

SEARCH FIRMS

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Introduction

Search firms are an important part of the employment process, and Human Resource professionals involved in the hiring function typically deal with them on a frequent basis. It is important, therefore, to understand the different categories of search firms and how they operate. For the sake of clarity, this paper will divide such firms into Retained, Contingency, and Other.

Definitions

Retained search firms are given an exclusive contract by the client company to source, interview, and present qualified candidates for a particular position until such time as the retained firm is successful in filling the opening. The client company is invoiced for a predetermined fee plus expenses as the search progresses.

Contingency search firms receive non-exclusive job orders from the client companies to fill specific positions. As competing contingency search firms may receive the same order, there is no commitment by any particular contingency firm to fill such job orders. While the applicable fee is agreed upon in advance, it is not payable unless and until a contingency firm presents the candidate that is hired by the client company.

Other refers to a variety of agencies and companies that provide temporary employees, "temporary to hire" employees, contract employees, recruiters paid on an hourly basis, sourcing services, non-profit social agencies and services, governmental entities, and other organizations that seek to fill open positions for client companies.

Retained and Contingency Firms

In order for the Human Resource professional to know how to best utilize the services of retained and contingency search firms, the following should be considered:

Fees. Retained firms typically charge their clients 30 to 33 2/3 percent of the compensation their successful candidate receives in the first year of employment. In addition the client company is billed for expenses related to the search, such as travel, meals, etc. Contingency firms do not charge expenses, and their fees are often on a sliding scale depending on compensation paid the person hired. Typically their fees are less than those charged by retained firms and may be more subject to negotiation.

Salary Level. Retained firms often have a minimum salary level for the searches they undertake. While this level varies considerably, it may be \$75,000 or higher. Contingency firms usually do not have this feature, but they typically work with exempt and management searches only.

Services rendered. Because the retained firm is assured of its fee, the consultant working on the search can devote more time to the search than usually is the case with a contingency firm. The consultant will visit the client company, meet the executives involved, and draw up search specifications that are

mutually agreed upon. The next step is to conduct research to locate potential candidates for the position, and this search could be on a national or even international scale.

Having developed a list of possible candidates, the consultant may make as many as a hundred telephone calls to potential candidates. Often they are employed and must be sold on the opportunity presented by the search. Consultant/candidate interviews follow, and a short list of candidates is presented to the client, usually with an analysis of the strengths and weaknesses of each. After client interviews, the consultant typically aids in negotiating a satisfactory offer, and the search is concluded.

As contingency firms are not assured of a fee, they cannot devote this amount of time and effort to any particular job order. While they follow many of the same steps outlined above, these actions may be abbreviated out of economic necessity.

Specialization. Both retained and contingency firms may specialize in a particular industry or in a function, such as Human Resources. The entire firm might limit its practice to a particular industry or function, but more typically a partner or department handles the specialization and the firm would list its specialty as generalist.

Ownership/Locality. Most retained firms are professional partnerships with names such as 'Korn Ferry' or 'Heidrick & Struggles', to name two of the largest such organizations. Firms of this size and stature have offices in major cities in the United States and, increasingly, internationally. Other high quality retained firms may have an office in only one city and work locally, regionally or even nationally. Contingency firms may follow the same pattern except that some are franchises of large companies.

Off Limits. Retained search firms have a policy that when they are retained by a particular company to do a search, that company is "off limits" as a source for candidates for other searches that the same search firm may have. This prevents putting a candidate into a firm and then taking him or her out for the benefit of other clients. Usually a company is off limits for a two year period. Contingency firms may also adhere to this policy.

Other Types of Firms

Increasingly the lines between retained and contingency and "other" firms are becoming blurred. Contingency search firms may have retained searches as a significant part of their practice and other firms may operate from time to time as both retained and contingency depending on the situation.

Temporary employment agencies have become an increasingly important factor in the employment market. Manpower, Inc., is said to be the largest employer in the U.S. based on its huge office network and the number of temporary workers it places. A significant number of employers routinely employ ten percent or more of their workforces as temporary employees. Not only does this reduce direct labor and benefits costs, but it shields the employer from laying off regular employees during business downturns. Finally, some firms such as IMCOR place CEO's, CFO's, and other executives on temporary assignments that may or may not lead to regular employment.

A pronounced trend in recent years has been the "temp to perm" way of placing candidates. The candidate accepts a temporary position knowing that if there is mutual satisfaction between himself or herself and the employer, the position will become "permanent" (as a regular employee). The referring agency either collects a fee or waives it provided the temporary assignment is of an agreed upon duration before the candidate goes "permanent."

Employment agencies have been perceived in the past as working for the candidate and not for the employer who supplied the job orders. This perception may have been left over from the days when the candidate, not the employer, paid the employment fee. This practice has largely disappeared, depending on state laws, and search firms work to fill job orders, not to find a jobs for a particular candidates.

A word about some of the "other " arrangements: contract recruiters are increasingly supplied to client companies to work on an hourly fee basis to fill positions on the employer's premises. Some firms provide candidate research only, and the client company contacts the names supplied to complete the recruiting process.

Non-profit organizations and governmental agencies also seek to find jobs for their clients. A classic example would be the local "unemployment office", however it may be called, that tries to find jobs for its unemployed clients. Non-profit organizations may perform similar functions for their clients. Often non-profits work with clients who are disadvantaged in one way or another, but they may represent an effective source of employees for special employer needs.

Conclusion

While the lines between the firms and other organizations that seek to fill open positions or place workers may be somewhat blurred, there are definite differences between retained and contingency search firms. Often referred to by the uncomplimentary term of "headhunters," these firms perform a definite service, and the Human Resource professional needs to understand how to best utilize them. Similarly the "other" category of employment services fills a growing niche for American industry.

Resources

The primary source for information about search firms is [The Directory of Executive Recruiters](#). It is published annually by Kennedy Publications, Fitzwilliam, New Hampshire 03447. It can also be reached by e-mail at www.kennedypub.com. This publication lists over 8,300 recruiters along with their specialties as to function, industry, and geography.

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