

# Sourcing in Recruiting Strategy and ROI

with a focus on knowledge workers

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A Pleinert & Partner White Paper

**Dr. Helena Pleinert, Bernhard Kolb**

**Pleinert & Partner**  
*Trust Office for Human Capital*

## About the Second Edition

This White Paper was first published in 2015 and we make the following observations (based on our ongoing experience in the market):

- Meanwhile the use of active sourcing (mostly with internal resources of companies, but also with the support external providers) has increased substantially. Active sourcing is moving from being a new concept to being mainstream and a 'must have' in order to compete in most markets for human capital
- Pricing models for external providers have shifted towards time / cost based solutions and away from 'value' / success fee based arrangements to a much lesser degree, although the increased use of active sourcing, mostly using internal resources, means an overall shift towards time / cost based models (as internal resources are paid mainly on a time based basis, i.e. typically a monthly salary)
- Technological change continues at a fast pace. In particular developments in AI affect sourcing as they allow for example for more powerful searches in the internet.

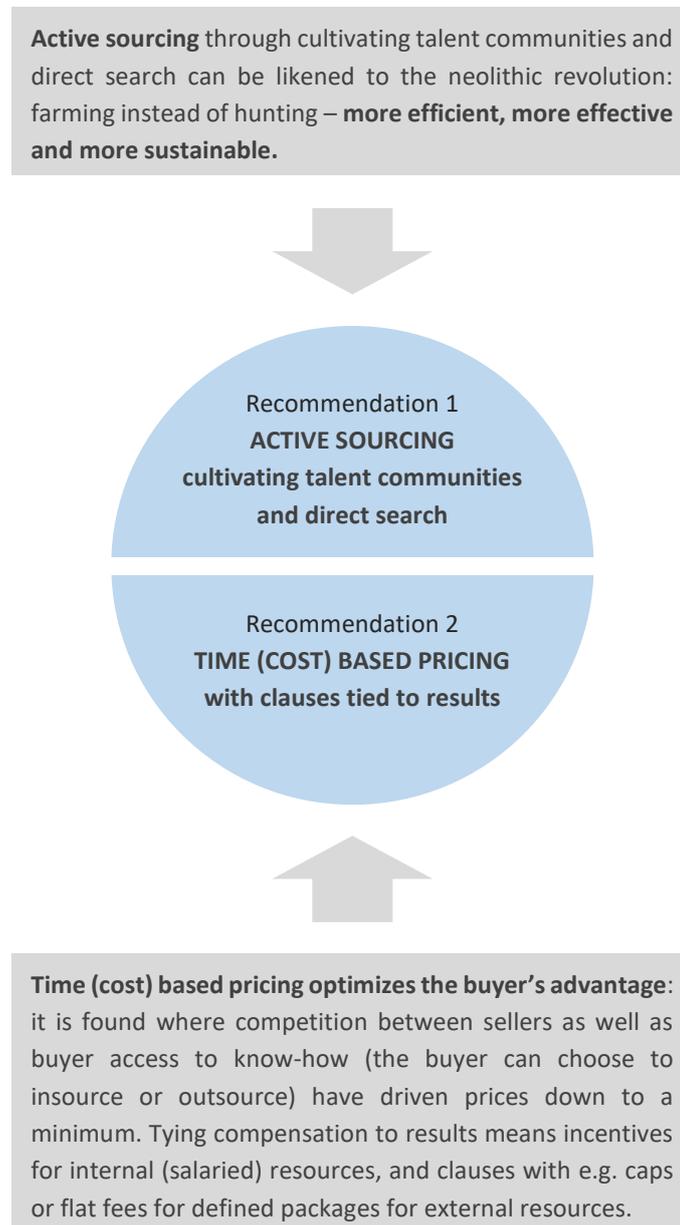
However the main conclusions of the first edition of this paper remain unchanged.

## Table of Contents

<p><i>Nutshell Summary</i></p> <p><i>Executive Summary</i></p> <p><i>Sourcing Definition</i></p> <p><i>Sourcing and Sales</i></p> <p><i>Sourcing Instruments &amp; Methods</i></p> <p style="padding-left: 20px;"><i>General Comments</i></p> <p style="padding-left: 20px;"><i>Team Network</i></p> <p style="padding-left: 20px;"><i>Advertising</i></p> <p style="padding-left: 20px;"><i>Direct Search</i></p> <p style="padding-left: 20px;"><i>Talent Communities</i></p> <p style="padding-left: 20px;"><i>Comparison</i></p> <p style="padding-left: 20px;"><i>Portfolio &amp; Pipeline</i></p> <p><i>Sourcing Resources &amp; Costs</i></p> <p style="padding-left: 20px;"><i>General Comments</i></p> <p style="padding-left: 20px;"><i>Pricing Models</i></p> <p style="padding-left: 20px;"><i>Comparison</i></p> <p style="padding-left: 20px;"><i>Calculation Example</i></p>	<p><i>Sourcing Risks</i></p> <p style="padding-left: 20px;"><i>General Comments</i></p> <p style="padding-left: 20px;"><i>Types of Risk</i></p> <p><i>Dangerous Myths Sourcing Interfaces</i></p> <p style="padding-left: 20px;"><i>General Comments</i></p> <p style="padding-left: 20px;"><i>Other Phases of Recruiting</i></p> <p style="padding-left: 20px;"><i>Employer Branding / Marketing</i></p> <p style="padding-left: 20px;"><i>ICT Systems</i></p> <p><i>Strategy: Recommendations</i></p> <p style="padding-left: 20px;"><i>General Comments</i></p> <p style="padding-left: 20px;"><i>Mix of Instruments</i></p> <p style="padding-left: 20px;"><i>Pricing Models</i></p> <p style="padding-left: 20px;"><i>Risk Management</i></p> <p style="padding-left: 20px;"><i>Quantitative Considerations</i></p> <p style="padding-left: 20px;"><i>Qualitative Considerations</i></p> <p><i>About the Authors</i></p>
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## Nutshell Summary

'In a nutshell', the two main recommendations concerning strategy and ROI optimization in sourcing in recruiting, with a focus on knowledge workers, presented in this paper can be summarized as represented as shown in Fig. 1 below.



