

## The Issue: An HR Market Update (part 3 of 3) – Taking a Pulse on the Recruitment Process Outsourcing Market

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Making the human resource (HR) function more strategic is a perennial goal in most organizations. Increasingly talent management is being viewed as a key area where HR groups can play a greater role in adding strategic value. Organizations of all sizes and across all geographies and industries are struggling with talent-related issues. These include finding and hiring needed talent, maximizing and retaining existing talent pools, and ensuring an adequate supply of new talent for the future. Alternative service delivery models like outsourcing can play a role in supporting efforts to improve talent management capabilities. Recruitment process outsourcing is positioned to help with talent challenges and has become a “hot” segment of the HRO market. But how real is the RPO market today? How much has it, and how much can it help adopters with their talent challenges, either at the operational or strategic levels?

### The Details

This three-part Perspectives series presents and analyzes the findings from an EquaTerra and Human Resource Executive® magazine market research study completed in January 2008 (see Figure 1). The study analyzed the current state of human resources (HR) organizations and their progress and success in performing as a strategic corporate asset. The study assessed

EquaTerra conducted this market study in December 2007 and January 2008 and surveyed approximately 450 HR decision makers. Twenty-nine percent of respondents were VPs of HR (including SVPs and public sector equivalents) and 53 percent were HR directors or managers. The balance of respondents had either other executive or HR operational roles.

All major industry groups were represented, with public sector (30 percent), healthcare and manufacturing (each with 13 percent) comprising the largest industry groups represented. Sixty-two percent of respondents were from organizations with less than 5,000 employees and the balance were from organizations with more than 5,000 staff.

Ninety-seven percent of respondents had operations in North America, while 17 percent of respondent organizations operated in Europe, 16 percent in Asia Pacific and 11 percent in Central and South America.

Figure 1: Study Demographics

the realities of HR transformation as a means to make HR groups more strategic, how organizations are pursuing HR transformation, and the role that alternative service delivery models – like shared services, information technology outsourcing or business process outsourcing (ITO/BPO) – are playing in enabling it. The study was a follow-up effort to a similar research exercise conducted in 2005.

Part one of this study assesses HR's role as a strategic corporate asset and identifies the activities HR groups should prioritize to become more strategic. Part two reviews the role of alternative service delivery models like shared services and outsourcing in making HR more strategic. Part three reviews the state of recruitment process outsourcing in the market today.

Results from this market study illustrate that the quest to make organization's HR operations more strategic remains a paramount initiative. Progress toward this goal, however, continues to remain elusive. The challenge is to both define what will make HR more strategic as well as how to execute on achieving this goal.

## Recruitment Process Outsourcing and Talent Management

The final section of the market study focuses on recruitment process outsourcing (RPO). RPO is a key growth area in the overall HRO market. The goal of this section of the study is to assess buyer uptake of RPO, their success in achieving the benefits sought from their RPO efforts, and the role and importance of RPO in improving talent management capabilities. For the purposes of this study, RPO is defined to include the outsourcing of most or all of the work associated with the following processes:

- Employee sourcing
- Employee hiring
- Executive recruiting
- Staffing
- Contingent workforce and temporary employee administration
- Drug testing/background checks
- Pre-employment testing
- RPO IT applications/systems

RPO scope is defined as using a “third-party service provider(s) to handle much/most of their recruiting processes.”

EquaTerra recognizes there are more steps and processes in the overall recruitment process than represented above. If recruiting starts at sourcing and ends at on-boarding, so ultimately should RPO. The reality of the RPO market today, however, is that many service providers only support a subset of the sourcing to on-boarding process. They also tend to define RPO in the context of their own offerings. Buyers must clearly understand what is in scope or not when considering their RPO options. Figure 2 defines how the RPO market is evolving.

