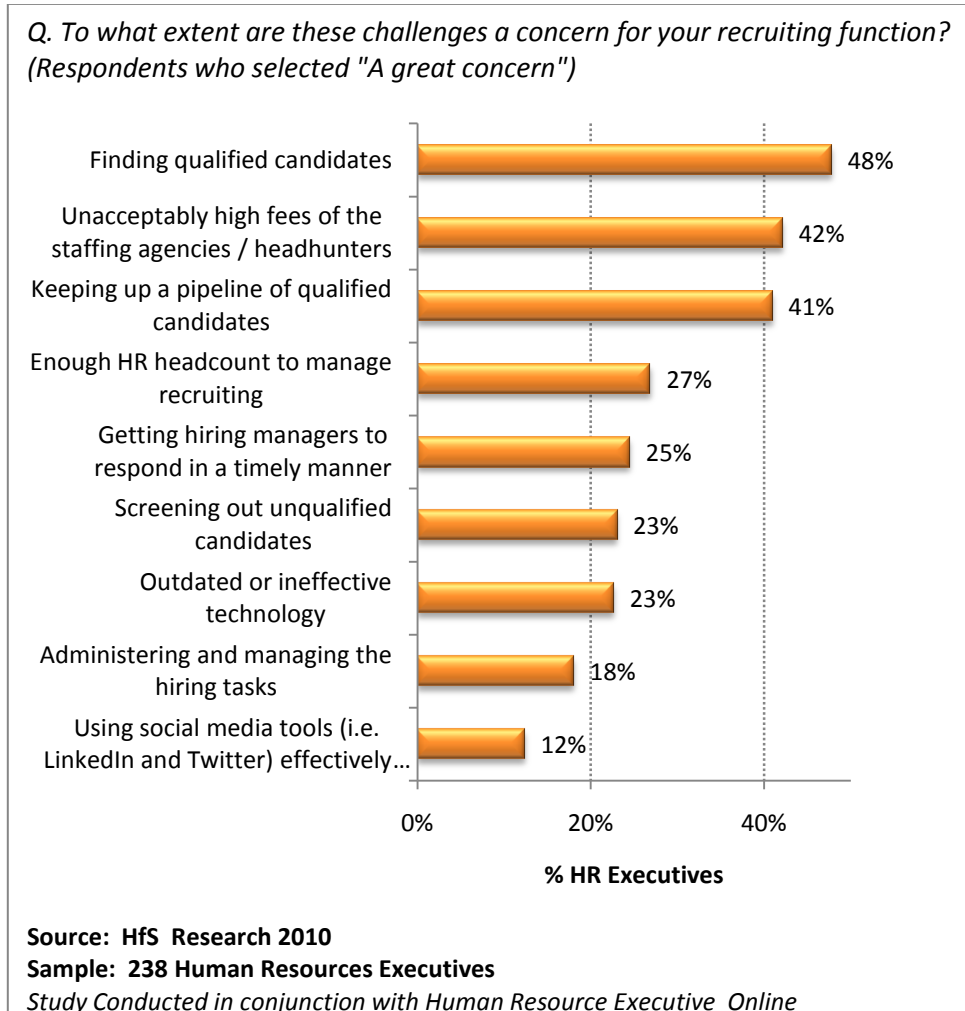
The reality today, is that the recruiting tasks most buyers outsource are the operational, and administrative aspects of recruiting, namely reporting, administration, background checks and high-level candidate identification. The results and benefits an RPO buyer receives is, in part, commensurate with the scale of the work outsourced. Until buyers take a more aggressive and holistic view of RPO, the potential benefits achieved from its usage is limited. Additionally, most RPO providers in the market do not support the fully recruitment lifecycle, further limiting buyer opportunities for significant improvement to this overall function. EquaTerra defines holistic RPO as encompassing the following processes (**Figure 1**):

Figure 1: Holistic view of RPO processes



For most organizations, hiring is back and recruiting is on the upswing. Good news indeed, but the source of intense headaches for most HR executives, tasked with meeting the sudden, and sometimes explosive, hiring needs of their business. While some organizations are expanding quickly and broadly, others are looking only to add staff in some specific functions or regions. However, they all have one aspect in common: they all are trying to scale-up their talent without adding significant recruiting costs, in many instances, to an already-depleted recruitment management function. **Figure 2** illustrates these current issues, with the ability to find qualified candidates, manage the talent pipeline, and avoid the exorbitant fees of the staffing agencies and headhunters, the overwhelming recruiting concerns for today's HR executives:

Figure 2: Sourcing and managing the talent pipeline and avoiding costs are the key recruiting concerns today



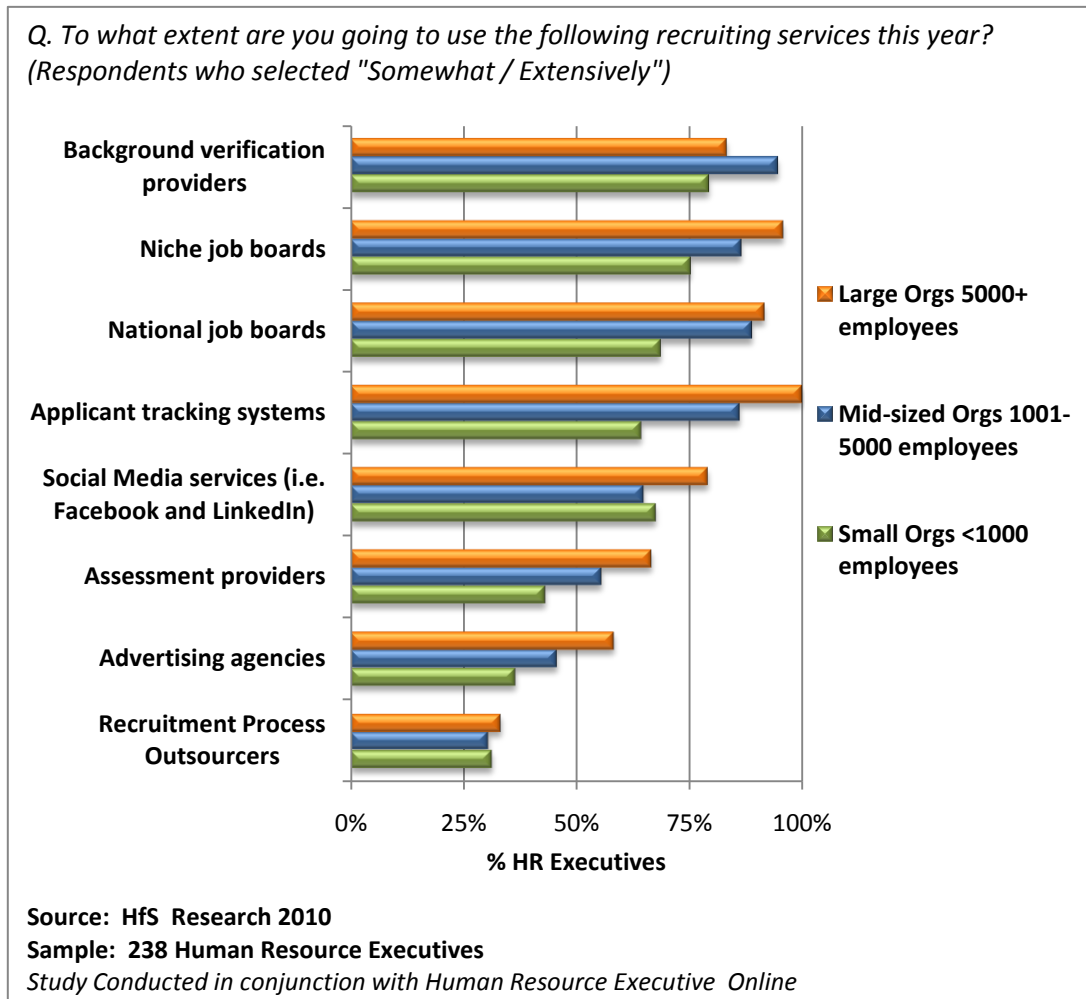
- **Key Trend:** Bringing in new talent without the associated recruiting costs the major concerns for HR executives in this economy

At the same time, savvy HR leaders are anxious to take advantage of the latest in recruiting technology, social networks and workforce analytics that can support their recruiting function – again, without adding to expenses. RPO service providers come to the table bearing a broad portfolio of capabilities that offer take on parts – or all – of these recruitment-related needs. So is RPO providing HR the solutions it needs, and will they seriously adopt it? Let's examine further.

