Recruiting Roundtable

2002 Benchmarking Series

Recruiting Funding Models

- Sources of Funding for Key Recruiting Activities
- Overview of Funding Sources and Chargeback Methods
- Segment-Level Analyses of Funding Models
- Profile of Participating Institutions

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Letter to the Membership

As the Recruiting Roundtable continues to grow and to enhance its research services, our staff has been focusing increased attention on opportunities to gather data—and provide meaningful analysis—on the range of challenges members are facing in the near term. To supplement the Roundtable's ongoing best practices research, therefore, we are pleased to conduct a selected number of quantitative surveys of the membership and to share the findings, hoping that the ability to compare perspectives across the Roundtable membership will aid our members' daily work.

This document represents the first of these efforts, providing survey data and selected analyses on the methods companies use to allocate funds, and to charge costs back to the line, for the range of activities associated with recruiting and hiring. We hope that these findings will provide members with data they can use to compare with their own budgetary structures, highlighting unanticipated opportunities to adjust their strategies and providing context for new investments or initiatives they are considering.

Across the membership, there has been significant sustained effort dedicated to implementing new recruiting organizational structures, new roles and responsibilities, and new methods of aligning recruiting and staffing with the business. Funding models and methods are no exception: nearly four out of five of the participating companies have implemented a new funding model in the past five years, and two out of five have done so in the past two years alone. Roundtable members continue to report reductions in recruiting budgets and staff in response to decreased hiring demand, and many are using this environment as an opportunity to revisit their funding methods and make costs more transparent to the line. While this data does not support one clear directive to structure recruiting funding models, we present our key observations on the results in this document's executive summary on page xi. Our hope is that these findings enable members to effectively compare their practices to those of their peers. The aim of this study is to stimulate discussion and enable effective discourse of recruiting executives within their respective organizations.

We look forward to an ongoing discussion with members regarding these issues as well as opportunities for additional quantitative research, and we extend our sincere gratitude to the participating member organizations for their support of the Roundtable's research.

Washington, D.C.
September 2002

Partial List of Participating Institutions

Abbott Laboratories
Allmerica Financial Corporation
American General Corporation
AstraZeneca USA
Blue Shield of California
BOC Gases
Bombardier Inc.
BP PLC
Chick-fil-A Inc.
CIGNA Corporation
Cintas Corporation
Cisco Systems, Inc.
Citrix Systems Inc.
Compaq Computer Corporation
Compuware Corporation
Coors Brewing Company
Corning Incorporated
Credit Suisse Group
CUNA Mutual Group
Discover Financial Services
Dollar General Corporation
Duke Energy Corporation
Ecolab Inc.
EMC Corporation
Fannie Mae
Ford Motor Company
FPL Group, Inc.
Gap Inc.
Getronics
GlaxoSmithKline plc
Goldman Sachs & Company
Guidant Corporation
Health Net
Horizon Blue Cross Blue Shield of New Jersey
IBM Corporation
Intel Corporation
J.P. Morgan Chase & Co.
Johnson & Johnson
Kellogg Company
KeyBank
Lehman Brothers Inc.
Lockheed Martin Corporation
Lucent Technologies Inc.
Merrill Lynch and Company
MetLife, Incorporated
Microsoft Corporation
MidAmerican Energy Holdings Company
Motorola, Inc.
National Credit Union Administration
Potomac Electric Power Company
Prudential Financial
R.R. Donnelley & Sons
Royal Bank of Scotland
Sears, Roebuck and Co.
Sempra Energy
Shell International Limited
Starbucks Corporation
TD Bank Financial Group
Texas Instruments Incorporated
The Loyalty Group
The Principal Financial Group
Toronto Hydro
Toyota Motor Manufacturing, North America, Inc.
Wachovia Corporation
Walt Disney Parks and Resorts

Executive Summary

Recruiting departments in many organizations have made great strides in bringing rigor to their funding decisions. This development is driven by three principal factors. First, recruiting has become a strategic priority, moving from a cost of doing business to a central part of the business. Second, and related, recruiting has become proactive, its responsibilities and activities expanding across the employee life cycle, including such diverse activities as employment branding, new hire onboarding, and internal hiring. Third, recruiting activities now stretch across multiple budgets.

With these developments comes greater scrutiny, leading members to actively search for ways to employ a funding model that helps demonstrate recruiting value and gives recruiting the strategic role in the organization that it needs to attract talent and lay the foundation for financial success.