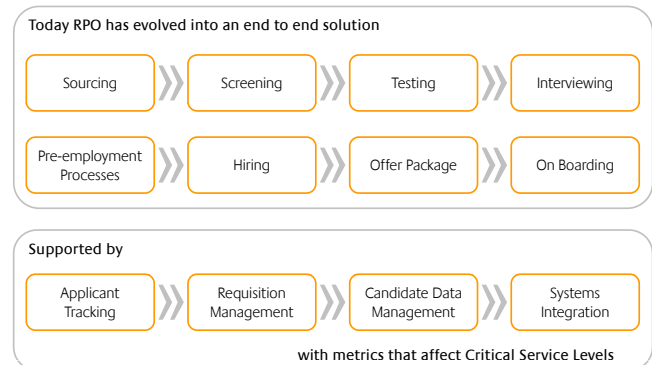


Figure 2: Supporting the Process Improvement Lifecycle

Respondents were asked to assess the importance of RPO in addressing talent challenges. Overall, RPO was not deemed a critical tool to use when dealing with issues around talent and talent management. On a one-to-five scale, where one was not at all important and five was very important to addressing talent challenges, RPO scored a 2.32, nearly identical to the overall BPO score of 2.30. As with BPO, RPO scored higher among non-HR respondents (3.02) and among respondents from organizations with 20,000 or more employees (2.78). Even among these groups, response levels were still just above the scale mid-point.

## How are HR Organizations Responding?

The relatively low perceived importance of RPO to addressing talent management challenges is somewhat surprising given the amount of attention paid to RPO by sellers. Most RPO services in the market today address only certain aspects of talent management and primarily support administrative activities. While RPO has the potential to support broader dimensions of talent acquisition, today its focus is generally more limited. There is nothing wrong with this; however, it does reinforce the importance of understanding where RPO can and cannot help with talent management challenges.

Just 19 percent of respondent organizations in the study had undertaken or were in the process of undertaking RPO. RPO adoption and usage levels were strongly influenced by the size of the respondent's organization and its industry. Just 9 percent of respondents from organizations with less than 5,000 employees had undertaken or were in the process of undertaking RPO. By contrast, 23 percent of respondents from organizations with more than 5,000 employees had undertaken RPO. Uptake levels for the largest organizations

(20,000 or more employees) were at a similar level. Just 6 percent of respondents from the public sector indicated that their organizations had undertaken RPO. On the opposite extreme, 63 percent of respondents from the high-tech product and services industry cited RPO usage.

Respondents whose organizations had undertaken RPO exhibited satisfaction levels with HR people and processes and HR IT, similar to the study as a whole. They placed more importance on the use of alternative service delivery models to transform HR. They scored the importance of HR shared services and HR IT at 3.49 and HR BPO at 2.90 on the one-to-five scale of importance. They also naturally placed more importance on RPO to address talent challenges, scoring it at 3.58 compared to the 2.32 level for the study as a whole.

There are a variety of factors driving the adoption of RPO. Figure 3 illustrates the benefits that organizations sought to achieve through their RPO efforts. Accelerate the recruiting and hiring process was the benefit most commonly sought from RPO, cited by over 60 percent of respondents. This was followed by using RPO to enable HR organizations to focus on the more strategic aspects of recruiting by offloading the transactional activities to the third-party outsourcer. Reducing the costs of the recruiting process ranked lower, in contrast to many other types of outsourcing, where cost reduction is a top benefit sought.

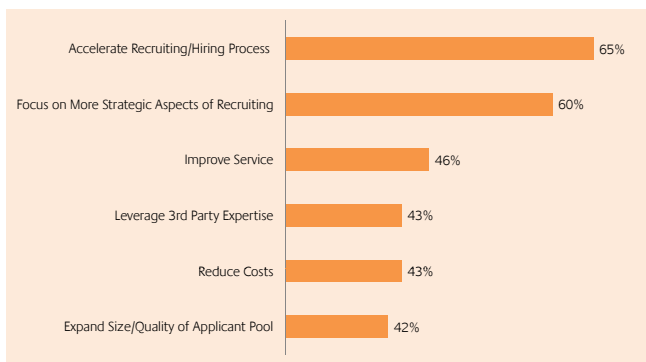


Figure 3: RPO Benefits

Measuring RPO’s value was done by assessing the degree to which organizations have been successful in achieving these benefits. Figure 4 illustrates the frequency with which various recruitment processes have been outsourced and the success

