

# Recruitment Process Outsourcing and Strategic Staffing

By Josh Woody, Relationship Manager, Alexander Talbott

In this final part of my series on outsourcing, I take a closer look at how the Human Resource function, and more specifically, the staffing of a company, fits into this model of Business Process Outsourcing. I'll explore how traditional recruiting firms are evolving to become

*"People who are in the business full-time can do it better and cheaper."*

Herb Kelleher, Southwest Airlines; in reference to BPO

strategic suppliers of HR support. As mentioned in my first article, HR outsourcing is a fairly new arena. The functions we usually associate with outsourcing are payroll and/or benefits

administration. Areas that are becoming more commonly outsourced include: compensation planning, savings & retirement plans, management development, training programs, procedural manuals, outplacement, and recruiting. The focus of this article will be on the last element in that list—recruiting. I will, however, briefly touch upon the concept of Total Human Resource Outsourcing (THRO). Let's start with an overview of the recruiting industry....

Many people are under the impression that engaging recruiters, agencies, or headhunters is outsourcing the recruiting function of HR. As we learned in my first article, that type of relationship does not meet the requirements of a RPO scenario. Quite often, a company will

use 3-5 contingency firms to "recruit" on a position. These recruiters routinely funnel resumes to an HR person who, then, reviews and documents them and sends a short list to the hiring manager. This HR person invested a significant amount of time managing these contingency<sup>1</sup> relationships and reviewing resumes. He or she probably also spent time

By breaking down the barrier between the company's internal operations and what's outside, the creativity of others permeates the business's thinking and drives it forward.

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and money posting the company's own job ads and reviewing candidates from those. In this arrangement, **Where is the reengineering? Where is the time/cost savings? Where is the implementation of new technology? Where is the mutual investment? Where is the improvement in the process? Where is the strategic relationship?**

To further separate traditional recruiting from RPO I pose two questions: What is a recruiter or a headhunter, and what do they do? In answering these questions I present two scenarios.

## Scenario #1

I'd be willing to bet that eight out of ten people believe that a headhunter is someone who contacts them trying to market a candidate, hoping that a hire will take place so they can collect a fee. OR, the recruiter contacts the firm under the guise that they are willing to "recruit" on a position, then the next day they magically shoot over the resumes of five perfect candidates they sourced, while all along they already had these candidates in their back pockets. The people who adopt scenario #1 would be, for the most part, correct in their thinking—a headhunter finds a couple good candidates and he invests his time marketing those candidates to current or potential clients.

**Company Mindset: Recruiter = Salesperson**

<sup>1</sup> To learn more about the prevalent recruiting relationships (contingency vs. retained), please visit <http://www.indyhr.com/c-r.htm>

## Scenario #2

If I lost that bet, then I would place another bet that eight out of ten people believe a recruiter is someone to whom a company turns as a “last resort” option to fill a position, scenario #2. They don’t want to do it, but it’s a necessary evil. With this scenario, here’s what we’ve got: a hiring manager has a personnel need; he or she fills out the appropriate paperwork with HR to get the process rolling; the company gears up for a recruiting campaign that includes posting ads in newspapers, posting ads on internet job boards, and mining resumes from the Internet; the company probably spends thousands of dollars and hundreds of man-hours on this campaign; they didn’t get a favorable response from their efforts (they may or may not have interviewed a few folks along the way), so they decided to accept candidates from three area recruiting firms; the three firms engage in a race to get that magic resume in front of them; the company spends an inordinate amount of time reviewing the resumes, some of which they already saw from their own efforts; since it’s contingency and there’s really no commitment, two of the agencies stop working on the job because they just received a couple new hot job orders to which they turn their attention; a referral from the third agency is hired; the company pays more money to the agency in the form of a “fee” (sometimes 25-35% of the new hire’s salary); the company ended up with inflated recruiting costs and extended closing time.

### Company Mindset: Recruiter = High Fees; No Service

With both of these scenarios, there’s a tendency for people to view recruiters in a somewhat negative light. On the other hand, some hiring authorities might be comfortable with relationships such as those. Obviously, not all recruiting firms or individual headhunters operate in the above-mentioned fashions; however, I wanted to present those scenarios because, unfortunately, that is how many hiring managers and HR personnel are first introduced to the idea of third-party recruiters. If one of those scenarios resulted in a negative experience, then companies may be hesitant to engage any recruiting firms in the future, whether or not the relationship would be different.

In each of these situations, neither the company, nor the recruiting entity approached the relationship from an RPO standpoint. Process reengineering, innovation, risk sharing, and relationship building were probably not topics of conversation. Many companies do an exceptional job aligning internal processes with external resources in areas such as IT, distribution, or call center support; but, when it comes to staffing, there’s usually not much calibration occurring with a supplier. The supplier is not integrated and aligned with the company’s operations and internal business objectives. In this regard, businesses still seem to be rather *reactive* instead of *proactive* with their hiring. There does currently exist, however, a prominent recruiting relationship with a proactive flair to it.

A retained search, as I discussed in Part I, is the closest similarity to BPO. In a retained situation, a company usually hands over management of a recruiting project from the very beginning. The company recognizes a need, and brings in external expertise to discuss the best course of action to fulfilling that need. The company is exclusively engaged with the executive search firm. A relationship is formed; however, that relationship is usually ended once the search project is completed. The project itself was *outsourced* in simple terms, but the whole business process of recruiting/staffing was not handed over to the search firm for a long-term commitment.