RPO gains traction, but most HR executives dislike outsourcing and want to retain control over managing their recruiting processes

The survey found that RPO is gaining interest among HR executives, with 31 percent reporting they plan to utilize RPO extensively, or somewhat, in the coming year (see **Figure 3**). This was consistent across all sizes of organization:

Figure 3: Intended use of recruiting services this year



- **Key Trend: Most HR executives are looking for recruiting support, but seek the attention of specialist vendors for individual components of the recruitment function, rather than outsourcing the management of recruiting processes**

While close to a third are considering outsourcing, HR executives are evaluating other forms of recruiting services much more extensively – especially mid-to-large organizations, which clearly have greater reliance on external services to help them scale-up their talent. For example, the vast majority of HR executives in large organizations are extensively looking at background providers, job boards and application tracking systems. Moreover, close to three-quarters of all HR executives are looking hard at social media networks, such as LinkedIn and Twitter, which are becoming powerful mediums for sourcing new talent.

Despite its many potential benefits, many organizations still balk at the idea of outsourcing such an intensely people-focused process. One HR executive, who asked to remain anonymous, typifies the reasons RPO is still not widely adopted. Hiring has increased at his food distribution company in the past year, and so it implemented a new applicant tracking system from ADP which it believes will blend more seamlessly with its HRIS system and help with on-boarding. As a privately held, family-owned company, it has investigated RPO but sees it as a bad cultural fit. According to this HR executive, “No one can know the right fit for our company as well as we do, we are better able to judge a good candidate than a third-party.”

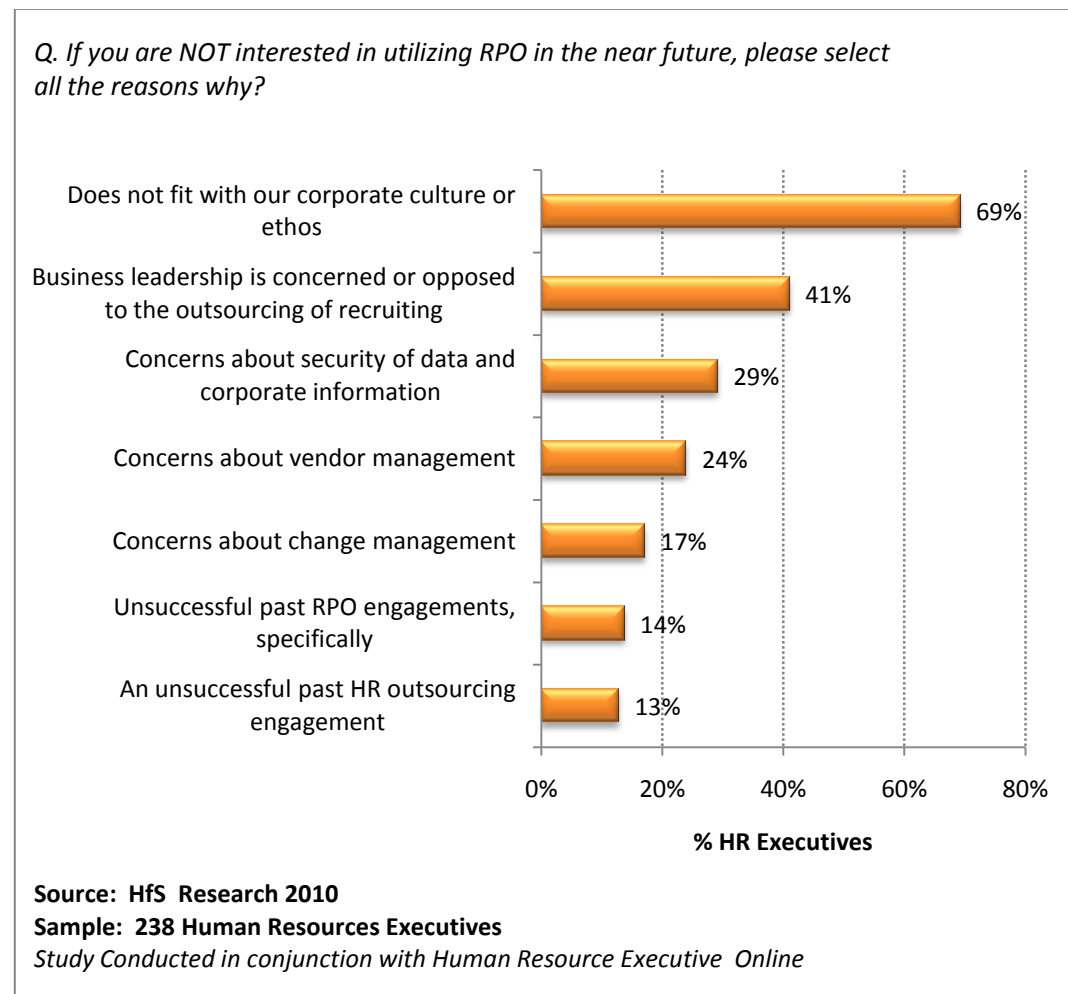
And business leaders can be particularly hard to get onboard, no matter how airtight the RPO business case. For instance, Goodyear’s Julie Bell, director of Talent Management & Organizational Development, said that while RPO has produced good results at the

