

WHITE PAPER

Talent Acquisition: The Move Towards Managed Recruiting Services

Sponsored by: Ceridian Canada

Jim Westcott

Greg Ambrose

Tony Olvet

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IDC OPINION

The need to hire the right people, at the right time, is a key business issue. The rise of managed recruiting services (sometimes referred to as Recruitment Process Outsourcing or RPO) provides an effective alternative to traditional recruiting practices by providing benefits such as lower recruiting costs, reducing time to close hiring requisitions, and freeing up resources to focus on strategic HR initiatives. The challenge for most businesses lies in the timely identification of the best candidates when the need is at its greatest. Prior to the development of managed recruiting solutions, the response to recruitment challenges typically followed three paths: a business could employ recruiters internally and supplement with external resources (i.e., print/online advertising); it could largely rely on external recruiting agencies to identify and qualify potential prospects, or it could utilize a combination of both strategies. For a variety of reasons these options are less than ideal.

The emergence of managed recruiting addresses these issues, and creates an outsourced service that businesses can leverage for their recruiting and hiring needs. IDC believes that outsourcing recruitment can:

- ☒ Increase the quality and timeliness of the service and recruits by leveraging the people, processes, and technology of service providers dedicated to the recruitment function.
- ☒ Decrease recruitment-related costs by contracting with an end-to-end recruitment provider whose cost-per-hire is significantly lower than recruitment agencies.
- ☒ Decrease internal capital investments in recruitment function by avoiding non-strategic HR-related investments in resources and technology.

IN THIS WHITE PAPER

This white paper explores the advantages of managed recruiting services and provides a detailed case study of a successful managed recruiting engagement – Open Text's use of Ceridian's Managed Recruiting (part of its Talent Acquisition Practice).

The adoption of managed recruiting solutions is evolving in a similar manner to other forms of outsourcing. It is essentially a two-step process:

Managed recruiting services involve the transfer of management and execution of the recruiting function (identifying, assessing, hiring) to an external service provider.

- ☒ Activities that were originally performed internally are gradually being outsourced to external providers with specialized skills, and based on benefits such as lower cost, improved service quality, and transfer of risk.
- ☒ Activities that were performed by external providers (e.g., recruiting agencies) on an as-needed basis are gradually being consolidated into one managed service contract with a single vendor resulting in lower cost, a single point of control, and improved use of technology (e.g., workforce management software).

Rather than managing multiple contracts and multiple vendor relationships, businesses can engage a single service provider for managed recruiting services, reducing complexity and enjoy the benefits of economies of scale, scope, and specialization.

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Managed recruiting contracts are characterized by the following attributes:

- ☒ The service provider assumes all of the duties and responsibilities of the customers' recruiting department.
- ☒ The cost of the service can be based on an annual fixed price – initially based on historical hiring rates. Adjustments can be made to the contract based on hiring variances (from the established baseline).
- ☒ The contract has measurable service levels to manage time, quality, and efficiency, holding suppliers (and customers) accountable for meeting objectives.
- ☒ The service is scalable. Not only can the price scale depending on business requirements, but vendors also have the ability to scale resources based on variable hiring demand.

Within managed recruiting contracts, services performed by vendors can vary significantly; however, the following list includes the majority of functions included within a typical contract:

- ☒ Hiring Requisition Creation, Approval and Posting
- ☒ Applicant Tracking
- ☒ Candidate Assessment - online and live
- ☒ References, Background Investigations
- ☒ Recruitment Training & Coaching
- ☒ Metrics and Service Level Reporting
- ☒ Corporate Career Website Management
- ☒ Vendor Management
- ☒ Workforce Planning

Managed recruiting services are emerging as a viable alternative to traditional options as a result of three primary advantages:

- ☒ The costs associated with recruiting are significantly reduced and become transparent and predictable.
- ☒ The expense of using external recruiting specialists declines because the managed recruiting providers are compensated differently.
- ☒ The quality of the service increases because managed recruiting providers specialize in the entire recruiting process. This specialization is manifest in the quality of recruits, the quality of the processes, procedures, and technology solutions used, and in the service itself, based on service levels that define length of time per hire and the more efficient use of technology solutions.

The experience of Open Text with Ceridian's Talent Acquisition Program ably demonstrates the value, both direct and in-direct, that Open Text is enjoying as a result of its managed recruiting agreement with Ceridian.