**Fig. 1:** The two main recommendations presented in this paper – using active sourcing and paying for services on a time (cost) base, with clauses tying fees to results (especially when services are external).

## Executive Summary

Just like clients, employees are a target group that harbors expectations that an organization must understand and fulfill in order to attract and retain members of that group. **Just like for clients, there is fierce competition for employees.**

We define as 'sourcing' the portion of the recruiting process from the point where the prospective candidate first learns about the potential employment opportunity to the point at which the candidate becomes available for talks.

The main instruments of sourcing are: using the existing team's own network, advertising, direct search and cultivating talent communities. They can be combined into a sourcing portfolio. Sourcing can be applied to filling a single position, or to building a pipeline. Our general recommendations (see also the recommendation map in Fig. 4 on p. 17) are

- escalating from team network to advertising to direct search depending on the difficulty of sourcing for a given type of position
- cultivating talent communities i.e. building an actively managed pipeline for types of positions where new employees are recruited on a regular basis
- **using active sourcing (direct search, talent communities) for positions where the hiring market is competitive**

Like for many other services, the main source of cost are the human resources involved (internal or external) and the basic models are time (cost) based pricing (hourly or daily rates, and salaries for internal resources) and value based pricing (however it can be argued that the percentage-of-salary model commonly used in recruiting is not a true value based model as it is not derived from revenues or capital generated for the client, but rather from cost).

Time (cost) based pricing is characteristic of mature markets where competition between sellers has driven the prices down to a residual margin above costs, and where buyers are educated about the methodology needed (i.e. buyers can choose to insource or outsource).

Value based pricing is characteristic of immature markets or markets where results are not obtained through methodical and measurable application of a defined skill set but through other means (e.g. the personal network of an intermediary, built over years).

From a buyer's perspective, given that markets are in a process of maturation and that sourcing methodology including systematic market screening is available to buyers (who can choose to insource or outsource) we recommend (see also the recommendation map in Fig. 5 on p. 18):

- **time (cost) based pricing** (buyer's advantage, see also the calculation example on p. 12)
- for internal resources: clearly defining targets and incentives
- for external resources: tying fees (or part thereof) to milestones and end results

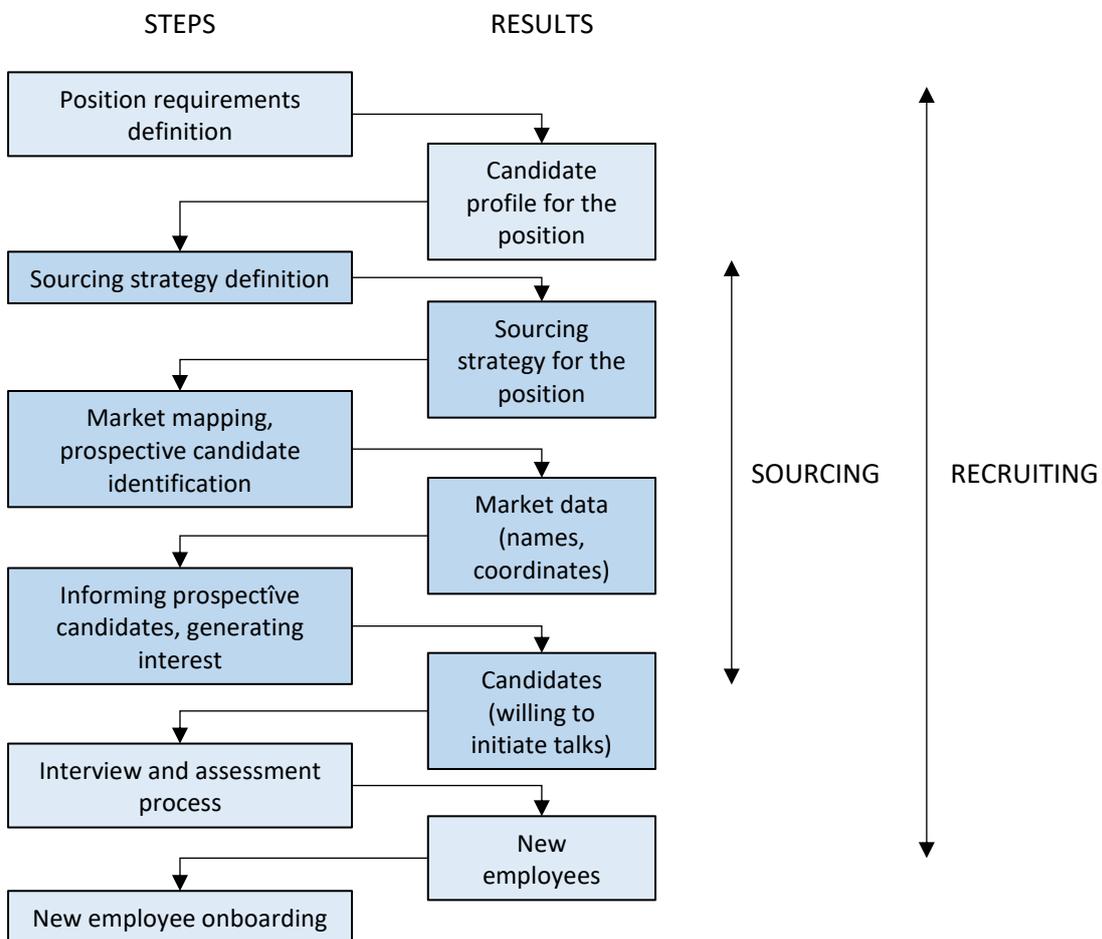
In addition to the selection of instruments (for maximum effectiveness) and of cost models (for maximum efficiency) risks such as reputational risk (through lack of control of how the organization's image is communicated) and risk of damage to competitiveness (when external providers do not provide exclusivity to the buyer) have to be taken into consideration.

