High performing teams are essential to an organization’s ability to maintain competitive advantage. As a result, there is enormous pressure on the individuals responsible for identifying, vetting, recruiting and retaining the right executive talent. Finding and attracting best-in-class leadership requires an extensive network, a finger on the pulse of market trends, and the capacity to peel back the layers of an organization to truly understand its leadership requirements.
Historically speaking, many human resources departments have managed this pressure to deliver exceptional talent by leveraging the services of external executive search firms. In an age where human resources departments oversee a broad spectrum of disciplines, such as compensation and benefits, training and development, and employee relations, few have the same level or quality of resources to devote to talent acquisition as an executive search firm.

The challenges faced by organizations in harsh economic times have prompted many to question the value-add and long term benefits of using external search firms’ services. Several companies have been forced to slash budgets—not just for human resources, but across all departments, leaving fewer funds for executive search fees; yet the requirement for top-notch talent remains. As a result, many organizations have shifted their recruiting efforts in-house and created entire departments dedicated to talent acquisition in an effort to reduce expenditures to external firms and streamline the hiring process.

As someone who spent six years leading the in-house executive-level recruiting and staffing function at Kohl’s Corporation, an $18.8B specialty department store, and who also has 15 years of experience working in external executive search firms, I have sat on both sides of the talent acquisition table and understand the thinking, benefits and pitfalls of each model. An organization’s best opportunity to develop quality teams lies in its ability to cultivate an effective partnership between an external executive search firm and its in-house recruiting department.

The Big Shift

Organizations such as Sears Holdings Corp., Campbell Soup Co., and PepsiCo Inc. have recently gained headline attention for their internal recruiting capabilities. According to a survey conducted by the Association of Executive Search Consultants, 68 percent of organizations currently have an in-house recruiting function—a dramatic increase from the 17 percent recorded in 2005. While this statistical jump is significant, it is important to note a few key events that occurred since the 2005 survey that surely impacted organizations’ decisions to bring their recruiting efforts in-house, the first of which is the steady decline of the U.S. economy.

Economic Woes

The economic landscape of today hardly resembles the stage set in 2005; companies must make strategic decisions under the constraints of tight purse strings while still driving innovation and growth. As a result, paying an outside executive search firm up to 33 percent of a placement’s salary can be cumbersome, and at times, financially unfeasible—especially in circumstances where many senior-level hires need to be made. Bringing the recruitment and selection function in-house is often seen as a quick-fix for cost savings.

The Digital Rolodex

The rapid growth of social media platforms, such as LinkedIn, has spurred the trend of in-house recruiting. LinkedIn was still in its early stages in November of 2005, with just over 4.2 million users. Fast forward to August of 2012, and LinkedIn has built a network of more than 175 million users worldwide. Before the advent of social media, recruiters’ professional networks and extensive rolodexes developed over the course of their careers were the only means by which companies could gain access to an elite pool of executive talent.

Many organizations now view LinkedIn as their introductory handshake to a deep network of professionals, and feel they have access to the very same group of professionals listed in

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Executive recruiters’ finely-groomed rolodexes. As a result, many in-house recruiting departments rely on social media for introductions and candidate identification instead of leveraging the services and personal relationships of outside executive recruiters.

The Traditional Search Model, Debunked

A third and perhaps most influential factor in organizations’ attraction to internal recruiting has been the overwhelming frustration with traditional executive search models. Over the past 10 to 15 years, several executive search firms have re-focused efforts toward growing their market share. Many firms expanded operations internationally to tap into a pool of prospective global clients and hired additional partners and junior associates to support their expanding business models. A by-product of this growth, however, was the dramatic increase in the number of client relationships, and consequently, off-limits restrictions.

Most search firms generally agree to not recruit candidates from clients for one year after a placement has been made. The more active client relationships a search firm has, the smaller the universe of organizations from which it can recruit. As a result, the idea of facing zero off-limits restrictions with an in-house recruiting function is all the more appealing.

In addition, many current in-house recruiters believe that because they have a deep understanding of their company culture, they are best positioned to identify others who possess the right cultural traits, accurately communicate the requirements and nature of the position at hand, speak knowledgeably on local living conditions and community features, and ultimately determine whether or not a candidate will fit well into the organization.

The Chief Financial Officer at a leading packaging solutions company believes that internal recruiters understand the inner workings of the company culture, and can speak to how the open role will fit into the organization better than an external recruiter. He explains, “Internal recruiters can answer candidates’ questions on the fly; because external recruiters are so many layers removed from the source, information sometimes gets lost in translation, much like the Telephone game.” Many organizations with in-house recruiting departments believe that internal recruiters have an intrinsic understanding of their company’s culture, creating greater alignment between both client and candidate expectations.

