

Navigating the Challenge of Talent Acquisition Funding Models



A perennial challenge faced by HR and Talent Acquisition (TA) leaders worldwide is that of recruitment budgeting and funding.



Talent Acquisition is invariably viewed as a central function which sits within the broader Human Resources function. As a central function, were it to be funded

as part of an HR budget, the costs would need to be projected each year; few HR leaders are empowered to automatically overspend against their budgets if demand for HR is greater than anticipated. If hiring volumes were static each year, then the challenge would be simple but that is rarely the case and experience shows that few organisations can forecast hiring volumes to within 10% accuracy on an annual basis. Regardless of annual forecasting, all organisations will experience monthly or seasonal variations in hiring demand which compound the challenge of funding.

As corporate TA functions have changed and evolved over the years, they have accumulated a breadth of capabilities and services that are provided back to the business. A mature TA function may include a Centre of Excellence (CoE) which provides strategic direction, it may have dedicated resources focussed on areas such as Diversity, Equity and Inclusion as well as graduate hiring. The function may have ongoing investments in technologies such as an Applicant Tracking System (ATS), Customer Relationship Management (CRM) tool, automation tools and media platforms. And TA will, of course, have

delivery teams focussed on recruiting for the hiring requirements of the business. Most TA functions therefore will have fixed costs that will not scale in line with hiring volumes and variable costs that could and arguably should scale with hiring volumes.

Those leaders who have talent acquisition functions funded centrally (i.e., a fixed budget each year) will welcome the simplicity of the funding model until the point that hiring volumes increase beyond expectation when they must go to their business stakeholders to seek extra funding. Those leaders for which talent acquisition functions are funded on a recharge basis to lines of business will welcome the flexibility provided as hiring volumes fluctuate but will invariably be frustrated by the administrative burden of cross-charging, together with the potential challenge from business stakeholders regarding the value delivered against the fees levied. For those leaders with Recruitment Process Outsourcing (RPO) partnerships in place the challenge is heightened; the need to fund both an RPO partnership and an in-house function has significant implications on budgeting and planning, even more so when volumes fluctuate.

In this paper AMS explores the various funding models available to businesses and shares its significant experience of the advantages and disadvantages of each.

Central/Fixed Funding Models

For simplicity purposes, a centralised/fixed funding model will be advantageous for many Talent Acquisition leaders. Through annual budgeting processes, TA leaders will consult with HR and business stakeholders to best forecast annual hiring requirements. TA leaders will then seek a budget that enables them to fund both TA operations (the recruitment delivery team that will fulfil hiring requirements) as well as core TA functions such as employer branding, technology, etc. TA leaders will need to carefully consider how they manage their costs against volume fluctuations.

Example 1

In the example on the right (fig. 1), an organisation forecasts to hire 5,899 new staff throughout the year. As with many organisations, there are peaks and troughs in hiring with a peak of 670 hires forecast for May and a low of 378 forecast for December. The least efficient budget would assume that the TA team will not scale in line with hiring volumes and funding would therefore be requested for a TA delivery team to support the peak of hiring – i.e. the 670 in May which would equate to annualised hiring of 8,040, a 36% uplift on the real forecast.

