

## Connections Newsletter

### **Recruiting the Future: Kenexa and StraightSource Join Forces to Change the Talent Wars**

*An interview with Rudy Karsan (Chairman & CEO Kenexa), Alan Cayton (former CEO of StraightSource, now part of the Kenexa leadership team), Brandt Hamby (former EVP of Marketing, now part of the Kenexa leadership team).*

Knowing that two of the market's leaders had come together, *HROA Connections* wanted to sit down with Rudy, Alan, and Brandt for a conversation about the future of recruitment process outsourcing, their companies, and their views on the future of global recruiting. In the course of our discussion, we began to see part of the future of recruitment process improvement: moving beyond talent acquisition into talent management. The new company may represent a piece of the future and hint at where all companies should focus. As the war for talent continues, companies will need to focus as much on holding onto and nurturing the great people they've already got as on finding them in the first place.

A lot of companies and pundits have held forth on the importance of retention. Few, though, have provided any real, practical insights on *how* to do it. The combined company has the tools, with StraightSource's excellence in talent identification and Kenexa's scientifically-based insights into talent management and retention. The new Kenexa will clearly be a company to watch.

Rudy, Alan, and Brandt also demonstrated some of the attributes that have made the two companies separately – and will help them now joined as one – succeed. They clearly practice what they preach, with careful attention to the needs and aspirations of their people and close management of the nitty-gritty details that underpin success in complex transactions. Kenexa's attention to its own talent management with the StraightSource merger provides some insights to its ability to manage on behalf of its clients.

#### **HC: What attracted the two companies to each other?**

**Alan Cayton:** This was a truly a natural marriage. For us at StraightSource, it was a very easy decision. StraightSource over its life had become a recruiting service delivery machine. We developed best practices and high customer satisfaction, but we remained a small company. Most of our resources were dedicated to service delivery. We did not build a lot of infrastructure. While beneficial to our clients during our rise to this point, it ultimately restrained our ability to grow endlessly only through organic means.

We had to make a decision either to build the infrastructure or acquire it ourselves and become the aggregator and collector or find the right partner. Kenexa came to the top early. Throughout due diligence things became clear, making this ultimately an easy decision. We found the two companies had complimentary services and products that meshed well with each other. Once we got into the details, not a lot of maneuvering was required.

**Rudy Karsan:** Adding to what Alan said, we found in Kenexa a tremendous fit in culture. People on both sides think of business the same way. Our Dallas folks [formerly StraightSource] are really, really talented. I remember the first meeting we had with the StraightSource leadership. Our CFO, Don Volk, was with me and we felt coming out of the initial meeting we could really work together. As we got know each other more it became clear we had a good fit.

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### **HC: If I'm a current StraightSource client what does this mean for me?**

**Alan Cayton:** This merger means gaining access to a more robust suite of products and services for our current clients. They'll get additional infrastructure and a complete employment process outsourcing suite of services, where StraightSource was previously just focused on RPO.

**Brandt Hamby:** We now have solutions that touch on talent management and talent acquisition.

In talent acquisition we've gained skill- and behavioral-based assessments and a complete suite of technology solutions through our talent management platform, Kenexa Recruiter. These tools, founded on science, will bring a greater level of insight to our clients during the acquisition stage of recruiting, which will lead to greater assurance and ultimately greater retention.

We also now have access to a greater number of people with deep expertise in their fields, including forty-plus industrial psychologists and former HR leaders, the VPs and SVPs of multiple organizations. All of this expertise will be put to work to drive better business processes and real world applications for our clients.

### **HC: If I'm a current Kenexa client how can I be sure my service won't decline as management pays attention to the merger?**

**Rudy Karsan:** We've had a history of acquisitions. We did five in 2006 alone. Our customer renewal rates are above 90% and have been there for over half a decade. The way we do transactions like this one is we understand on both sides what's required throughout the integration process. We make sure that service delivery people aren't affected or impacted. We make sure clients don't feel the impact by dedicating people – outside of customer delivery – to take care of integration. We've found this extra investment pays off.

### **HC: What should we expect to see as the major benefits of the merger?**

**Rudy Karsan:** I see 3 buckets of benefits: the client bucket, the employee bucket, and the owner bucket. For clients, they'll get a single solution for hiring and retention. To use a euphemism, they'll get "one throat to choke." We are accountable for client recruitment and retention. Making sure you have the highest quality people coming in and greatest ability to retain them.

For our employees, they'll get tremendous opportunities for growth. Already, our teams in Dallas [formerly StraightSource] and around the country are taking advantage of the nation-wide opportunities for advancement that this merger opened up.