Overall the formulation of a sourcing strategy that is optimized for an organization requires the consideration of quantitative factors that contribute to ROI as well as factors that may not be easily quantifiable but constitute elements of risk management or are fundamental strategic considerations such as 'knowledge is power'.

## Sourcing Definition

There is no general definition of how the sourcing portion of the recruiting process is delimited. For our purposes, we define sourcing as the process from the point where the prospective candidate first learns about the potential employment opportunity (for example through advertising or by being approached directly) to the point at which the prospective candidate becomes an actual candidate and is available to be interviewed (i.e. the candidate has been convinced that the opportunity is worth exploring).

The below diagram shows sourcing as the series of steps undertaken after the desired candidate profile has been defined: defining the sourcing strategy, scanning the market and approaching prospective candidates. Sourcing is followed by the interview and selection process.



**Fig. 2:** Sourcing within recruiting

## Sourcing and Sales

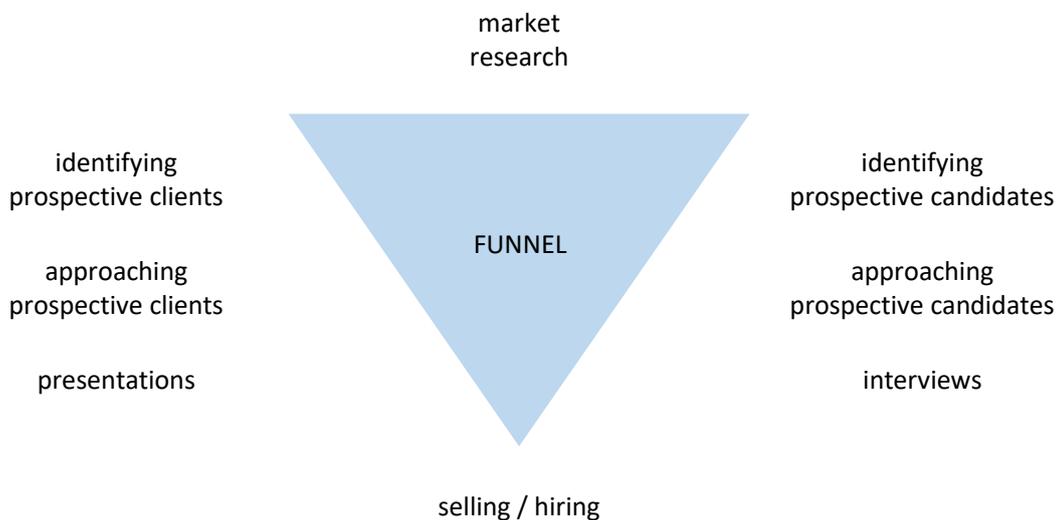
When comparing sales (acquiring clients), recruiting (acquiring employees) and sourcing in procurement (acquiring suppliers) we observe that:

- There is in general fierce competition for clients: the selling organization has to work hard to inform prospective clients of their offering, to generate interest and to convince them to select the selling organization as their partner of choice (and after that, to retain the client)
- There is in general fierce competition for employees: the hiring organization has to work hard to inform prospective employees, to generate interest and to convince them to select the hiring organization as their employer of choice (and after that, to retain the employee)
- In general suppliers compete fiercely among each other to inform prospective buying organizations, to generate interest and to convince them to select the supplier as their partner of choice (and after that, the suppliers has to work to retain the buying organization as their client)

I.e. while it is in general easy to find suppliers, finding clients and finding employees are similarly competitive processes where the selling / hiring organization is faced with

- the need to inform the prospective client / employee about the offering / opportunity
- the need to convince the prospective client / employee with arguments based on numbers and facts but also taking into consideration human factors (e.g. emotions)

For this reason it can be helpful to apply concepts taken from the field of sales, such as calling potential candidates and employees 'prospective candidates' or 'prospective employees', or viewing sourcing as part of a 'recruiting funnel' in analogy to a 'sales funnel'.



**Fig. 3:** Analogy between sales and recruiting, of which sourcing is an important part

## **Sourcing Instruments & Methods**

### **General Comments**

We classify the instruments of sourcing as

- 'active': the sourcing organization reaches out proactively to the prospective candidate; the sum of these instruments is called 'Active Sourcing'
- 'passive': the sourcing organization makes information about vacancies available, but leaves it to candidates to take the initiative and approach the sourcing organization

In the following sections we discuss the main instruments of sourcing: the sourcing organization's own existing team's network (active), advertising in various media (passive), direct search (active) and cultivating talent communities (active).

### **Team Network**

Leveraging the personal networks of the individuals who already are part of the organization may be the oldest form of sourcing workers. And it is an active tool – which is contrary to the perception that 'active sourcing' is a new method. Utilizing the personal network of the organization's current team (as well as sometimes past employees: Alumni) is based on the consideration that employees will know other professionals in their field of expertise, and that employees themselves are the most credible ambassadors of the organization.

