

The Positive Effects of Using an Executive Search Firm On Building Corporate Leadership

By **Carol Hartman**, The Hartman Group

Academic Citation: Carol Hartman, “The Positive Effects of Using an Executive Search Firm on Building Corporate Leadership,” Kravis Leadership Institute *Leadership Review*, Vol. 5, Summer 2005, pp 83-85

Keywords: Executive Search, Corporate Hiring, Sarbanes Oxley

About the Author: **Carol Hartman** founded her first executive recruiting firm after working in the investment banking industry for nine years. The creation of The Hartman Group is the culmination of two previous consulting firms, also founded by Ms. Hartman, since 1994. The expertise and commitment The Hartman Group brings to professional recruitment strategies can be a key complement to the successful management of a client organization.

Prior to founding her own business, Carol worked at Oppenheimer in the Asset/Liability Management Group and also had positions at Kidder, Peabody, Dean Witter Capital Markets and Sutro & Co. These financial services businesses served many industries. Her work has included assignments in financial services, high technology, life sciences, retail, consumer products and manufacturing. She holds her undergraduate degree in Economics from Claremont McKenna College in Claremont, California.

INTRODUCTION

It has been suggested that Executive Search is just a matter of having a Rolodex. Yet, management team hiring decisions are so important to the performance of a company that to limit the process to the personal connections of either a search executive or a corporate insider is irresponsible. In fact, the executive search business is difficult, and occasionally there is confusion about how the search business works. Typically, corporations retain the services of a search firm when they seek to fill a vacancy at the more senior levels of the business. Unless there is an appropriate current engagement, simply knowing a good candidate is not relevant. Developing relationships with excellent, job seeking talent should always be interesting, but it is not how search firms are operated.

A PROPERLY EXECUTED SEARCH

A properly executed search requires a deep assessment of a corporate client’s business needs, establishing a strategy to provide candidates best positioned to answer those needs and a due diligence process. Ultimately, a search executive has accountability to both the corporate client and the candidates for a fair and thorough process. In the ethically regulated environment today, the appropriate management of conflicts of interest must be carefully managed, as well.

Since simply reaching into a database immediately creates a bias, an organization should plan to implement an inclusive method when selecting leadership. Hiring an executive search firm demonstrates a desire to explore a comprehensive pool of candidates. While a level playing field is not possible, the hiring process can embrace fairness as a value. This philosophy is consistent with the Sarbanes Oxley (SOX) mandates of Board composition to include outsiders. Additionally, a company may need to work within its own policies and any other legislative or regulatory requirements for fair hiring practices. Search executives should facilitate and demand from their clients the best practices for the search and selection of corporate leadership. The impact of wrong hiring choices is extremely expensive for owners and employees.

When a leadership role has been created or vacated, the remaining members of the executive team have an opportunity to examine and identify the current and future needs of the organization. Ideally, they build consensus about corporate goals, objectives and the scope of the vacant role. An executive search consultant is able to facilitate the discussion and keep the organization focused. The definition of the role also serves to create a roadmap for identifying qualified candidates. Occasionally, during this process, the need for additional organizational slots is recognized.

Every time an organization seeks a new team member, it has an opportunity to place a person better suited to the dynamic environment than the predecessor. Some leaders are perceived to be “irreplaceable.” Let’s face it, in many instances, if the setting and manager were perfectly matched, the executive would never have left. The roadmap to finding the next great leader is created as the scope of the position is defined. In addition to the quantifiable requirements, the “headhunter” provides a filter for employers and candidates to better understand the soft issues like the corporate mission, cultural style and core values.

For example, if a company is looking for a Chief Financial Officer, the appropriate accounting and finance credentials are required. The best candidate may be required to have public company, relevant industry, and merger or acquisition experience. Yet, as an example of casting a broader net, the search for a CFO for a \$3 billion pharmaceutical distribution company yielded a former finance expert from DHL. At first glance, the life sciences industry would be the right place to look for financial leadership. But by focusing on the client competencies, not industry, the strategy included targeting high volume shipping businesses. The client company was essentially a supply chain company, not a pharmaceutical firm.

Corporate clients want to understand the value that a search team adds to the recruitment process. For that reason, executive search should be demystified to clients and candidates. The transparency of the process requires search firms to be accountable to clients for the efforts that are executed on their behalf. Search consultants are expensive. The standard fee charged by retained search firms is equal to one-third of the successful candidate’s total first year compensation. Some firms limit this amount to cash compensation, but others have been known to include one-third of the candidate’s vested stock, particularly if the company is a startup.

The best search executives plan to have long lasting relationships with clients because it proves useful to both parties. This accomplishes a better understanding of the company needs, competitive position, and management dynamics. In this context, really knowing the client and being able to anticipate their needs can make active job seekers more relevant. For example, if I know that a client is starting a new division or a retirement is expected, I can quietly begin to accumulate potential candidates and strategies. It also means that the search firm establishes responsibility for the results of the search. By acting as an agent for the client, not only are active job seekers identified, but often well-suited passive candidates are recruited and might turn

out to be the best fit. After all, they are most likely to be happy and successful in their current role.

During the search for a President of a \$100 billion mutual fund company, within the first ten calls, I contacted the most ideal person to meet the needs of my client. He was incredibly helpful offering referrals, but not personally interested. Over the next several months, he continued to have thoughtful suggestions; he called me to share them. I referred to him as the “solar eclipse” because in addition to being extremely well qualified, his leadership style was an excellent fit and he lived near the corporate headquarters -- a rare combination. Finally, during one of these calls he asked “what about me for this job?” This candidate was successfully recruited because when he explored the potential, he was attracted to the entire opportunity. He would never have self-identified without being engaged by a headhunter.

Preparation of executive team competencies is vital. The job function is important to measure in current terms, but anticipating the changing business dynamic makes a company more agile. Leading industry enhancements, innovation, or capturing larger market share are all typical corporate goals. Who is best suited to lead which kind of change? That is where the best search professionals distinguish their services.

Building corporate leadership is harder than it used to be. When a company needs to add or replace an executive team member, internal and external candidates should be considered, unless there has been careful planning for succession. This can work extremely well. But that strategy needs to be constantly re-tested and back filled as executives move up and corporate priorities change.

CONCLUSION

To meet strategic leadership needs in a dynamic corporate environment it is critical to utilize the best available resources. The business model of retained executive search firms might have room for improvement, but the service that they provide cannot be replaced with internal recruiters or the referrals of insiders. By opening the dialog to assess business priorities, companies engage their leadership in valuable exercises. Other positive outcomes are possible. The competitive landscape and industry trends can be better understood. New leadership can transform the organization and even provide a vision for innovation.