company, some business leaders remain unconvinced it is the right approach, and are particularly unhappy about new limits placed on the use of executive search firms.

HR executives also report that change management can be an ongoing challenge, as business unit leaders chafe against the new ways job requisitions are sourced, filled and on-boarded.

The core issue here is one of *control*. HR executives are seeking help in their managing the recruitment function, not having management taken from them, as **Figure 4** illustrates, with the overwhelming majority citing “lack of cultural fit” (69%) as the prime reason for not taking up RPO:

Figure 4: What's deterring organizations from taking up RPO



- **Key Trend: Most companies currently resist RPO as they are worried about the amount of impact on the corporate culture and general concerns about outsourcing**

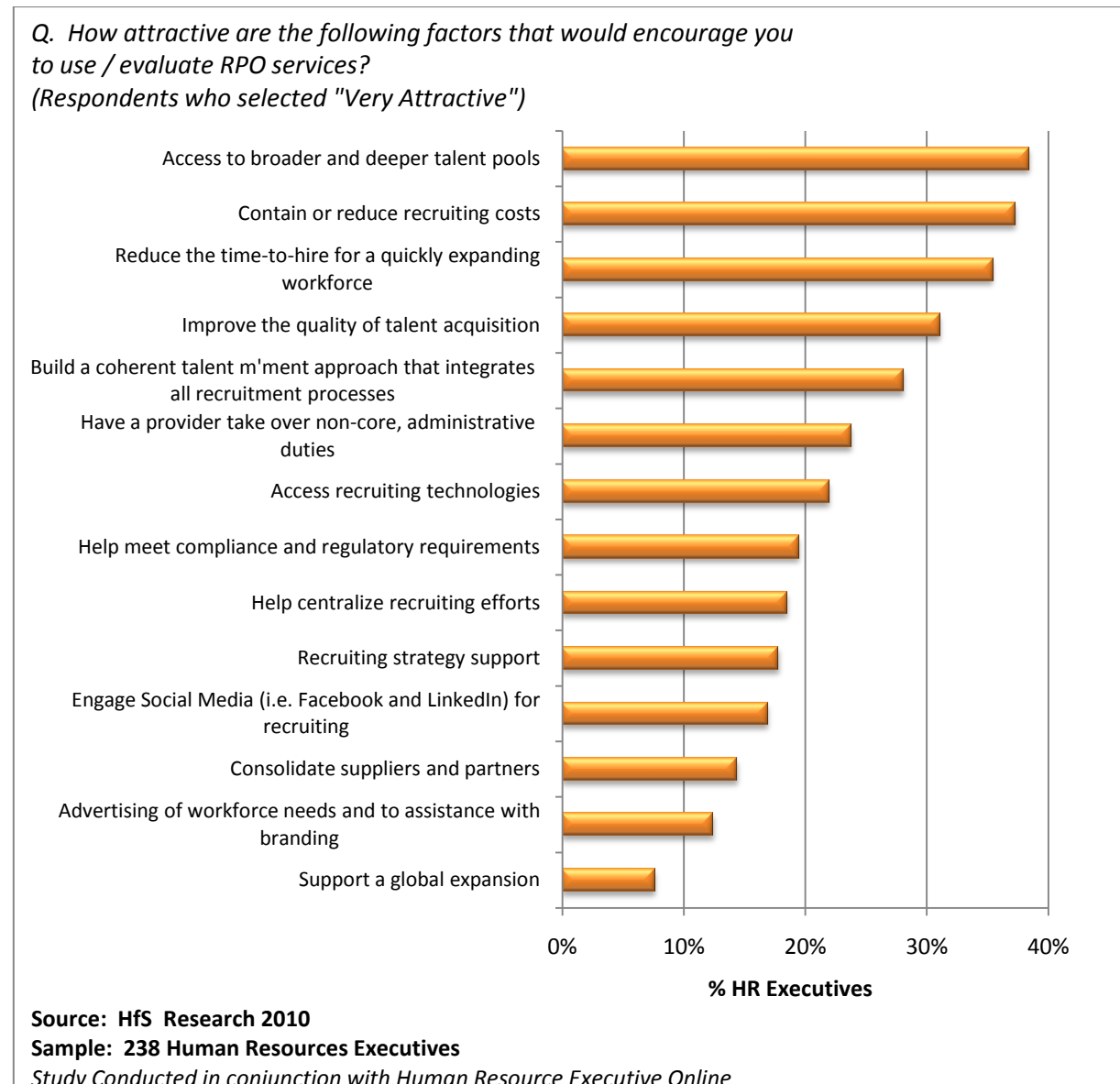
This concern highlights a paradox relative to RPO. What most buyers are outsourcing today – tactical tasks in support of the recruiting function – are not the activities that should conflict with any corporate or cultural ethos. They are support functions that a third party specialist can perform at a lower costs and typically higher skill level. More broadly, this concerns reflects the classic outsourcing of excuse of not wanting to use a third party for any activities deemed too “strategic”. However, a better litmus test is whether a third party can perform the activities better and at a lower cost. Organizations do not do themselves any favors by maintain internal control of activities that they cannot perform well or cost effectively.