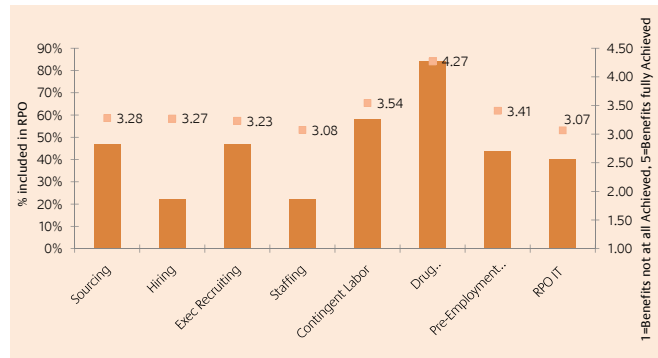


Figure 4: RPO

that organizations have had in achieving the benefits sought from outsourcing. Drug testing and background checks were the recruiting process most frequently outsourced by organizations that have undertaken RPO. This was followed by outsourcing the processes for recruiting and contracting and managing contingent or temporary labor. The actual hiring process and the staffing process were the two activities least frequently outsourced.

Organizations that have undertaken RPO have been reasonably successful in achieving the benefits they sought through outsourcing. On a scale of one-to-five where one represented benefits not at all achieved and five represented benefits fully achieved, the average score for all processes covered under RPO came in at over 3.0. Drug testing and background checks, the process most frequently outsourced, also received the highest score. No other process scored over a 4.0. Staffing and HR IT scored the lowest. So while the number of organizations overall that have undertaken significant levels of RPO is not large, those that have done so have experienced fairly positive results; though there is still room for improvement.

The level of benefits achieved from RPO found in this market study also scored higher than those for multi-process HRO found in a separate EquaTerra study conducted in the second quarter of 2007. In that study, benefits achieved for HRO scored in the 2.5 through 3.0 range on the same one-to-five scale.

A key measure of the success of any outsourcing effort is whether the buyer organization will continue the effort and whether or not they plan to increase scope. Relative to future RPO plans, the majority of organizations that have undertaken RPO intend to maintain their current levels of investments for the foreseeable future (see Figure 5). The second most frequently planned activity was to expand RPO efforts into new areas (such as business units, geographies and classes of employees). Eighteen percent planned to maintain current levels but renegotiate deals with their current RPO service providers or possibly switch to a different provider. Just two percent planned to curtail or eliminate their RPO efforts.

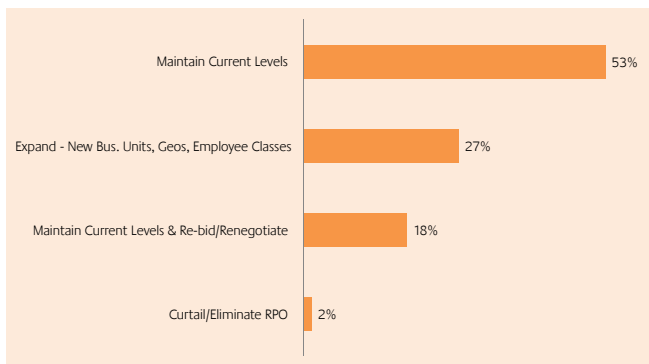


Figure 5: RPO Futures

An EquaTerra market study on HRO conducted in 2007 found similar expected levels of re-bidding and renegotiations but higher levels of expected terminations (10 percent). The levels cited on expected expansion of scope are somewhat lower than EquaTerra typically finds in its market studies on outsourcing futures.

In this market study, EquaTerra also polled those respondents whose organization had not undertaken RPO as to the reason why. The top reason cited for not undertaking RPO, identified by close to one half of the respondents, was that it was not needed (see Figure 6). This was followed by the perception that RPO was too expensive. This response is interesting given that for those respondents whose organizations had undertaken RPO, cost reduction was not a predominate benefit sought. Just over one quarter of respondents indicated their organization might consider RPO in the future.

