The effect of recruitment process outsourcing on creating competitive advantage for organizations operating in Egypt

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Accepted 28 January, 2013

Limited research in Egypt explores the effects of human resource management on overall organizational performance. Furthermore, very limited research, if any, exist in Egypt to explore the effects recruitment function has on creating competitive advantage for organizations because organizations continuously need to both efficiently and effectively search for qualified candidates when they either plan for new business activities or expand on existing ones. Traditionally, the recruitment function was performed internally inside organizations. Nevertheless, another alternative method to that is outsourcing the recruitment function to specialized firms responsible to create a large pool of qualified candidates that are both able and willing to perform the required job. This study is both descriptive and exploratory which address the reasons behind organizations refrain from outsourcing its recruitment function. A survey conducted on a sample of 36 top managers from Egyptian and Non-Egyptian companies operating in various fields in Egypt discovered that 55% of these companies were involved in recruitment outsourcing. A contrary to logic result found that the cost reduction factor was not perceived by Egyptian managers as a valuable reason to outsource their recruitment function.

Key words: Egypt, human resource management, organizational performance, competitive advantage, recruitment function, outsourcing.

INTRODUCTION

It is widely accepted that the human resource management field is built upon four main pillars, which are staffing, training and development, motivation, and maintenance and retention respectively (Dessler, 2012). The staffing pillar is mainly broken down into three main functions, namely human resource planning, also known as workforce planning, recruitment, and selection functions respectively (DeCenzo and Robbins, 2012). The human resource planning function is concerned with detailing out the plan of the number of employees that will be hired throughout the year, where, when, and budget of each. The recruitment function is concerned with creating a large pool of qualified candidates that are both willing and capable to perform the required job. The selection function is concerned with selecting the best out of the best previously mentioned candidates that most fit the organizational culture, possess the right attitude, mindset, and are more prone for future development. On average, all previously mentioned functions, under the staffing pillar, are performed inside the organization. This has proved to be both expensive and time-consuming processes for organizations to perform in house. Therefore, a need arouse to study the likelihood of outsourcing the staffing pillar to achieve higher efficiency and cost effectiveness levels.

The first and third functions, which are the human resource planning and selection consecutively, in the staffing pillar, should not be outsourced for obvious reasons. Those reasons are that no other organization can better conduct a human resource plan other than the organization itself because it is most aware of its future business plans. For the same reason, no other organization can better select the most suitable employee other than the organization itself because it is most aware of its internal culture...
determinants. However, organizations can outsource its recruitment functions to independent, third parties to create large pools of qualified candidates that are both willing and capable to perform the required job on its behalf. Recruitment function is the one function out of the three functions in the staffing pillar that consumes most of the financial resources and eats into the time of Human Resource professionals in organizations for many reasons, such as, (a) the costly access to qualified resumes across the globe that is both willing and capable to perform the required job, (b) high levels of time consumption to filter throughout large numbers of resumes to thin out the pool to only qualified resumes, (c) conduct initial phone screening calls to potential candidates to update their resumes, and (d) to determine their level of interest and willingness to join the organization.

Outsourcing is most easily defined as the shifting an entire business function (such as recruitment), a production process (such as wire-harness in automotive manufacturers) or a partial process (such as posting job advertising or physical delivery of wire-harness) to an external independent third party provider. Therefore, organizations view outsourcing decisions in general as a purely financial decision (cost - benefit analysis). The level of outsourcing has increased drastically in the last decade. Today, the global market of outsourcing recruitment functions reaches $400 billion/year. Furthermore, the fastest growing function in the Business Process Outsourcing (BPO) is the Recruitment Process Outsourcing (RPO), which is directly linked to the growth of Human Resource Outsourcing (HRO). Such disputes lead us to the importance of defining the term outsourcing.

This study is timely because HRO is a widely growing area in both the developed and developing countries around the globe. The purpose of this study is both a descriptive and exploratory research to shed light on the current situation of RPO in Egypt. Specifically, analyze the Human Resource Outsourcing (HRO), specifically the Recruitment Process Outsourcing (RPO), arena in the Egyptian business environment. Basic aspects of the RPO were tested in a survey that was conducted among 36 representatives of local and multinational organizations operating in Egypt. The secondary objective is to provide general recommendations for Human Resource professionals to avoid issues that could hinder HRO success rates.