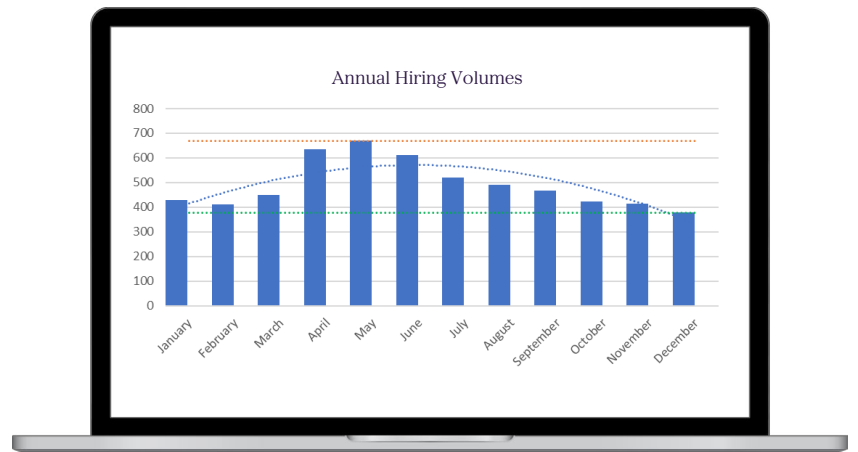


Figure 1 - Example Annual Hiring Volumes

The most efficient budget would assume that the TA team could scale wholly in line with hiring volumes, potentially through an RPO partner or by utilising temporary recruiters to support the peaks of hires. In which case a budget would be requested to support the 5,899 hires although this leaves no capacity to support a potential increase in hiring volumes. A more pragmatic budget may allow some contingency for an increase in hiring volumes. A 10% contingency would therefore allow for 6,489 hires per annum.



Figure 2 - Actual v Forecast Volumes

The chart above (fig. 2) demonstrates the challenge faced when setting a budget for centrally/fixed funded TA. Few companies will allow the luxury of an inefficient hiring function which inevitably means that the TA leader will hold a budget designed for maximum efficiency or with a modest contingency; either way the TA leader will face a significant challenge if hiring volumes are significantly over forecast.

Recharge Funding Models

If central/fixed funding models are considered too inflexible, then recharge funding models may be seen to be more advantageous. On the surface these models appear to be simple – a mechanism is required to allow TA functions to recharge the cost of hiring to the business. In practice though there are a myriad of ways in which these recharges can be applied, and the nuances of these recharge mechanisms will need to be considered in the context of the company which is considering the options available. Equally it should be noted that simply shifting a budgetary challenge from a central function to the business doesn't negate the challenge itself. Whilst it's easy to argue that the business should be accountable for its ability to forecast demand and should be responsible for paying for over-utilisation above the forecasted demand, business P&L owners will still be faced with the challenge of potential over-spend against budget.

Companies may wish to consider a *transactional mechanism* whereby the business can be cross charged for each hire or requisition supported by the TA function. Such a cross-charge could be calculated to include the cost of TA operations as well as TA functions (i.e. calculated to recover all costs of TA). The key advantages of this model are that TA leaders can be assured of funding regardless of hiring volumes; if volumes are higher than forecast then the business will be recharged regardless. On the surface the recharge model would be seen to ensure that TA functions are commercially efficient, if hiring volumes are lower than forecast then the business will only pay for hires or requisitions that have been supported. Commercial efficiency is problematic when hiring volumes are above or below forecast, if the transactional recharges remain static then the TA function could be under or over-recovering those costs which would not scale up in a linear fashion.

Example 2

In the example on the right (fig. 3), a budget has been set of \$15m to account for fixed and variable costs against a forecast of 5,899 hires. Based on the costs and forecasted volumes, a cost per hire (CPH) recharge of \$2,543 has been calculated. If the forecasted volumes are correct, then the TA function will be financially balanced at the end of the year. If the volumes are 20% below the forecast, then the TA function will have under-recovered costs of \$780,000 (those fixed costs that do not scale with hiring volumes). If the volumes are 20% over forecast, then the TA function will have over-recovered costs by \$780,000.

Hiring Volumes	5,899	4,719	7,079
Variable Costs	\$11,100,000	\$8,880,000	\$13,320,000
Fixed Costs	\$3,900,000	\$3,900,000	\$3,900,000
Total Costs	\$15,000,000	\$12,780,000	\$17,220,000
CPH Recharge	\$2,543	\$2,543	\$2,543
Total Recharge	\$15,000,000	\$12,000,000	\$18,000,000
Balance	\$ -	\$(780,000)	\$780,000

Figure 3 - Example Costs and Recharges



In addition to the risk of over-recovering or under-recovering costs there are other downsides to the recharge funding model. Where businesses have put such a recharge model in place, they often find that it can lead to onerous discussions with business stakeholders, particularly if the recharges are levied against individual hiring manager P&L's. Those Hiring Managers who hire infrequently may not understand that a charge is due and may query the charge. If the recharges have been designed as a single fee regardless of placement type, a hiring manager may well query why they are paying the same for an internal hire as they would for an external hire. And what of agency costs? If a hiring manager is required to pay for agency placement fees, they will inevitably question the need to pay for a central recharge in addition to the agency fee. Put simply, if Hiring Managers are directly receiving transactional fees for talent acquisition, they will understandably seek to ensure that they are receiving value for money.

