

Reinventing Executive Search

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Social media's extended reach and the recession have pushed executive search firms to make some changes.

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By Stephenie Overman

Executive search firms "no longer have the mojo or the mystique" that they used to have, says Jeremy M. Eskenazi, founding principal of HR consulting firm Riviera Advisors Inc., in Long Beach, Calif.

It used to be that executive search consultants had a unique ability to identify and woo the very best executive talent. They could "connect with those people individually" in a way that most HR and staffing professionals couldn't—either because of lack of time or lack of access, Eskenazi explains.

But the increasing availability and popularity of social media, not to mention a sputtering economy, have prompted some companies to start bypassing executive search firms.

Advances in technology have made it easy for companies to do their own initial sourcing of candidates, says Iris Libby, head of Iris Libby Recruitment Consultants Corp. in New York. "Anybody can source with LinkedIn, Spoke, ZoomInfo, Jigsaw. You can find people now if you're tenacious enough," she explains. "Social networking has changed, and will continue to change, the face of recruiting."

So do these changes mean the end of the executive search industry? "Not in the foreseeable future," according to Peter Felix, president of the Association of Executive Search Consultants (AESC) in New York.

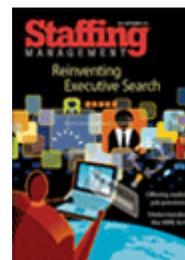
To his point, the best executive search firms and most skilled consultants are finding ways to adapt and thrive.

Money Talks

One way executive search firms are adapting is by changing their fee structures.

In the past, an organization would put a search firm on retainer to conduct the entire recruitment effort. The organization paid a fixed fee, typically 33 percent of the first year's compensation of the recruited executive, and one-third of the fee was usually paid up front. Another third "would be paid at some pre-agreed time interval, usually around 60 days from engagement, and then the last portion would be paid at perhaps 90 to 120 days or whatever is agreed—even if the position has not been filled," Eskenazi says.

Now, some search firms are offering more-flexible fee arrangements. They are using the terms "container" or "retingency" (terms that play on the words "contingency" and "retainer"), Eskenazi says, to show their willingness to use hybrid recruitment models. In general, a "retingency" combines elements of the standard retained and



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contingency searches. Part of the fee is paid up front (as with a retained arrangement), and part of the fee is paid upon a successful placement (as with a contingency arrangement).

Some arrangements are even more flexible, he notes. For example, "For a \$300,000 job, the organization might only pay part [of what it would have paid in the past]. The rest of the fee would be based on 'gates' " that the client company chooses to pass through—and pay for—in the recruiting process, he explains.

So, "you might pay \$33,000 now, and then upon delivery of a pre-determined number of qualified candidates on a slate, you might pay something else. ... Or you may pay something else when a slate of final candidates is interviewed. The most important 'gate' would be when the successful candidate that has been submitted and interviewed is hired and actually starts in the new role. The last payment is contingent upon making a successful hire. In a traditional retainer agreement, you pay whether there is a hire or not," Eskenazi says.

Other firms have simply reduced their fees. "A lot of firms have come down on their fees—even to the 25 percent range," Libby says.

Unbundling

Instead of insisting on providing the total recruitment package, many executive search consultants are now providing unbundled services, Eskenazi says, and "letting companies buy [separate functions such as] recruitment research, candidate development or assessments."

Unbundling was not widespread until recently, he adds. But as organizations have concluded that they can handle parts of the executive recruitment process better, faster and cheaper themselves, their needs have changed.

More organizations are demanding unbundled services, Libby says, because "You can buy what you need. You can have the search firm do research and give the information to internal recruiters. You can just buy organization charts. [The executive search consultant] can get the candidates and have people inside do the interview."

Felix says he has seen some unbundling but that "it's not a huge trend."

Internal Horsepower

There is a trend toward organizations building in-house search teams that can handle executive search, according to Jeremy M. Eskenazi, founding principal of HR consulting firm Riviera Advisors Inc., in Long Beach, Calif. "There are many more internal functions than there were 10 years ago," he says.

