

Executive Search At The Dawn Of A New Millennium: A Report On A Retained Executive Research Firm

by Charles C Caro - February 1999

INTRODUCTION:

In the course of speaking with the members of the firm various statements were made regarding a definition of the executive search business model used by executive search firms in the service of their clients. The firm's staff also expressed an interest in hearing a set of outside views regarding not only the executive search business model, especially the executive search business that includes retained searches, but also what any new player in the executive search business would seek to do in the business. Knowing that my view of the executive search industry would be influenced by my experience and knowledge of the Internet, the firm's staff seemed genuinely interested in hearing an appraisal of their business model from a high technology dawn of the millennium perspective.

The intent of this report is to provide an objective appraisal of the executive search industry using the firm's practice as one reference point in a field of reference points. Given that my knowledge of the firm's business model is limited to what was provided in the course of five (5) hours of discussion, conclusions may be made regarding the firm's business model that are inaccurate only because sufficient information had not been revealed in the course of the reference discussions. However, it would appear that the firm did provide sufficient information on the key foundation of their business model, and no key element or aspect of the firm's business model was left unrevealed. Thus, any variance between the business model used by firm and other executive search organizations would appear to be a function of choice rather than anything else.

Including the Introduction, this report is organized in four (4) parts as follows: Introduction; Executive Summary; Detail; and, Recommendations. The Introduction section provides a brief overview of the background, intent, and organization of the report. The Executive Summary section provides a quick reference for the basic conclusions included in the report. The Detail section includes additional information for each of the major conclusions listed in the Executive Summary section. Finally, the Recommendations section outlines various remedies and courses of action that might be followed based on information found in the Detail section of the report.

EXECUTIVE SUMMARY:

Firm identifies itself as a retained executive search firm with offices in Florida and Illinois. In the recent past there had been an additional office located in Georgia, but that office is now closed due to the illness of the principle staff consultant located in the area. The firm currently generates the majority of its engagements from real estate and construction organizations, but a portion of the firm's business comes from the Information Technology (IT) market. The firm also has an interest in serving clients in the healthcare industry. It appears that virtually all of the firm's engagements are with organizations based either in the southeast or the midwest area.

Over the past few years the firm's revenues have been impacted not only by the cyclical nature of their client's marketplace but also through various expansions and contractions in staff and associates. Differences in opinion between senior members of the firm regarding the firm's fundamental business model has caused some of the staff changes, but other staffing related decisions appear to be more closely related to technology issues related to the firm's executive search business model. Of the current consulting staff one member has near two (2) years experience in executive search recruiting and another has near six (6) months experience in the field.

The firm launched a web site and began using some Internet job/career resources in 1998, but there has been no substantial web presence established. There appears to be mixed feelings regarding the value of using the Internet in the business, and the current consulting staff acknowledges that the firm is new to the Internet.

Based on information received from the firm's consulting staff and a general review of other executive search organizations, especially as found using Internet resources, conclusions detailed in this report are as follows:

- 1) The firm's web site is virtually invisible and requires significant additional development to be even remotely effective as an asset for the organization;
- 2) The consulting staff's use of the Internet needs to be much more tightly integrated into their method of work;
- 3) Any professional associations the firm has apparently are not providing value in the area of business development;
- 4) The business model used by the firm has not moved from a paradigm that was generally accepted as being seriously outdated or out of sync with the overall perceived buying procedure for the recruiting industry even a decade ago and now so outdated that the paradigm may actually do more disservice for the firm's clients than good service; and,
- 5) The firm probably does not have a viable business model for success at the dawn of a new millennium.

DETAIL:

- 1) The firm's web site is virtually invisible and requires significant additional development to be even remotely effective as an asset for the organization:

The firm fairly recently launched its web site after having it designed by an outside web developer. The reported cost for the web site design services has been stated as being under a thousand dollars. Visitors finding the web site will find that while not unattractive it is hardly more than a company brochure. Finding the web site is the hard part. One fundamental fact about being able to find a web site is that when a browser uses a major search engine like Alta Vista and keys in the exact name of the firm they are trying to find they should at least expect the firm's web site to be included in the search results. This is not the case with Firm. An Alta Vista search for Firm produces exactly two (2) entries on the reported list of finds, and neither is the actual Firm web site. Part of the reason the Firm web site is not reported on the Alta Vista list is that the Firm web site uses frames, which makes discovery of the web site more difficult. To make matters worse the web site index webpage does not include any meta tags that would aid a search engine like Alta Vista to find the web site. Actually, Alta Vista is a search engine that relies on finding text on web pages for indexing rather than the submission of URLs by developers.

