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# The rationale and benefits of Recruitment Process Outsourcing (RPO)

Bachelor's Thesis

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<p>The aim of this thesis is to analyse the rationale and benefits of recruitment process outsourcing on an international cross-industry level. This thesis looks into different theoretical frameworks and provides a research in the form of two cases studies from the point of view of both outsourcing service provider and the service user. The research is guided with a research question of which purpose is to evaluate the primary rationale for outsourcing a recruitment process and analysing the advantages and disadvantages of the practice.</p> <p>The primary data for the research was collected through qualitative research methods with an inductive approach that was used to conduct personal interviews with two company representatives that have been involved in a RPO process. The interviews were conducted in order to gain deeper understanding on the topic while the secondary data was collected from various literature and articles. In order to evaluate the topic critically, the theoretical framework was constructed based on literature of (1) human resources, (2) recruitment, and (3) human resources and recruitment outsourcing.</p> <p>The results of the study indicate that even though companies may start to look into outsourcing the recruitment process due to its cost effectiveness, the decision to outsource the process is supported by many other elements that truly add value to the recruitment process. Furthermore, the process does not always generate cost savings, but result in indirect cost savings in terms of the OSP's expertise and the freed up time of the HR personnel.</p>	
Keywords	Recruitment, Human resource management, Outsourcing, Headhunting

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## Terminology

BPO – Business Process Outsourcing

HR – Human Resources

HRO – Human Resources Outsourcing

OSP – Outsourcing Service Provider

RPO – Recruitment Process Outsourcing

## 1 Introduction

The modern and globalising business environment has had a significant impact during the last decades on different business practices. Recruitment Process Outsourcing (RPO) has emerged as many companies have started to let go of their human resources (HR) functions that have traditionally been performed in house. This study looks into recruitment process outsourcing and studies the rationale and benefits of the practice on a cross-industry level.

The concept of Human Resources Outsourcing (HRO) together with RPO emerged in the 1990's during an increase in overall outsourcing activities. RPO stands for hiring an outside consultant or an agency to execute the recruitment and selection process for an organization (Ume-Amen, 2010). Unlike the human resource outsourcing practices, recruitment outsourcing is a more of a recent origin with earliest articles and research-

es published in the mid-2000. Due to the short history of the subject, recruitment process outsourcing has not been yet researched extensively. This thesis takes a look into the question of why companies are these days eager to let go of the process and what benefits they acquire by outsourcing recruitment process to an outside provider.

### 1.1 Research objective and research question

The primary objective for the research is to analyse the rationale of recruitment process outsourcing and to study the different reasons that drive modern companies to outsource this HR function. The study will as well take a look into the benefits and disadvantages that the practice brings.

Even though there are published researches on recruitment process outsourcing, there are not many studies with a cross-industry focus. For the most part the topic has been studied with a company specific focus that is presented in a case study. This research aims to provide an outlook of the practice on a cross-industry level without been limited to a certain company. Moreover, this study should create an effective viewpoint on the rationale of recruitment process outsourcing and its influence on the company on an international level.

A research question was developed in order to guide the study and to create a specific focus on the research. The research question is:

#### **Is cost cutting the only rationale behind a RPO decision?**

As mentioned before the rationale is discussed on a cross-industry level without focusing on a specific organisation. The research question was developed in order to discuss what kind of rationale there are behind company's decision to outsource recruitment processes and to study if the rationale have changed during the past years. This research question acts as a guiding tool for the thesis.

## **2 Literature review**

The literature review presents a theoretical framework for the thesis covering the topics needed in order to answer the research question. The literature review first studies

human resources outsourcing and recruitment in order to finally analyse recruitment process outsourcing in depth.

## 2.1 Human Resources Outsourcing

In order to evaluate recruitment process outsourcing, certain background information about human resources should be provided. The theory about recruitment outsourcing is not extensive enough to evaluate the subject in depth which is why human resources process outsourcing theory must be applied as a complementary measure. This theory focuses on outsourcing practices on a more general level providing an excellent starting point for the research.

Human Resources Outsourcing (HRO) is a concept whose roots are from the 1990's. Lever (1997) defines outsourcing as replacing business activities that are performed in house and eliminating the units that have previously produced these services. In the past human resources activities have traditionally been performed in house but the outsourcing of HR practices is a rapidly increasing competitive tool which is expected to grow even more in the next several years.

Human resources is often considered for outsourcing as the activities normally include non-core duties such as training, payroll and benefits administration that are not bringing notable competitive advantage for the company (Stroh & Treehuboff, 2003). Lever (1997) follows this up by stating that companies tend to outsource in areas that are considered internal domains which is why HR seem a tempting activity to outsource. Based on author's research the most outsourced HR functions are payroll and benefits as they allow the HR department to focus on other, more important, areas in HR. Also training and recruitment are outsourced especially in smaller companies as their internal teams tend to be too busy or not able to keep up with the changing procedures in these areas.

Authors Byham & Riddle (1999) state in their research that the most prominent reasons why companies outsource are reducing operating costs, creating focus on the core business, benefitting from the outsourcing partner's expertise in a specific area and transferring all or a part of the risk to the partner. In order to succeed in outsourcing the companies should define their most crucial functions, devote maximum resources to those and consider outsourcing everything else. Companies are especially eager to

outsource when there is increased competition in the market, the company is growing or declining fast or the industry is restructuring. (Creer, Youngblood and Gray, 1997)

Authors Creer, Youngblood and Gray (1997) state that outsourcing in order to imitate competitors does not bring sustainable competitive advantage for the company as everyone has access to this procedure. In case the outsourcing decision is part of a plan of restructuring the entire HR department or to refocus HR activities, achieving competitive advantage is possible. Stroh & Treehuboff (2003) note that too many companies invoke to outsourcing in order to quickly cut in costs. This procedure may not work in a long term as the decisions are made based on too little information and the lack of research. In addition, cutting costs should never be the primary reason to outsource any function of the company.

