

SPOTLIGHT

The Future of Recruiting Consulting: Recession Has Forced Leaner Operations, Innovations in Hiring Process

The lengthiest economic downturn since the Great Depression has eliminated millions of jobs, many of which may not return to the labor force for a variety of reasons—chief among them being a lack of demand, technological advances that will replace the actual duties connected to those former jobs, or increased productivity by active workers to supplant the loss.

We are headed for what many economists have dubbed a “jobless recovery,” and recent federal data echoes that sentiment; as of September 2009, the U.S. labor force had 223,000 fewer jobs than it did in August 1999. Some are calling it a “lost decade” for job growth.

Recruiting consultants and staffing agencies, meanwhile, are not only grappling with the shortage of job opportunities to match with their clients, but are also keeping a watchful eye on the future of their industry. While the job market has shown some signs of life in the past few months, many experts agree that it will be a lengthy climb out of the recession, and some in the recruiting business may be forced to alter or abandon their operations, or perhaps transfer their skills elsewhere in the labor force.

Employers have clearly directed fewer financial resources to recruiting during these difficult economic times. A March 2009 SHRM poll found that 56% of respondents cut their budgets for recruitment-related advertising, travel and reliance on paid recruiters during the previous six months. A separate poll in October 2008 showed that 53% of companies have increased their use of social networking sites as a complement to recruiting activities, because online avenues like Facebook and LinkedIn are “less expensive than other methods of screening/recruiting applicants.”

The median cost-per-hire for all workers was \$1,125 in 2008, according to the SHRM 2009 Human Capital Benchmarking Study. That represents a decline of more than 38% from \$1,820 in 2007, indicating that many organizations entered 2008—on the heels

of the recession’s start in December 2007—by not ramping up recruiting staffing costs and by spending less money on signing bonuses, relocation assistance and other expenses related to recruiting.

SHRM’s Leading Indicators of National Employment (LINE) report shows that recruiting top talent has not been a roadblock for employers for quite some time. June 2008 was the last month when more members of the manufacturing sector reported increased difficulty with recruiting, as opposed to those who had less difficulty. In every month since December 2008, the manufacturing sector has produced single-digit response levels for companies having increased recruiting difficulty (as low as 1.8% in February 2009). In the service sector, September 2008 was the last month that more companies reported having increased difficulty with recruiting in a given month. That sector has recorded single-digit response totals since October 2008 for companies that reported increased difficulty with recruiting (as low as 1.7% in March 2009).

Did you know?

Only 3.1% of manufacturers and 3.7% of service-sector companies said they had increased difficulty with recruiting in August 2009.

SHRM Leading Indicators of National Employment (LINE)

Cutbacks connected to staffing and recruiting have occurred domestically and abroad. Internet giant Google laid off 100 internal recruiters at the start of 2009. Several international staffing consulting companies have fallen on hard times as of late, including Swiss-based Adecco, which saw revenues plummet by 31% in the second quarter of 2009, and USG People, which operates in 12 European countries and suffered a 31% decline in revenue during the same timeframe.

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— **Michael Garnes**
Vice Chairman,
National Association of
Executive Recruiters

Changes coming for structure and style of the recruiting industry

All of this does not spell an end to the recruiting consulting business, but many recruiters and staffing experts say it represents a watershed moment for the industry. Faced with a prolonged lull in hiring and fewer requests for service from companies, many in the industry are using the downtime to restructure their operations and strengthen their relationships with existing clients.

“Obviously, the job market is not strong,” says Kay Calivas, managing director of Baltimore-based recruiting consultant Stephen James Associates. “The one thing that always holds true, though, is there will always be clients that work with search firms to find specific top-talent positions. There maybe be fewer clients, but one thing that hasn’t changed is the relationships we have with our clients, and how we help them figure out what the ‘new normal’ is for the job market. Unfortunately, we still don’t know what the ‘new normal’ looks like right now.”

Meanwhile, jobs continue to disappear, albeit at a slower pace in the latter half of 2009 compared with the first few months of the year. And as long as the labor market forecast remains cloudy, many HR professionals and other staffing experts are either holding steady or remaining non-committal about their intentions—59% of companies will maintain staffing levels for the fourth quarter of 2009, and another 7% were unsure of their hiring plans, according to SHRM’s Labor Market Outlook survey.

That trepidation on the part of the private sector has spilled over to staffing and recruiting consultants, who are also trying to get a handle on when an economic recovery may arrive. Ned Walton, practice director for Stephen James Associates’ banking and financial services group, says that with the limited amount of job searches that are going on right now, the firm has devoted much of its time to finding new accounts and bolstering its relationships with existing clients.

“The mood around our firm right now is one of cautious optimism,” Walton says. “We saw an uptick in activity in July and August, but given what has gone on in the last 12 to 15 months, we don’t know if it’s a unique flurry of activity or if it’s truly sustainable.”

As recruiting and staffing consultants have felt the pinch of the recession, so have the internal HR departments and hiring professionals at their client companies. HR professionals with recruiting expertise have been, in many cases, tasked with more responsibility or have been forced to cut their own staff as a means of controlling costs.