### **Advertising**

Advertising, i.e. publishing advertisements for specific jobs, is a way of announcing 'a call for candidates' and as such a passive instrument based on a 'publish and wait' approach. Advertisements can be placed for instance in print media, on online job portals, in the job advertising sections of social media or on the platforms of public job centers. Advertising can also serve to support employer branding.

### **Direct Search**

Direct Search is an active instrument where the sourcing organization contacts prospective candidates proactively and seeks to convince them to enter into talks about a role in the organization. The individuals being approached are either already known through other activities or are identified using existing networks, through the internet, and through telephone research. Research conducted through networks yields names of individuals who can often be approached not through a cold call, but with a reference. However networks have a limited reach and do not cover the market in a methodical manner. If it is desired to optimize the pool from which candidates are sourced through a broad and systematic coverage of the market, internet and telephone research must be undertaken.

### **Talent Communities**

Cultivating talent communities aims to create a pool of potential candidates from which candidates can be sourced when needed. For example, this involves engaging individuals in the desired professional field online, e.g. in online groups but without directly approaching them about job opportunities. The relationships developed in this manner make it easier to recruit from among them at a later time and to obtain referrals and other market information from them.

## Comparison

Table 1 presents an overview of the main instruments of sourcing and a discussion of their strengths and weaknesses.

Instrument	Strengths	Weaknesses
<b>Team network</b> part of active sourcing	<ul style="list-style-type: none"> <li>▪ Highest credibility</li> <li>▪ Low financial investment</li> <li>▪ Low investment in time</li> <li>▪ Potential for employee empowerment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited reach (only the personal networks of team members)</li> <li>▪ No systematic mapping of the market</li> </ul>
<b>Advertising</b> passive instrument	<ul style="list-style-type: none"> <li>▪ Low initial investment in time: ‘publish and wait’</li> <li>▪ Depending on media, cost can be low (online advertising)</li> <li>▪ Synergies with employer branding</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited reach (only active job seekers)</li> <li>▪ No systematic mapping of the market</li> <li>▪ Risk of screening many non-suitable applications</li> </ul>
<b>Direct search</b> part of active sourcing	<ul style="list-style-type: none"> <li>▪ Maximum reach: systematic mapping of the market</li> <li>▪ Targeted and maximized pool of prospective candidates</li> <li>▪ Maximum information yield for the pipeline (future sourcing)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relatively high investment in resources: time in particular, cost depending on pricing models</li> </ul>
<b>Talent communities</b> part of active sourcing	<ul style="list-style-type: none"> <li>▪ Allows to base future recruiting on relationships (faster, more efficient)</li> <li>▪ Gain of ‘grassroots’ market intelligence</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relatively high investment in resources</li> <li>▪ Performance is difficult to measure, the most efficient use of resources is difficult to determine</li> </ul>

**Table 1:** Instruments of sourcing – strengths and weaknesses

## Portfolio & Pipeline

When defining a sourcing portfolio for a given position the appropriate sourcing instruments as well as the timing of their usage are decided on. When many similar positions have to be filled on a regular basis, a pipeline can be build: sourcing activities aim to fill current vacancies and to simultaneously prepare for future sourcing through the gathering of market intelligence and through initiating and cultivating relationships to future candidates. Establishing a pipeline makes future sourcing less resource intensive and faster.

**Remark – active pipeline vs. database:** It must be noted that a database in itself does not constitute a pipeline; a pipeline must be actively managed through cultivating talent communities, i.e. continuously promoting the organization’s image and cultivating relationships.

## Sourcing Resources & Costs

### General Comments

While sourcing also involves tools such as media platforms and ICT technology, its main resource is manpower and the costs of manpower are in general the predominant cost factor. For this reason this section focuses on the cost of manpower:

- Cost of internal manpower: salaries (incl. paid leave), benefits, administration, supporting infrastructure, etc.
- Cost of external manpower: fees, expenses

### Pricing models

Pricing models in services are often classified as value based or time (cost) based:

**Value based:** pricing the service in proportion to the value (revenue or capital) created for the client which may allow to set the price substantially higher than the seller's internal cost of delivering; for this reason, in general

- **sellers prefer value based pricing** (higher pricing is feasible: seller-side optimization)
- value based pricing is found in immature market (premium prices for a new offering are accepted) or markets where the cost of delivering a certain service is difficult to quantify (for example, when an intermediary uses a network built over years)
- purely value based pricing applies in general only to external resources; however there may be value based 'pricing' elements included in the compensation of internal resources (e.g. commissions calculated as a percentage of value created as a compensation component)

**Time (cost) based:** pricing the service at a residual margin above the cost of delivering (which in many services is mainly the cost of manpower); for this reason, in general

- **buyers prefer time (cost) based pricing** (lowest price: buyer-side optimization)
- time (cost) based pricing is found in mature markets where competition between sellers as well as increased buyer access to the know how involved have driven the prices down to a residual margin above the sellers' costs
- time (cost) based pricing applies to external resources charging a time based rate (in general daily or hourly) as well as, in an economic sense, to internal resources who are compensated primarily on a time base

Table 2 shows an outline of the development of the external recruiting services market where recruiting including the full range of sourcing instruments (in particular direct search) is offered, which is a relatively young market and currently in a process of maturation.