RPO is a widely accepted practice in sectors with high employee turnover, where the process of hiring and firing is continuous. A good illustrative example would be a bank, with 100 customer support agents working one shift per day. The high employee turnover rate distracts bank’s management from their core business, so the recruitment process is being outsourced to a third party provider. Recruitment agencies, who deal with middle management and specialized staff, provide such services. Their duty is to narrow down a large pool of candidates and qualify a shortlist for further HR procedures. In this case, the cost of employees increases from 15 to 25% of the annual salary, excluding bonuses.

The services of executive search firms are even more expensive. They are commonly known as executive headhunters.

Due to the candidate’s high profile present position, such as an executive top manager, he/she always refrain from posting his/her resume on an open source database, such as recruitment websites. Executive recruitment firms charge organizations a standard fee all around the world, equivalent to one third (or 33%) of the gross annual salary, where the whole compensation and bonuses are included in the calculation. Executive search firms split the payment into three phases: 35% initial fees, another 35% when candidate is presented for the interview; and the rest 30% to be paid after the finalization of assignment. The frequency of such outsourcing is not very high, however, organizations with a high level of business development and new market entry oriented strategy could be in need of hiring top managers more frequently than conservative businesses.

LITERATURE REVIEW

“Outsourcing is a way of contracting for the service or good or implementation of a task, previously carried out in-house, to a third party, in order to perform on the organization’s behalf” (Reilly and Tamkin, 1996: 320). Outsourcing is a considerably new understanding of the subcontracting term.

However, to draw a line between these terms, Van Mieghem in 1999 defined subcontracting as the achievement of an item (that is a product, component or service) which a company is able to develop in-house, while outsourcing reflects the achievement of an item that the company is not able to produce internally to an acceptable level (Van Mieghem, 1999). According to Kelly, the history of outsourcing goes back to the industrial expansion that started at the end of 17th century. A classical example would be that an American manufacturer of wagon covers was outsourced to the labor of Scotland, while raw material was delivered from India. Similarly, textile manufacturing of England became so proficient in the 1830s that ultimately Indian companies could not compete. Consequently, most production was outsourced to England (Kelly, 2003).

Costs and benefits of outsourcing

Outsourcing is gradually becoming an essential element of the world economy due to globalization. The global economic instability has considerably accelerated and intensified the competition in many fields, forcing organizations to overlook their strategies and find new ways to deal with the challenging environment. Aside
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from cost cutting, BPO allows management to allocate more time and resources and concentrate on developing core competencies (Plunkett Research, 2006).

Figure 1 illustrates the significance of various factors, which motivate firms to outsource internal tasks. Major reasons for outsourcing are to reduce operational costs (35%) and paying more attention to the core processes (32%) of the firm. Additionally, the variable cost predictability (13%), improved quality (5%), conserve capital (5%) and increase speed (5%), among the other key aspects that enable outsourcing in the global environment (Suyash, 2003). In this study, we will focus on the notion that claims that since Human resource is considered one of the major assets in any organization; therefore, a specific focus should be targeted towards studying the effects of HRO on overall organizational performance.

HRO defined

The Chartered Institute of Personnel and Development (CIPD) in 2009 defined HRO as the purchasing of HR services from a third party supplier. In other words, HRO occurs when an organization contracts a third party service provider that performs the organizations HR functions on its behalf. According to a study conducted in August 2008 by the Society of Human Resources Management (SHRM), some of the HR related functions that are currently outsourced by United States of America based organizations include, but not limited to, conducting background checks, employee development programs, in addition to legal and administrative functions. Thus, it is becoming obvious that the previously mentioned renowned organizations are eager to compete in the global environment via minimizing their costs to sustain a competitive advantage on the global arena. Cooke et al. (2005) examined the impact of HRO on the HR functions and groups of people affected by the decision. They found that HRO allows the full time on board HR professionals to perform more strategic tasks. Furthermore, they argued that HRO are “both fragmented and inconclusive” (Cooke et al., 2005: 414). Their study highlights on the lack of academic researches and narrow literature availability on the financial and strategic reasons for outsourcing.