Before starting the outsourcing process companies should carefully evaluate the specific reasons, cost and benefits the outsourcing decision would bring. After a detailed analysis the management is able to determining which function should be outsourced. Instead of thinking which functions should be outsourced, the focus should be kept on what activities should be kept in a company (Byham & Riddle, 1999).

Authors Stroh & Treehuboff (2003) researched this issue and developed three rules that any company who is outsourcing any HR services should follow:

- “(1) Always retain some in-house expertise for any function you outsource;*
- (2) outsource only non-core, never core, activities; and*
- (3) make maintaining the company culture a high priority.” (Stroh & Treehuboff, 2003)*

According to the authors the activities that define competitive advantages should never be outsourced as they are too important for the company. Lepak and Snell (2004) extend this theory by adding the impact of uniqueness; all other activities should be considered candidates for outsourcing except the ones that possess both core competencies and factors of uniqueness.

Humphreys et al. (2002) support a model consisting of 5 stages in order to evaluate potential HR candidates to outsourcing.

- 1. Identifying and weighting performance categories*
- 2. Analysing technical capabilities*
- 3. Comparing internal and external capabilities*
- 4. Analysing supplier organizational capabilities*
- 5. Determining total acquisition costs*

Alexander & Young (1996) add few important elements to the process that draw attention to the influences that the decision brings in the future. The author suggests that the projected economies of scale and scope should be analysed in depth to ensure fair pricing model. In addition, the alternative vendors should also be studied in order to prepare for switching contracts.

Throughout the history cost reductions have been a powerful motivator as well as the primary reason for companies to consider outsourcing which is typically presented as a time and money saving strategy that allows companies to obtain better services at cheaper rates (Stroh & Treehuboff, 2003). In the recent years globalisation and increased competition have modified the strategy and a structure of many companies influencing in increased amount of outsourcing processes (Creer, Youngblood and Gray, 1997). For this reason companies are no longer looking only for cost savings, but outsourcing is also seen as a strategy to build core competencies. Working with an outsourcing partner allows the company to gain access to specialised skills that are not available internally. This strategy allows the internal employees to concentrate on other HR activities and keeps from adding personnel to the company (Lever, 1997). Companies are also looking to reduce the liability and risk by working with an outsourcing partner as well as reducing the level of bureaucracy.

Although cost savings play an important role but it should not be the absolute driver when making the decision to outsource. Creer, Youngblood and Gray (1997) explored the issue and noted that outsourcing does not necessarily result in cost savings and sometimes the costs can even increase. Authors noted that one major pitfall of outsourcing is the loss of HR department's competencies and skills that will result in excessive dependence on the outsourcing partner. Byham & Riddle (1999) follow this up by stating that outsourcing might weaken company's employees' skills in a critical area which is why it is important that the outsourced HR activity is not a core business competency of the company. For this reason the authors suggest companies that are considering outsourcing to conduct a viability study with an outside consultant in order to evaluate current practices and the need of outsourcing.

A recurring theme in the HRO literature is the importance of the relationship between a company and the outsourcing partner. The starting point of an HRO process is the selection of OSP, the Outsourcing Service Provider. The objective is to establish a long-term relationship in which the OSP is able to prove its expertise and is able to provide the company a service that leads to better results than the company would be able to produce internally (Creer, Youngblood and Gray, 1999). Lever (1997) has identified a

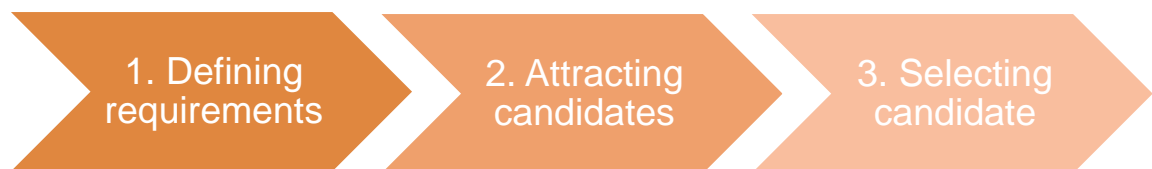


model of 4 stages that the relationship between a buyer and an OSP normally follows. The starting point is the (1) Discovery phase which mainly consists of the planning of vendor selection. The second phase is a (2) Negotiation phase where the vendor is chosen and the contract is planned. This is followed by a (3) Transition phase that includes the transition and integration of processes to the OSP. Finally, everything is evaluated in the (4) Assessment phase where the decision whether the contract is re-negotiated or ended is made. Armstrong (2003) criticises the assessment process by stating that that sometimes this constant assessment takes lots of time and makes outsourcing processes difficult to manage. In the end, the procedure might become more difficult than it would be if it was run internally.

## 2.2 Recruitment

In order to understand the rationale and benefits of recruitment process outsourcing it is important to get acquainted with the recruitment theory. Assessing the process and functions of the recruitment process is crucial in order to evaluate to the findings of this research. The importance of the recruiting process has lately been recognized as more and more globally operating companies have started to standardize their worldwide recruiting processes in the recent years (Eckhardt et al., 2008).

Recruitment is understood as a process that includes all the practices and activities with the purpose of identifying and attracting potential employees for a company (Barber, 1998). Armstrong (2005) extends this definition by stating that the basic purpose of any recruitment process is to acquire the best possible candidates for the right positions as cost efficiently as possible. The author has created a model of ground-level recruitment process that is divided into the three following functions:



*Figure 1: Recruitment process functions (Armstrong, 2005)*

The first function of Armstrong's model has to do with preparing the job descriptions and deciding the terms and conditions of employment. This stage is crucial as it pro-

vides the base for the recruitment process and generates the job criteria against which the candidates will be assessed.