**Remark - 'value' based pricing:** in sourcing / recruiting value based pricing is usually calculated as a percentage of the annual salary of the new hire, i.e. it is not derived from a revenue stream or capital increase generated for the client, as in true value based models (e.g. an advisor generating leads for a business receives a percentage of the revenue generated) but rather it is derived from costs that the client incurs (the salary of the new hire). A possible justification is that for many roles their contribution to the organization's revenue is not easy to determine quantitatively and therefore the salary is used as a proxy. Nevertheless this means that the percentage-of-salary formula commonly used in recruiting cannot be seen as true value based pricing and we therefore designate this model as 'value' based in the following analysis.

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**A brief history of external recruiting fee models – a view in ‘generations’**

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Generations	Timeline
1 <sup>st</sup> Generation: executive search is introduced in the 1950s by consultants with a strategy consulting background, as a means to fill high level executive positions	1950s
2 <sup>nd</sup> Generation: due to the success of initial executive search activities, the application of executive search is extended to a much larger number of positions, including mid-level managerial and expert positions; many service providers enter the market	
3 <sup>rd</sup> Generation: the strong increase in executive search activities and numbers of providers leads to increased competition, and causes clients to re-evaluate the investment in fees, which due to the extension of executive search has become very substantial; these developments lead to a switch to using external recruitment services on a non-exclusive success-fee-only base (however pricing is still calculated as a percentage of salary)	
4 <sup>th</sup> Generation: as the market continues to be highly competitive and matures, there is a trend towards fees calculated on a time base (ideally with clauses tied to results) that are more advantageous for buyers	Approximate current stage: late 3 <sup>rd</sup> Generation / early 4 <sup>th</sup> Generation

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Remark – the processes that drive the transition from the 3<sup>rd</sup> Generation to the 4<sup>th</sup> Generation include:

- general market maturation through competition among sellers as well as cost and process transparency
  - shift from sourcing being based on an individual’s (or group’s) personal network to systematic market mapping and professional relationship management through cultivating talent communities; sourcing results are a function of skills and time invested; sourcing can be insourced or outsourced depending on an organization’s preferences.
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**Table 2:** A brief overview of the development of pricing models in external sourcing / recruiting

## Comparison

Many combinations and variations of value based and time (cost) based models exist, for example involving price caps, flat fees and guarantee clauses. In the following table we discuss the advantages and disadvantages as seen from the buyer's perspective for basic value and time (cost) based models and for flat fee variations of both.

<b>Model</b>	<b>Type</b>	<b>Advantages Buyer perspective</b>	<b>Disadvantages Buyer perspective</b>
<b>TIME (COST) BASED</b>	Basic: each time unit is charged	<ul style="list-style-type: none"> <li>▪ Cost advantage relative to 'value' based models</li> <li>▪ Flexible, the buyer can modify requirements at any time</li> <li>▪ Pricing can be strongly degressive with volume</li> </ul>	<ul style="list-style-type: none"> <li>▪ It may be difficult to estimate costs in advance</li> </ul>
	Variation: flat fee derived from a time estimate, estimated in advance	<ul style="list-style-type: none"> <li>▪ Cost advantage relative to 'value' based models</li> <li>▪ Results are guaranteed for a defined amount of investment</li> <li>▪ Pricing can be strongly degressive with volume</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requirements have to be specified in detail in advance</li> </ul>
<b>'VALUE' BASED</b>	Basic: percentage of the actual salary of the new hire	<ul style="list-style-type: none"> <li>▪ Results are guaranteed for an approximately defined amount of investment</li> <li>▪ The high level of pricing makes it economically feasible for sellers to offer services with payment purely (or largely) depending on success, even without exclusivity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cost disadvantage relative to time (cost) based models</li> <li>▪ Potential issues with quality control when assignments are non-exclusive</li> </ul>
	Variation: flat fee derived from a salary estimate, estimated in advance	<p><i>Same as in the basic 'value' based model, and</i></p> <ul style="list-style-type: none"> <li>▪ The seller is not incentivized to present high salary candidates</li> </ul>	<p><i>Same as in the basic 'value' based model</i></p>

**Table 3:** Comparison of the basic pricing models and of flat fee variations of both seen from a buyer's perspective

### Calculation Example

The following example quantifies the cost of sourcing using pricing assumptions within a typical range for the Swiss market. The estimate of the time required are based on the authors' decades-long experience.

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**EXAMPLE – sourcing to successfully fill a position with a salary of CHF 125'000**

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**'VALUE' BASED** – external resources

With a fee of 18 – 24% of the salary

**Cost**

**CHF 22'500 – 30'000**

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**TIME (COST) BASED** – external resources

With an estimate of 20 hours of senior level consultant work, 40 hours of junior level consultant work, and with CHF 300 / h for senior level consultants, CHF 125 / h for junior level consultants

**Cost**

**CHF 11'000**

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**ROI COMPARISON:** time (cost) based ROI is superior by a factor of **2 -2.7**

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**Table 4:** Comparison of the ROI of a 'value' based and a time (cost) based fee model, using price ranges typical for the Swiss market and experience based estimates of time required

**Remark 1:** the comparison of time (cost) based vs. 'value' based pricing applies equally to 'value' based fees for exclusive mandates AND to services on a commission-on-success base (which are also priced on a 'value' base)

**Remark 2:** the price estimates used here for time (cost) based fees are based on the assumption of the external assignment not being part of a larger package of hours; in case the assignment is part of such a package time (cost) based pricing can be even more advantageous.

**Remark 3:** if internal resources are used, the ROI comparison will be even more advantageous in favor of time (cost) based pricing.

## Sourcing Risks

### General Comments

Sourcing the right people is one of the most important factors for optimizing an organization's performance, and it is also an activity that involves proactive outside communications and therefore can impact the organization's image. For these reasons risk management in sourcing is critically important.