MANAGED RECRUITING: NEEDS AND STRATEGIES

Traditional Options

Acquiring talent typically employs a combination of three strategic inputs: internal recruiters; external recruitment agencies; and other external resources, such as newspapers/print media, or Internet sites. In each case, there are trade-offs in terms of cost, quality and timeliness for choosing one option over another.

Internal Recruiters

The use of internal recruiters is a business investment issue. While it is important for businesses to attract qualified candidates, the investment made in internal recruiting resources is significant and it does not guarantee that the function will be first rate. The challenges with staffing an internal recruitment function include:

- ☒ **Difficulty in scaling to meet variable demand.** Typically, recruiting departments employ a sufficient number of recruiters to meet historical demand. If demand increases, or if it becomes more specialized, it is very difficult to meet growing demand without adding more staff.
- ☒ **Difficulty in maintaining target and candidate lists.** If recruiters spend most of their time recruiting, it becomes increasingly difficult to maintain accurate and valuable contact lists.
- ☒ **The expense of hiring and retaining recruitment specialists.** Recruiting candidates to a company requires exceptional skills and therefore requires competitive compensation. It can become very expensive to employ top-notch recruitment professionals for a company with unpredictable demand.

- ☒ **Investing in technology solutions to improve or automate functions within the recruitment activity.** Investing in systems and technologies to track, assess, and screen candidates can represent a significant purchase for a niche solution whose payback is indeterminate.

External Recruitment Agencies

The use of specialist agencies can achieve superior results based on the use of best-in-class processes, technologies, and people. These firms can also provide an effective screening mechanism, funneling only qualified candidates to the HR department. However, all of this specialization comes at a price: external recruitment agencies can be very costly on a per-hire basis. Recruitment firms typically charge between 15% and 35% of the filled positions' first year compensation.

Other External Resources

The use of print media or Internet sites (the business' own Website or an online job site) raises the issue of quality. Posting job descriptions on these sources will likely increase the volume of responses; however, it will not address the issue of quality, in terms of the candidates applying for a position. In fact, the greater the volume of responses the more difficult, time consuming, and costly it becomes for businesses to identify qualified applicants.

The Rise of Managed Recruiting

The development of managed recruiting services exploits the advantages of both internal and external recruiting resources while minimizing the disadvantages inherent in each approach. As previously indicated, the managed recruiting provider:

- ☒ Assumes the responsibilities of the internal recruiting department or function
- ☒ Provides services on a fixed-price basis over the course of a multi-year contract
- ☒ Adheres to well defined service level stipulations
- ☒ Provides a scalable solution

Managed recruiting providers address the three key challenges identified for each of the three traditional recruiting options.

- ☒ Firstly, the issue of investment costs is addressed by the provider assuming responsibility as the 'recruitment department of record' for the customer.
- ☒ Secondly, the issue of external costs is addressed through the use of a fixed price contract that offers a significantly lower cost-per-hire than external recruitment agencies, while providing a number of different services (as summarized on page 2).
- ☒ Finally, the issue of quality is addressed through a centrally managed service that employs best practices for processes, technology, and resource skills.

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Benefits of Managed Recruiting Relative to Internal Resources

The key benefit to using a managed recruiting provider for a company that currently relies on an internal recruiting department is cost/investment avoidance. Allowing a managed recruitment provider to administer all recruitment functions means the business can re-direct its HR personnel to other strategic functions in the department. Managed recruitment providers are not subject to the same budgetary restrictions that internal recruitment departments face particularly in terms of technology investments and staffing costs. The Open Text case study provides a worthwhile example of a firm that was able to lower its recruiting costs by using Ceridian while, at the same time, doubling the number of recruiters, specialized in recruiting for high-tech positions, dedicated to its business. Open Text also realized that it could avoid direct investment in costly technology solutions and still achieve desired results. Outsourcing the recruiting function to Ceridian removed this investment requirement while giving Open Text access to Ceridian's best practices recruitment methodologies.

Benefits of Managed Recruiting Relative to External Recruitment Agencies

The principal benefits held by managed recruiting providers over external recruitment agencies are cost and the provision of full-scope managed recruitment offerings. On a per-hire basis, managed recruiting firms are more cost effective. While both types of providers are motivated by finding the candidate that eventually becomes hired, only managed recruiting providers are incented to move the cost side of the cost-benefit equation down in relation to the benefits derived. By managing the recruitment function from end-to-end, managed recruitment providers optimize the entire talent management process. Open Text, as the case study illustrates, dramatically lowered its reliance on external recruitment firms and significantly lowered its cost per new hire.