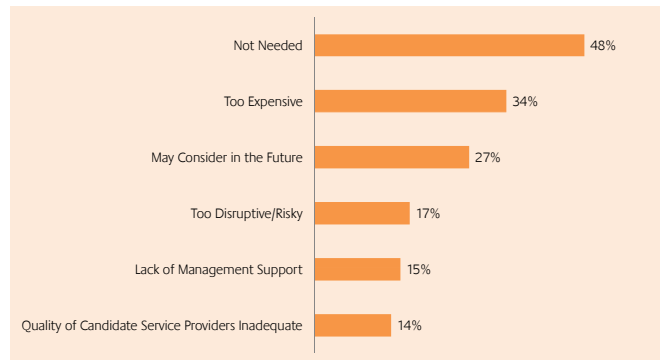


Figure 6: Not RPO

The opinion that RPO is too expensive is similar to the top barrier to HR transformation identified in the market study. While the cost associated with undertaking an internal HR transformation can prove a major impediment, especially if significant investments in supporting new HR IT capabilities are required, high costs are potentially less of a true barrier to RPO.

Given the strategic importance of the recruiting process, not undertaking RPO because of its costs could prove shortsighted. RPO may prove even more or not much less expensive than the current in-house costs. It is the return on the investment, however, that should determine whether the investment is worthwhile. If RPO can deliver more robust supporting IT applications and tools, a better candidate match, a reduction in turnover from the better match, higher satisfaction rates from both candidate and hiring manager in the recruitment experience, and other related benefits, it can prove well worth the more costly investment than maintaining the status quo.

EquaTerra often finds that the perceived costs associated with outsourcing are cited as a reason not to outsource. It is certainly possible, however, to construct an outsourcing arrangement that has a more favorable cost model for the buyer than undertaking internal transformation efforts. Outsourcing service providers have economies of scale that can lower costs as well as the potential capabilities to spread costs over the life of a contract. This is not to say that high costs cannot present a legitimate barrier to outsourcing, but that potential outsourcing buyers should ensure they adequately assess costs and funding options before dismissing the outsourcing option as too expensive.

Digging deeper into why organizations had not undertaken RPO, EquaTerra found a mix of pragmatic as well as philosophical reasons. Several respondents simply felt that a third party could not understand their recruiting needs as well as they did internally. Others felt that it was preferable to automate the transaction-oriented processes typically included in RPO rather than outsource them.

When asked what could potentially make their organizations reconsider pursuing RPO, many respondents simply said “nothing.” In some cases, this was based on a lack of faith in RPO, while in others, it was based on contributing limiting factors specific to the respondent’s organization (such as small size, strong unions blocking outsourcing, management disinterest or restrictions based on being in the public sector). Other respondents indicated that more proven successes in the RPO market could lead them to reconsider, along with greater industry expertise on behalf of RPO service providers. A more compelling return on the investment coupled with clear plans and commitments from RPO service providers to limit disruption to the recruitment process were also cited as key factors influencing decisions.

### How are Outsourcing Service Providers Responding?

There are a broad range and number of service providers in the RPO market. Early market entrants in the HRO space have in most cases pulled back and refined their RPO offerings. They are either not offering services, focusing on specific geographies or industries, or partnering either in advance of or in specific deal situations with RPO specialists. Longer term, EquaTerra expects many tier one suppliers to strengthen their RPO capabilities and get more aggressive in the market, especially where RPO is bundled with other HRO services. Today they are taking a more selective approach to the market than a few years ago. Pure play-and-niche RPO providers have entered the market directly from the staffing industry by leveraging software product offerings into software-as-a-service outsourcing offering as well as from adjacent outsourcing spaces.

As more new suppliers enter the market and existing broader-based HRO providers refine their offerings, buyers have many more options from which to choose. The growing number of options in terms of both service providers and delivery options/models can make assessment opportunities more challenging. As with any growing market populated by many smaller providers, buyers must pay careful attention to the potential longevity of any candidate firm and prepare in advance for potential changes in control, or worse, the demise of a provider.

