



Qualigence  
International

# WHY THE TRADITIONAL EXECUTIVE SEARCH MODEL IS BROKEN

Whitepaper

## IN THIS WHITEPAPER

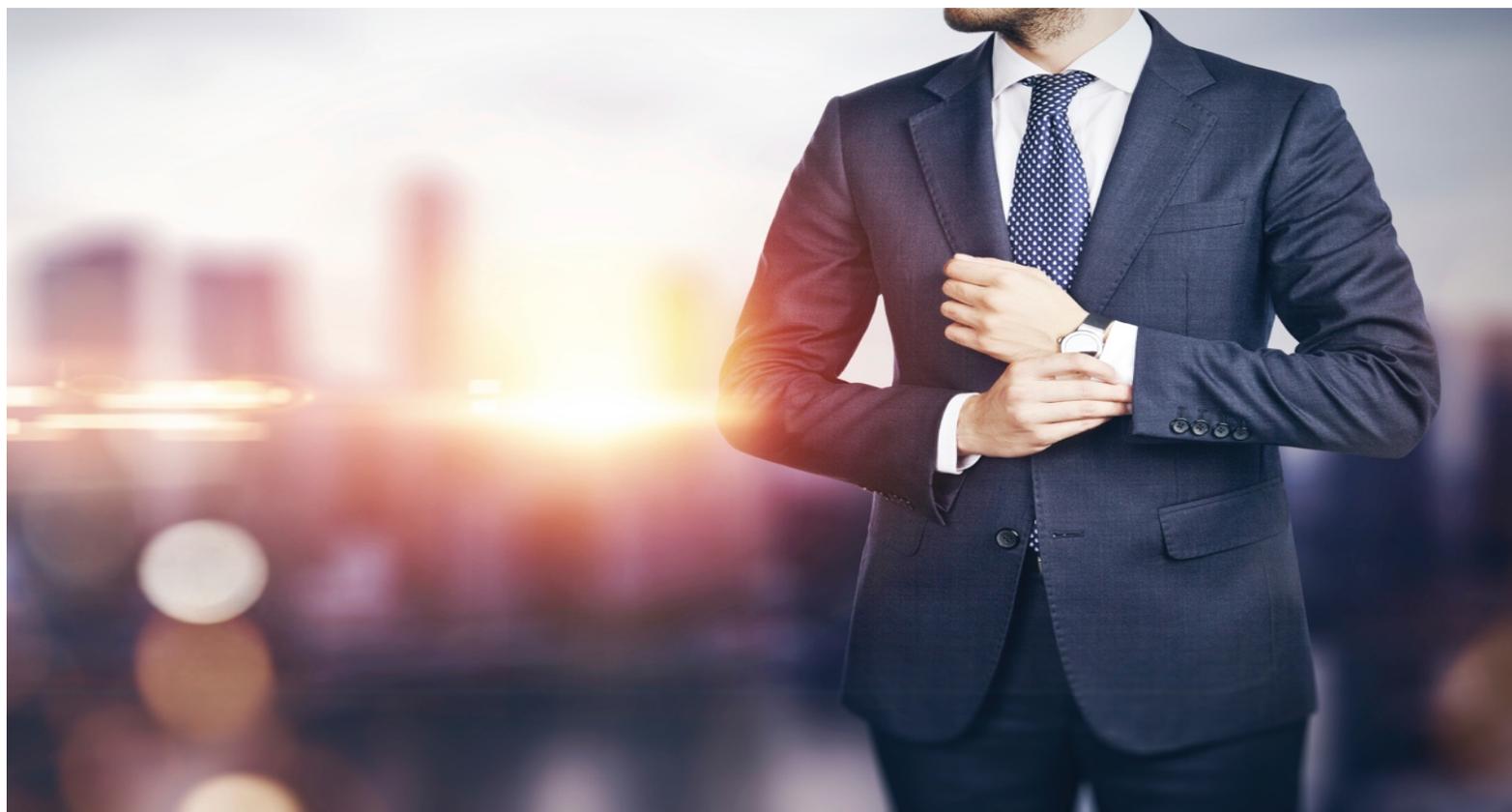
In recent years, the discussion surrounding Executive Search has shifted dramatically. Once regarded as the best possible option for recruiting executive leadership roles, the industry has become muddled as concerns surrounding cost per hire, return on investment, and general practicality reach the surface.