Another significant disadvantage of this model could be the need to index pricing for the countries being supported. Let's assume that, as per example 2, an organisation has calculated the budget required

to support their 5,899 hires as \$15m. Whilst \$2,543 per hire as a global average may seem reasonable, it would represent a very low cost per hire for countries such as Japan, US and Switzerland and an unreasonably high cost per hire for countries such as Philippines, Mexico and Poland. Whilst indexation is possible (and can be simplified by using a purchasing-power parity index such as the **Big Mac Index**) it clearly adds complexity to recharging processes.

If transactional recharges to individual P&L holders are thought to be too granular a mechanism, companies could consider recharging TA costs at a country or business level. It may be more feasible to **recharge costs on a headcount basis** (i.e. direct pass-through of costs for specific individuals) although this also has pros and cons. Whilst a headcount-based recharge may be simple to achieve from an accounting perspective, it may require advanced approval from the budget holder which will likely necessitate the approval of a business case. If TA teams are ramping up in response to an increase in demand, then the need to seek advanced approval from budget holders to pass through additional cost will cause delays and frustration.

Hybrid Funding Models

If central funding models and recharge funding models are seen to be problematic, then companies can consider a hybrid of the two. Such a model would see the TA function seek central funding for a proportion of its costs (i.e. the fixed costs) and then set recharges to cover its variable costs. In such a model the commercial challenges associated with over and under-recovery of costs (as detailed in fig. 3) are removed and the recharges to the business reduce as a result of the central funding of fixed costs.

Whilst this mechanism retains the benefits of the recharge funding models, it also leaves many of the same challenges; business stakeholders may still query, or challenge recharges and indexation may still be required to make recharges appear to be fair.



Implications of Funding Models for RPO Partnerships

As previously stated, the challenge of funding models for TA is heightened where organisations engage in RPO partnerships and should be considered carefully when engaging an RPO partner. RPO providers, AMS included, will have a variety of charging models that can be deployed to clients which will include management fees, transactional fees, hybrid pricing models (a combination of management and transactional) as well as fees that may be applied for gainshare mechanisms, advisory work, service expansions, etc. The TA funding model deployed within an organisation would need to support the fees due to the RPO partner, whether those fees would be paid directly by the business or by the TA function.



Conclusion

Funding for the hiring of talent may not be a critical issue for business, however the hiring of that talent certainly is. Effective talent acquisition functions require a funding model that allows them to flex and scale in order to meet business needs. Whilst TA leaders should be held to account over the cost-effectiveness of their function, they should not be expected to absorb an uncapped increase in hiring volumes of which they have no control.

In our experience, hybrid funding models often play out as the most comfortable route for many of our clients. Within such programmes, TA leaders retain a budget for, and control over, their Centre of Excellence programmes incorporating leadership costs, employer branding and technology for example, whilst funding for recruitment delivery is able to scale freely against demand with recharges to the business – the end recipients of the talent being hired.

The ideal funding model for any given business will also likely be dependent on their culture. Whatever model is decided upon by an organisation, strong partnering from finance teams is advised to ensure business alignment and the practicality of financial administration.



About the Author

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Jim Sykes leads Pharmaceutical & Life Sciences sector and our Professional Services sector for AMS. Jim has 20 years' experience in talent acquisition and holds significant international experience having supported clients and managed teams on a global basis. Jim holds a Bachelor's degree from Winchester University in the UK and served for almost a decade as a school governor in his local community. He has been with AMS for more than 10 years and in his time with the company has led a number of our largest client solutions including HP, GE and Santander before moving to a sector leadership role in 2014 and into his current role in 2017.

