



# 2011 Corporate Recruiting Reports

## *Strategic* **OUTSOURCING**

*Staffing.org*



# 2011 Corporate Recruiting Reports

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## Strategic Outsourcing



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Published by Staffing.org, Inc., Weston, CT, USA

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# 1 – Introduction

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*Outsourcing* is the second in our 2011 series of Corporate Staffing Reports. This new series is both a direct evolution from our 13-year-old series of annual reports that began in 1998 as the *Recruiting Metrics & Performance Benchmark Report*, and something quite new. This evolution reflects the dramatically increased complexity of corporate staffing over that time, the promise of equally dramatic changes in the decade ahead, and consequently the increasing difficulty of becoming a leader in talent acquisition and management.

Corporate staffing has been evolving rapidly since the late 1990s, beginning with the appearance of Internet job boards. During that time it has also been whipsawed in and out of two recessions. It is no overstatement to say that the profession has changed more in the last decade than in the previous five, and those changes have been significant enough to require a new operating model to achieve best practice.

Our clients' interests over the past year have generally fallen into two categories:

1. Moving current operational metrics toward best in class performance
2. Innovating in ways that enhance strategic partnership with the business

Achieving both goals requires:

- Understanding how the staffing environment has evolved in recent years
- Understanding the forces that are driving that evolution, and where they are taking us
- Understanding the adaptations to staffing practice that will be required to operate successfully in a rapidly changing environment

## Using This Report

Each of this year's 12 reports examines a topic that is critical to 21<sup>st</sup> century staffing excellence. *Outsourcing* examines a function that is regularly practiced by the great majority of companies but almost always in the context of tactical decision making. By far the most common uses are to meet peak seasonal staffing needs and to

provide replacements for employees on temporary leave for reasons such as illness or vacation.

In *Outsourcing*, we offer a different perspective on this traditional function, one that potentially reshapes its structure and focus to provide better overall staffing efficiency and effectiveness, competitive advantage and bottom line corporate benefit. Although some of the ideas we discuss may seem radical or far fetched, they are well known to a small group staffing leaders, who are already applying them successfully in the talent marketplace.

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*Note – Throughout this report we use recruitment outsourcing in the broadest possible sense with no distinction between executive search, temporary services, contract recruiting and RPO. For our purposes, they are all ways of securing talent through the help of a third party specialist. Egon Zehnder and Kelly Services may have made their reputations opposite ends of the staffing spectrum, but they perform the same basic function.*

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We have five objectives:

- To explain the concept of strategic outsourcing
- To review changes in the staffing environment (ecosystem) and why these have made strategic outsourcing more significant
- To illustrate how strategic outsourcing can allow a staffing department to transition to activities that have greater impacts on corporate performance
- To help staffing managers decide whether strategic outsourcing makes sense for their organizations and where to place it on their project priority list
- To provide some guidelines from experienced clients, consultants, and vendors about how to approach the process and make it successful.

We publish this report at this particular moment because:

- Our research over the past two years has revealed which things will make the greatest difference between best practices and lagging practices as the 21st century staffing model takes hold. Outsourcing is high on that list.
- Clients have had other priorities these past two years but now are exiting the recession with the desire and ability to think differently about their objectives and game plans.

- Strategic outsourcing projects are inherently complicated and require time to map and implement.
- There is ample evidence that strategic outsourcing is now
  - A staffing best practice...
  - with a defined path for exploring it as a business option...
  - and a proven process for successfully transitioning from tactical outsourcing