RPO defined

RPO is an activity carried out by organizations to attain talent by delegating to a third party, known as recruitment service provider, who partly implements the organization’s recruitment needs. In the recent years, (RPO) became very popular, due to its efficiency in cutting costs of in-house recruitment, ability to attain talents and facilitate the managerial efforts to achieve deadlines.

Recruitment service providers, such as executive and contingency search firms, used to provide support to organizations in the developed countries through presenting them their recruitment services for many years. This was the situation until the early 1970s when the organizations started to face high level of competition in the technical labor market. Therefore, organizations started to realize the importance of relying upon stable and reliable third party in dealing with the sourcing component of the recruiting process. Together with the expansion of this technical labor market sector, organizations faced an increasing need for qualified employees who possess the required expertise and knowledge. In such environment, the only solution to fulfill growing recruitment needs was to contract third-party recruitment service providers, resulting in extra high cost of recruitment. Later on, management started to analyze how and by what means they can reduce costs on
recruitment, at the same time still acquire qualified specialists from the market. It lead to the development of recruitment steps and procedures, in addition to building internal databases and IT infrastructure, therefore, adding a value to their businesses. However, the RPO service providers also started to develop added services, in order not to run out of business. As time passed, the concept of RPO gained popularity among HR professionals, because not only it reduced costs on staffing, but also it helped to assure the excellence and completion of the labor market. Since these days, RPO services has been considered as an effective instrument to accomplish organizational requirement needs.

On a different note, it is worth mentioning that a different theoretical motivation for outsourcing was provided by the Resource Based View (RBV), where decisions are driven by their effect on the number of resources and capabilities that substitute the competitive advantage, rather than focusing on cost saving (Barney, 1991). In this perspective, a resource could sustain a competitive advantage when it was rare and not easily imitated; therefore, any related activities should be remained in-house (Dierickx and Karel, 1989; Peteraf, 1993). In other words, if an HR function was linked to the organizational strategy and participated in the process of core competencies creation, it should be managed internally to avoid the risk of imitation by competitors (Cooke 1999). Otherwise, if a practice was not considered as core activity, it should be externalized, allowing the firm to focus its efforts on resources that were more strategic to competitiveness (Prahalad and Hamel, 1990). Building on the previous argument, Lepak and Snell's (1998) developed a model of virtual HR that has provided some useful information about which HR activities should be externalized. The authors stated that outsourcing should be conducted with administrative HR practices, which could be easily standardized, less risky to be imitated, and that could benefit from cost savings in case of outsourcing.

Wise verse, the core HR practices, in terms of uniqueness and value, which are directly reflected on competitiveness of a firm – should be protected and managed internally.

**HRO general trends**

In the late 1990s, the outsourcing of these functions has steadily increased, where about nowadays 90% of United States of American based corporations outsourced at least few Human Resource practices, such as payroll (Stewart, 1996; Lepak and Snell, 1998; Jamrog et al., 1997). The literature review revealed that HRO has increased rapidly over the last decade (Woodall et al., 2002). In 2003, the global HRO market was estimated to grow at a rate of 8.5% during the next several years, with a projection of $38 billion on closing the year 2007 (Gartner, 2003). Interestingly, the previous authors discovered that among firms with yearly profits over $1 billion, there were only 9% of them whom did not plan to outsource at least one of the four HR pillars.

**Factors hindering HRO**

Perrin (2008) identified five factors that hinder the successful results of HRO. They are as follows:

- **Factor 1:** “Companies continue to have mixed success with vendor governance and organizational management”. This factor addresses the challenges aroused in building the contract for outsourcing. Companies should practically move above contractual obligations and conduct governance tasks on daily basis. Nevertheless, companies that allocate adequate efforts for the third-party governance, tend to be more clear and satisfied with the outcomes.