While it is certainly true that those operating within an organization have the clearest lens into its corporate culture, outside search partners possess a set of skills and competencies that enable them to work collaboratively with clients to deliver the right talent solutions.

A Case for the Executive Search Firm

According to the Association of Executive Search Consultant’s (AESC) 2011 Senior Executive Recruitment Survey, 84 percent of the human resources professionals surveyed continue to use retained executive search firms on a regular basis.\(^4\) Considering that 68 percent of respondents also reported having in-house recruiting functions, it is clear that there is significant overlap between organizations with in-house recruiting and those who continue to leverage retained executive search firms. With the number of companies that publicize the success of their in-house recruiting functions, why then, do such a strong majority continue to use the services of executive search firms? The answer is simple: in-house and external recruiting need not be mutually exclusive; if partnered together, the two seeming competitors can pool their resources and capabilities to create an efficient talent acquisition solution. However, there are certain situations where executive search firms have the clear advantage over in-house departments.

Number of Assignments

The first significant difference between in-house and best-in-class executive search firms is the sheer number of

assignments each is willing to accept. Similar to consultants at high-volume search firms, in-house recruiters may find themselves overstretched—sometimes with anywhere from 20 to 40 requisitions on their desk at a given time. This is mainly due to the fact that organizations with in-house recruiting departments tend to be multi-site, layered corporations with a large number of open positions to fill. Considering that in-house recruiters are responsible for all hiring efforts across the organization, they are not in a position to refuse assignments for lack of bandwidth.

Executive search consultants at mid-sized firms, on the other hand, can refer assignments to other colleagues or refuse assignments altogether if they don’t have the resources to execute projects in a timely and efficient manner. With only a handful of assignments at one time, executive search partners can spend adequate time with the executive team defining position requirements and understanding how the role fits into the organization, which helps recruiters identify appropriate candidates and pitch opportunities, even in cases where there may be employer brand issues. Although in-house recruiting teams have a deep knowledge of the corporate culture, few are privy to conversations taking place at the highest organizational levels that can have a direct impact on position requirements. Executive search consultants are often more qualified to fill senior-level positions because they have the capacity to delve into the underlying organizational issues creating need for the position and ultimately deliver the right solution.

Candidate Access

Social media platforms with built-in recruiting tools, such as LinkedIn, certainly make it easier for in-house recruiting functions to target candidates for entry, junior, and even mid-tier positions. However, many of today’s senior-level candidates do not have social media profiles or are skeptical of introductions made through social media platforms. Top-tier executive recruiters typically have robust contact lists of professionals from multiple industries and functional areas, and better yet, long-standing relationships with each one of them.

Consider the example of a Fortune 100 company looking to hire a CFO. In one scenario, the organization has a layered in-house recruiting function primarily centered around job boards and social media. The director of executive search scours LinkedIn and sifts through resumes submitted online looking for suitable CFO candidates. The director comes across Jane Smith’s profile. The director recalls that Ms. Smith was a short-list candidate on an assignment he worked on 18 months ago, and believes she would be a perfect fit for this role. At the very least, Ms. Smith might be able to suggest other suitable candidates from her network who might be interested in the role. The partner then calls Ms. Smith on her cell phone to tell her about the position.

Albeit a fictional example, many would bet money that Ms. Smith is more likely to contact the executive search partner she knows and trusts before responding to the InMail message. While social media networks absolutely give recruiters, both in-house and external, access to a wider-cast net of talent, the relationships and reputations garnered by executive search partners over the duration of their careers gives them an extreme advantage in the marketplace when contacting best-in-class candidates.

Passive Candidates

Most clients will agree that the best candidates are passive candidates, specifically, executives who are not currently pursuing outside employment opportunities. These
professionals are often people who are doing well in their current roles, whose organizations are sending them all of the right career growth signals, but poke their heads up when an executive recruiter pitches a compelling story. The true value of outside executive search partners resides in their ability to craft interesting corporate narratives that play to the interests, strengths and goals of the candidate, which can only be cultivated and finessed over years of experience managing the search process.

Many in-house recruiters rely on “post and pray” strategies, where they post position openings on job boards, such as Monster.com, mine applicants through application tracking systems, and hope for candidate interest, instead of conducting proactive recruiting activities. The Chief Financial Officer at a leading packaging solutions company comments, “Internal recruiters have, in my mind, typically struggled to find good, viable candidates—they always find folks on Monster, Linkedin, and things of that nature. There are absolutely some talented people out there who are available for whatever reason, but by and far, really strong candidates usually already have jobs.” Considering that passive candidates by definition do not actively seek outside positions, in-house departments rarely receive interest from candidates with the quality or experience necessary to be successful in senior-level or niche positions.