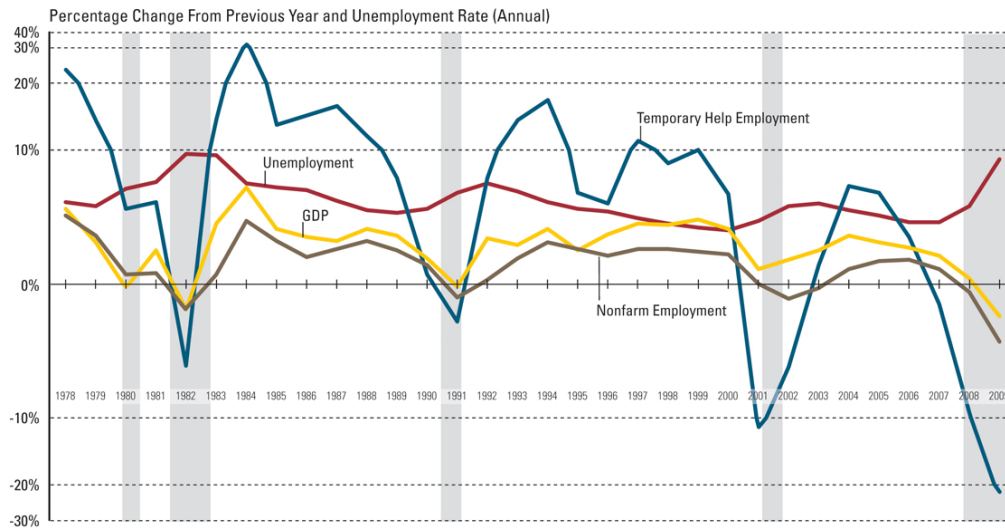
No client of ours has ever said they had enough time or resources devoted to innovation, since 90% of their work consists of managing day-to-day operations. Yet as the staffing world has become more complex and competitive, that other 10% has become more important. Our research says that in the coming decade innovators will have a decided advantage. Staffing departments that don't give planning, thinking and innovating their due will pay stiff penalties in relevance and performance.

# 3 – Tactical Outsourcing

Note - You may wish to review our definition of recruitment outsourcing on page 5

## Between Two Worlds

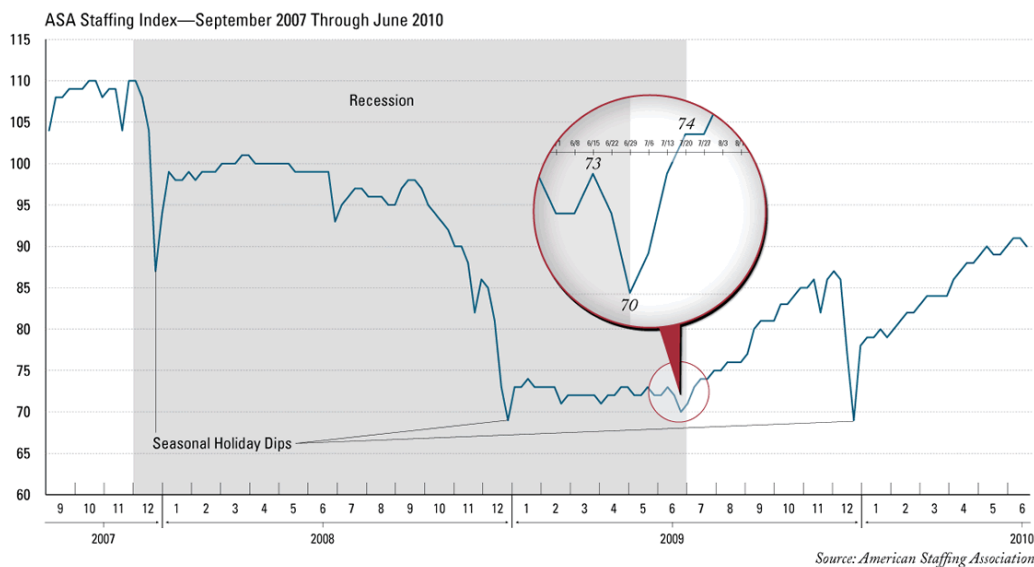
Recruitment outsourcing is familiar to every staffing professional who has ever used a temp agency, hired a contract worker, or engaged an executive recruiter. But most of that familiarity is based on tactical usage to address short-term problems such as hiring seasonal workers, locating scarce talent, or staffing up a critical project. Such usage, while familiar, tends to be piecemeal through arms length relationships with a shifting network of suppliers who are engaged or disengaged as hiring demands change. These relationships may be longstanding but tend to operate contract to contract.



