



SOCIETY OF ACTUARIES

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# Using a Retained Executive Firm: From the Company Perspective

by Richard Dannenberg

**I**magine: You have just lost one of your key people to a competitor, or you have just been promoted and you need to hire your successor. There are no qualified internal candidates to be considered. You are told that you can use an outside recruiting firm to fill the position. Now you have to decide: which firm and what type of approach? How do I find this person in the most cost and time effective manner? Most business professionals know that when it comes to using an outside recruiting firm to identify top talent there are two business models from which to choose: contingency or retainer. Each approach has certain characteristics that should be considered in determining which approach is right for you. The following is a brief summary of each model:

#### Characteristics of contingency search:

- Contingency firms are generally used for entry-level to mid-management roles.
- Typically the fee is 100 percent contingent upon the successful hiring of a candidate presented by the firm.
- Contingent search is generally not an exclusive arrangement; the hiring authority is free to work with as many recruiters as it likes.
- Contingent search tends to be less oriented toward candidate assessment and "fit" and more toward the generation of resumes put in front of the hiring authority.
- Candidates presented may be marketed to other companies by the contingency recruiter.
- Contingency firms do not guarantee that they will work on a search until it is filled.

They decide how long they will work on a position based on the likelihood of making a placement.

- Fees generally average between 25 percent and 30 percent of first-year compensation.

#### Characteristics of retained executive search:

- Retainer firms are generally hired for more senior level or strategic roles.
- The search contract in terms of deliverables and fees is negotiated up front and paid in installments throughout the course of the search. The search firm is contractually obligated to work on the position. The search firm fee is paid whether the position is filled or not. Placements are guaranteed for a period of one to two years. If the candidates leave of their own accord during the guarantee period, the search firm will conduct another search to replace them with no additional search fees.
- Retained search is an exclusive arrangement between the company and the search firm. If the company accepts resumes from a contingency firm during the retained search, it may find itself liable for another fee on top of the one paid to the search firm.
- Prior to the commencement of the search, a retainer firm will visit the client and meet with those responsible for making the hiring decision. This provides the search firm with additional selection criteria because the search firm will interview potential candidates in person prior to the client interviewing them.



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- If requested by the client, the search firm will conduct in-depth background/reference checks on the finalist candidates.
- Candidates recruited for your specific position are for you only. They are not marketed to other organizations.
- Senior level candidates know the difference between contingency and retained search firms. Companies that retain a search firm to represent them to the candidate population send a message regarding the importance of the position as well as their commitment to finding the best talent.
- On average, a retained search firm will present a slate of three to five prescreened qualified candidates for the company to interview on site.
- Fees average between 25 percent and 35 percent of first-year salary plus expenses. Some firms offer a flat fee approach versus the variable fee.

If the decision is made to use the retained search approach, how do I now select the firm that is best qualified to find my person?

- One of the easiest ways to identify the right firm is to talk with your peers regarding their experiences with search firms, whether as a candidate or as a consumer of their services.
- The Directory of Executive Recruiters offered by Kennedy Publications is an excellent tool for the identification of search firms and their areas of expertise.
- Check with your human resources personnel for firms they have used and the results they obtained. Another question to ask yourself: Do you want to use a large generalist firm or a boutique firm? There are

advantages and disadvantages to each type of firm.

Once you have identified several firms, check their Web sites and then contact the head of their insurance/financial services or actuarial search practice. Ask about the firm, its expertise, its search process and fees. Provide them with a general overview of the type of person you wish to hire and inquire as to how many searches they have conducted for similar types of roles. Have the firms submit written proposals that outline their process, deliverables, fees, search cancellation clauses, guarantees and their "off-limits list." This client list is extremely important. If a prospective firm has your direct competitors or companies listed as clients, they will be limited in terms of where they can source candidates for you.

Once you have received and reviewed the proposals, invite your top two choices to your offices so that you can interview them as you would a prospective candidate. Get to know them in person. Remember, this firm will be representing you in the marketplace in which you operate on a daily basis. You want to meet the person(s) who will be responsible for helping you hire the right person. Also, remember that while you are interviewing them for their abilities, the search firm is interviewing you to determine what type of client you will be. A quality search firm will not take on a search assignment if it feels the client does not have a clear understanding of the position to be recruited for or if the client does not appreciate the retained search process.

After you have selected a firm, have the firm send you a contract for review and schedule a date for the search team to come out and pick up the search. Make sure that the person who is running the engagement will be interviewing

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the final candidates and is the same person who was out during the initial presentation.

Now that you have engaged the search firm, there are certain steps that a company can follow to ensure a successful search:

- Communication. Set up weekly updates/status reports with the search firm.
- A successful search is a shared responsibility. Once the search firm has presented its slate of candidates, it is the company's responsibility to manage its internal interview process and provide the search firm with interview feedback in a timely manner.
- Be open to the search firm's suggestions if the firm identifies market issues that may have an impact on the successful conclusion of the search.
- Should you have any questions or problems with the manner in which your search is being conducted, alert the recruiter or the managing partner of the firm. A quality firm will respond immediately. They want to preserve the relationship and be called back for your next search.
- When the final candidate is selected, work with the search firm to craft the compensation and relocation package. There is a distinct advantage to having a third party help to facilitate these often highly sensitive and, at times, emotional discussions.

Now that your offer has been accepted and you have a start date, there is a great sense of relief. You thank the search firm's recruiters for their effort and they thank you for your role in the process. It is a mistake to think that the search is over at this point. In my opinion, the search is completed when the selected candidate shows up for the first day of work. Organizations do not like losing their best talent, and in today's competitive work environment, it is not uncommon for someone to

receive several counteroffers, even after giving notice. Therefore, it is critical that both the new employer and the search firm stay in frequent contact with the selected candidate.

Even after the selected candidate has begun work, a quality search firm will stay in touch with both the company and the candidate. The purpose of this is to make sure both parties' expectations are being met. This also helps to reinforce the relationship between the company and the search firm.

As was stated at the beginning of this article, when you need to identify top talent in a cost effective manner, you have options. Whatever approach you decide to use, it is important to select an organization that understands your business, that has your best interests at heart, and that has the knowledge and expertise to represent your opportunity in the marketplace. Remember, the recruiting firm you select is an extension of your organization.

In the next issue of *The Stepping Stone*, we will discuss the interaction between the candidate and a retained search firm. □

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