

EXECUTIVE RECRUITMENT IN DECLINE ADJUSTING TO NEW REALITIES



Talent Intelligence
Leadership Risk Management

Over the past decade, companies in need of strong talent have begun to resist the use of retained search firms. Rising costs, poor outcomes, and inflexibility are often cited as the main reasons. Put simply, retained search no longer adequately addresses the critical needs of modern businesses; look no further than Kevin Kelly, the CEO of the largest retained search firm in the US, Heidrick & Struggles. In a 2009 interview with Bloomberg BusinessWeek, Kelly confessed that the industry's business model is broken¹. In spite of that recognition, search firms of all sizes continue to operate using a playbook from a bygone era. For companies to maintain an advantage in an increasingly competitive labor market, they must adjust the way they identify new talent and retain existing talent.

A HEFTY PRICE TAG

Any manager who has used retained search in the past is aware of some of the immediate disadvantages of the model. Chief among those disadvantages are cost. The typical retained search firm charges 1/3 of the first year of base and bonus compensation for any role they attempt to fill. That fee is typically broken down into three payments; an initial payment upon commencement, a second installment after 30 days, and a final installment after 60 days. Additionally, clients are billed for expenses such as travel and lodging².

THE BIG GAMBLE

Unfortunately, searches often fail to complete, putting companies right back at square one. The Syverson Group's most recent study suggests the average completion rate for an executive search is around 60%³. In other words, close to half of all searches actually result in a loss of time and money for companies. Multiplied across numerous divisions and functions, such costs become unsustainable, particularly for companies in expansion mode.

CAN'T LIVE WITH 'EM, CAN'T LIVE WITHOUT 'EM

For decades, off-limits policies have been a standard of the retained search industry. An off-limits policy simply means that firms promise not to solicit their clients' talent for an agreed upon amount of time upon completion (or lack thereof) of an assignment. This kind of agreement gives clients peace of mind but it also restricts a recruiter's ability to engage the best talent. Larger and more specialized firms have an even tougher go of it as a result of working with numerous clients in a particular industry.

Limiting searches to available talent as opposed to all relevant talent comes at a significant cost not only to the client, but to recruiters who earn commission on the placements they make. This fact is not lost on recruiters and retained firms in general, and it has led to the development of a disturbing trend. According to Joseph McCool, Editor in Chief of *Executive Recruiter News*, "A number of firms simply don't take off limits seriously, and, unfortunately, too many client companies are ignorant of those blockage issues."⁴

This new dynamic puts clients in a real bind. They cannot be confident they are always seeing the best and most relevant candidates nor can they be confident the firm they have partnered with will honor the off-limits agreement upon completion of the project.

DIGGING DEEPER

Underneath the glaring symptoms of the antiquated retained search model lie a number of hidden but potentially more damaging effects. In particular, the cost of prolonged vacancies or making the wrong hire (SEE TALENT INTELLIGENCE WHITE PAPER: **THE RAPIDLY EVOLVING GLOBAL WORKFORCE**) as a result of an inadequate retained search process can have particularly negative ramifications.

Research suggests that the cost of a vacancy can run as high as \$1 million per week, although on average that figure is much closer to \$50k per week.⁵ According to a recent Career Builder survey, 69% of employers said that their companies suffered negative consequences as the result of a bad hire. Over 24% believed the bad hire cost them more than \$50,000.⁶ After accounting for interview expenses, termination costs, unemployment, legal expenses, and lost productivity, The Society for Human Resources Management estimates the cost of a bad hire is more often as high as 200% of the position's base compensation.⁷