These issues all encompass a common theme: Executive Search is finding it necessary to adjust rapidly to technological and social changes, economic changes, and client expectation shifts in order to survive.

Professionals within Executive Search are seeing a need to be in more hybrid roles – as the term “headhunter” fades away, what takes its place is more innovative search roles that allow the search consultant to wear many hats in order to find and place the best possible talent for the job.

Before fully comprehending the issues with Executive Search, we must first understand what it is, its history, and why there is a sudden need for a significant overhaul in its practice.

In this Whitepaper, we’ll explore the issues with Executive Search, how these issues came to be, and potential solutions for search consultants and their organizations. We’ll bring to light why Executive Search is broken, and how we can mend it using a thorough understanding of a shifting marketplace.



## WHAT IS EXECUTIVE SEARCH?

It's critical to understand the standard definition of Executive Search before diving into its issues.

Executive Search, often called "headhunting" informally, is a recruiting service utilized to source and place senior, executive, or highly specialized positions within an organization.

Executive Search consultants are typically housed within a third-party executive search firm, but they can also serve as a stand-alone consultant.

By its standard definition, Executive Search firms receive a retainer, or paid in advance fee, to perform a search for an executive position. These positions are usually \$100,000 annually or more. Executive-level positions often fall into the "C-Suite," that is: CEO, CFO, COO, CMO, VP, etc.

Fees for using Executive Search organizations are typically 30% or more of the total annual compensation of the recruited executive. The fee is for the “time and expertise” dedicated to sourcing and assessment by the search firm.

Another type of payment, utilized by contingent search firms, involves a practice in which the firm is only paid in full once the Executive Search is successfully completed.

This fee can be up to 30% of the candidate’s first year total compensation. These positions are typically for a base salary of \$75,000 or higher.

Executive Search firms are often brought in to locate potential candidates because executive level positions are not always advertised, nor applied for by active candidates.

Some of the top global Executive Search firms include Korn Ferry International, Boyden, Egon Zehnder, and Transearch.

## BY THE NUMBERS

Statistically, it's hard to argue that Executive Search is seeing significant changes to the industry.

In 2013, it was reported that while Executive Search was growing as an industry, the number of assignments fulfilled by such agencies was on the decline.



According to The Association of Executive Search Consultants (AESC), the industry saw an 8.5% drop in the number of new searches in 2013.

However, individual assignment revenue is up 6.1%, which highlights the demand for top-level positions within Executive Search.

## PRIMARY ISSUES

Executive Search firms are struggling for a number of reasons. Leading firm Heidrick & Struggles, for example, has seen falling revenues for years: From \$616 million in 2008 to \$444 million in 2012. Its profit margins have also taken a significant hit, according to The Economist. The organization has even considered putting itself up for sale.

Executive Search firms are facing a number of issues:

- **Competition**  
For Heidrick & Struggles, issues within Executive Search can largely be attributed to the sting from the economic recession of 2008, as well as overcutting staff and not paying its recruiters competitively. Many rivals took away their talent, leaving them with 25% fewer Executive Search Consultants than they had in 2008 (The Economist).
- **Social Media**  
Many Executive Search firms, are facing a Social Channel crisis, in which employers can easily find candidates themselves utilizing professional networking tools such as LinkedIn. These efforts often cut out the middle man – the Executive Search firm – in order to save dollars.
- **In-House Recruiting**  
Executive Search is in direct competition with in-house recruiters, a trend that has soared in popularity within the last few years. These recruiters source and place the talent themselves, sometimes pairing their efforts with competitive intelligence, recruitment research, or sourcing firms to identify the talent while slashing costs.