The funding model survey shows that three-quarters of respondents have changed their funding model within the last five years. With these changes we see that recruiting organizations are moving toward more sophisticated approaches for mapping costs to activities. Significant percentages of costs are charged back, and most of the chargebacks are by fee-for-service rather than by equal allocation or simple headcount.

Respondents are also utilizing the full gamut of funding sources, choosing the appropriate method for each area of activity rather than applying a one-size-fits-all approach. Strategic recruiting activities that have an impact beyond a business unit are most often funded by a central recruiting budget, while tactical activities that have a direct business unit impact are either charged back or funded by the business unit. But the survey results also reveal the limits of these efforts to seek alignment of funding models with both strategic goals and tactical priorities.

The Roundtable's goal for this survey, therefore, is to enable members to compare their own approach with those of their peers and enable a healthy dialogue about how to fund various recruiting activities. We believe such discussion is already under way as the survey highlights the variations and experimentation in areas such as internal hiring and employment branding. These are among the areas that exhibit widely differing methods of funding and chargeback. We believe such experimentation is essential to uncover and overcome the shortcomings of the legacy recruiting funding models and for recruiting to build a more meaningful funding system.

Source: Recruiting Roundtable, *2002 Funding Model Survey.*

CANDIDATE SOURCING ACTIVITIES

OVERVIEW OF FUNDING FOR CANDIDATE SOURCING ACTIVITIES

As shown on the facing page, there are relatively consistent patterns of funding for the activities associated with the category of candidate sourcing, typically "heart of the plate" activities for the recruiting organization. Funding for online job boards, college recruiting, and job fairs—activities that are likely to be managed centrally even for decentralized organizations—are the most likely to be included in the centralized recruiting budget, with chargeback models the second most prevalent, and a mixture among the remaining responses.

Two key areas of discrepancy from this pattern are general advertising and employee referral bonuses, where the central recruiting budget and chargebacks switch in order of utilization.

- First, the difference in funding between general advertising and advertising via online job boards is notable. While it would seem likely that relationships with online job boards and with other advertising media are both managed centrally by the recruiting organization, it is surprising that the costs associated with online job boards are not linked back to a specific line unit or vacancy as other advertising appears to be. Members may want to consider whether they have discrepancies of funding for these two activities and whether these are indeed appropriate.
- Second, of the 21 recruiting activities or investments included in the survey, employee referral bonuses were second only to new hire relocation in the frequency with which these costs are charged back to the line (as shown in detail on page 41). Employee referral bonuses are easy to link to a specific new hire and specific requisition and are therefore easy to clearly charge back to line units (particularly as compared to other, broader sourcing activities). That said, members may wish to consider whether the absence of a centralized budget for referral bonuses handicaps the effectiveness of their overall sourcing strategy, particularly when referrals are understood to be a particularly cost-effective and productive source of quality hires.

For companies that do charge back to the line unit or department for any of these candidate sourcing activities, college recruiting is the least likely to be charged back by the fee-for-service allocation method (only eight companies do so, as compared to 19 companies that use fee-for-service for chargebacks of advertising). Instead, chargebacks for college recruiting are most likely to be allocated according to line unit revenue, budget, or hiring volume. Again, members may wish to consider whether these allocation methods are the most effective in aligning costs with activities.

NEW HIRE ACTIVITIES

NEW HIRE RELOCATION

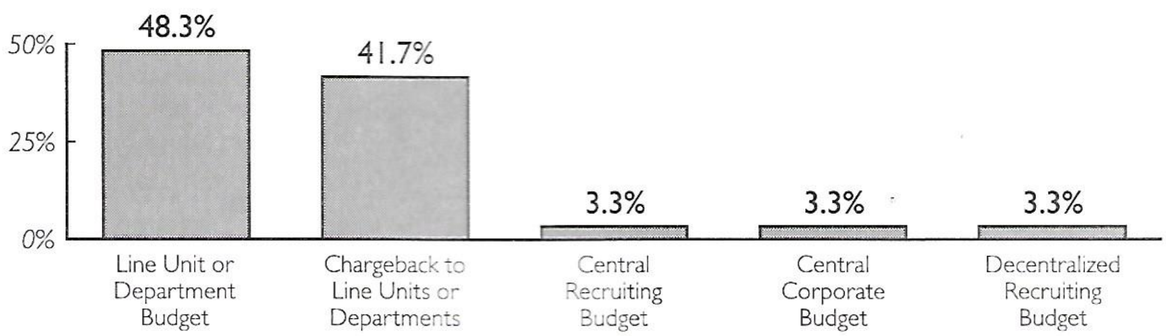
FUNDING FOR NEW HIRE RELOCATION

Relocation is an activity that the typical employee undertakes only a few times during his or her career. Organizations can have a significant positive impact on how they are perceived by the new hire by helping new employees to master the questions and anxiety that surrounds relocation. Many organizations have also found that relocation assistance also has a positive impact on the conversion rate of its offers.