This was a key factor behind the failure of broader HR Outsourcing in previous years, where HR executives wanted operation support from service providers, rather than the provider taking over management responsibility for the HR function. It is a similar scenario with the attitude of RPO, though on a smaller scale.

The need to find new avenues to source talent, while reducing costs, is the major driver behind RPO

While many HR executives are resisting the lure of RPO in today's economy, when they were asked what appealed to them about the value proposition (**Figure 5**), the drivers are powerful, namely the need to access broader and deeper pools of talent, in addition to containing costs.

Figure 5: Drivers behind organizations adopting RPO services



- **Key Trend:** With close to half of HR executives (**Figure 1**) troubled with their ability to find qualified candidates and manage the talent pipeline, many organization will increasingly turn to RPO to find solutions

So if RPO can help with these top goals cited how can it conflict with the corporate culture or ethos? Is not part of the corporate ethos of the HR group to do recruiting better and more cost effectively. Many of the RPO service providers talk a big game with their ability to provide recruiting strategy support, however, more HR executives view the ability to speed up the talent management cycle, and the overall quality of the talent sourcing, as the main attractions of outsourcing parts or all of the recruiting function. As **Figure 3** illustrates earlier, HR executives already focus on specialist providers for other key components of their recruiting, namely example background verification, job boards and applicants tracking.

RPO in Practice

Nury Plumley, global staffing programs, Americas and Europe Staffing Manager, Agilent, says her company had considered trying RPO for years but didn't think the market was ready for primetime. Last year, as the \$5.8 billion maker of measurement, communications and electronics systems in life sciences and chemical analysis was experiencing "intense fluctuations in its business cycles and hiring volumes," another look at the RPO market revealed solutions that could meet its hiring needs.

In signing on with Pinstripe for RPO, Plumley says Agilent was looking for a flexible hiring process that could function across several geographical areas, filling very specific talent acquisition needs for roles like electrical engineers and chemists – without needing to add HR staff or increase recruiting costs. RPO fit the bill and in the end, "It's been one of the fastest and most successful outsourcing projects we've ever done at Agilent," said Plumley.

And at Goodyear, which entered into an end-to-end RPO contract with The RightThing, the recruiting process was in disarray, according to Julie Bell, director of Talent Management & Organizational Development, and engaging in RPO was a strategy for putting its recruiting process back on track. And while expense reduction was a secondary consideration, the costs of hiring hourly workers have gone from \$1,200 to \$400 per hire, the hiring costs of salaried positions have dropped from \$13,000 to \$2,100 per hire, and there has been a 60 percent reduction in the 90-day average turnover rate.

