

Recruitment Outsourcing – Not Just Hype Anymore

The mere mention of Recruitment Process Outsourcing (RPO) evokes a wide range of reactions – some say it is the next coming of the Vendor Management System, some think it is a ripple that will die in time and some don't even know what it is. This very publication recently referred to RPO as “a much hyped development that hasn't come of age and something executives aren't even looking at”. I say they are...and those that aren't should.

As the head of CDI's professional recruitment organization, I have an admitted bias on the subject of RPO. That aside, my beliefs on the subject are based on hard facts as much as personal opinion. Leading economists see continued moderate economic growth over the next 10 years with average U.S. GDP growth of about 2.5 - 3.0% annually (but with much higher rates of growth forecast for the emerging BRIC economies, impacting labor demand throughout the world.) During this same time period of growth, complications arise as the domestic workforce begins to shrink due to the much publicized retirement of the baby boom generation. According to IDC (*1/07 article “Winning the War for Talent”*) an estimated 19% of the entire U.S. workforce holding executive, administrative and managerial positions will retire in the next five years. By 2016, there will be a shortfall of three million workers between the projected U.S. workforce and the number of jobs required by that time. Hewitt argues that this gap will be more like 23 million.

According to Recruiter.com, people costs continue to represent around 80% of company operating budgets. What this means is that companies need to improve their ability to both attract and retain talent. According to Staffing.org, two thirds or more of job seekers report that they are dissatisfied with their hiring process and note ongoing and follow-up communication as the biggest problem areas. At the heart of this issue is the generalist model used within most companies. This model doesn't lend itself to the sole focus of recruiting and recruiting strategies but instead includes recruiting with other HR responsibilities. It also involves heavy involvement of costly outside agencies that do not lend themselves to consistent branding or processes of the company.

Human Resource Outsourcing (HRO) companies have embraced the facts and now have RPO services embedded in their overall solutions. According to a November 2006 study conducted by HROA in association with ADP, 64% (up from 54% in 2005) of CEO and Executive Boards support HR transformation. RPO has not always been a visible component of this transformation but that is changing as it continues to be the fastest growing segment of HRO with annual growth exceeding 20% according to Ignacio Palomera, North American President of HRO provider Arinso People Services. According to Palomera, “initial HR outsourcing contracts scope was the core HR, Payroll and Benefits Administration areas. With the war for talent becoming critical and sometimes ruthless, our clients and prospects started seeking more value added Workforce Management and Planning functions. We see that more and more companies are outsourcing their Recruiting function and without doubt, the business case is compelling”.

At CDI we are seeing more and more customers turning to RPO in order to start solving these issues. I define RPO as a delegation of the recruitment process to a provider who takes ownership of the process from receipt-of-requisition to on-boarding-of-the-hire. In a sense, the RPO provider acts as the general contractor leveraging internal and

external resources meeting companies' talent acquisition requirements in a manner that is transparent to the customer. By definition, low cost call centers would be excluded and, in fact, Worforce.com (*article "Going for Global RPO"*) recently quoted that HRO providers are turning directly to RPO providers for full service recruiting. RPO's done right will have both the provider and the customer making commitments to each other in the form of Service Level Agreements. These commitments will be designed around the value statement committed and include penalties and gain share components. In addition, the RPO provider will manage the full transition that includes a full project plan with change management and communication components.

The key component noted above is that a value statement needs to be defined. The following sets forth an example of a value statement around the RPO component of an overall HRO agreement:

"At CA, the strategic acquisition of talent is an integral part to the successful execution of our business strategy. Having a focused and responsive partner for our North America recruiting efforts should provide us with both a competitive advantage and cost efficiencies over the long term." – Adam Feirstein, VP of Global HR Operations, CA

Research shows us that RPO is already among us and that multiple factor's will expedite its acceptance, need and the growth of RPO sooner rather than later.