As with other industries, the management of human capital has evolved since the first American personnel service, known as the "employment exchange," was established in 1848 in Boston. Innovational techniques and new technologies such as computers, databases, and the Internet, have changed the face of recruiting.<sup>2</sup> In addition to infrastructure, relationships between buyers and suppliers have evolved. Most recruiting firms work on either a contingency or retained basis for placing direct candidates. Companies tend to view contingency recruiting firms as simply suppliers of candidate resumes—"Thanks for the 10 resumes, we'll give you call if we want to interview any of them." Companies seeking value-added services from their supplier usually turn to retained search firms. It is here where innovation has taken place. This innovation, coupled with the growth of outsourcing, has resulted in the evolution of a new relationship in the recruiting industry.

As I mentioned in my first article, Total Human Resources Outsourcing (THRO) provides companies with a single delivery capability by managing a number of HR functions with the firm's own resources, and by integrating other best-in-class service providers to provide a total outsourcing solution.<sup>3</sup> Very few companies have jumped in the ring to tackle this

Essentially, outsourcing has helped corporate America become more efficient, flexible, and nimble.

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colossal undertaking. Because the idea of THRO is in its infancy, and not many case studies exist, I don't want to spend a significant amount of time on the subject. However, I think you can see an underlying theme in the staffing/recruiting industry's evolution. Buyers are seeking more

intimate working relationships that provide for risk sharing and the offering of value-added services. On the other hand, suppliers are beginning to realize the business world's distaste for contingency pricing models and the associated lack of service and/or value. While THRO fits the BPO model to an extreme, I believe that THRO is a very large step to take from the traditional retained relationship, and an even larger jump from the more archaic contingency recruiting relationship. As a result, I assert there exists an evolutionary step between a retained relationship and a THRO relationship. This state of evolution is what I've written this series about—Business Process Outsourcing.

## Contingency. . .Retained. . .RPO. . .THRO

Relationship building is a key component to RPO doctrine. Companies seek outsourcing partners with whom to *strategically* align their resources. If one were to research RPO, he or she would find the term *strategic* used liberally throughout the literature. Let's take a closer look at the term *strategic*. It's a rather colorful and strong-sounding word; but what does it mean? The Merriam-Webster Collegiate Dictionary defines *strategic* as follows:

Main Entry: **stra·te·gic**

Pronunciation: str&- 'tE-jik

Function: *adjective*

Date: 1825

**1** : of, relating to, or marked by [strategy](#) <a *strategic* retreat>

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<sup>2</sup> Of course, technology alone doesn't advance an industry. We have to figure out how to *utilize* that technology in the most efficient and cost-effective manner. I don't think the recruiting industry, nor businesses in general, have figured that part out yet. But that's a whole other article.

<sup>3</sup> Diane Shelgren, Managing Director of Human Resource Outsourcing; PricewaterhouseCoopers

**2 a :** necessary to or important in the initiation, conduct, or completion of a strategic plan **b :** required for the conduct of war and not available in adequate quantities domestically <*strategic materials*> **c :** of great importance within an integrated whole or to a planned effect <emphasized *strategic points*>

I think definition #2, parts B & C, can be thought of as being analogous to the operation of a business. Businesses need talented people in order to compete (or go to war) in the marketplace. However, some operations do not possess the internal resources to effectively recruit and manage their personnel.

Many professional recruiting and HR consulting firms have gathered a tremendous amount of resources under one roof. These folks have made significant investments in technology and human capital expertise. On the client side, modern HR departments require significant investment in applicant tracking software, telecommunications technology, personnel training, and employee salaries. In addition, there are fixed costs that include office space, office equipment, support personnel, etc. In uncertain economic times, it makes sense to evaluate the immediate impact, as well as the long-term benefits, of shifting your current resources or potential investments to an outsource partner. I'll refer to an example I used in Part I to the series where I introduced the concept of RPO:

Because business conditions change so rapidly, there are tremendous risks involved with making capital investment decisions. Outsourcing firms make investments on behalf of *many* clients, thereby **sharing the risks** of those investments among a broader base. Consider all the companies that made large investments to their in-house HR and recruiting infrastructure to accommodate the hiring frenzy of the mid to late 1990's. They purchased applicant-tracking systems, upgraded their databases, subscribed to all the Internet job boards, and hired 50 additional in-house recruiters. Then, look what happened. The economy turned sour and a significant portion of those companies instituted hiring freezes and layoffs. I think what can be derived from that example is quite clear.

In general, Business Process Outsourcing is an evolving business trend. As with any new technology or process innovation, widespread acceptance in the marketplace takes time and education. While BPO is established in other operating areas, it is relatively new to the staffing/recruiting arm of Human Resources. Alexander Talbott is positioned to assist companies in outsourcing an HR business process. We welcome the opportunity to learn about your company and the human capital challenges you face in today's marketplace. The economy is strong, hiring will continue to increase, and the competition for talent will become even fiercer.

**To Recruiting Firms:** Are you prepared for this upturn by being able to offer a diversified collection of services? Do you want to be known as simply a supplier of resumes, or as an indispensable commodity that plays an integral role in the strategic direction and growth of a company?

**To Corporate Decision Makers:** Will your company be prepared by having the necessary strategic relationships in place when growth hits? Or will it get caught in scenario #2?

**The Bottom Line—An effectively managed RPO relationship with a well-drafted service level agreement will save your company time, money, and make your shareholders happy.**