According to Armstrong, the pitfall of this stage is to set unrealistically high level for the qualifications and competencies required. This does not only increase the level of difficulty when attracting candidates but also creates problems later at work if the candidate's talents are not being used. This can be avoided by distinguishing the desirable and essential requirements that are analysed under suitable headings. This can be done in many ways, but the most used manner by the recruiters is a competency-based approach. A competency approach is person-based and it aims to analyse of people and their attributes that account for their superior performance rather than analysing the job itself (Taylor, 2002). Alternatively, there are other approaches as well that challenge the competency-based plan. The traditional seven-point plan developed by Rodger in 1952 covers seven different characteristics of a candidate; (1) *physical make-up*, (2) *attainment*, (3) *general intelligence*, (4) *special aptitudes*, (5) *interests*, (6) *disposition*, and (7) *circumstances*. The plan is still used but it is not so popular these days as it has been criticised being outdated and covering areas that might not be worthwhile for each position.

The second function of the model deals with identifying, analysing and finally applying the most appropriate sources of applicants in order to attract a large number of qualified candidates. Armstrong (2005) argues that the first consideration should be given to the candidates in-house. In case internal candidates are not available, the main sources of candidates can be found via advertising, internet platforms or outsourcing to recruitment agencies. Also, the terms and conditions of the job including the pay and benefits as well as the factors that are likely to attract qualified candidates should be analysed in order to create an attractive job advertisement.

Armstrong's (2005) model provides a good, general basis for any recruitment process. There are many academic theories that provide models for recruitment processes being often case-specific. Authors Miaoulis, Stolz and Nicovich (2008) present a detailed recruitment process that was originally developed for recruiting university faculty but it is also applicable for other recruitment purposes. The process is presented as follows:

- 1) Planning
- 2) Announcement

- 3) Application and Screening
- 4) Candidate Selection
- 5) Candidate Evaluation
- 6) Offer Phase

The theory supports Armstrong's (2005) model but it includes more specific details. The process's first phase, planning, identifies the recruiting needs and creates an attractive description of the position. The following announcement phase focuses on marketing the position after which screening applications and contacting the candidates must be executed. In the fourth phase the candidate is interviewed followed by a candidate evaluation. The process finalises on offer phase which is one of the most crucial phases in the recruitment process as it evaluates the entire process but it is often overlooked by the companies (Miaoulis, et al., 2008). While this theory supports Armstrong's (2005) model it includes more specific details and separation between different functions.

Another recruitment process worth mentioning is developed by Faerber, Weitzel, and Keim (2003). The two main recruitment phases are distinguished to the attraction phase and to the selection phase consisting of both planning and executing parts. The process in detail is presented as follows:



*Figure 2: Recruitment process (Faerber et al., 2003)*

The process is started by creating an attractive image of the employer in order to attract and finalising the selection process with a hire after pre-selection of approved candidates. As this process is in line with Armstrong's (2005) generalized model as well as Miaoulis et al.'s (2008) process, Faerber et al.'s (2003) model put's a stronger emphasis on creating a strong brand image instead of only concentrating on making the job advertisement and job functions attractive. The model also distinguishes the different phases between pre-selection, selection and hire.

Cook (2004) has developed a model consisting of six variables helping in evaluating the successfulness of the recruitment process. The six variables consist of (1) Validity,

(2) Cost, (3) Practicality, (4) Generality, (5) Acceptability, and, (6) Legality. The different variables can be evaluated and analysed one at a time in order to gain feedback showing where the pitfalls lie and how to optimize the recruitment process.

### 2.3 Recruitment Process Outsourcing

Outsourcing is a business process term that stands for hiring an outside consultant or an agency to perform a specific task for on organization's behalf. Usually an activity that has earlier been undertaken in-house is contracted to a third party because the organization itself does not have the time or the skills to perform it on their own (Ume-Amen, 2010). Recruitment Process Outsourcing (RPO) is a part of Business Process Outsourcing (BPO) and it is defined as outsourcing all or a part of organization's recruitment activity to an external consultant or an agency (Cappello, 2011).

In the past recruitment process outsourcing was mainly viewed as a service that helped companies to fill low-level positions quickly and cheaply without taking the time of the HR personnel (Gale, 2016). In the recent years during the recession many companies have gotten more educated about the RPO procedure and understand better the opportunities and benefits it provides. The recruitment process outsourcing market is rapidly changing and companies are now looking for a strategic partner to team up with in order to bring new capability to the HR-function instead of the main motivation being in cost savings (Cappello, 2011).

Authors Byham & Riddle (1999) have identified two major trends that are driving the increased recruitment outsourcing processes. According to their research, companies are now viewing recruiting in a more strategic light as attracting and obtaining high-end candidates in tight labour markets have become critical. This results in desiring accuracy and efficiency when making hiring decisions which a skilled outsourcing service provider is able provide. Additionally, finding skilled, international candidates requires new kind of sourcing techniques that companies might not have capabilities for. Gale (2016) support these statements and follows this up by stating that companies are beginning to understand the value of a well outsourced RPO function that includes social, mobile and analytical tools that supports companies in their recruiting goals.

Hauser (2011) notes that the recession drove many companies to budget cuts in which many resulted in the human resources personnel. The HR personnel's recruiting skills have diminished during the years and RPO providers are in a good position to provide their expertise on global sourcing and development of new recruiting techniques.

The purpose of this analysis of recruitment process outsourcing is to provide more specific information on RPO processes, the rationale behind the outsourcing decision and the possible advantages as well as disadvantages it brings.