Web site design is only part of the service a web developer should provide for a client, especially a client that has limited knowledge of the Internet. The web developer should also provide some basic information on how to promote a web site, and offer to perform the initial web promotion as a part of the service. Of course, the client also must bear a major responsibility for not only initial promotion but also any ongoing promotion of the web site. The role of a web developer is somewhat like that of a public relations firm in that the web developer must not only provide the creative energy for the engagement but also the footwork to ensure that the public actually has the opportunity to see the creative work. The client's duty should include the completion of a promotion campaign as outlined by the web developer. In not following through with web promotion it is the same as paying for the design and printing of thousands of full color company brochures and then putting them all away in a dark closet and forgetting about them.

The launch of a web site by executive search firms and other organizations directly or indirectly involved with recruiting and recruitment has been growing very rapidly over the past eighteen months. Indeed, some of the organizations least directly involved with recruiting and recruitment have been amongst the most astute at integrating Internet presence and promotion into their business model. Just this past weekend the Monsterboard, which was one of the early proponents of the use of the Internet as a venue for servicing the needs of both employers and job seekers in their quest to find one another, paid \$1.5 million to air a thirty second commercial during Superbowl XXXIII just to promote their service. Such a promotion expenditure may be rare today, but there will be an increasing number of reports for organizations earmarking significant resources for web site development and promotion.

Aside from the mere presence of a web site on the Internet a firm must also provide dynamic content that will bring visitors back again and again. A static web site like the Firm' web site provides no reason for a repeat visit even for someone that stumbles upon the web site in the course of their surfing. Unlike a brochure a web site can be changed

fairly easily, and it must be changed on a regular basis to ensure that visitors will want to visit repeatedly. Failure to provide dynamic content for a web site is as bad as not promoting a web site that has been launched.

- 2) The consulting staff's use of the Internet needs to be much more tightly integrated into their method of work.

With the Internet communication as conduit takes a back seat to communication as a destination in its own right. The Internet provides not just a pipe between people communicating, it actually has become a venue where people go to buy and sell things, to hang out, to socialize. The Internet is the new real estate for commerce.

The Firm' staff Internet knowledge appears to be limited at best. Not only is the staff not making good use of resources available on and through the Internet they also are not consistent in pointing all references to Firm back to the firm's Internet domain. Whenever an associate leaves an email address referencing the firm they should use their firm's Internet domain email address. Such consistency serves to build identification between the Firm organization and the domain name.

The number of recruiting and research resources available on the Internet increases virtually on a daily basis. While it may be impossible to keep up with all, or even most, of the expanding set of Internet resources of value to search consultants, the number of monitored resources should slowly increase over time. Thinking of the Internet as a place to go rather than just as a communication conduit helps, and getting over the hurdle of thinking of the Internet as nothing more than a glorified telephone is much easier when there is support for the use of Internet resources.

- 3) Any professional associations the firm has apparently are not providing value in the area of business development.

One of the fundamentals of the executive search business model should be networking. The size and quality of an executive search consultant's networking activity is directly related to their ability to move to completion on engagements. The purpose of joining any association is to provide some benefit for the organization. This is true even when the benefit is nothing more than added legitimacy for the members. Membership in industry associations provide a way for the members to say they subscribe to a set of industry standards of behavior. Membership in associations should also provide benefits beyond just a stamp of legitimacy. Quality associations provide resources that enable their members to not only keep up with industry practices but also maintain contacts that provide opportunities for mutually beneficial relations.

Increasingly associations for a large number of industries have had to make significant changes in their business model to keep pace with a rapidly changing and increasingly global economy. Thus, leading edge associations have embraced the Internet not only as a means for getting the word out on the benefits of being a member of a specific association but also as a means for delivering resources and tools to aid their membership in being successful. There are a few associations serving the executive search industry that have moved quite successfully into the Internet realm, and in doing so they have significantly improved their ability to serve their membership.