Sources: National Bureau of Economic Research, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics

Usage patterns are familiar, rising and falling predictably in response to economic conditions as the chart illustrates. In most companies they follow an inventory pattern known as LIFO or last-in-first-out. To many the pattern is considered inevitable, a consequence of a supply/demand equation that matches work to workers in the most efficient way.

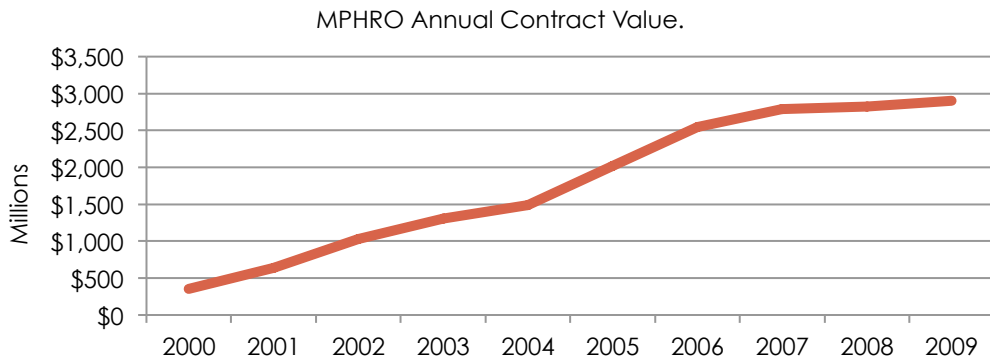
But that efficiency is less than it seems. The hire-fire-rehire syndrome has significant hidden costs. In many cases we have examined, the short term savings do not equal the costs of termination, business lost, skills lost, rehiring and retraining. This is particularly true when it involves higher level workers and managers.



Because of how it is calculated by most finance departments, the full cost of shrinking and expanding the workforce is understated. We have one case on file that fixes the cost of terminating a group of 200 customer service reps in a financial services firm at \$72,000 per rep, or 1.5 times their annual \$48,000 salary. If that ratio seems far-fetched, it happens to be about average for employees in the \$40-60,000 range.

## Industry Growth

Despite its ups and downs, the growth of recruitment outsourcing has been significant in recent years, which simply means that businesses have found it increasingly useful. The industry took a hit in 2007 and 2008 but began recovering early in 2010. Final numbers for 2010 are not yet in, but preliminary estimates suggest a healthy resurgence, some of which is reflected in the staffing index numbers above. The historical trend is strongly positive, 10x growth over the past decade for large, multi-process contracts worldwide.

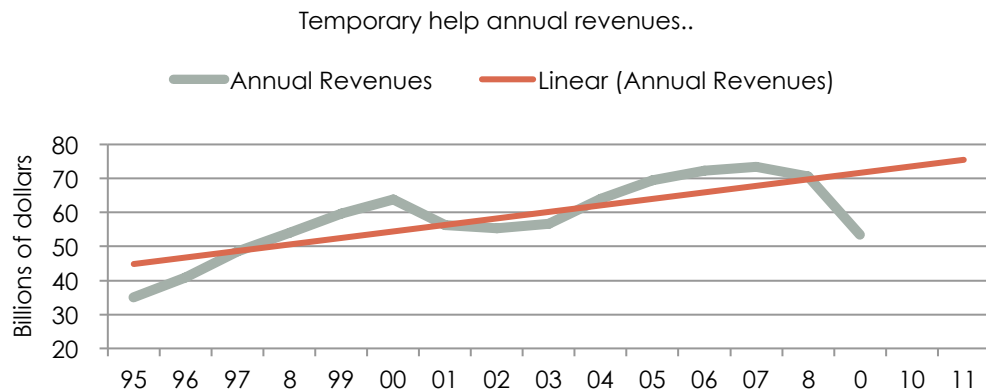


Source – Everest Research Institute. Amounts are for large, multi process contracts signed by 15 leading world- wide suppliers and are only a subset of the total RPO contracts signed each year.