### 2.3.1 RPO process

A key step in making a decision to outsource a recruitment and selection process involves listing all recruiting activities and deciding which ones should be outsourced and which ones kept in-house (Byham & Riddle, 1999). Recruitment process outsourcing has lots of similarities with other commonly outsourced HR processes. However, Ume-Amen (2010) has created a model of a RPO process that differentiates itself from the traditional recruitment process models that were presented earlier in this study. The process model does not only identify the steps in the process but also suggests whether they should be kept in-house or outsourced to an OSP. Ume-Amen's (2010) model identifies the following steps:



*Figure 3: Recruitment outsourcing process (Ume-Amen, 2010)*

The first step in the process includes creating the job position and developing a strategy for the recruitment process. As this phase is largely a strategic approach for a company the authors suggest maintaining this function in-house. The following step, sourcing, is identified as one of the most important aspects in the recruitment process. Ume-Amen (2010) suggests outsourcing this function to a third party vendor who is able to utilize its expertise in sourcing qualified candidates for the client. The third step, job board posting, is recommended to outsource as well. The following function, screening, can be outsourced but it is important that companies focus on the control and define the attributes that they are looking for in a candidate in order the recruitment partner to bring qualified candidates to the client. The fourth step consists of applicant tracking and candidate database upkeep that can be outsourced as well in case the recruiting vendor has expertise in this function. The final step, applicant interviews, has to be kept in-house according to the author.

The successes in each of these steps rely on the outsourcing partner's capabilities. Ume-Amen (2010) suggests steps two to five to be outsourced as these processes

require a lot of time, effort and expertise that a recruiting vendor is able to provide. Mi-aoulis et al. (2008) support the theory Ume-Amen (2010) by stating that OSP's can be used in the early stages of the process when evaluating and categorizing the candidates, but the final decision making should be always kept in-house. Also Armstrong (2008) agree that using external companies to provide RPO services is an efficient way to manage the early stages of the process that are usually very time consuming.

A recurring theme in the literature in regards of recruitment process outsourcing is the importance of the relationship between a client and an OSP as the success of the process is based on the vendor's capabilities. Hays (1999) advises to look for a partner who can help to develop an organizational-staffing plan and who is able to bring expert level skills, a proven history of success and who understands the company's culture and values. Gale (2016) follows this up by stating that the key to a well-functioning relationship is the clearly defined rights and expectations. The author emphasizes the importance of considering how the outsourcing of the recruitment function affects the company's personnel. Considering the possible pitfalls in advance as well as integrating the managers and employee to the process is a key factor in making it work.

### 2.3.2 Rationale of RPO

Ume-Amen (2010) conducted a study in order to study the factors that benefit companies in outsourcing their recruitment processes. The author discovered that the decision to outsource has traditionally mainly strived for cost reductions but the globalization has influenced the industry which is why companies are now looking for more strategic benefits from the process that result in long-term advantages rather than in cost savings. Although cost reductions still play a part in the decision making process, other factors were identified to improved quality, increased capacity, pool and competency of applicants, time pressure and to lack of internal staff.

Authors Byham & Riddle (1999) have identified several reasons why companies are willing to let go of their recruitment and selection processes that are well in line with Ume-Amen's (2010) findings. Although cost savings don't play as important part as they used to they are still one of the motivations behind the outsourcing decision. The clients usually pay the outsourcing partner only per candidate hired and are thus saving companies costs as well as in their time. As Ume-Amen (2010) stated, the globalisation has changed the RPO process and thus one of the companies' biggest motivation be-

hind the outsourcing decision is to get an access to best practices of internet sourcing and online screening provided by industry experts. This will not only provide a company qualified candidates but also speeds up the process and facilitates international hiring.

Gale (2016) points out the trend in the payment model that was also supported by Byham & Riddle (1999). According to the author companies are still looking for speedy low-cost solutions from their RPO providers with pay-per-hire paying model. The trend is slowly changing as companies are becoming more familiar with RPO which will eventually result in outsourcing the whole recruitment function instead of using the OSP's to perform only a part of the process.

Hays (1999) and Chubb (2008) identify one key reason for the RPO being freeing up companies HR staff to concentrate on other tasks. Hays (1999) notes that most HR persons have other responsibilities besides recruiting and especially if there are many positions open at the same time the workload becomes too overwhelming. Outsourcing the recruitment process or a part of it helps HR personnel to get the hiring done on time and allows them to concentrate on other HR functions. Leggett (2008) follows this up by stating that in case there are lacks of time and experience to manage the recruitment process in-house a company should consider outsourcing the function to improve cost efficiency. RPO would remove non-value-added tasks from the HR personnel allowing them to focus on candidate selection and staff retention.

Ordanini & Silvestri (2008) have as well identified different elements that impact companies RPO decisions. The authors argue that if an organization has previously outsourced a certain HR practice it positively affects to the decision to outsource the recruitment process as well. Authors are in line with Hays (1999) and Leggett (2008) by stating that outsourcing the recruitment process is preferred in a situation where the inefficiency of the in-house solution is high. The third party service provider with capable personnel and recognised skills are able to perform the process more efficiently although not always achieving costs savings. Ordanini & Silvestri (2008) identified that companies tend restructure their activities through mergers and downsizing which often require reengineering within the company. This often results in an outsourcing decision as contracting to an external service provider is sometimes less costly than managing the process in-house. That said, the authors noted that downsizing strategies of a company positively affects the RPO decision. Ume-Amen (2010) follows this up by stating that outsourcing the recruitment process is extremely beneficial for companies that



are involved in rapid growth of restructuring the business as they need to devote their resources to critical areas.

### 2.3.3 Advantages

The goal of a recruitment process is to acquire the right amount of qualified employees at as little cost as possible (Armstrong, 2005). The same goal applies on outsourced recruitment process as well. As in other outsourced human resources activities one of the main motivations behind a RPO decision is cost-related. However, there is very little evidence that the cost of purchasing recruitment and selection services from an OSP would be significantly lower if compared to keeping the function in house. In fact, the outsourcing might even result in being an expensive option for a company.