*“Clients are looking at executive search, just like legal and other services, and saying they want it faster, cheaper, and better.... There’s a dramatic shift in who’s doing the work, with a lot of recruiting moving in-house, especially at levels below top C-suite jobs. That’s the work that keeps the lights and heat on.”*

- Bloomberg Businessweek



- **Return on Investment**

Executive Search firms are also facing a backlash against high percentage service fees, many of which are ballooned to cover the cost per hire as well as other administrative fees once the search is completed. Perhaps one of the biggest issues Executive Search firms are facing is a question of whether they are worth the money:

An internal review by Heidrick & Struggles in 2009 found that 40% of the people it placed in jobs left within 18 months.

- **The Candidate Dance**

Executive level candidates are often passed along from consultant to consultant, being lifted from their current role into another in a cycle that goes round and round with the same performers.

Often, individual high level search consultants will have a certain amount of candidates in a particular industry at a specified level, utilizing the same core set of talent to be picked up and passed around within the industry without uncovering different candidates for the role. This cycle becomes a perpetual motion machine of “Robbing Peter to pay Paul,” plucking talent from one role simply to fill another.

## RESPONSE

As a result of the growing issues within Executive Search, some organizations have taken alternative methods in order to keep up with the shifting executive placement dynamic.

Some firms now derive as much as 40% of revenue from components other than Executive Search, including management assessment and succession planning, according to The Economist.

Other organizations are focusing on creating a fully hybrid Executive Search function, in which the consultant fully commits to the sourcing and development of the candidate in order to employ full engagement, research, and assessment to match the client's needs.

These consultants often work closely with recruitment research teams, in which the sourcing research is specifically tailored to uncovering talent for executive level roles.

Many organizations are also using their own in-house recruiters to fulfill executive placement.

These efforts are also paired with research, uncovering organizational information of top talent in order to save the in-house recruiters time, effort and dollars.

HSZ Media estimates these efforts can save some company millions in hiring fees. In-house recruiting is costing headhunting firms as much as \$650 million a year in lost revenue.

Some organizations are implementing Executive Search functions that charge hourly fees instead of retained or contingency, saving the client thousands of dollars in cost per hire.

## TIME FOR CHANGE

One of the major issues Executive Search firms need to address is age-old problems with the overall system and processes.

Poor communication among recruiters and hiring managers, lack of transparency, lack of accountability, and failing to become accustomed to the changing culture of talent acquisition all continue to be problematic for Executive Search consultants.

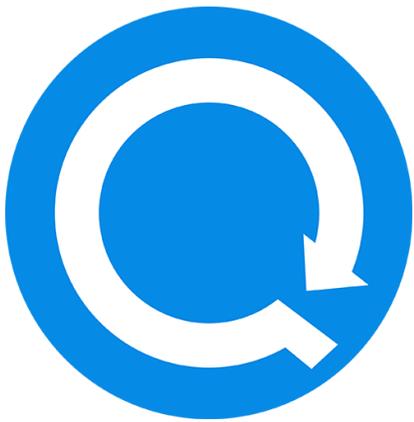
*“At the core of this industry failing is a broken business and process model which has existed for nearly 50 years. There are precious few industries in the world that have not undergone multiple transformations over the same period.... Yes, there have been technological advances – the fax machine, computerized databases, the Internet and email, but these developments have not changed the fundamental structure of this industry.”*

- “Executive Search: The Model is Broken” John G. Self Associates, Inc.

Until Executive Search firms embrace hybrid, cost-effective strategies, they are an endangered species within talent acquisition.

Changes to cost per hire, consultant responsibilities, and search techniques can all assist in the Executive Search changing dynamic.

Until then, many organizations will continue to turn to hybrid search firms to place their executive level positions.



## About Qualigence

Qualigence International is the largest Recruitment Research and professional search firm in the United States, and proudly serves as a unique alternative to traditional retained or contingent recruiting models.

[www.qualigence.com](http://www.qualigence.com)