Consider the case of a retail company seeking an executive to lead its global women’s footwear division. Because the job requirements are very specific, it is unlikely that a seasoned executive with deep experience leading the footwear department of a national or global retailer would actively respond to an online job posting. In situations where the position at hand falls into a niche category, executive search professionals can exercise rigorous search processes, conduct original research, and leverage professional connections to fill the position with a qualified expert at a faster speed than if the company were to rely on internal, passive recruiting strategies.

Objectivity

It is unrealistic to assume that executive recruiters have personal relationships with all top-tier talent across the globe. In a situation, however unlikely it may be, where an executive search partner has few viable candidates in his or her personal network who match the needs of a specific search, the partner will most certainly look to social media platforms, such as LinkedIn, to broaden the talent pool. In these cases, retained executive search partners are far better poised for successful introductions than in-house recruiters.

In-house recruiters representing companies with strong employer brands and market positions will likely face fewer talent acquisition challenges than recruiters representing start-up organizations, companies currently engaged in public disputes or legal issues, or organizations in turnaround situations. In either case, if a potential candidate does not relate to the client organization, or is fearful that the internal recruiter—usually from a competing company—is simply interested in gaining competitive intelligence, the candidate will likely not engage in a dialogue. As neutral third parties, executive search firms have a far better chance of engaging a candidate in a dialogue on behalf of the client.

Executive search consultants are also in a unique position to provide candidates objective insight into the idiosyncrasies of the corporate culture, which allows for greater transparency and quality throughout the search process. The Senior Vice President, International Buying, Planning and Logistics at a $1B+ women’s specialty retailer comments, “Executive recruiters are allowed to be objective filters. If a candidate has difficult feedback, follow-up, or questions, but is worried about bringing it up with the client, they can use a recruiter. It isn’t as personal or risky when you can go through a third party.”

The objectivity of recruiters can also impact the quality of candidate references and verifications. Many organizations that leverage the services of executive search firms believe that experienced search consultants are often privy to deeper levels of candidate information than internal recruiters. The
Assistant Vice President, Director, Global Talent Acquisition at a $3B+ global wine and spirits company says, “Our in-house recruiting team is more limited in what we can find out about candidates; as a company, we tend to get standard responses to reference checks, whereas executive search firms get the real story. Having that deeper level of intel on candidates is a huge plus with using search firms.” People generally regard the search process executed by external recruiters as more confidential and impartial than that of a hiring organization, and are willing to engage in deeper, more insightful conversations with executive search partners.

Confidential Assignments

According to the AESC’s 2011 Senior Executive Recruitment Survey, 85 percent of human resources executives reported that they were “highly likely” or “likely” to use search for confidential assignments. In cases where the replacement of an executive is considered to be a disclosable event, confidentiality is of the utmost importance because announcing the departure of a senior-level executive in a mission-critical role can impact shareholder value and brand reputation. As a result, some companies may prefer to place an executive into the open role before announcing the management change to employees or external shareholders. There are also instances where a client may initiate a search before informing the incumbent of the organization’s intention to replace him or her. Executive committees are typically unwilling to let their in-house departments conduct confidential searches simply because there are too many opportunities for information leakage. Executive search firms have strict processes and protocols for conducting confidential assignments, and are therefore a lower-risk solution.

Process

Executive search firms with strong processes and streamlined communication often leave lasting, favorable impressions on both client representatives and candidates. According to ERE.net’s article “Do We Need Internal Recruiting at All?” Kevin Wheeler, President and Founder of Global Learning Resources, Inc., explains that in-house recruiting functions tend to be more fragmented and inconsistent in their recruiting processes, because with each new head of recruiting comes an entirely new process and methodology, introducing more room for error and inefficiency. Partners come and go at executive search firms, too, yet the processes in place remain the same. Because high-caliber executives are often pursued by multiple organizations, it is important to have a strong process that plays to the quick pace of the executive search cycle.

Expertise

Most top-tier executive search consultants have been in the industry for a number of years and have deep experience supporting companies’ organizational development and recruiting efforts. As a former retained executive search consultant, the Assistant Vice President, Director, Global Talent Acquisition at a $3B+ global wine and spirits company adds that many search partners began their careers on the business side, allowing them to grow a broader base of candidates and contacts. He continues, “Search consultants are generally experts in whatever function or industry it is that they conduct most of their search assignments. They tend to be high-

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performing, impressive, highly professional folks who really understand how to select good talent.” Over their 10, 15, and 20 plus year careers, senior executive search consultants have learned how to streamline the full executive search cycle, speak to a number of human capital challenges across multiple industries and disciplines, and recommend proven strategies for resolving those critical issues.

Executive search partners also have a deep understanding of how to effectively negotiate job offers and compensation and relocation packages, as well as a multitude of other complex transactional matters. This level of expertise adds to the seamlessness of the search process and decreases the time spent shuffling contracts back and forth before reaching mutually-agreed upon terms and conditions. In a situation where “time is money,” companies would be smart to leverage any and all opportunities to shave seconds off of the search process.