For our shareholders, the combined entity has become more efficient, driving better margins. This transaction will be accretive to Kenexa shareholders in the third quarter of 2007.

### **HC: What should we expect to see as the major challenges of the merger?**

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**Alan Cayton:** We're 30 days in and it's been confirmed to us that the ideas we formed in due diligence were correct and that we're going to gain traction early. No surprises yet. Minimal challenges overall.

**Rudy Karsan:** Whenever we do a merger we go early on to the employees of the acquired company and speak directly to them. At Kenexa when an employee signs on to their computer in the morning they get a thought-of-the-day from me. For tomorrow, my thought will be on the integration of StraightSource.

Right after the transaction closed we held a focus group with eighteen StraightSource employees and asked them some direct questions about their concerns about the future growth, opportunities, and the energy of the company. Of the employees we interviewed, we got zero negative feedback. They all expressed enthusiasm for the future. The integration has worked out better than I expected. The real challenge will come from the growth we're going to be hitting. We're growing at a 70-80% rate. The average company grows 3-4% annually. We're growing 3-4% every 10 days. Managing that growth will require close attention to the fundamentals: employee communication, resourcing, space, etc. That's the real challenge in my mind.

We're the standard others measure themselves against. We have and will continue to live up to that challenge with the help of our new colleagues in Dallas.

**HC: StraightSource has always been a leading voice for advancing the state of RPO. Will Kenexa continue this tradition?**

**Brandt Hamby:** Kenexa completely eclipses what we [StraightSource] did in scale and size. We've got some tremendous people now we can tap to help provide thought leadership and advance the professionalism of RPO. Together we will focus much more on providing information and insights to customers to help attract and retain talent. Kenexa is already doing it. Now we've got to take what we've done previously and integrate it in.

**HC: What do you see as the major talent acquisition and management challenges facing companies in the US today?**

**Rudy Karsan:** The last few decades have seen tremendous growth and progress at an extremely fast pace, with certain macro-trends having gained particular significance. One of these is globalization. This means numerous different things to different people and, depending upon their viewpoint, is considered a favorable development or a threat. However, whatever one's view, there is no denying that globalization has meant the expansion of companies in a way that transcends political borders, geographic areas and different cultures. Quantum leaps in information and communication technology have resulted in the creation of what is frequently called a "global village" where, in terms of work, borders cease to be relevant.

One of the spin-offs of globalization is the entry of three billion people into the global supply chain from China, India, Central Asia, and to a certain extent South America. There will be almost one billion new middle-class households formed in the next decade in countries like India, China, Russia, Mexico and Brazil. The entry of such large numbers of people will obviously cause a certain amount of disruption to the people that are already in the global supply chain. How they choose to tackle this turmoil can mean the difference between staying in a rut and soaring to unforeseen heights due to the tremendous opportunities now available to them. Jobs and career

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moves have changed hugely—where a generation ago an average person would maybe hold 2-3 jobs in a lifetime, he is likely to change as many jobs (and maybe even careers) in the matter of about 8-10 years. It is critical for HR to develop a global outlook as many organizations now span many countries and time zones, besides having an increasingly diverse workforce. Understanding what makes the latter tick and how to handle them is a crucial factor in the endeavor to extract the best possible performance from them.

**HC: StraightSource has always characterized itself as an RPO company, while Kenexa has characterized itself as a broader talent acquisition and management provider. Explain the differences and what this acquisition means for Kenexa and the RPO market broadly?**

**Brandt Hamby:** RPO companies typically provide services that address the processes of sourcing, screening, and hiring candidates. In most cases, their solutions stop at the point of a hire. StraightSource spent a tremendous amount of thought and research around building the best possible RPO processes, tools, and solutions. However, as a result of implementing best-of-class recruitment practices, we would often uncover process improvements that were required beyond the scope of the RPO service. We felt that if we had a set of pre- and post-hire solutions that truly allowed us to teach our customers how to hire, retain, and achieve productivity out of their workforce, we could help our customers achieve significant earnings growth. That is where Kenexa comes in.

Kenexa is really the only end-to-end talent solutions provider. So this acquisition takes 13 years of R&D from StraightSource's RPO work and combines it with more than 20 years of Kenexa's R&D in talent management and talent acquisition. We believe that our newly combined offerings will be a catalyst to change the RPO market from simply providing more efficient recruiting services to providing completely accountable solutions that help clients hire, retain, engage, and achieve tremendous productivity from their workforces.