Companies outsource the recruiting process for many of the same reasons as for other HR activities but emphasise more the importance of the speediness of the process as well as OSP's technical capabilities (Byham & Riddle, 1999). Even though companies are looking for RPO providers to mainly reduce costs in the process the authors note that in today's world companies are more and more relying on global outsourcing companies in order to utilize their expertise and technology to achieve needed results worldwide.

Apart from cost-cutting, RPO saves valuable management time as well as companies resources by allowing the employees to concentrate on the company's core competencies (Ume-Amen, 2010). Using RPO enables HR personnel to concentrate on company's current employees instead of using their time searching new potential employees and reviewing CV's (Gale, 2016). The authors note that the RPO can significantly increase the quality of the recruitment process as the external providers possess recruitment expertise that many HR persons lack while they balance with their other HR tasks at the same time. Especially the early stages of the recruitment process require a huge amount of time and effort from HR professionals whose time could be spent more effectively in other tasks. (Leggett, 2007)

Duggan and Croy (2004) argue in their research that recruitment is a strategic function that should always be handled by recruitment professionals. Using an experienced OSP provider diminishes the chances of hiring the wrong person which usually results in high costs and waste of time for a company. The authors also argue that RPO is the best option when talking about volume recruitment as the RPO providers are used to



handling large numbers of responses and standardizing candidates better than internal HR department. Also Gale (2016) states that using a RPO provider allows a company to obtain a large amount of qualified employees in a cost-effective manner.

As the study reveals, companies still look to RPO providers in order to reduce costs. However, the global economy has altered the market and affected the competition in the industry as companies are more eagerly searching for more innovative ways to compete in the market as well as forming strategic relationships with their RPO providers. (Ume-Amen, 2010).

### 2.3.3 Disadvantages

Although recruiting process outsourcing has many benefits it also brings disadvantages companies should evaluate and be prepared for. Authors Duggan & Croy (2004) state that however good recruitment OSP might be finding suitable candidates for the job listings it cannot possess the same knowledge of the business as the company managers. The recruitment company may be an expert in the industry as a whole but is not completely aware of the company culture making it more difficult to find candidates that fit in the company and its values. This can be avoided by briefing the recruitment OSP in detail before starting the process but it results in a loss of time for the company managers who could have used the time to start the recruitment process themselves.

A top concern of the company executives regarding a RPO is the ability of recruitment OSP to represent the company brand well (Hauser, 2011). Another disadvantage has to do with losing potential employees as recruitment companies mainly look for candidates to fill a certain position instead of taking into account all the vacancies and possibilities within a company (Duggan & Croy, 2004). In case the screening function is performed in-house a manager is able to save attractive CV's that might be a perfect fit for another position in the company.

In case RPO is not executed well enough it may lead to certain risks for the company. The three main risks identified by Quinn & Hilmer (1995) include (1) the loss of the critical abilities, (2) the loss of trans functional skills and (3) the loss of control over the supplier. This said, it is important not to outsource the whole function in order not to lose technical competencies and its ability to innovate. Duggan & Croy (2004) also

point out that globalisation with online advertising, e-mails and Skype has influenced the recruitment processes by cutting out the time that used to be involved with recruiting process. A recruitment company also cannot guarantee an effective recruitment meaning that the process won't automatically result in cost-savings. The cost-saving from an RPO process might also be temporary, and the costs may even be higher than when performed in-house (Ume-Amen, 2010).

### **3 Research methods**

While method is usually defined as a process of an action, methodology refers to the set of practices and methods that are used while conducting a research. The methods are needed at the data collection, analysis and interpretation stages of the research. The set of methods used are based on the suitability on the research phenomena. (Kananen, 2011).

The following chapter discusses and demonstrates the different research methods used in the research when studying the rationale and benefits of recruitment process outsourcing.

#### **3.1 Research approach**

In order to gain an understanding on different reasons and motivations behind an RPO decision, qualitative research methods were applied. Qualitative research was chosen because of its ability to provide descriptive results in revealing the target audience's range of behaviour and the perceptions that drive it with reference to specific topics or issues (QRCA, 2017). Quantitative research was not considered as an option for the research as recruitment outsourcing is not a frequently studied topic and there are no numerical data available of the previous researches. Moreover, as understanding the rationale and benefits of an RPO process requires observing and exploring, a collection of numerical data would not be helpful in the research.

In addition to the qualitative research methods, an inductive approach was chosen as the purpose was to understand the reasons leading to the outsourcing decision while gaining perspective, which could only be done when the participants of the research have an opportunity to bring out their viewpoints throughoutly.

Inductive approach puts an emphasis on the observations. Theories are proposed towards the end of the research process as a result of observations. In inductive studies no theories or hypotheses apply at the beginning of the research making it possible for the researcher to alter the direction of the study while conducting the research (Goddard & Melville, 2004).

The research is conducted by two interviews that are presented as separate case studies.

### 3.2 Data collection

While the interviews present the primary data of the research, secondary data was collected mainly before the interviews took place by searching through relevant themes and by studying previous researches. After the interviews the primary data was analysed and compared with the theories presented in the literature review in order to determine links between theory and practice. Keywords arising from the interviews were studied again in the purpose of finding supporting documentation. The collection of both primary and secondary data took place from January 2015 to April 2017.