A number of trends are driving that growth. In general, companies are increasingly acknowledging changes to the staffing ecosystem caused by globalization, demographics, competition, and the dozen other trends we reviewed in January’s *TRENDS* report. Company leaders, bruised by the recession, sitting on cash, and anxious to grow again, appear willing to consider alternatives to the traditional hire-fire-rehire staffing process.

**Process Excellence**

There are two internal sources of competitive advantage: process excellence, or doing things better, and innovation, or doing things differently. Outsourcing can



Sources – American Staffing Assoc., Employment and Sales Survey, and Staffing Industry Analysts Inc

apply to either, which is what makes it such a potentially powerful staffing tool. Over the past several years the process component (mostly cost-cutting) has been especially significant. Over the next decade, innovation will be.

**Evolution in the Vendor Market**

The vendor market continues to rapidly evolve and mature. Big multi-process vendors (MPHRO) are consolidating as well as building service packages that are more robust and comprehensive yet also more customizable. At the same time, smaller single-process, best-of-breed vendors (SPHRO) are combining through either mergers or alliances to create scale and greater client value.



*Source – American Staffing Assoc., Employment and Sales Survey, and Staffing Industry Analysts Inc*

**Value over Cost**

The traditional staffing model views the recruiting funnel as a process map consisting of steps that carry costs. The ideal manager keeps managing those costs lower and lower while not sacrificing quality. But in fact, that map is also a value map. Different parts of the funnel have different impacts on corporate performance. While all parts of the funnel are necessary links in a one continuous value chain, those links increase in value from left to right (see illustration on page 13).

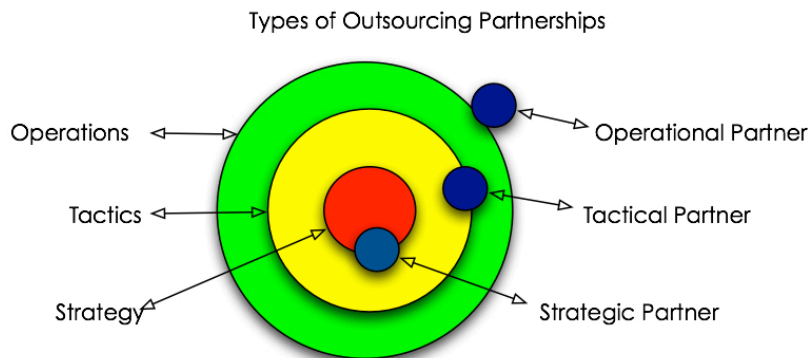
One way of illustrating this is by asking whether, if you had only one hour and no more to devote to an important requisition, would you spend it on the interview or on resume sorting?

# 4 – Strategic Outsourcing

## Adaptation

To succeed in a changing world, talent acquisition and management must evolve. Doing the same work in the same way has already created performance gaps that keep growing wider. But how? What needs to change?

Strategic outsourcing refers to use of third party staffing suppliers to gain long term competitive advantage. It is not tactical outsourcing, where the focus is short term. We believe it to be one aspect of enterprise staffing that will have the greatest impact on efficiency and effectiveness over the next decade.



Strategic outsourcing:

- Views recruiting as aggregating talent rather than hiring employees
- Views the workforce as a constantly evolving mix of permanent full-time employees, temporary and part-time employees, contract talent, and third-party partnerships
- Subordinates talent source to talent efficiency and effectiveness
- Seeks recruiting improvements beyond process efficiency

- Applies value analysis to every staffing activity, from sourcing to retention; ranks staffing functions according to value and allocates resources accordingly
- Seeks deep, long-term relationships with suppliers and contractors so that they become both highly effective extensions of the internal workforce, and resources that can flex easily with changing business conditions.
- Never assumes that what is customary is optimally efficient or effective.