There are two or three executive search associations frequently referenced by executive search organizations with an Internet presence, and it appears that firm is not a member of any of these associations. As potential clients and candidates increasingly use the Internet as a means for locating an executive search organization, it becomes increasingly important for an executive search organization to be found through such association memberships. The benefits of such memberships outweigh the expense of membership.

- 4) The business model used by the firm has not moved from a paradigm that was generally accepted as being seriously outdated or out of sync with the overall perceived buying procedure for the recruiting industry even a decade ago and now so outdated that the paradigm may actually do more disservice for the firm's clients than good service.

Frequently a human resources manager's first reaction when contacted by any recruiter is to say, "Why should I use your organization when I have my own internal staff of experienced recruiters?" Sometimes a human resources manager might say, "We do not use outside recruiters because we do not pay fees." At other times a human resources manager might say, "We work with outside recruiters, but only those outside recruiters that have been pre-approved to do business with us and that list is currently closed." Of course, all of these statements are objections that a recruiter must somehow either overcome or accept and move on.

Organizations do use outside recruiters, and organizations do pay fees to outside recruiters. There are literally thousands of outside recruiters working to assist organizations meet their staffing needs, and receiving fees for the services delivered. The recruiting industry, which includes executive search (retained or not retained), is very competitive. Recruiters and recruiting organizations have established many different ways of cooperating that increases their ability to provide service to their clients.

Unless it was omitted, as a part of the firm's business model, it appears that the staff consultants are not permitted to cooperate with other recruiters in the industry. This seems quite odd, especially for a firm that services both real estate and construction clients that accept the practice of broker cooperation and subcontractors as a basic aspect of their business operations. It would be very unusual for either a real estate or construction firm to operate without establishing relationships with others in their business.

The practice of not cooperating with other recruiters is especially odd for a retained executive search firm because they operate on the basis of a written agreement would generally include dull diligence and fiduciary clauses. Discounting the benefits of working with other recruiters to the service of a client would be inconsistent with the provisions of the agreement that defines the services rendered by the executive search firm. In the past the practice of not cooperating with other recruiters may have been the standard, but increasingly executive search consultants, including retained executive search consultants, have found that cooperation, in whatever form, provides a better model for delivering the very best possible service to clients. In addition, such cooperation also provides the very real possibility of a secondary revenue stream for the firm through what might be called the recycling of candidates found during the search process that might be exactly right for the current search but perfectly acceptable for the search being conducted by a cooperating recruiter across town or across the country.

The adage that all an executive search consultant needs to be in business is a telephone and a notebook is very much outdated. In the information age an executive search consultant needs many more tools to not only conduct a search but also manage a search. It boils down to a time management issue where the executive search consultant is working to constantly improve on their ability to be productive in the service of their clients.

Like many, if not most, other businesses, there has been a major paradigm shift over the past three to five years. The rate of change for the paradigm shift for virtually all organizations has been increasing, and the rate of change will continue to increase. In some industries it is possible to be swept along by the movement towards a new paradigm because the idea of change is a core feature of the industry. In other industries it is possible to be completely swept away by a new paradigm. The recruiting industry, including all classes of executive search, is an industry where those not moving with the shift to a new paradigm or outwardly resisting any shift can be swept away regardless of what intangible capital the organization might have in terms of "corporate goodwill" or past experience. Recruiting organizations recognizing the need to accept the paradigm shift moving through their industry have adopted a new business model that includes a full understanding of the new paradigm. At best, the firm is resisting change.

Many recruiters have the view that Information Technology (IT) recruiting is a special class of recruiting. In some ways such a view is correct, but in many others IT recruiting is much the same as any other recruiting, and technology is working to make all recruiting increasingly more like IT recruiting, especially as the salary level of the open positions recruiters strive to fill increases. For a number of years IT recruiting was different than other recruiting because most IT positions were not considered to be executive positions. IT salaries have increased due not only to increasing demand for an increasingly limited resource but also to the increasing integration of IT professionals into the core management of most organizations.

Whereas a few years ago an executive search firm, especially a retained executive search firm, would have been interested only in the most senior of IT positions because those were the positions that provided the highest salaries, today even line programmers in some specialties command salaries above what might be considered an "executive" salary. Indeed, there are literally hundreds, if not thousands, of IT positions with salaries in the \$75-100K range that go unfilled because the demand far exceeds the supply. The perceived buying procedure for IT recruiting is that position openings are listed with IT recruiters on a contingency basis.