With over 40 percent of recruiting departments charging back relocation, the Roundtable concludes that recruiting executives in these organizations have not only understood the impact relocation has on conversion and perception, but are actively taking control of this activity that in the past has been viewed as purely administrative.

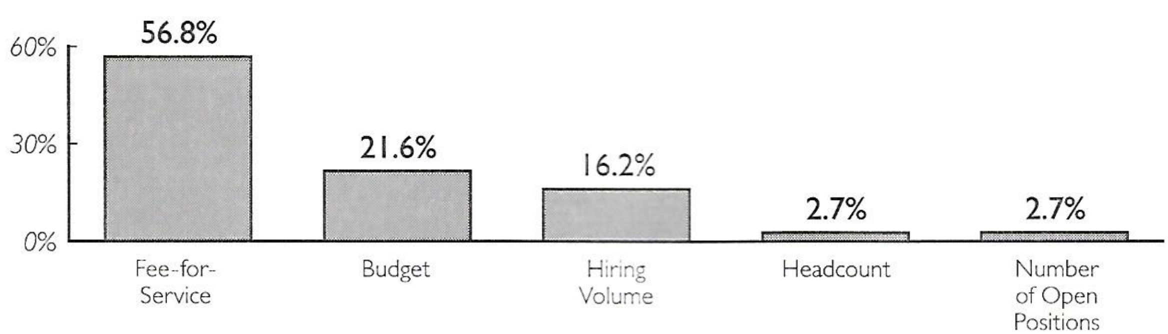
Question for Member Consideration: Are there ways we can help hiring managers to better understand and manage the costs associated with new hire relocation?

Sources of Funding for New Hire Relocation



n = 62.

Methods Used to Allocate Chargebacks for New Hire Relocation



n = 37.

Source: Recruiting Roundtable, *2002 Funding Model Survey.*

STRATEGIC RECRUITING ACTIVITIES

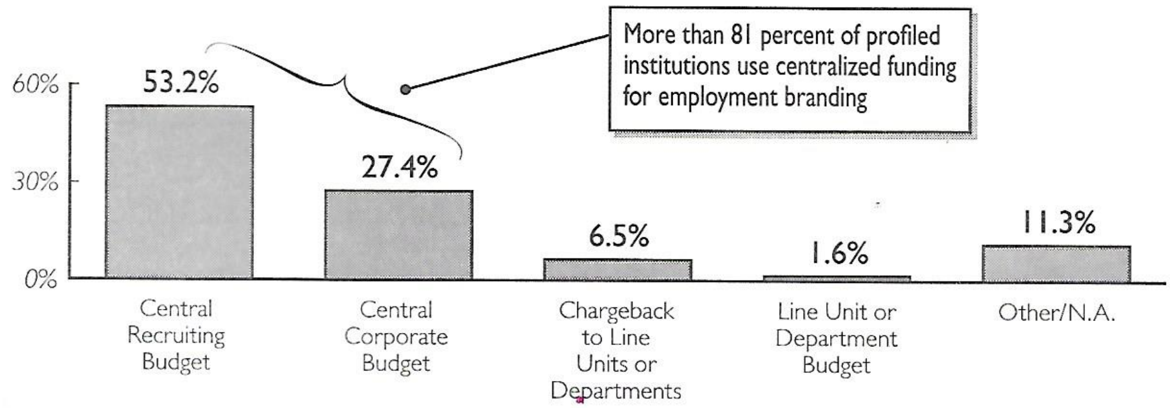
EMPLOYMENT BRANDING

FUNDING FOR EMPLOYMENT BRANDING

Funding for employment branding is highly centralized for participating organizations, as shown below. The utilization of the central corporate budget for costs associated with branding—as with costs for recruiting technology—is likely a reflection of the partnering with other human resources, public relations or marketing functions on branding initiatives, while recruiting technology investments are shared with central IT. The data also suggests that 89 percent of member companies are investing in employment branding, as only 11 percent are listed as "other/N.A."