Companies may perform searches themselves because they believe it results in a better cultural fit, he explains. And sometimes having a candidate speak to someone in the company—as opposed to someone at an outside search firm—"could help the company stand out."

How much a company decides to do for itself—and how successful it is—hinges on the strengths and weaknesses of its internal recruiters and hiring managers.

"In some companies, the in-house team is good at closing the deal. In other companies, it isn't," notes Iris Libby, head of Iris Libby Recruitment Consultants Corp. in New York. She stresses that building rapport with candidates is key.

Also important is the quality of people resources and the amount of time they have, says Nancie S. Whitehouse, principal at Whitehouse Advisors LLC, in Stamford, Conn., and 2010 chair of the International Association of Corporate and Professional Recruitment. "If a company has the horsepower internally, it may feel more comfortable doing candidate identification and sourcing internally. Or the company may have a research person in the department who is good at tracking resources," she says.

Some technology companies on the West Coast are ahead of the curve as far as having in-house capabilities, but not every company has those kinds of resources, Whitehouse notes.

New Services

Executive search firms may be scaling back in some areas, but they are ramping up in others. Industry analysts say that more firms are offering succession planning, onboarding, board advising, executive consulting, and leadership assessment and development functions.

"It's the opposite of unbundling," says Nancie S. Whitehouse, principal at Whitehouse Advisors LLC, in Stamford, Conn., and 2010 chair of the International Association of Corporate and Professional Recruitment.

She says these "sister practices" are becoming popular as hiring heats up. Client companies see the need to have "greater focus on retention and succession planning and to develop better leadership assessment tools," she notes. For example, companies are administering more leadership assessment tests because they are eager to find better ways to predict how an executive will perform on the job.

While retained search firms are well-placed to offer these types of services, Felix warns that "search consultants must be careful of conflicts of interest" in the types of services they provide. Adding auxiliary services "may require search firms to build [firewalls] between their different activities in order to avoid claims that their advice is self-serving or that information acquired via one service is used to the detriment of the client in another," he explains.

Small search firms are "bundling" themselves, as it were, by joining networks such as the ASHER Talent Alliance, to which both Libby and Eskenazi belong.

Launched in February 2009, the Fullerton, Calif.-based alliance

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This type of network can help small firms gain access to global opportunities, Felix notes.

'Thinning of the Herd'

The economic downturn "decimated" the executive search business, Eskenazi says. "There has been a thinning of the herd at the retained level."

But, he adds, "the people who have survived probably survived for a reason—they are really good. They have found a way to make money and be successful."

Executive search consultants had to be especially talented to recruit executives during the recession, according to Eskenazi. Clients generally prefer candidates who already are in successful executive positions, and "it's harder to get a sitting executive to quit a current job. It takes an extremely good negotiator, a good counselor, to get someone to quit a job and sell a house. The big challenge in the last two years had been to deal with this kind of issue, to convince them to come to another organization," Eskenazi says.

The executive search consultants who have weathered the economic storms are "the people who are very good at getting new business and at keeping business," he adds. "My perception is that they are better because they are able to build relationships" with client companies and with job candidates.

The overall outlook for the executive search industry is positive, according to the results of an AESC poll of its members. The mid-year poll found that 67 percent of search consultants expect to see revenue growth in the second half of the year, while 27 percent predict revenues will stay the same. In total, 94 percent said they are confident that they will see no decrease in demand for the remainder of the year.

"Global search industry statistics confirm that senior executive recruitment is continuing its pullback from the rigor mortis of 12 months ago," Felix says. What has been especially encouraging, he notes, "is the cumulative growth since our industry turned the corner in the third quarter of last year.

"There's an upturn. The strong have survived. The weaker ones have fallen by the wayside," he concludes. "From our point of view, it's all positive. The world is waking up again. They're looking for talent almost everywhere."

Stephenie Overman is editor of Staffing Management magazine and author of Next-Generation Wellness at Work (Praeger, 2009).