20
Years'
experience
in talent
acquisition

About AMS

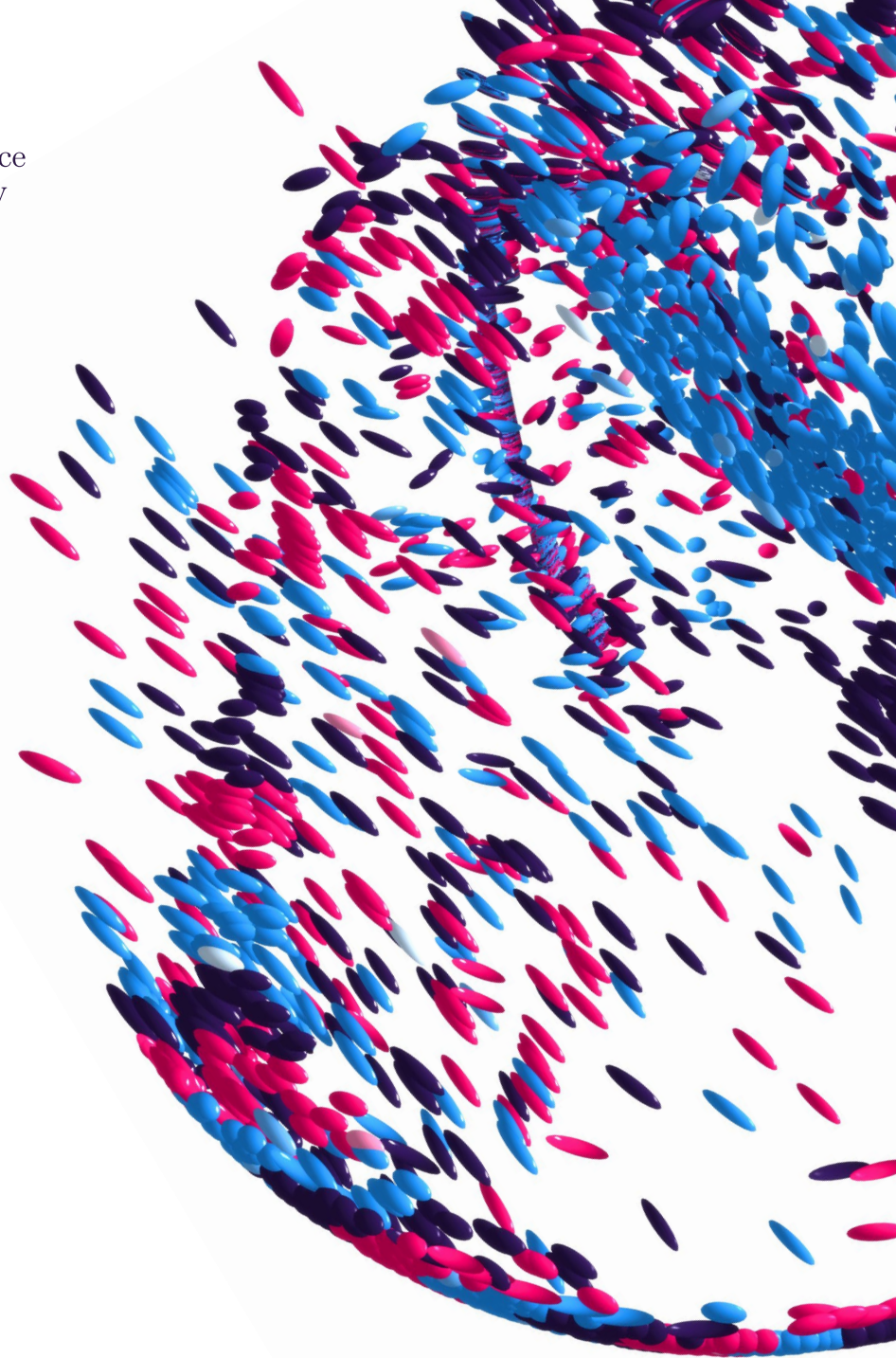
We are AMS. Formerly Alexander Mann Solutions, AMS is a global total workforce solutions firm founded in 1996. We enable organizations to thrive in an age of constant change by building, reshaping, and optimizing workforces. We do this through talent acquisition and contingent workforce management, internal mobility and skills development, and talent and technology advisory services. Our solutions are delivered by our 7,000+ experts who live our passionate, bold, and authentic values. The ultimate aim is to help clients around the world, including 100+ blue-chip companies, create workforces that are fluid, resilient, diverse, and differentiated. We call this True Workforce Dexterity—and we're here to help you achieve it.

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