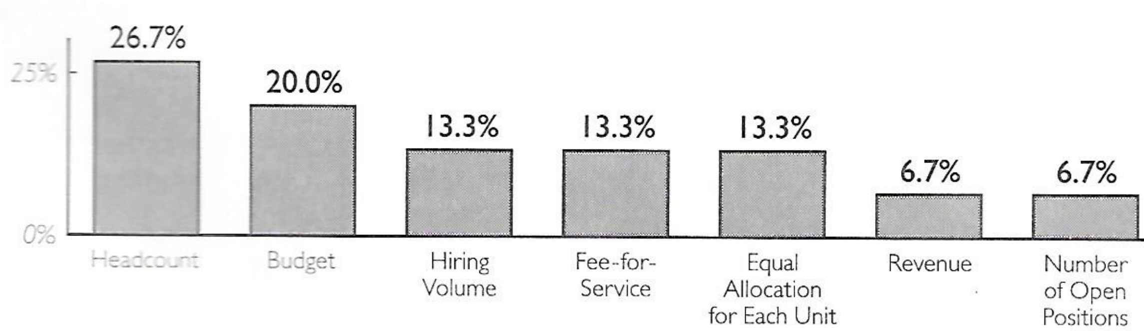
Questions for Member Consideration: Given the lack of direct line participation in the funding of employment branding activities, how can I ensure that the line understands the importance of (and returns on) our company's branding initiatives? More broadly, how can I enfranchise hiring managers and other employees who have direct contact with candidates with regard to our employment brand and its associated methods; are my branding messages communicated strongly enough to internal constituencies?

Sources of Funding for Employment Branding



n = 62.

Methods Used to Allocate Chargebacks for Employment Branding



n = 15.

Source: Recruiting Roundtable, *2002 Funding Model Survey.*

By Degree of Centralization of the Recruiting Organization

Heavily Centralized Organizations

Sources of Funding for Recruiting Activities

Companies for Which the Centralized Recruiting Organization Manages Nearly All Recruiting Activity

		Central Recruiting Budget	Decentralized Recruiting Budget	Line Unit or Department Budget	Chargeback to Line Units or Departments	Central Corporate Budget	Other/ N.A.
Candidate Sourcing Activities	*Advertising*	44.4%	16.7%	0.0%	33.3%	5.6%	0.0%
	Online Job Boards	72.2%	5.6%	0.0%	22.2%	0.0%	0.0%
	College Recruiting	50.0%	11.1%	11.1%	22.2%	0.0%	5.6%
	Job Fairs	66.7%	16.7%	0.0%	16.7%	0.0%	0.0%
	Employee Referral Bonuses	27.8%	5.6%	11.1%	38.9%	0.0%	16.7%
Candidate Evaluation Activities	*Background Checking*	33.3%	5.6%	22.2%	33.3%	5.6%	0.0%
	Candidate Travel	33.3%	0.0%	27.8%	38.9%	0.0%	0.0%
	Candidate Assessment	50.0%	5.6%	0.0%	16.7%	0.0%	27.8%
New Hire Activities	*New Hire Relocation*	61.1%	0.0%	5.6%	5.6%	27.8%	0.0%
	New Hire Onboarding	66.7%	0.0%	5.6%	5.6%	16.7%	5.6%
Recruiting Technology Investments	*Technology Infrastructure (such as ATS)*	0.0%	0.0%	44.4%	50.0%	5.6%	0.0%
	Employment Web Site	22.2%	5.6%	27.8%	22.2%	16.7%	5.6%
Recruiting Administration Expenses	*Staff Travel*	77.8%	5.6%	5.6%	5.6%	5.6%	0.0%
	Recruiting Staff Compensation	82.4%	5.9%	5.9%	5.9%	0.0%	0.0%
	Recruiting Staff Time	77.8%	5.6%	5.6%	11.1%	0.0%	0.0%
	Recruiting Facilities/ Equipment	83.3%	0.0%	0.0%	11.1%	5.6%	0.0%
Strategic Recruiting Activities	*Employment Branding*	61.1%	0.0%	0.0%	5.6%	16.7%	16.7%
	Hiring Manager Training	33.3%	5.6%	16.7%	16.7%	22.2%	5.6%
	Internal Hiring	61.1%	5.6%	22.2%	11.1%	0.0%	0.0%
	Consulting and Research	66.7%	5.6%	0.0%	22.2%	5.6%	0.0%
	Alumni Programs	5.6%	5.6%	0.0%	5.6%	5.6%	77.8%

n = 18.