Benefits of Managed Recruiting Relative to Other External Resources

The issue of quality is paramount in the talent recruitment context and it impacts a number of issues that traditional sources cannot match. Quality is an important issue for overall recruitment process maturity and sophistication. The adage "garbage in - garbage out" applies to talent acquisition services and the adherence to best-in-class processes allows managed recruitment providers to filter out undesirable candidates from the long list of candidates. The use of recruitment specialists fully engaged in their field of expertise also serves to enhance the overall level of quality that managed recruiting providers can obtain.

Aggregate Benefits

All of the advantages associated with investment costs, external expense, and quality are codified in the managed recruiting provider's contract and its service level agreements (SLAs). Through its use, and enforcement of SLAs, vendors are responsible for meeting objectives related to:

- ☒ **Timeliness.** It can be critical for a business to identify, assess, and hire qualified candidates quickly and efficiently in order to respond to a potential revenue opportunity; for example, in hiring staff that can be deployed on billable projects

(see the Open Text case study). Built-in contract metrics can pre-determine the acceptable length of time it takes to recruit a new hire.

- ☒ **Quality enhancement.** By managing the recruitment function end-to-end, managed recruiting providers can optimize searches based on requirements of the position and the candidate.
- ☒ **Process improvement.** As recruitment process experts, managed recruiting providers can use their infrastructure to improve processes, automate procedures and enhance (or introduce) the use of technology solutions.
- ☒ **Cost reduction.** Lower costs result from the use of technology, process improvements, and reduced cost-per-hire expenses. As can be seen with Open Text, recruitment costs declined even though the number of Ceridian recruiters increased as did the number of new hires.

CONSIDERATIONS FOR USING MANAGED RECRUITING SERVICE PROVIDERS

The managed recruiting services market is very young and, to-date, there are not very many examples of outsourced recruiting contracts. Consequently, it is important to consider the example of Open Text and its relationship with Ceridian as a means of assessing the applicability of managed recruiting services.

If current recruiting practices and programs are not meeting objectives for cost, quality, and accountability, then a managed recruiting service is worthy of consideration. The managed recruiting service is a viable option because it allows customers to:

- ☒ Scale recruiting capacity according to demand
- ☒ Contract for specific accountability and service level guarantees for vendor performance, cost, recruit quality, and best practices implementation
- ☒ Take the uncertainty out of the cost of recruitment
- ☒ Access candidates that have specialized skills sets or those that may be out of reach of internal recruitment departments (i.e., working for competitors)
- ☒ Reduce the cost of the recruitment function
- ☒ Reduce internal recruitment headcount
- ☒ Focus on strategic HR functions

The following section demonstrates the real-world experience of Open Text Corporation in its achievement of the benefits of managed recruiting.

CASE STUDY

OPEN TEXT CORPORATION

Situation Overview

Entering 2004, Open Text Corporation, a leading provider of enterprise content management software, was in the midst of a period of tremendous revenue growth and its HR department was struggling to keep up with the ongoing recruiting demands of the organization. Open Text was expecting to grow from US\$178M in fiscal 2003 to approximately US\$420M in fiscal 2005. With a goal of becoming a US\$1 billion company in the next few years, the HR director responsible for North America recognized that the company's current recruiting capabilities and processes would be insufficient to achieve this target growth and began to investigate alternatives.

Background

At the end of 2003, Open Text's HR department was recruiting and hiring approximately 120 people per year throughout North America, using 2 full time and one part time HR staff. The HR department was receiving negative internal client feedback, with company wide complaints that the hiring process was taking too long. Fluctuations in recruiting levels meant it was difficult to keep appropriate staffing levels and achieve consistent results and satisfaction. One specific area of hiring demand was within Open Text's professional consulting team. This revenue generating line of business was rapidly building its business and was hiring consultants for its bench. The HR department was resource constrained and often found it was unable to keep up with the recruiting demand.

There were other recruiting related issues as well. The HR department was looking to standardize its systems and processes, but constraints on its resources meant that it was unable to align its internal recruiting with other hiring sources such as its agency usage or with employee referrals. As in most organizations, Open Text's internal IT department was fully engaged in several business critical projects and unable to devote the desired time to improving recruiting systems. As it stood, Open Text's requisition and approval processes, its applicant tracking system and its HR Information System (HRIS) were all separate systems, which meant that recruiting and new hire information was entered multiple times. Open Text's HR director wanted the department to drive strategic value for the organization, but this was not being realized through its current recruiting processes.