### Types of Risk

The following table presents an overview of types of risk and their main causes.

Risk	Causes
<b>Suboptimal effectiveness</b> (e.g. concerning number of qualified candidates, speed of obtaining candidatures)	<ul style="list-style-type: none"><li>▪ Incorrect market mapping: targeting only part of the target segments, or an incorrect selection of segments</li><li>▪ Suboptimal selection of mix of sourcing instruments for the type of position to be filled</li><li>▪ Lack of actively managed pipeline</li><li>▪ Suboptimal process definition</li></ul>
<b>Suboptimal efficiency</b> (time and financial investment)	<ul style="list-style-type: none"><li>▪ Investing more financial means than needed for a defined result: using suboptimal pricing models</li><li>▪ Paying for services where there is suboptimal transfer of information gained (e.g. seller uses the information for their own database instead of providing it for the buyer's database)</li><li>▪ Investing more time than necessary: lack of pipeline, wrong selection of instruments, incorrect incentives</li></ul>
<b>Damage to reputation</b>	<ul style="list-style-type: none"><li>▪ Lack of direction or control of the resources who convey the image of the organization to outside parties</li><li>▪ Suboptimal incentives of the resources involved (e.g. incentives encourage one-sidedly short term considerations)</li></ul>
<b>Damage to competitiveness</b>	<ul style="list-style-type: none"><li>▪ Arrangements with external partners who do not provide exclusivity to the sourcing / hiring organization within their market: results paid for by the organization may come to profit competitors as well</li></ul>

**Table 5:** Sourcing risks and their main causes

## Dangerous Myths

Unfortunately myths about sourcing abound in the market. They can lead to costly decisions. In the following overview we address some common misconceptions.

<b>MYTH</b>	<b>Proactive direct search is best done externally</b>
<b>FACTS</b>	<p><b>It is more efficient to do (most of) proactive direct search with internal resources or in-house equivalent external resources</b> (pricing level similar to in-house resources due to volume discount; individuals representing themselves as representatives of the sourcing / hiring organization):</p> <ul style="list-style-type: none"><li>▪ Approaching candidates in the name of the sourcing organization has a higher likelihood to generate a positive response</li><li>▪ It allows optimal gain of market intelligence as a by-product and as a basis for even more efficient future sourcing</li><li>▪ It allows for more control (less risk, e.g. reputational)</li><li>▪ It is substantially more cost-efficient</li></ul>
<b>MYTH</b>	<b>Proactive direct search done internally is not efficient for SME organizations</b>
<b>FACTS</b>	<p><b>To the contrary, SME organizations may profit disproportionately:</b></p> <ul style="list-style-type: none"><li>▪ They are naturally at a disadvantage against the employer branding of large organizations: this disadvantage can be compensated by one-on-one communication while cultivating talent communities and in direct search</li><li>▪ The cost advantages of internal or equivalently priced external resources (volume discount) are even more relevant for SME organizations than for large organizations</li></ul>
<b>MYTH</b>	<b>Working with more external providers will result in more candidates</b>
<b>FACTS</b>	<p><b>An organization with in-house or in-house equivalent external sourcing capacity and an existing active pipeline does not need to turn to external consultants</b> (whether one or many): once the organization has mapped the market methodically and has built a pipeline, it is unlikely that (one or many) external providers can provide many more additional candidates.</p>
<b>MYTH</b>	<b>Working with several external providers on a non-exclusive basis will result in faster delivery of more candidate CVs due to competition between the providers</b>
<b>FACTS</b>	<p><b>Working on a non-exclusive basis will result in the providers presenting the best candidates to the client's competitors as well</b>, thereby reducing the likelihood that those candidates can be convinced to choose the client as their new employer.</p>

<b>MYTH</b>	<b>Prospective candidates will agree to meet a prospective employer because the intermediary who approaches them is someone they know personally</b>
<b>FACTS</b>	<b>The best likelihood for a positive reaction by a prospective candidate is given when they are approached directly by representatives of the hiring / sourcing organization.</b> This form of contacting a prospective candidate has the highest credibility. In addition, many candidates in professions where the market is highly competitive are contacted by recruitment agencies frequently (and frequently aggressively) and are wary of such calls.
<b>MYTH</b>	<b>The database of an external specialized recruitment provider is much larger and therefore more useful for sourcing than an internal database could be.</b>
<b>FACTS</b>	<b>An internal database is tailored to the organization’s needs and allows to gather market intelligence for future sourcing; it also supports the cultivating of talent communities; moreover, it is not accessible to competitors.</b> An external database may be larger, but it is not custom built. Many large databases are also not efficiently kept up to date (the larger, the less this is feasible in an economically acceptable manner).
<b>MYTH</b>	<b>Working with external providers on a commission-on-success base is cost efficient.</b>
<b>FACTS</b>	<b>Working with external providers on a commission-on-success base on a regular basis is highly cost inefficient relative to time (cost) based models</b> – see the section Calculation Example.
<b>MYTH</b>	<b>Compensating external providers on a time (cost) base does not provide optimal incentives for them to deliver.</b>
<b>FACTS</b>	<b>The majority of service providers (in various types of services) are paid on a time (cost) base and are motivated to perform as they compete against each other, hope for continued business and wish to safeguard their reputations. It is however desirable to define price caps or flat fees (priced at a time estimate) to tie fees to results.</b> Indeed, trends towards time based models with additional clauses such as caps or flat fees can be observed in a number of fields where time based fees without additional clauses have been the norm (e.g. management consulting).

