

Headhunting

An Executive Search Overview For Today's Human Resources Jungle

By Bruce Dingman and Phil Presley

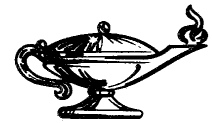
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The two most common ways to fill management positions are through internal promotion or networking. The next most common method is running ads to attract candidates. Least common, until recently, was the use of recruiting firms. Now, recruiting is big business, producing revenue estimated to be over \$6 billion per year. And, as the use of executive search mechanisms have expanded, the field has diversified and grown specialized, even adopting its own jargon.

Contingency search firms are paid by the employer when someone the search firm presents is hired. They tend to operate faster, search for, and screen candidates less extensively than retained search firms. They usually work on assignments in the \$50,000 to \$125,000 compensation level and are more likely to specialize in certain industries. The recruiter may not have personal meetings with the client or candidates, preferring the faster results of telephone calls. Out-of-pocket expenses usually are minimal and may or may not be reimbursed by the client. And, just as the employer has made no commitment to pay unless the position is filled, the recruiter makes no commitment to fill the position if it proves to be a difficult assignment.

Retained search firms receive payments from the employer as the search progresses. The fee may even be fully paid before someone is hired for the job and is not contingent, upon filling the position. Since a high success rate of completing assignments is crucial for the recruiter to get repeat business, it is rare for a recruiter to abandon the assignment. The searches usually take six to eight weeks from the initiation of the search until candidates can be presented. Assignments tend to have compensation of at least \$100,000. The client usually reimburses out-of-pocket expenses specifically incurred on behalf of that assignment. Retained recruiters are committed to filling the position, even if the search drags on to the point of no longer being profitable for the recruiter.

Firms that handle both retained and contingency searches are viewed by purely retained search firms as being contingency search firms. Contingency search firms typically would like to have some or their entire search fee guaranteed. Retained search firms usually will not accept an assignment if the fee is contingent upon completion. When the employer is committed to pay the recruiter and the recruiter stakes their reputation on fulfilling the search, both parties work harder and cooperatively to make it happen. When the employer has not made an unconditional commitment to pay the search firm, it is to the employer's financial advantage to find candidates outside the recruiter's efforts and thus save paying the fee.



Specialist search firms primarily work in specific industries (i.e., hotels) or functions (i.e., CFOs and controllers). When a recruiter specializes in an industry and holds to the retained search industry's common practice of not recruiting from a prior client for at least two years, then out-of-bounds issues may limit where the search firm looks for candidates. For the sake of efficiency, contingency search firms usually concentrate their efforts in certain industries or functions, whereas retained firms may be both generalists and specialists.

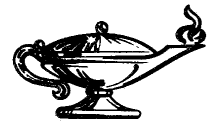
Generalist search firms work in numerous industries and are characterized by their ability to learn an industry quickly. The search process for retained search firms goes beyond just finding candidates with the right experience to those also having the right management style, personality, values, and long-term fit. Therefore, many retained recruiters are "generalist" in that they accept assignments in industries in which they may have had few or no prior assignments.

SEARCH FEES

An employer often can find a recruiter willing to do a search at most any fee, but the cheaper price may not produce quality. A survey of search firms shows, the most common fee is 33 1/3 percent of the first year's compensation, closely followed by 30 percent. Less common is the "flat fee," which usually is based on a percentage of a mid-point compensation range or the expected difficulty of the search. Contingency search firms are more likely to negotiate their fee, and it is not uncommon for them to charge as low as 25 percent.

INSIGHTS FOR THE HIRING EXECUTIVE

- ◆ When checking references, talk with the past superiors, close peers, and immediate subordinates. To accurately understand the candidate you need to see them from all sides.
- ◆ Don't take a friend's recommendation of a candidate as anything more than a lead. Evaluate the person as carefully as if the candidate had appeared through other means.
- ◆ As many as 10 percent of candidates lie about degrees. Call the school's registrar's office and verify the degree. Even if having a degree is not important, truthfulness is.
- ◆ Sometimes even good people get fired. Ask for the particulars.
- ◆ The biggest error firms make when conducting a search themselves is hiring when they only have one solid candidate. Commit enough time to allow selection from among three or four good candidates.
- ◆ Treat the candidate as you would want to be treated. Block out enough time in your schedule to give them proper consideration. In addition to the formal interview, meet again in a social setting so you can get to know the candidate when they are relaxed.
- ◆ Making a wrong hire not only affects your company, but also reflects on your



judgment. Take conducting interviews and the hiring process seriously. Selecting good hires will make people respect your wisdom.