Buyers need to keep in mind that there is a distinction between HRO and RPO regarding global outsourcing. Recruitment is one process in the suite of multiple processes represented within an HRO space. Recruitment outsourcing is not just for large global organizations, and to date RPO has only been regionally contracted by all sizes of buyer organizations. There are certain RPO providers that specialize in supporting companies with under 5,000 employees, and there are many niche players in the industry. For example, some recruit sales personnel only and others recruit exclusively for the finance industry. RPO is being sought by companies for a variety of reasons: process improvement, cost savings, scalability, sourcing capabilities, and attracting the very best talent. In assessing candidate service providers, buyers need to map their needs to the capabilities of the providers recognizing they can have very different focus and capabilities.

Buyers also need to keep in mind that today there is no one provider with a global footprint in RPO. There have been a number of reasons for this, including hiring regulations to customs and laws around the world. Specific countries in Europe have unique hiring regulations, and some Asian countries have laws regarding hand delivered versus electronic employment offers. So to be successful at RPO globally, a provider must understand the customs and laws by country. No single provider is strong in all regions of the world; however, many service providers are trying to build a global RPO network by forming partnerships with providers in other regions or by building that capability with a global client. In the past six months, EquaTerra has seen a number of global companies release RFPs in search of a global RPO provider to support their needs.

## The Advisor Perspective – Critical Points to Consider

Recruitment process outsourcing is undertaken for many reasons. It certainly adds value for organizations in which the recruitment process is broken. If an organization cannot source or attract talent, they cannot compete. This is also linked to how well a firm integrates a quality employer brand into that process. The job market has changed since the downsizings in the '80s and '90s. People are changing jobs more frequently than ever before. Loyalty is lost, and there are a lot of employers for whom people do not want to work.

RPO can help buyers gain a competitive edge in employment. Recruiting for the right skills needed in a corporate environment is a competitive process. If an organization does an excellent job of talent acquisition it has a competitive edge. Another benefit is scalability. Buyers that need to hire large volumes of staff, for example, seasonal work or when launching operations in new markets, can benefit greatly from RPO. RPO providers can typically scale-up more efficiently and faster than most buyers can in-house.

RPO is becoming an imperative for an increasing number of organizations. Some organizations are struggling with 70 to 85 percent annual turnover. Certain segments of the manufacturing industry, like non-durables, has very high turnover rates, as does healthcare, retail and other service industries. In other cases, such as in high-tech or R&D-intensive industries, RPO demand is not driven by high turnover but by the challenge to find and compete for scarce, highly-skilled and compensated talent. RPO in these industries has different characteristics than those that employ higher volumes of lower-skilled workers.

Given the advances in the capabilities available in the RPO market it is worth buyers' time to review and reassess their options to employ RPO services. While not a panacea to address all talent management challenges, RPO is an increasingly viable tool to help with talent acquisition.

## Conclusion

Transforming the human resources organization to be more strategic remains a perennial goal for most HR executives. Improving total talent management and organizational effectiveness capabilities is a key means through which HR groups can play a more strategic role in their organization. While recruitment process outsourcing (RPO) is a hot segment of the overall HRO market, buyers need to clearly understand what RPO can and cannot do relative to supporting overall talent management needs. Most buyers are taking a pragmatic approach to RPO, recognizing its applicability to primarily address improvements to operational aspects of recruiting. While improving operational recruiting capabilities is valuable this is only the first step in elevating overall recruiting capabilities, and improving recruiting is only one element in a talent management recruiting strategy. One of the benefits RPO can bring to talent management improvement efforts is to free up HR staff from operational tasks to focus on the more strategic aspects of talent. Many HR groups can no longer stay competitive with the unique and demanding avenues for sourcing great talent. If sourcing is no longer a core competency and differentiator for HR groups, then assessment and development of talent must become even more of one.

### About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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If you have questions about this report or would like to learn more about how EquaTerra can help your organization address the points and opportunities discussed, please contact Lowell Williams or Stan Lepeak or Cindy Cardwell.

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