The RPO Service Provider Landscape

Currently, RPO is usually implemented as a standalone process via pure play (or near pure play) RPO providers. However, it is sometimes included as part of multi-process HRO contracts –especially for larger companies doing global HRO roll-outs – by some of the bigger outsourcing service providers, such as Accenture and IBM.

In terms of market share, the leading RPO services providers in the Americas include Adecco, Futurestep, Kelly OCG, Kenexa, Manpower and The RightThing. In the European/U.K. market, the leaders are Alexander Mann and Hays. And as interest in global and multi-national RPO has increased, many alliances between providers – e.g., Pinstripe/OchreHouse, The RightThing/Alexander Mann, KellyOCG/IBM, and Hays/SourceRight Solutions – have been established.

As acceptance of RPO grows, providers are expanding their offerings with value-added options such as workforce analytics and talent planning. And they are increasingly helping clients build social media-based recruiting strategies (e.g., via LinkedIn, Facebook and Twitter) or providing such services as part of the contract.

Recommendations for HR executives

Engaging in an RPO endeavor can be a smart strategy for companies with depleted HR resources, broken recruiting functions, or those looking for the latest in recruiting technologies, tools and best practices. This also means taking on the change management challenges and business leadership skepticism that can accompany such a major change in hiring approach. Enterprises engaging in RPO must be ready and anxious for change, and truly open to ways to embed agility without adding significant cost.

For those willing to adapt, clear benefits can be gained in terms of quality, cost, efficiency and flexibility...as long as the right service provider with the right cultural fit and competencies is selected.

Our key takeaways for HR executives evaluating RPO include the following:

- Ensure you have a good advisor who understands the provider landscape, the contract negotiation process and the transition / governance issues post contract
- Consider easing into an RPO engagement in phases or as part of a pilot. No need to do it all at once
- Focus heavily on your internal change management issues and see the advice from others who have experienced RPO
- Ensure good cultural fit with the RPO service provider in order to have a true partnership. Make sure you meet the delivery team during negotiations and not solely the sales people
- Understand you will still need internal recruiting expertise to manage the endeavor
- Expect flexible contract terms and do not be afraid to discuss outcome-based options. Providers will be eager for your business and it's a buyer's market
- Work with your provider to strike a good balance between their "factory approach" and your desire for personalization and customization

- Look for a provider with workforce analytics capabilities
- Seek to optimize your social media strategy when you evaluate RPO, to ensure you are broadening your talent network
- Most buyers do not outsource 100% of recruiting. It is more common scope to include only a segment of total hiring often starting with high volume positions and then once you are comfortable with the process you expand scope.
- Many providers specialize either in types of positions or industries, make sure to do your due diligence in understanding their capabilities
- Understand you are taking on a formal “outsourcing” arrangement and create service levels that support your business needs.
- Focus on the true potential benefits RPO can bring to the organization as the key determinants of whether it should be pursued and avoid getting caught up in philosophical “corporate culture and ethos” discussions. Let the facts drive the decision making process.
- Take your time – this is a tough decision to reverse, so ensure you get this done right the first time.

About Horses for Sources Research

Horses for Sources (HfS) Research is the foremost advisory analyst firm and social networking community focused on helping enterprises make complex decisions with their global outsourcing strategies. HfS Research is well-regarded across the industry as the platform that delivers the "real hard facts" about outsourcing.

HfS Research provides the most impactful and frequently-visited collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing dynamics. The organization is unique in the fact that it integrates personable social networking with market research and advisory services.

Led by industry expert [Phil Fersht](#), the HfS research team is a multi-disciplinary group of analysts and experts with deep domain knowledge in Business Process Outsourcing, Industry Specific Process Outsourcing and Cloud Computing. The team comprises a unique skill-set of research, practitioner and strategy experience, that can take full advantage of social-media platforms to deliver cutting-edge research to enterprise buyers.

Launched in 2007, the Horses for Sources blog has more than 100,000 regular visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS Research LinkedIn community is thriving with over 10,000 industry professionals sharing views and information daily.

The company's blog and company website can be found at <http://www.horsesforsources.com>. It can also be followed on Twitter at twitter.com/horses4sources and LinkedIn by joining "[The BPO and Offshoring Best Practices Forum group](#)."

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