1 McConnon, Alli, "Headhunters Face A Double-Edged Sword", Bloomberg BusinessWeek, 14 January 2009

2 Hadzima, Joe, "The Cost of Hunting Heads: Finding Employees", Boston Business Journal, 27 March 2011

3 The Syverson Group, (2008), [David vs. Goliath], <http://goo.gl/dVew8>

4 Guy, C. William, [Eroding Ethics of Executive Search] <http://goo.gl/7WwOC>

5 Sullivan, Dr. John, "Calculating the Cost of a Vacant Position", Corporate Strategic Resourcing, <http://goo.gl/cAyx4>

6 CareerBuilder, "Bad Hire Survey", August 2011, <http://goo.gl/B1B9o>

7 Society for Human Resource Management, (June 2011), [SHRM Poll: Succession Planning], <http://goo.gl/vDEqi>



TURNING THE CORNER

Today's business leaders must avoid these and other pitfalls created by a recruitment model that refuses to evolve. To develop or maintain a competitive edge, companies should make three major changes to their approach to talent acquisition and retention.

ALWAYS BE CONNECTING

Through ongoing candidate engagement, business leaders can build talent pipelines for critical job families, long in advance of any need. These pipelines help guarantee the availability of talent in the event of an unexpected vacancy and prevent hiring managers from making hasty hiring decisions under pressure.

Ongoing engagement also protects companies from both organizational chaos and organizational insularity. An outsider can create ruinous clashes in a company by trying to impose systems the company rejects. On the other hand, sometimes companies are in need of cultural transformation, requiring the perspective of talent from outside the organization. Continual engagement ensures companies have a diverse universe from which they can pull talent which gives them the ability to properly gauge cultural fit long before making an offer.

SETTLE DOWN ALREADY!

It is imperative that companies have a complete view of the external market so they can make informed decisions when recruiting new people into their organizations. The only way to guarantee that kind of access is to establish an exclusive, long-term relationship with a search consultant to avoid conflicts of interest like prohibitions from contacting recently placed employees in competitor firms. Furthermore, a long-term relationship ensures that the search consultant becomes steeped in the company's industry.

COVER ALL BASES

Strong talent pipelines are not built over night, so even companies that begin to incorporate 21st century best practice recruitment must also be able to react to unforeseen departures and the need to develop new positions in their organizations. Companies should establish an agreement with their exclusive search consultant to undertake an unlimited number of reactive search projects as part of an overall business arrangement.

IMPLICATIONS

Companies can significantly reduce expenses and get more out of training and recruitment by adjusting their talent management approach to the workforce dynamics of the 21st century. Business leaders must shift their focus to ongoing candidate engagement by establishing a long-term, exclusive relationship with a search vendor that will undertake reactive search projects as needed. Such realignment will strengthen companies' ability to compete in a complicated global business environment with a rapidly evolving workforce.

Talent Intelligence solves its clients' critical talent challenges through the integration of external succession planning, talent pipelining, and competitive intelligence. All intelligence is securely stored so you can access it on demand and integrate it into your company's existing workforce planning process. Our Intelligence Delivery Teams flag high-potential candidates, bringing them directly to your attention, so when the time is right, we can facilitate a networking engagement between you and any candidate of interest.

By working with Talent Intelligence, our clients maintain a 360-degree field of vision over the talent marketplace. Our service enables companies to:

- Continually map talent outside of their organization
- Identify key players, top performers, and rising stars
- Network with select candidates to measure fit and interest
- Build informal relationships with high potential individuals
- Integrate those individuals into their workforce planning



Our core product offerings include:

Succession Intelligence: Transition smoothly when you implement your succession process by integrating the competition's talent into your succession planning.

Pipeline Intelligence: Access top quality executives for critical openings when you need them by identifying the best candidates for critical roles ahead of demand.

Competitive Intelligence: Retain your top performers and recruit your competition's rising stars by spotting trends and anticipating industry events based on intelligence directly from the competitions' workforce.

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About Talent Intelligence

Talent Intelligence is a global leadership risk management company that solves its clients' critical talent challenges by integrating external talent intelligence in four key areas: succession planning, talent pipelining, diversity intelligence and human capital competitive intelligence. All intelligence is securely stored so clients can access it on demand and integrate it into their existing workforce planning process. Our Intelligence Delivery Teams flag high-potential candidates, bringing them directly to our clients' attention — so when the time is right, we can facilitate a networking engagement between you and any candidate of interest.