- **Factor 2:** “Buyers are still not achieving the full economics of scale that HRO is capable of delivering.” That is probably due to the lack of standardized procedures in most HRO assignments, each case is tailored to the organization’s needs and objectives. The full economics of scale can be achieved in software development, such as; contribution from different clients can be accumulated in order to reduce the unit cost. However, the HRO vendors are either not willing or not able to cooperate and develop common standards, hindering the cost savings and service improvement environment.

- **Factor 3:** “There is a lack of good baseline data against which to measure outsourcing results.” When HR activities are outsourced, organizations face a lack of solid benchmark information, against which the outsourcing performance could be measured. Therefore, it is hard to evaluate how outsourcing affected the productivity the company or HR department, or reduced the cost and time contributed to a certain business cycle.

- **Factor 4:** “Companies continue to underestimate the effort required of HR - before, during and after outsourcing - to drive successful results.” When any organization decides to outsource HR, the management might think that all the tasks will be performed by the outsourced provider without extra efforts from the internal staff. However, on practice, companies underestimate the amount of participation to be invested by the HR team.

- **Factor 5:** “Disappointment with capabilities and performance continues to be an issue among clients”. HRO service providers sometimes overpromise the outcome that a project can deliver. This, in turn, creates client’s dissatisfaction and a feeling of incomplete service received from a vendor.

**RESEARCH METHODOLOGY**

Since this study is an exploratory one, therefore, a simple questionnaire was designed to assess the factors that motivate organizations to outsource the recruitment function. Based on the assumptions from the literature, a
16 question survey was developed and submitted to representatives of 36 local and multinational companies, which operate in different sectors. Out of the 36 companies, 20 were involved in the RPO to a certain extent. The instrument contained 16 questions, where 13 out of them are measured of a rating scale numbering from 1 to 5, from strongly agree to strongly disagree.

Research design

The selected population for this study was the senior level managers of local and multinational companies operating in Egypt. The statistical test used was the convenience sampling method. The pre-designed internet based questionnaires was distributed over a total sample size of 400 people to whom a link to the survey was send via email.

Only 36 completed and returned the questionnaires. Based on the above, the final list of 20 companies was selected, which have been engaged in outsourcing recruitment process at least once. The logic behind the previous statement is that their responses will contribute to a deeper understanding of the RPO in Egyptian business environment. Out of the 20 companies outsourcing RPO, there were 12 multinationals and 8 local companies randomly selected from different fields.

The first four questions in the survey were developed for exploratory purposes. The first yes/no question was designed to test the level of Egyptian and Non-Egyptian companies’ involvement in the RPO to concentrate on the answers from organizations that have practical experience in RPO.

The second question was designed to find out the level of employees that should be subject to RPO and was rated on a 3-point scale: entry level, middle and senior management to understand on what level of employees organizations should this study focus on while performing the RPO. The third question was designed to explore the relationship between the results of RPO versus in-house recruitment because there was an issue of employees’ retention and motivation in case employees are hired through an RPO service provider. The fourth question was designed to find out whether RPO creates a physiological factor to create motivation among employee, thus increase the retention level in Egyptian organizations. The remaining survey questions, rated on a LIKERT scale from 1 to 5, 1 being strongly agree and 5 being strongly disagree, were designed to test if RPO service providers demonstrate a competitive advantage for organizations. Further questions attempted to study what dimensions stimulate organizations to outsource their recruitment function to a third-party provider, such as cost savings on recruitment, improve quality of firm’s performance, achieve time-line of a project, accelerate capacity of a firm, fill a vacant position, eliminate the shortage/availability of staff, and/or increase staff capabilities.