### 3.2 Implementation

The research was implemented in personal interviews in order to have more conversational feel to them. Based on a personal experience, a large number of people are not willing to spend a lot of time on writing their answers on a paper, but are more active expressing themselves in person. Therefore, the best way was to perform face to face interviews. Due to the nature of the research, semi structured interviews were implemented with the purpose of guiding the conversation with open ended questions while giving the interviewees an opportunity to express themselves freely and to add something they felt important. The non-dichotomous questions were categorised and structured in order to guide the conversation in logical order. In addition to the predetermined questions, additional follow up-questions were raised during the interview. The interviews were not recorded in order to make the interviewees feel more comfortable and to talk more freely without the pressure of being recorded.

The persons for the interviews were selected from very different industries and geographical areas in order to apply a strong, international cross-industry focus on the research. One of the interviewees is presenting a recruitment agency that provides recruiting services whereas the other interviewee presents a company using an outsourced recruitment provider. The study aims to provide an aspect of both the provider and the user without being limited to a point of view only from one side.

Both of the interviews were conducted in the interviewees' offices' as it was considered the most convenient place timewise. In addition, making an interview in a place where the interviewee feels comfortable adds value to the interviewing process. The arrangement also made it possible to conduct the interviews in private with not too many interruptions.

Before conducting the interview the parties were informed that the study will be published in order to avoid discussion about delicate information that the interviewees would not like to go public. Both of the interviewees preferred not to have their names published which allowed them to talk more deeply about the company functions as there was no public exposure. Furthermore, all the questions were asked in an ethically correct manner without leading the interviewees on or putting them in an uncomfortable position.

### 3.3 Limitations

Most of the limitations related to the study have to do with the methodology that was chosen for the research. Recruitment process outsourcing as many other HR outsourcing functions is very case specific and therefore difficult to study. Due to time constraints and the scarce availability of studied processes, only two interviews were conducted. While these interviews provide valuable and detailed information, the results cannot be generalized due to the narrow view. In addition, even though the both of the companies function on an international level, they only represent two countries.

While the study is comprehensive and points out the different aspects from both the provider's and the client's sides, the results from the interviews are not comparable and present only one opinion. Both literature review and the study focus on traditional recruitment agencies and consultants leaving out headhunters. The decision of not taking headhunting into account was based on the slightly different function they are providing. While recruitment agencies normally provide services to all-level positions,

headhunting mainly focuses on special profiles on high-level positions. In addition, whereas recruitment agencies are working with jobseekers that are ready to take up the challenge, headhunters are approaching professionals whether they are actively looking for a job or not (Mooney, 2015).

## 4 Findings

The following chapter presents the findings and results obtained from the interviews conducted, providing an analysis of research results. The findings are presented as two separate case studies.

### 4.1 Company backgrounds

As previously mentioned, the persons for the interviews were selected from very different industries and geographical areas in order to apply a strong, international cross-industry focus on the research and to provide a point of view of the service provider and the service user.

The interviewee X is a manager of an international recruitment agency located in Spain. The company was founded in 2010 and has been growing rapidly from there thanks to internationalization and the increased popularity of Erasmus-programs. Company X is specialised in offering internships for international students and graduates from all around the world and is currently collaborating with more than 500 companies in diverse fields all around Europe.

The interviewee Y is an office manager of a Finnish gaming-industry start-up located in Finland. In addition to operating in the Finnish market, the company is also recruiting internationally to their subsidiary located in Poland. Regardless of being a young company, the fast growing industry is ensuring many opportunities in the field.

### 4.2 Interview results

#### 4.2.1 Case study: Company X

Company X has been offering its recruiting services for six years for companies all around Europe. The company started out providing their services in Spain, as they had

experience of the market. At first, they were providing customised service for students searching for internships. Company X was searching for companies based on the requirements of the students while making connections in the industry and finding partners with who to collaborate. Most of the internships were in the hospitality industry or in English teaching, as the company learned that hotels and teaching institutes are seeking for people with diverse language skills.

After expanding their network the companies started to be in contact with Company X requesting for their recruitment services. In few years after starting out the network was wide enough to establish a catalogue with internships to offer to students instead of having to contact companies one by one based on the requirements of the students.

Today, Company X is well known in the industry for their good reputation as an OSP. Their customers are mostly medium size companies who are looking for interns with diverse language skills, as it has been proven to be difficult for these companies to find interns on their own. The company is also collaborating with many start-up companies who struggle to find qualified interns due to not having human resources professionals of their own. According to the manager of Company X their customers are benefiting from the service as they can focus on other functions of their company and leave out the recruitment process to the provider. The company is also supporting big companies that have recruitment professionals of their own but have chosen to outsource the recruitment function due to a high volume of positions and candidates.

The manager of Company X explains that the cost savings are hardly ever the main reason for the clients to contact the agency. In majority of the cases the clients are requesting for recruitment services as they do not have the expertise in house to find qualified workforce. Company X has been working with a part of their clients already for years enabling them to be familiar with the clients' values and business culture making it easier to find suitable candidates for them. According to the manager the company is putting an emphasis on the good relationships and long-term partnerships with the clients as they bring a lot of value to the recruiting processes.

Company X customises their recruitment process with each client, enabling the service to match with every customer's needs. With most of the clients the company is handling the whole recruitment process leaving only the final decision to the customer. After the first interview round Company X provides a shortlist of the best candidates to

the client who then conducts the final interview if seen necessary. The final decision on hiring is always made by the client company. Before the last interview with the client the company name is not mentioned during the recruitment process. This allows the client to stay outside of the process as the candidates are not able to contact them directly.

According to the manager of Company X as well as the recruitment process, the pricing is also customised based on the requirements and the schedule of the company. The pricing model however is the same with all the clients; the companies pay a certain amount of money for each month they need the intern for. Due to companies having very different needs it is not be possible to offer the same price for everyone, as some clients are asking for very specific profiles or tight schedules that increase the price of the service.