Because the perceived buying procedure for IT recruiting is so well established it is quite rare for positions paying to \$150K (and sometimes more) to be listed on anything other than a contingency basis. When an IT position is listed as with a retained executive search firm it is more likely to be listed with an IT recruiting firm that the client has had prior experience with on contingency openings. Clients want to list these top IT positions with firms they have an established history with in the IT area. In addition, it is unlikely that an executive search firm would learn about the very senior IT position openings without having a close relationship with a client on IT related hiring. When these senior IT positions become open clients are generally reluctant to go with an executive search firm that has not worked with them on many contingency openings, even when the executive search firm has worked with the client on other senior level position openings, simply because knowing and working with the IT culture of an organization is generally quite different than working

with the non-IT culture. Thus, the executive search to client firm relationship for IT recruiting may be more reliant on trust and client confidence in the executive search firm than for other types of recruiting.

While there has been a paradigm shift on the client to executive search firm side of the recruiting industry there has been an equally significant paradigm shift on the executive search firm to candidate side of the equation. Once again technology has played a key driving role in the paradigm shift, especially as the salary for an open position increases. The demographics of the "typical" Internet user are a virtual clone of the demographics of the "typical" executive search candidate. Both "typical" profiles are white, well educated, professional, and male. In the thirties someone allegedly ask John Dillinger why he robbed banks. His response was, "That is where the money is." Well, today whether you are trying to attract buyers for high end computer equipment, videos, books, travel, expensive homes, lingerie, or an executive (salaried) position opening you want to be a part of the Internet because that is where you find customers ready to buy. More importantly for recruiters is the knowledge that a growing number of recruiters are already there and doing well. In fact, some of the recruiters that have recognized the value of the Internet recognize how close the recruiting industry came to being declared extinct because other non-recruiters saw the value of the Internet in the placement business and moved in with exceptionally cost effective solutions.

5) The firm probably does not have a viable business model for success at the dawn of a new millennium.

In the early twentieth century the auto industry was brand new, and there were scores of fledgling car manufacturers struggling to deliver a product that the public could use for both business and pleasure. At the same time there were still many successful carriage makers, harness makers, and livery stables across the land. Some of the really visionary carriage makers (i.e., Fisher Body) made a move into the auto industry in an effort to provide a future for the families. The Ford Motor Company was an early innovator in creating a product that was not only easily produced but also reliable. As the demand for cars and trucks increased rapidly during the decades of the twentieth century, the number of auto manufacturers diminished. It is still possible to buy a horse carriage and harness, but it is doubtful than anybody is buying such products from a public company. You can actually buy a horse carriage and harness on the Internet along with many other antiques, but only because the people producing such items know the demographics of their clientele. The business model used by Firm has become nearly as outdated as the 1920's harness maker even though the demand for recruiting consultants has never been higher.

RECOMMENDATIONS:

The recommendations are quite simple. While there may be a few elements of the existing Firm' business model that are worth retaining, it is important to understand that a major paradigm shift needs to be accepted immediately. Specific action steps include the following:

- 1) Establish a credible and consistent Internet presence coupled with a tightly integrated automated procedure for handling candidates and projects. The Internet presence needs to include the creation and promotion of a new dynamic web.
- 2) Provide an accelerated education effort to bring all staff consultants online with the tools to effectively use the Internet as a recruiting venue.
- 3) There appear to be some excellent executive search specific software tools available that would significantly improve the productivity of all staff consultants. These commercially available tools are probably much better and more cost effective than anything that could be home brewed.
- 4) Identify and join industry associations that have and subscribe to the use of new technology recruiting business model.
- 5) Identify and cooperate with other recruiting organizations in a way that not only compliments existing speciality areas but also enhances an expanded set of speciality areas such as healthcare.

Accomplishment of the above five action steps will probably take better than a year of intense effort to show their full value, but their implementation will ensure that firm is well positioned to enter the new millennium with a business model geared for success over the long run. Failure to implement all of the action steps will leave firm's in the position of being a niche executive search boutique with an increasingly diminishing revenue stream at a time when the balance of the recruiting industry is experiencing true glory days.