RESULTS

The list of participant consisted of 36 companies out of them 20 companies were engaged in outsourcing the recruitment function. The results were based on these 20 companies operating in Egypt. Results showed that the response for question 1 (Does your organization outsource recruitment and selection process?) were 20 respondents out of 36 answered yes (55.6%) while the remaining 16 answered no (44.4%) to the question. Results also showed that the response for question 2 (What level of employees should be subject to recruitment outsourcing at your organization?) was that the percentage of the entry level is higher than the senior and management staff outsourced. While 35% of entry level, 10% of middle management and 15% senior staff jobs are outsourced, 35% of the respondents believe that organizations should outsource all the 3 levels of employees. Furthermore, results showed that the response for question 3 (The Recruitment Process Outsourcing could bring results better than in-house recruitment) that 5% of the respondents strongly agree and 40% agree that the RPO could bring better results rather than in-house recruitment. On the other side, 20% disagreed with this statement. However, 35% neither agreed nor disagreed. Results showed that the response for question 4 (It is easier to retain and motivate employees if recruitment is outsourced) that only 5% agree that it is easier to retain and motivate employees if recruitment is outsourced. At the other side, there were 15% disagreed and 20% strongly disagreed with this statement. 60% of companies were in the middle, neither agreed nor disagreed. Results showed that the response for question 5 A) Pool of applicants (The Recruitment Process Outsourcing has a competitive advantage in terms of pool of applicants, skills and expertise, quality and competence of applicants and quick and easy replacement) that 35% strongly agree and 50% agree that the RPO has a competitive advantage because of pools of applicants. There is an equally distributed 5% of respondents neither agree nor disagree, disagree and strongly disagree upon it; while for 5 B) Skills and expertise that 40% of respondents agree that RPO has a competitive advantage because of skills and expertise, and another 15% strongly agree upon it. However, other 15% of respondents disagree that RPO has a competitive advantage because of skills and expertise. About 30% of the respondents are neutral; while for 5 C) Quality and competence of applicants shows that 35% of the respondents agree and 40% neither agree nor disagree that RPO has a competitive advantage because of quality and competence of applicants, where as 20% disagree and 5% of respondents strongly disagree that quality and competence is a competitive edge of RPO; and D) Quick and easy to find the replacement for highly specialized/critical position shows that 55% of respondents agree and 5% strongly agree that RPO has
a competitive advantage because of quick and easy replacement of highly specialized staff. On the other hand, 15% disagree and 10% strongly disagree that RPO has a competitive advantage because of easy replacement. The final 15% of the respondents tend to neither agree nor disagree.

Results showed that the response for question 6 (The RPO providers could be considered as an effective instrument to hire) shows that 40% of respondents think that the RPO provider could be considered as an effective instrument to hire the entry level employees, 20% respondents consider effectiveness in middle management level, 30% advocate that RPO is most efficient in hiring the senior management, and finally, only 10% of respondents state that all of the above levels where RPO could be considered as an effective instrument to hire. Results showed that the response for question 7 (My company would be interested in dealing with RPO providers due to A) Cost saving) illustrate a 50% of respondents disagree and 5% strongly disagree that their company would be interested in dealing with RPO due to the cost saving. Somehow, 15% of respondents agree and 20% strongly agree that cost saving is an outstanding reason to be engaged in RPO. About 10% of the respondents neither agree nor disagree about the cost saving factor; B) Improve quality shows that 45% of the respondents agree that they can improve quality of employees by using RPO. Another 20% of respondents disagree that RPO providers can bring the required quality employees. The remaining 35% of respondents tend not to agree neither disagree about the their company would like to cooperate with RPO providers because they can bring quality staff; C) Time pressure (achieving time-line) shows that 75% of respondents agree and 20% strongly agree that their company would be interested in dealing with RPO in order to achieve time-frame. There is only one company, which corresponds to a 5% from overall pool who disagrees on this factor; D) To accelerate capacity of the firm clearly shows that 65% agree, in addition to 15% of respondents who strongly agree that their company would be interested in dealing with RPO to accelerate the capacity of their enterprise. However, only 5% who disagree on this fact. The remaining 15% of companies neither agree nor disagree on this matter; E) To fill a vacant position shows that 60% of the companies agree and 10% strongly agree that their company would be interested in dealing with RPO to fill a vacant position. Where 25% of respondent disagree and 5% neither agree nor disagree that a vacant position could be a good reason to cooperate with RPO providers; F) Due to shortage of internal staff show that 35% agree and 20% strongly agree that shortage of internal staff or its availability at the present time is a healthy reason to get involved in the recruitment process outsourcing. However, the other 25% of respondents disagree, 5% strongly disagree and 20% neither agree nor disagree that lack of staff should motivate organizations to go for RPO; G) Due to lack of existing internal staff capabilities shows that 45% agree and 5% strongly agree on this statement. Interesting to note, that 20% disagree and 15% strongly disagree that cooperation with RPO providers can be beneficiary, even if their internal staff capabilities are weak. The remaining 15% neither agree nor disagree on this issue.