The challenges Company X is facing today include the increased competition in the market as well as higher expectations of the clients. In recent years the amount of competitors has rapidly increased on the market due to the popularity of international study programs. This has required the Company X to strengthen their marketing strategy in order to keep their position on the market. On the other hand, the amount of clients and customers has increased as well. Another challenge of the company is the seasonality of the work as most of the internships are required to start either in January or in September. In addition to this, after client companies have failed to find interns on their own, they contact Company X and request candidates in a very short notice. This makes it difficult for the company to predict the amount of work and the amount of clients they will be having.

In the future Company X is hoping to expand to different markets and countries in Europe. They are constantly doing market research and contacting companies in different fields. The company is contracting more and more clients especially in the marketing field due to a high number of business graduates and the need for workforce with diverse language skills. Apart from the expansion in the European market the company is starting to provide work abroad programs in the USA as well as in Asia due to increased interest towards these markets. In addition to the recruitment process itself, Company X is also taking care of all the paperwork the recruitment requires including guiding through visa-process, housing and airline tickets. These programs benefit the clients as they do not need to be involved in this process. Company X believes the

programmes will become popular as they make the process easy for both the client and the customer. Most importantly, Company X puts an emphasis on maintaining and strengthening a good relationship with its existing clients as they understand it is the basis on building a strong, long-lasting partnerships.

#### 4.2.2 Case study: Company Y

Company Y specialises in providing digital services and software development for their clients in various fields. In addition to working in Finland, the company has a fast growing subsidiary in Poland. The office manager of Company Y is taking care of recruitment related matters of the company as well as other HR and administrative tasks. In 2014 the company started to consider outsourcing the recruitment of their subsidiary in Poland as they were unable to find suitable candidates on their own due to not having experience in the Polish market.

According to the office manager of the Company Y, the company started to consider recruitment outsourcing as they had positive experience in outsourcing their payroll. The company has no problem recruiting in Finland, but finding employees for the office in Poland was more difficult than expected. The lack of time and connections of the office manager combined with the language barrier and not having any experience in the Polish market, Company Y failed to find suitable candidates. They started out the recruitment processes on their own but quickly noticed that they were not attracting candidates because they did not know the right places to promote. Not only was the process very time-consuming, Company Y struggled to find people with necessary language-skills. The company was also concerned of the risks of making the hiring decision, as a wrong hire could become very expensive for the company.

After careful consideration Company Y started to get in touch with recruitment agencies in Poland. The agency selection was based not only on price but to the experience the OSP had in recruiting candidates in the same field. The Company Y decided to outsource the whole recruitment process to the recruitment agency. The agency provides the final candidate to the Company Y, who makes the final hiring decision based on the recommendations of the OSP. Company Y decided to outsource every step of the process as they believed that the agency had more expertise in the area.



The decision to outsource the recruitment process did not alter any job functions in the company as the office manager was the only HR personnel in house. In consequence of the ORP the office manager has had more time to focus on other HR functions of the company as the industry experts are taking care of the recruitment processes. Outsourcing the function creates more costs to Company Y in comparison of doing it in house, but the company believes that the time-savings as well as the expertise that they are achieving is far more valuable. In addition, with recruitment professional handling the recruitment processes, the level of risks associated with a new hire decrease considerably.

In the future Company X is hoping to grow and to have their own HR personnel and a recruitment specialist to perform recruitment functions and payroll in house. Before that the company needs to rely on external providers in order to perform these important functions effectively. Even with a recruitment specialist in house the company would consider continuing with the OSP regarding the recruitment in Poland, as they have been satisfied with the result and they believe that without knowing the market it would be difficult to find qualified candidates on their own. They are seeking for a long-term partnership with the recruitment agency in order to achieve the maximum level benefits from the service.

#### 4.3 Presentation of results

The purpose of this research was to answer the research question chosen for the thesis as well as to study the possible other underlying motivators behind a RPO decision and the factors that affect them. The data collected consists of literature, articles and two personal interviews that represent the most valuable information in the research.

During the research it has become undeniably clear that recruitment is being seen as an important business process that companies are becoming more and more interested in outsourcing thanks to the expertise and the technology the providers are able to provide. Based on this research, the decision to outsource the recruitment process is influenced by a number of different reasons. Ume-Amen (2010) emphasized that even though RPO has traditionally been primarily seen as a cost effective solution, the globalisation has influenced the industry which is why the main motivator behind a RPO decision is no longer solely based on cost-savings, but to the strategic benefits the process provides (Cappello, 2011).

According to both Company X and Company Y, the cost savings are hardly ever the primary reason to outsource the recruitment process. A key reason for the RPO is not only the expertise that the OSP provides, but the opportunity to free up HR personnel. This theory is supported by Lever (1997) who notes that outsourcing the recruitment process allows HR personnel to concentrate on other HR functions. This will eventually result in indirect cost-savings as the outsourced function keeps from adding personnel to the company.

As pointed out by Creer, Youngblood and Gray's (1999), RPO does not necessarily result in cost savings, and the costs can even increase in the process. Company Y states that even though outsourcing the recruitment process is not profitable financially, the expertise and the time-savings they have gained in the process is far more valuable than the cost savings. Furthermore, the OSP may be able to create indirect cost savings in the long run through their expertise in the field.

The results of the interview with the manager of Company X indicate that the rationale behind the RPO decision is very complex and client specific. The decision to outsource the recruitment to an external provider is not directly related to size or to the type of company, but to the needs of the client. Therefore, the importance of customizing the service for each client is highlighted as it acts as a key to a strong partnership that brings value to the recruitment process.