Whereas contingency search firms are paid when the selected candidate starts work, retained firms usually are paid in three or four monthly installments, or for reaching search progress milestones. Retained search firms may give discounts based on a number of searches done within a given period of time.

Users of search firms should understand the services the search firm is providing. Retained recruiters do the vast majority of the work involved with the search, so a minimal amount of time is required by the employer. Typically, retained recruiters spend time with the client and members of the client's senior management team in order to develop an understanding of the team and the company's culture, history, and mission. The retained recruiter also will develop the marketing document that will describe the organization, position, and the traits and experience sought in candidates. With contingency search firms, the time required is more of a 50/50 proposition, with the employer expected to work alongside the contingency recruiter. Whether using a retained or contingency search firm, the employer should get a clear understanding of what services the recruiter is providing.

THE HUNT

The location of the search firm may or may not be relevant to where the position will be located.

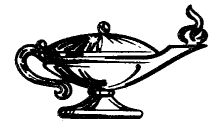
For some positions, candidates are likely to be plentiful enough that relocation costs should be avoidable. This is especially true for financial and human resources positions.

For many positions, the experience or attributes sought require a national search in order to have a sufficiently large pool of prospective candidates from which to draw. Recruiting locally keeps relocation costs down and decreases the chance the executive's family will not adapt well to the new area.

While many search firms with multiple offices claim they are at an advantage, small search firms often have cooperative arrangements with small search firm peers around the country. These peers often, as a favor, conduct a preliminary interview of a prospective candidate or check for resumes of local candidate in their databank.

The quality and experience of the recruiter who does the search is far more important than the size of the search firm.

When recruiting for an international position, it is more efficient to use a regional recruiter. Otherwise, travel costs, time zone changes, reference checking cross-culturally, etc., tend to increase costs and the amount of time needed to conduct the search. For



global assignments, search firms, whether retained contingency, should be able to provide as references the names and phone numbers of recent clients served.

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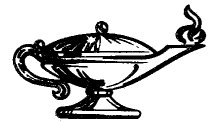
The key questions to ask references include: Were the results timely, were the results of the quality expected, were there any surprises, and would you use them again.

RESOURCES

A useful reference book for employers seeking information on what search firm to approach is *The Directory of Executive Recruiters*, published by Kennedy Information (www.kennedyinfo.com). The directory lists for each firm the type of assignments (retained or contingency); compensation level; industries; and functions handled. Contingency firms also can be located by ads they place in industry trade magazines. Also, *Career Makers*, by John Sibbald (published by Harper Business) profiles the top individual recruiters in the country and lists the top recruiters by industry and function.

TIPS FOR JOB SEEKERS

- ◆ If you expect you'll need to change jobs, be more proactive in networking.
- ◆ Don't burn bridges. Leave on amicable terms, if possible.
- ◆ Expect it to take time to find the right job. On average it takes one month per \$10,000 in salary to find the next job. Every day without income eats away at savings, so if unemployed, work overtime at finding your next job.
- ◆ Don't offer references until you are getting somewhat serious with the prospective employer. If references are called often by prospective employers, they eventually begin to wonder why you can't find a job.
- ◆ If working with recruiters know if they are retained or contingency. Know what you should expect from them. *Rites of Passage at \$100,000+*, by John Lucht, is the best job seeker's guide for executives.
- ◆ When going for a job interview, be prepared. Research as much as you can about the firm. Why did the incumbent leave? Why are you likely to be successful when they weren't? If you have the opportunity, talk with peers and subordinates to the position. Come to understand the company's culture and values.
- ◆ When negotiating your compensation package, realize your requirements must seem appropriate from both where you are coming from and what the coming usually provides. Ask what the salary range is for the position. If they are hiring you in at the top of the range, you should not expect healthy raises.
- ◆ If appropriate, and you are between jobs, become a consultant. Often clients will hire permanently a consultant they've come to know through a temporary assignment.



The Association of Executive Search Consultants (www.aesc.org) is the professional association to which many retained search firms belong. It also acts as a watchdog for the ethics of its members.

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