This approach can substantially alter how staffing tasks are performed and who performs them. For example, if you were a staff of one, which activity would you consider more important?

1. 400 hours a year mining the ATS for interview candidates or
2. 400 hours a year discussing new hire performance with hiring managers?
3. A day each month compiling recruitment efficiency metrics for senior management or
4. A day each month evaluating the results of an employee engagement survey.

One might argue that these are false choices because they are all part of Staffing's proper responsibilities. But the strategic recruiter would say that the corporate value of #2 is greater than #1, and that #4 is greater #3, and he would have measurements to prove it. How should you accomplish a four if resources are limited? Outsource #1 and #4.

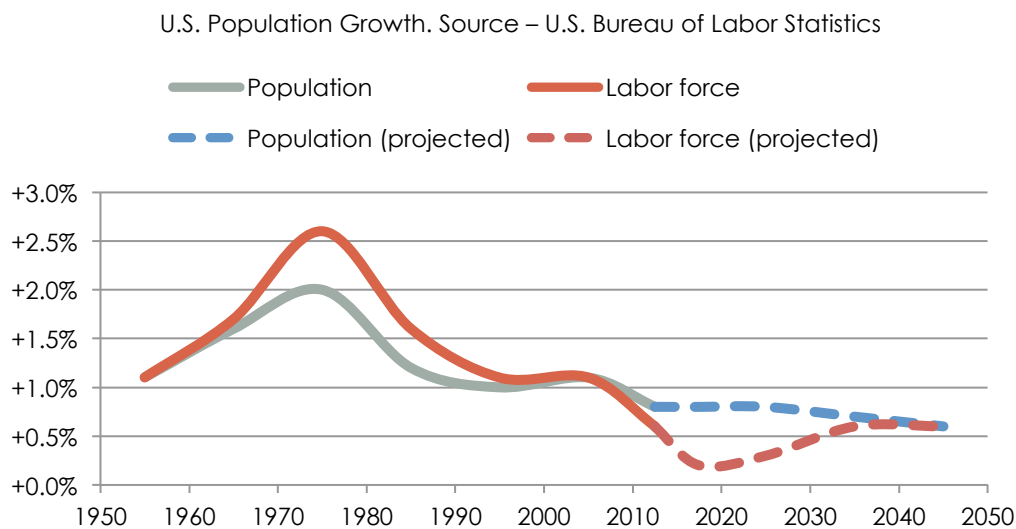
### **The New Business Environment**

Strategic recruitment outsourcing is becoming increasingly useful and relevant because of the unprecedented confluence of trends that are altering the staffing ecosystem.

That confluence is forcing businesses to react more swiftly, more opportunistically, and with greater agility to changing markets. It is birthing new competitors that are altering the calculus of cost and quality. It is placing human capital assets on a par with technology, financial and other business assets. And it is forcing businesses to

rethink how employees contribute value and which capabilities are most important to that contribution.

CEOs continue to wrestle with the tricky equation of costs, risk and growth. The former two have been in the forefront for the past several years, with 90% of CEOs reporting cuts over the past 12 months. And those issues have hardly disappeared: 78% of respondents see more cost cutting ahead, with 25% also anticipating job cuts. At the same time, CEOs are acutely aware of competitive pressures and the need to make strategic investments now for growth tomorrow. The tension between today's and tomorrow's corporate needs is high.



The 20<sup>st</sup> century recruiting model was created for a business environment that was slower paced, more provincial, and less competitive. Workforces were built locally and tended to be stable. Employment was durable and dependable. Employees were less mobile and more loyal. Filling seats was mostly an administrative exercise consisting of job postings, evaluating resumes, interview scheduling, reference checking and record keeping. In many businesses today those are still the principal activities.

Strategic outsourcing asks the question, “How do these administrative activities compare in value to other activities that might:

- Better identify hires who will provide the highest levels of corporate management, innovation and leadership,