**DISCUSSION**

The main purpose of this study was to understand the nature of the RPO activities undertaken by various organizations operating in Egypt. Due to the absence of prior research findings in this arena, a comparison analysis was not applicable. The advantages of RPO were mostly perceived as a possibility to both reduce time pressures of filling either current or future vacant positions and increasing an organization’s capacity to gain access to a large pool of qualified candidates. More than half of the surveyed companies observed the possibility for easy and quick replacement of the critical or specialized position as a potential reason to utilize RPO services. One of the surprising findings that this research revealed is that the cost saving element was not considered as a reason to cooperate with RPO service providers. This finding contradicts with previous academic and practical findings that cost saving should be one of the main, if not the main, factor determining the reason behind organizations choosing to cooperate with RPO service providers. This was evident through the fact that more than 50% of the respondents believed that by outsourcing the recruitment function they couldn’t lower staffing costs of the organization. One of the reasons behind the previously stated surprising finding could be that RPO providers exaggerate the price of their services. A relevant example could be a security labor hired through an outsourced service provider that will cost higher on average from 8% up to 15%, rather the same labor hire from walk-in candidates. The reason is that an RPO service provider charges at least one monthly salary for each hired employee.

Most of the respondents agreed that recruitment outsourcing can generate higher qualified candidates than the recruitment carried out in-house, about 40%. However, one cannot neglect the 20% of managers who do not agree that RPO is a much better alternative to the internal recruitment. The neutral population remains of about 35% who neither agree nor disagree about this statement. The responses to the question “What level of employees should be outsourced at your organization?” revealed that 15% for the senior management, 10% for the middle management and 35% entry level management stated that entry the level should be subjected to recruitment outsourcing in their companies. The remaining 35% stated that all of the three levels should be subject to the RPO. Relevantly, the feedback of Egyptian managers regarding an issue whether RPO
service providers could be considered as an effective tool to hire entry level scored the highest point of 40% of the entry level, 20% of the middle and 30% of the senior management. It could point out that recruitment process outsourcing is perceived to hire mainly the labor staff and top management.

Most of the respondents tended to disagree on the subject of the level of retention and motivation of externally recruitment. Some respondents stated that there is no relation between outsourcing RPO with retention and motivation, and this is not related to motivation by any means. However, about 15% of the respondents agree that RPO could help in retaining and motivating employees. One of the respondents commented: “In most cases, per-existing strong personal relations between current staff and newcomers can propagate low morals if it is there. This could represent challenging pressure on change initiatives that seek uplifting performance and uprisings morals.

**LIMITATIONS AND FUTURE RESEARCH**

The first and foremost limitation of this research is the small sample size represented in the number of organizations that participated in this study. Representatives of the sample size possessed different background, not all the respondents represented HR departments, however, most of them are senior managers. Another limitation of this study is that the results only reflect the overall trend in the Egyptian RPO, but it does not split the sample size into sectors or industries. Future research should focus on a specific industry, for example banking or construction, to have a better understanding of the factors that drive the expansion of RPO in Egyptian business environment. It is also important to understand the difference between multinational and local companies’ view toward RPO services. Finally, the present analysis focused on a single country that is Egypt. Therefore, findings could only be generalized to similar environments, in terms of culture and/or workforce characteristics.

**Conclusion**

The research also found that Egyptian managers do not believe that by outsourcing the recruitment function their respective organizations will be able to reduce operational cost of the recruitment function in their HR departments. This finding contradicts with previous findings in other countries. One of the many reasons behind the previous finding could relate to that RPO providers in Egypt exaggerate in the fees charges for their services rendered to organizations.

**REFERENCES**