As a result, Open Text decided to explore other options. How could its recruiting be done more effectively and efficiently?

Looking for a better way

Open Text decided that the business case was weak for making the required internal investment in people and systems to improve its recruiting to the point where it would better drive strategic value for the organization. The company believed that it would never be best-in-class if the processes were kept in-house, so it decided to look outside. Open Text looked at contracting additional recruiters, or involving outside agencies, but quickly discarded those ideas, as it didn't want to build upon a system

that wouldn't be best-in-class or be charged \$20 – \$30K per position to be filled by external recruiters.

Open Text was looking for a model where the entire process, beginning from opening the job requisition to the actual hire was fully managed by an external service provider. In early 2004, the investigation began to identify a suitable partner. This proved difficult, as there were suppliers that offered partial, but insufficient solutions. The larger HR solution providers gave Open Text little attention, conveying the sense that Open Text either represented too small of a deal and hence was below the radar, or offered a rigid "here's how it will work" solution that did not take into full consideration Open Text's needs. Open Text was interested in finding a partner who could customize a solution to meet its specific needs, and work with it as its requirements developed and changed over time.

Enter Ceridian

By June of 2004, Open Text found itself unable to keep up with its recruitment demand, and instead of adding additional recruiters or going through agencies, it invited Ceridian to work with them using the existing Open Text systems. At the time, Ceridian was in the process of building out its Talent Acquisition practice, and Open Text represented its first (major) client. After a few months of working in tandem, a formal presentation was made to the Open Text senior executive team and the relationship was formalized in September with a three year contract. By November 2004, the solution was transferred entirely to Ceridian's systems.

Following significant preliminary research, Open Text decided not to issue an RFP, as the solution it was looking for was rather unique. As a result, Open Text entered into single vendor negotiation with Ceridian, with much of the focus on the customization of the solution – what would best meet Open Text's needs and be as effective as possible for its hiring managers. Ceridian brought the reputation and experience in outsourcing arrangements, while key Ceridian personnel brought the individual credibility for the recruiting aspect.

The Talent Acquisition Service Offering

What Ceridian is Providing

Ceridian is providing Open Text with North American-wide recruiting from entry level positions to just below the executive teams. The recruiting process is managed from the time a manager says "I need to hire", all the way through to the return of a signed-back job offer. Open Text's internal HR department is involved throughout the process and also provides checks on things such as compensation levels and titles through Ceridian's workflow solution.

The Open Text hiring manager works with Ceridian directly when sourcing a position. Ceridian advertises, recruits, and submits candidates for the hiring manager to interview. Ceridian does the initial screens, tracks and manages process. In addition, Ceridian powers Open Text's North American career website. When a candidate is approved by the hiring manager, Ceridian takes care of all the paperwork, delivering a signed contract to Open Text.

In terms of the governance of the relationship, there is no single full time Open Text employee, instead, 3 people (1 HR generalist – a recruiting expert, 1 HR business analyst – with vendor management experience, and 1 HR director) are devoting about ten percent of their time.

The Recruiting Process and Resources: Then and Now

Overall, the processes are not significantly different from Open Text's earlier internal arrangements, but they are more effective. Previously, it was more difficult to follow up and track applicants and positions, which was primarily a systems issue, but also somewhat a resource constraint issue. Furthermore, Open Text's recruiting is now being done with 4.5 recruiters supplied by Ceridian, in addition to the requisite behind the scenes personnel and IT staff, providing the necessary reports and metrics.

The cost of the annual contract is based on the expected number of hires, payable in monthly installments. At the end of the year, there is a reconciliation that takes into account the actual number of positions filled. Open Text expects to realize savings of 20% in cost per hire.

Key Success Factors

Open Text is looking to measure the success of the recruiting relationship in a number of ways. It expects this to be an evolving process, but anticipates it will include the following metrics:

- Time to fill a position.
- The quality of the hire – measured using some combination of manager feedback, length of tenure and performance appraisals.
- Internal client/department satisfaction.

Outcomes and Results

Open Text's HR director is pleased with the talent acquisition solution in place today. Some of the key stated benefits include the following:

- The company is better off from a technology perspective, in that by going with Ceridian, they have access to a much better applicant tracking and management system than they would have invested in on their own, and can look to Ceridian to maintain the technical aspects of the system. Also by having access to more IT resources from Ceridian, Open Text is now able to upgrade systems and apply technology to processes like the "employee referral program".
- Open Text believes that the recruiting process is more integrated, smoother and more efficient.
- Having seen the resumes of the recruiters, Open Text's HR director is pleased with the caliber of the recruiters that Ceridian is providing. Several of them are highly experienced with "headhunter" agency backgrounds.