As discussed previously, a present theme in the PRO process has to do with the increased importance of the relationship between a company and the outsourcing provider. It was not until the recent years that companies understood the importance of the relationship with the provider as they started to think of RPO as a strategic partnership rather than as an outsourced function. Both Company X and Company Y support Creer, Youngblood and Gray's (1999) vision of establishing strong, long-term relationships, that will result in better hiring decisions that match with the company culture and values. The literature warns of certain disadvantages that the process might bring including the OSP not being aware of the company culture (Duggan & Croy, 2004). However, this was proven to not be insuperable, as Company X showed to have succeeded in building strong relationships with their clients and being able to find candidates that fit the client company and its values.

Another interesting observation about the RPO process itself has to do with the division of the tasks that are being outsourced and kept in-house. Unlike recommended by authors Miaoulis et al. (2008) and Ume-Amen (2010), the final decision making is not always kept in house as it was demonstrated by Company Y, who includes their OSP in choosing the candidate due to the lack of language skills and knowledge of the market from the company's side. In Company X however the final decision making is always transferred to the client company as strongly recommended by the authors.

## 5 Conclusion

The goal of this research was to study the different rationale of recruitment process outsourcing and to identify the primary motivators for the decision. The focus was to answer the research question of whether cost cutting is the only rationale behind a RPO decision, and to identify and analyse the different rationale apart from cost cutting. For a topic that has been mainly studied case-specifically, making generalisations on an international cross-industry level is not an easy task.

After reviewing recruitment process outsourcing literature and conducting an interview with a service user as well as with a service provider, it is fair to say that RPO is an important business process that is constantly developing and becoming more and more popular alternative for traditional in house recruiting. The research revealed that even though it is evident that a company may start to look into outsourcing the recruitment process due to its cost effectiveness, the decision to actually go through with the decision is supported by many other elements that truly add value to the recruitment process. As the theoretical part stated, the outsourcing partner may be able to present the hiring company in a way the company itself could never be able to, whether this is due to lack of time, knowhow or motivation.

Discussion in regards of knowing the company culture emerged in the literature review but as the practical point of view through interviews pointed out, not being a manager in the company does not necessarily indicate that the company culture cannot be transmitted in the way that the outsourcing company could not take it into consideration. Something to be pointed out is that possessing the values and being an advocate for a certain company culture does not translate into the company not being able to present itself that way to the candidates. The expertise of the outsourcing company could result

in doing a better job at it by building strong relationships as the interviewed Company X did.

In addition, outsourcing the recruitment function might help the organization to detect its weaknesses and strengths that it would not have to analyse if it was not going through the extent evaluation on what could be outsourced and what not. This could help the organization not only to invest in the cost-efficiency of outsourcing but to build and better the core competences with the talent and teams that exist in-house.

It has been stated by many authors that employees can perform to their full potential when they can concentrate on their actual tasks they were hired for and to invest their time on the core competencies of the company instead of processes that would be beneficial to outsource. This way talent is not being wasted and expertise is gained from the outsourcing partner as mentioned previously. As the interview with the manager Y indicated, the expertise and the time-savings the company has gained in the process is far more valuable than the possible cost savings. Even though the outsourcing process would not be financially beneficial, it might be able to result in indirect cost savings in terms of the OSP's expertise and the freed up time of the HR personnel.

Even though the research was rather superficial the different rationale for outsourcing recruitment processes were identified and analysed. The findings of the thesis should help OSP's to develop and improve their processes and to help companies to evaluate the benefits and disadvantages of outsourcing the recruitment function. As the topic has not yet been extensively researched, there is a lot of room for further research especially as recruitment outsourcing is a business process that will become more and more popular in the future.

An interesting sequel to the study could be to interview candidates who have gone through the outsourced recruitment process and find out what their expectations and experiences were regarding it. Since the companies are able to stay much more anonymous it might cause hesitation in the applicants and create mistrust even if the outsourcing company is well-known. Some applicants might be more cautious in sending in their application to an agency due to not being sure of what they are getting into. Or, alternatively, sending multiple applications to positions they are not interested in.

It would be interesting to see the point of views of three different candidates, following one who did not make it to the interview with the hiring company, one who did but was not chosen and one who got chosen to the position. This could give valuable data to the outsourcing partner and the hiring company itself. As the topic has not been widely researched from the candidate point of view the research would give valuable information that could serve as a learning tool for the OSP providers. Thus, it would be a useful research topic not only for expanding knowledge in the subject but also for the OPS providers for developing their processes.

For further research it would be also interesting to include headhunters and to study how their processes have changed in the recent years while the use of outsourced recruitment providers is growing rapidly and playing an increasingly important role in recruitment.

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## Appendices

### Appendix 1: Interview questions for Company X

Questions for a personal interview with a manager of an international recruitment agency located in Spain.

Date: 19.4.2016

1. How did you start the business and how was the industry like during that time?
2. What kind of companies are your typical clients? Are there certain typical characteristics? Do you think recruitment outsourcing is a better choice for some organizations than for others? Why?
3. In your opinion, why are your clients outsourcing the recruitment process to your company?
4. How is the recruitment process that you provide like and is it similar with all of your clients? How extensive is the recruitment process in terms of process depth?
5. What kind of pricing system do you use with your clients?
6. How do you see the industry has changed within the last years and how has it affected your business?
7. What kind of challenges is your business you currently facing?
8. How does the future of your business look like?

## Appendix 2: Interview questions for Company Y

Questions for a personal interview with an office manager of a Finnish gaming-industry start-up located in Finland.

Date: 12.05.2016

1. Why did your company decided to outsource the recruitment process to an external provider? What were the main reasons for the action?
2. How extensive is the recruitment process you have outsourced in terms of process depth?
3. Have you outsourced any other HR functions of the company? Would you consider doing so?
4. How is the project coordinated? Has the outsourcing of the recruitment process altered the job functions of the HR department?
5. How did/does the HR personnel feel about the change?
6. Has outsourcing the recruitment function been an effective solution for your company? What are its most relevant strengths and weaknesses?
7. What is the most important benefit your company has gained from the process?