**Table 6:** Various myths about sourcing that can be damaging to sourcing / hiring organizations

## **Sourcing Interfaces**

### **General Comments**

As shown in the section Sourcing Definition, sourcing has interfaces with other phases of the recruiting process that occur both prior to the sourcing as well as following it. As it contributes to communicating the organization's desired image to the outside world it is also closely connected to employer branding and general marketing.

### **Other Phases of Recruiting**

The two interfaces of sourcing to other parts of the recruiting process are between the requirements definition and sourcing, and between sourcing and interviewing. It is evident that information should flow optimally from requirement definition to sourcing and from sourcing to interviewing, but it must also be ensured that relevant information gained at a later stage is fed back into the earlier phases as appropriate, e.g. relevant market intelligence gained in the interviewing process should be made available to those responsible for sourcing.

### **Employer Branding / Marketing**

Sourcing is supported by employer branding activities which again are not independent of general marketing activities. While general marketing activities target customers and the public in general and employer branding activities target groups of potential employees there can be a large overlap between those audiences and between the media used to address them. It is therefore important to ensure synchronization of the image of the organization as presented through employer branding and through sourcing activities, as well as streamlining of the message communicated in those activities and in general marketing.

### **ICT Systems**

The ICT tools supporting sourcing are telecommunication and software tools (and platforms enabled by them, such as social media) that can roughly be divided into three categories:

- Tools that support the search for market information and candidates in the internet, from simple search tools to AI powered tools
- Tools that support communication between the sourcing organization and prospective candidates and influencers of prospective candidates
- Tools that support the sourcing organization in the internal handling of data gained when researching prospective candidates and when communicating with them: databases and in particular recruiting / sourcing modules of HR software suites

## Strategy: Recommendations

### General Comments

The basic questions when formulating a sourcing strategy are:

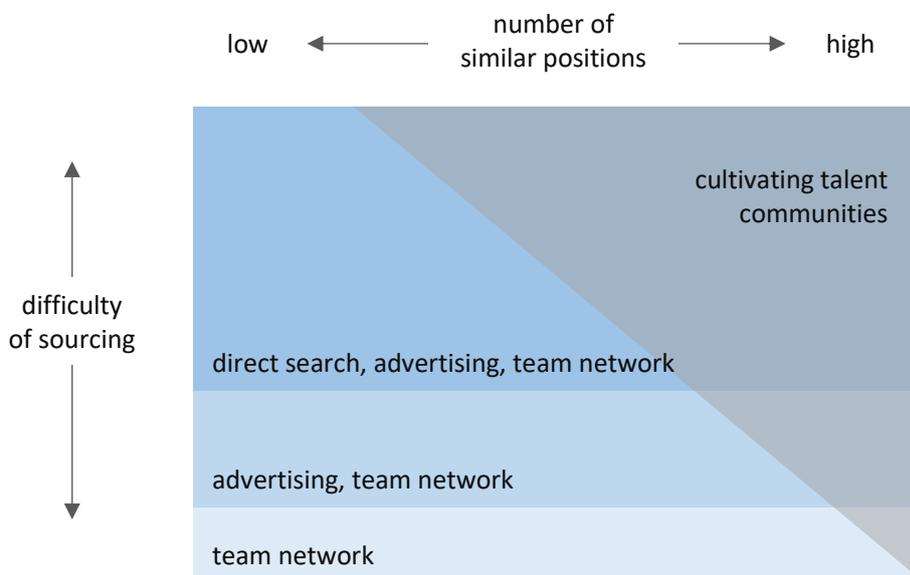
- For which type of position is which mix of sourcing instruments optimal?
- For which type of position is an actively managed pipeline required?
- Which pricing models are optimal for sourcing activities for each type of position?
- Are processes and interfaces optimized?

We arrive at the general recommendations discussed in this section.

### Mix of Instruments

For the mix of sourcing instruments, a map of recommendations is represented in Fig. 4 and can be summarized as follows:

- Team network: always apply (highest credibility, employee empowerment, low cost, however limited reach)
- Advertising: apply in addition when the team network does not yield enough candidates (fast implementation, however reaching only individuals who are actively searching)
- Direct search: apply in addition when the team network and advertising do not yield enough candidates (systematic mapping and scanning of the market, but resource intensive)
- Talent Communities: should be cultivated as soon as the number of similar positions to fill is large enough, and the difficulty of filling them is high enough to gain higher sourcing performance and better cost efficiency through an actively cultivated pipeline.



**Fig. 4:** Map of recommendations for the mix of sourcing instruments

Many knowledge worker positions as well as other positions are located in the top part of the map, where direct search is necessary for best results. If the organization is filling these types of positions on a regular basis cultivating talent communities is also recommended.

**Remark:** the introduction of active sourcing, i.e. working with talent communities and conducting direct search as essential parts of an organization's sourcing portfolio can be compared to a shift from hunting to farming: more efficient, more effective and more sustainable.