- ☒ Finally, with 4.5 Ceridian recruiters handling the account, versus the 2.5 that were employed when the recruiting was in house, Open Text is realizing a higher recruiting capacity, and believes it is attracting and hiring higher quality candidates.

Initially Open Text expected to continue to hire 120 people per year, which was consistent with the run rate of the previous two years. The rate had been expected to remain constant, even though Open Text was experiencing significant revenue increases. However, the run rate since the contract signing quickly doubled. Instead of ten people per month, Open Text was hiring twenty. This raised a number of questions within Open Text.

To what extent did the previous recruiting process create a bottleneck to business expansion? Now that hiring managers were finding that recruiting was coming faster, was this creating more opportunity for additional growth? Had the company's direction changed, such that the organization was requiring and enabling more hires? The answer seemed to be a combination of all three.

Clearly, Open Text was growing at a rate that could support additional resources. There was a backlog of positions to be filled, which was having a detrimental effect on the organization. There was a non-quantifiable cost in not having a full roster within departments, both in terms of increased workload and ultimately, increased attrition. Finally, there was a specific example of an Open Text division that was able to quickly turn new hires into revenue generating positions.

Driving Open Text's Increased Consulting Revenue

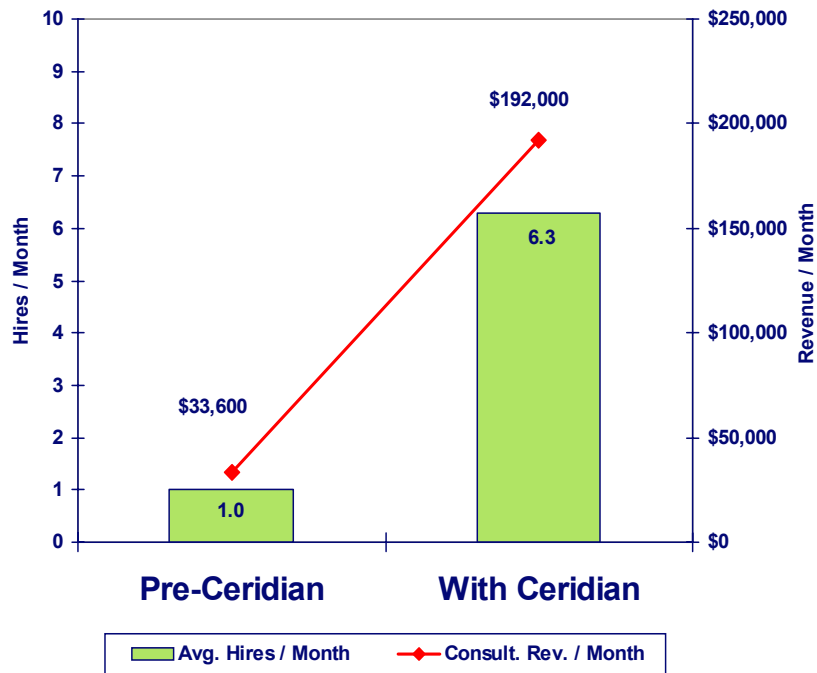
This specific example is in Open Text's professional services line of business, where a new VP was put in place in the second half of 2004. Its strategy demanded a rapid increase to its roster of consulting professionals, and the recruiting stance is that no individual job requisitions are necessary for these positions. Instead, the professional services division wanted to have a standing order in place – any time a suitable candidate was found, they should be recommended for hiring. There was no shortage of work for these billable positions.

Prior to the Ceridian relationship, Open Text was hiring an average of one consultant per month. Since the Ceridian talent acquisition arrangement, Open Text has been adding just over six consultants per month on average to its roster (see Figure 1). Given that these positions bill in the neighbourhood of C\$200 per hour, Open Text believes that these extra hires have added an additional C\$4.5 million (approximately) in revenue over the period of the contract to date. While this additional revenue cannot be solely attributed to the Ceridian relationship, as the extra emphasis being placed on hiring for this division would have had some impact regardless of the recruiting solution in place, Open Text believes that the decision to outsource the recruiting has definitely facilitated this growth.