Did you know?

18% of HR departments planned to hire professionals with recruiting expertise in 2009, down from 29% in 2008.

SHRM 2009 Human Capital Benchmarking Database

The downturn has subsequently forced many employers to change their approach to recruiting, and it remains to be seen if that’s a benefit or detriment to outside consultants, says Mark Morshiemer, president of Washington, D.C.-based AdamsGrayson Accounting and Finance Professionals.

“Clients that have resources in-house are really working those resources to the maximum. They’ve more or less become the new competitor on the horizon for us. They’ve always been there, but it’s more intense now. If they can rise to the moment and adapt, they’ll have better recruiting skills in-house. For us, that means maybe we lose some clients, because they become not as reliant on outside companies.

“At the same time, they’re not hiring people every week, even when times are good. It’s possible in the long term that things can settle back to where they were a few years ago, and there will still be strong demand for our services.”

Demand may return eventually, but Michael Garnes says there may not be as many players involved in recruiting when the economy starts to rebound. Garnes is president of St. Augustine, Fla.-based Next Level Executive Search, which specializes in placements in the sports industry. He says the next several months will prove “very difficult” for some recruiters, whether they’re large operations or boutique firms.

“Companies are looking through a microscope right now,” says Garnes, vice chairman of the National Association of Executive Recruiters. “They’re looking at several different ways they can fill their positions before they call a recruiter. It’s a tough business at the moment. But like any other business or industry, this will weed out the less-committed and the less-talented members, much like what happened with the real estate industry after the housing boom.”

Despite hard times, recruiters see promise in some job sectors

Hiring is active in some pockets of the labor force at the moment, but most companies are looking for workers on a temporary or contractual basis, says Rob Parker, managing director of the Southern California division of The Mergis Group, a recruiting consultant that operates in 20 states and the District of Columbia.

Parker says demand for professionals with financial services skills has started to pick back up in recent months. Consequently, Mergis recruiters are now channeling more of their marketing efforts toward companies that need those workers. The downturn has also placed a tremendous amount

of talent on the street looking for work, Parker says, and that has made it much easier to find matches for open positions.

“In the long term, I’m probably more bullish than many others. There’s been a shortage of talent available in accounting and other fields for quite some time. There are fewer people enrolling in those studies in college. We’ll see demand increase simply because there are less people doing it.

“Still, this is not going to be a quick recovery. The market for recruiting businesses will never look the same after this. It’ll never be like it was during the peak period of a few years ago, when there weren’t enough bodies to go around.”

Did you know?

Only 16% of companies expected to hire additional HR staff in 2009, down from 36% in 2008.

SHRM 2009 Human Capital Benchmarking Database

Aside from the financial services sector, some recruiters say that demand has also surged for health care jobs and technology positions. Recent federal research backs up those claims: the occupations that are expected to grow the fastest from 2006 to 2016 are 1) network systems and data communications analysts, 2) personal home care aides, 3) home health aides, and 4) computer software engineers, according to the U.S. Bureau of Labor Statistics.

Where that leaves recruiters, particularly those who do not specialize in matching workers in those fields, remains to be seen. The HR profession in general has taken a big hit during the economic downturn, says Calivas, who specializes in HR placement in her role at Stephen James Associates.

Even when the tides start turning, she says, the new HR positions will start off as temporary assignments. It will

mean continued scrutiny of operations and careful planning for the consulting work she provides.

“When things do get better, we have to have enough expertise on board to serve our clients,” she says. “We need to have a core group of recruiters in place and make sure that we haven’t gone completely bare-bones. We’re like any other company. We’re feeling the same pains, but we’re also trying to maintain a certain level of quality.”

Finding new skills will be crucial for consultants and HR professionals

In the interim, HR professionals and consultants alike should sharpen their qualifications through alternative careers or educational opportunities, says Donna Friedman, CEO of Tower Consultants, a recruiting group that caters specifically to HR staffing.

“I would suggest those generalists who are out of work should take some technical courses and work on their financial acumen,” Friedman says. “Many HR generalists don’t have the deep financial knowledge to go before a CEO. You have to remember, your skills in HR can be used elsewhere if you’re out of work. They can be used at a nonprofit to recruit volunteers, for example. You should use this time to hone your skills in different settings. In the future, there are going to be less of us. So many recruiting consultants will not make it out of this recession.”

Sources

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SHRM Labor Market Outlook Survey Methodology

A sample of HR professionals was randomly selected from SHRM’s membership database, which included approximately 250,000 individual members at the time the survey was conducted. Only members who had not participated in a SHRM survey or poll in the last six months were included in the sampling frame. Members who were students, located internationally or had no e-mail address on file were excluded from the sampling frame. In August 2009, an e-mail that included a hyperlink to the SHRM Labor Market Outlook Survey was sent to 3,000 randomly selected SHRM members. Of these, 2,354 e-mails were successfully delivered to respondents, and 402 HR professionals responded, yielding a response rate of 17%. The survey was accessible for a period of two weeks, and three e-mail reminders were sent to non-respondents in an effort to increase response rates.

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