### Pricing Models

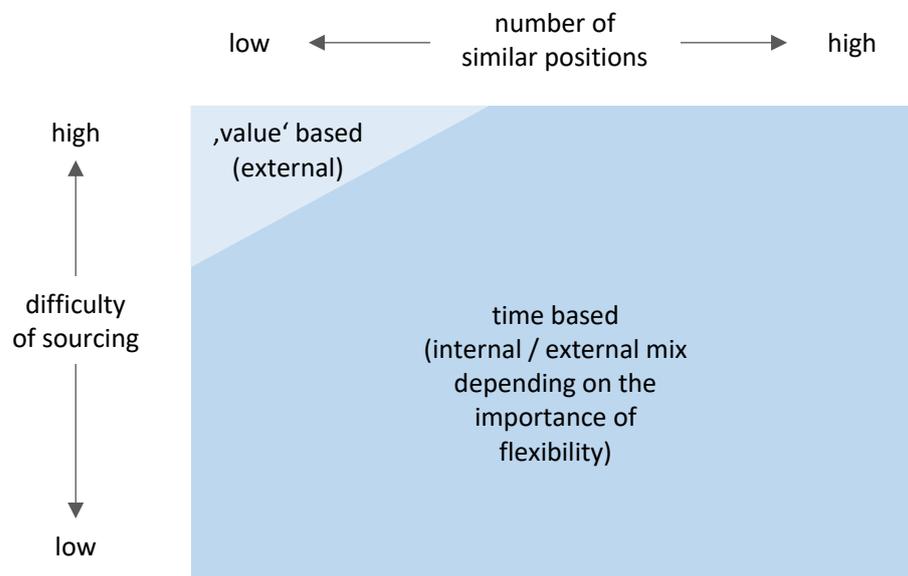
For the selection of primary pricing models a map of recommendations from the buyer's perspective is represented in Fig. 5 and can be summarized as follows:

**'Value' based** (percentage of salary): is recommended when both the level of difficulty of sourcing is high and the number of positions to fill (at closely the same time) is low to very low, and therefore the cost of manpower would not be more advantageous for the buyer than a 'value' based price, and investment in a pipeline would not be of interest due to the low number of positions.

**Time (cost) based:** is more cost-efficient in the vast majority of cases; however it is recommended to tie it to results where possible - for internal resources through a variable compensation component, and for external resources through arrangements such as price caps or flat fees (based on required time estimated in advance) where delivery is guaranteed.

Incentive mechanisms should be carefully evaluated, and should in general be balanced between rewarding short-term and long term orientation.

The ideal mix of internal and external resources will depend among other on the need for flexibility in capacity; in case external resources are utilized, they should in general represent themselves as representatives of the sourcing / hiring organization (higher credibility).



**Fig. 5:** Map of recommendations for the selection of pricing models

## **Risk Management**

The following are essential measures that minimize risk, and at the same time optimize effectiveness and efficiency:

- Thorough market mapping avoids missing to target qualified candidates through overlooking or incorrect definition of target segments.
- An actively managed pipeline (for types of profiles that are regularly needed) optimizes the speed of sourcing and strengthens market intelligence gathering, incl. 'grass roots' intelligence.
- Careful selection of pricing and delivery models avoids unnecessary costs, and ensures that the buyers profits from the entire results (including market intelligence and new relationships to facilitate future sourcing).
- Careful selection of incentives avoids lack of productivity or rewarding actions that are either one-sidedly too short-term or too long-term oriented
- Ensuring clear communication and thorough control of the image to be projected in the market by the resources involved avoids reputational risks
- Careful definition of professional arrangements such as exclusivity ensures that within their market, sellers provide candidates and market intelligence to the buyer exclusively

## **Quantitative Considerations**

Some simple ratios can be applied to measure sourcing performance, such as

- Candidates with credentials conforming to the requirements and willing to enter into talks sourced per units of money invested
- Candidates with credentials conforming to the requirements and willing to enter into talks sourced per units of time invested
- Average time to source X number of candidates with credentials conforming to the requirements and willing to enter into talks

However, while large differences between different approaches (e.g. as shown in the section Calculation Example) can easily be determined by those measures and can be used as decision support for overall sourcing strategy decisions, a precise interpretation, for instance with the aim of fine tuning sourcing processes is much more difficult and hindered by the differences in markets for different positions, and constant dynamic change in those markets.

## **Qualitative Considerations**

Strategic decisions can be based on additional considerations that are not easily quantifiable but a matter of philosophy and priorities set by management, such as for example preferences between insourcing and outsourcing or on-site and off-site execution which depend among other on an organization's general philosophy.

Strategic qualitative considerations can also include prioritizing principles such as: 'knowledge is power' – active sourcing including cultivating talent communities can be seen as not only delivering sourcing and recruiting power and speed but also as contributing to not being taken by surprise by events in the market.

## About the Authors

**Dr. Helena Pleinert:** CEO & Partner at Pleinert & Partner, Professor at UBS Business School, extensive experience in human capital management and organizational development, particular focus areas in leadership training & coaching and in the design and implementation of active sourcing & pipelining models; previous professional experience in asset management, including several years in quantitative analysis, and in research & high tech. PhD in Technical Sciences from the Swiss Federal Institute of Technology, Masters in Physics Engineering, Program for Executive Development at the IMD in Lausanne.

**Bernhard Kolb:** Non-executive Partner and Legal Counsel at Pleinert & Partner, extensive experience in HR consulting with a focus on HR strategy, HR processes and legal aspects; previous international experience as Director of Human Resources in global large and mid-sized companies, among other in the telecom and IT industries. Prior experience as Head of Corporate Services and Corporate Lawyer with a focus on Mergers & Acquisitions (HR Due Diligence). Master Degree in law (University of Berne) and admitted to the Bar of Berne; certificates on European Business Law (University of St. Gallen) and best-practice international Human Resources (University of Berne)

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Pleinert & Partner

[www.pleinertpartner.com](http://www.pleinertpartner.com)

Zeltweg 44

CH-8032 Zurich, Switzerland

+41 44 212 41 45

[zurich@pleinertpartner.com](mailto:zurich@pleinertpartner.com)

Bertel Jungin aukio 5

FIN-02600 Espoo, Finland

+358 500 647 615

[helsinki@pleinertpartner.com](mailto:helsinki@pleinertpartner.com)