Open Text believes that these extra hires have added an additional C\$4.5 million in revenue

FIGURE 1

Open Text Hiring and Billable Consulting Revenue Trends



Source: Open Text, IDC, 2005

Other Benefits: HR Moving To Become a Strategic Partner

Freed of the primary recruiting and candidate sourcing activities, Open Text's HR department has been able to redirect more time and resources to metrics, business analysis, HRIS, compensation and client facing HR. Open Text's aim at the outset was to drive more strategic value out of HR, an objective which it believes it is on the road to accomplishing. HR's participation in recruiting is now more strategic, focusing on activities such as the development of specific business unit staffing strategies, working with management to identify key role requirements, success profiles and improving candidate assessments. HR is able to invest in these activities given that the work of recruiting process administration and candidate sourcing is now handled by Ceridian.

Challenges and Next Steps

The challenges and solutions that both organizations are currently addressing to further enhance an already successful outsourcing arrangement include:

- ☒ "Time to fill" on difficult/complex roles – Open Text HR recognizes a need to formalize the escalation process with Ceridian for roles that remain unfilled beyond the expected time. Further development of the service level agreements

(SLAs) with acceptable metrics and service levels will help Open Text evaluate performance, and formalize escalation procedures.

- ☒ Internal communication – Ensuring that department managers who are making the hiring requests at Open Text understand the role of Ceridian in the recruiting process, and maximizing the operational efficiency of the outsourcing service. Open Text will provide further education and documentation around the recruiting process.
- ☒ Improving hiring skills – Open Text and Ceridian are jointly developing hiring manager training in "how to hire". This training is included in the agreement with Ceridian, and it anticipates initiating a program before the first year of the agreement has passed. Training would include topics such as how to properly interview candidates through such techniques as behavioural interviewing, how to make best use of the recruiters, and education about the legal issues surrounding recruiting.
- ☒ Branding – Open Text is trying to ensure consistency in how its corporate brand is positioned to hiring managers and prospective candidates. Brand strategy can extend to the recruiting side of the business, and Open Text is using this approach to be branded as a top employer. Ceridian is working with Open Text to ensure that the recruiting process would be so seamless that the brand name that is seen or heard first and foremost in communications is Open Text's.

CONCLUSION

Companies who decide that the quality and efficiency of their recruiting would be essential to their success, but want to avoid considerable internal investments, would be well served to investigate outsourcing to a managed recruiting vendor. As we've seen from the Open Text case, there are also significant potential revenue benefits to professional services firms that require a solution for hiring billable employees during periods of strong business development.

Organizations need to decide what they are hoping to accomplish from an HR perspective, and what value they hope to drive out of that department. For many companies, it would be very difficult to arrive at an optimally-sized recruiting organization – recruiters would either be overworked or under utilized depending on fluctuations in demand. As well, they wouldn't necessarily be able to fill those recruiting positions with the best "talent" or identify the best technology for their purposes. A solution such as the one Ceridian is providing represents a quick fix, eliminates much of the noise and problems surrounding recruiting, and enables HR departments to become more strategic.

APPENDIX

DEFINITIONS

Managed recruiting services encompass all of the activities associated with identifying, attracting, assessing, and hiring talent. Managed recruiting involves the

transfer of the management and execution of the recruiting function to an external service provider. The external provider is part of the decision-making structure surrounding the outsourced function area, and performance metrics are primarily tied to customer service and strategic business value.

IDC categorizes recruiting and staffing service revenue into the following segments:

- Staffing firms providing temporary staffing or permanent hiring services
 - Search firms providing executive and middle management search services
 - Newspaper recruitment classified ads providing print advertisements for permanent and temporary positions
- eRecruiting services. These include:
 - Online job boards. These include pure-play applicant content providers, hybrid applicant content providers, online newspaper help wanted advertising, and online search services at executive search firms.
 - End-to-end hiring process automation providers. These include technology and service providers that automate and enable the entire hiring process to help employers attract, screen, assess, hire, and on-board staff.
 - Hiring process support services. These include discrete elements or tasks within the hiring continuum, such as pre-employment background checks, drug testing, selection screening, and salary benchmarking services.
 - Outplacement services. These include consulting and counseling services to organizations and their employees in the transitioning of former employees either into new employment or into retirement.

Methodology

This paper is based on research interviews conducted with Open Text's director of HR for North America, research from IDC's continuous information services, and briefings from Ceridian Canada.

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