In many cases, in-house recruiting teams are led by former senior executive recruiting partners who have a firm grasp on the processes and techniques that lead to efficient and successful placements; such was the case for my position at Kohl’s. The Head of Human Resources at Kohl’s recruited me out of a large global retained executive search firm because he appreciated the value-add and expertise of an executive search partner, but was frustrated with the framework of traditional, bulge-bracket search firms. Experiencing the same frustrations, many organizations took a similar approach and hired seasoned executive search professionals to lead their internal recruiting functions. However, for major organizations with a large number of open positions to fill, it can be difficult for one overseeing executive to play the partner role and deliver quality results on each and every assignment.

The department leader will undoubtedly put processes in place to help guide the rest of the team—usually comprised of individuals with diverse backgrounds in a broad range of human resources disciplines—but it is challenging to impart years, and sometimes decades, of wisdom across an entire department. As a result, the team members in charge of search assignments typically don’t have the same experience, knowledge, or finesse as senior executive search partners, which can lead to longer completion cycles and a higher percentage of unfilled positions.

Cost Savings

Many organizations view the move to in-house recruiting as an essential cost-cutting measure, yet this is not always the case. In the study conducted by the AESC, 78 percent of respondents noted they were either “highly likely” or “likely” to retain a search firm for a position with a salary above $200,000, and 83 percent for positions with salaries above $300,000. These numbers demonstrate companies’ clear preference for using retained executive search firms to fill mission-critical positions that often play key roles in growing the company, maintaining shareholder confidence, and strengthening brand reputation.

According to the Assistant Vice President, Director, Global Talent Acquisition at a $3B+ global wine and spirits company, “We look at the level of the position and the complexity of the role when deciding whether or not to go outside and leverage a search firm. In my opinion, candidates for more senior roles are less likely to take a call from an in-house recruiter. The more senior the role, the more likely we are to use executive search. We then look at the supply of talent for a specific role.”

role, how complex the search is—meaning if it requires a very niche-oriented skill set, if our in-house team has experience with that role, and if we have a current network of executives to draw upon for that position. If it’s a role that is not as complex—for example, a vice president or director of operations role, a role that is likely to have a large supply of candidates—we will go ahead and own those searches internally.” As outlined in the sections above, partners at executive search firms have a number of advantages and resources at their disposal to execute on senior-level assignments at a faster cadence and with a greater success rate than in-house recruiters. In some cases, organizations that elect to use in-house team to fill a senior or C-level position find that the time it takes for the internal recruiters to find a suitable replacement is far longer than the typical time frame of a reputable mid-sized executive search firm. In the event that the in-house team is unable to identify a qualified leader for a high-profile position, companies often seek assistance from the executive search firms they tried so tirelessly to avoid.

The opportunity cost of a key position going unfilled is far too great a risk for most organizations to take; as such, most companies choose to give assignments to the most qualified party, whether it is an executive search firm or in-house team. In the case of high-profile, senior-level, often confidential searches, executive search partners’ network of qualified candidates, objectivity, strong process, and years of expertise give them the clear upper hand. In the end, the fee attached to hiring the right leader is minimal compared to what that executive can deliver to the company’s bottom line, culture and brand.

“Buyers” of executive search services should think about the big picture when evaluating the value-add of executive search consultants.

Working Together
Although using an executive search firm for senior-level assignments makes sense from a financial and overall business standpoint, their services are less critical when considering entry or mid-level positions. In-house recruiters are well-positioned to place professionals into mid-tier generalist openings because the supply of qualified candidates actively seeking new roles is much larger than the pool of candidates for highly specialized positions. As such, an executive search consultant’s experience and network add less incremental value for entry to mid-level positions than for senior and C-level assignments. In these cases, in-house recruiters provide a clear cost advantage over external executive search firms.

Additionally, many in-house recruiting functions have established internal referral programs whereby employees may recommend potential candidates to internal recruiters in exchange for a small incentive fee. These internal referral programs help in-house teams build candidate pipelines and gain greater intelligence on potential candidates through back-door references, namely, references from people known by the company, such as employees, who may not be listed on the candidate’s list of references. This internal referral network is a valuable resource for in-house recruiting teams that cannot be duplicated in an executive search firm. Internal recruiting teams have a number of systems and strategies that facilitate successful entry to mid-level placements, allowing companies to save a significant amount of money that would otherwise be used for executive recruiter fees, and redirect those funds back into the organization.

In many cases, companies will need to reach beyond the limits of their internal referral programs or social media recruiting strategies in order to gain access to a wider pool of senior-level candidates. When recruiting executives into complex, high-level positions, such as business unit leaders, general
managers, niche functional heads, and vice president-level positions and up, previous relationships with target candidates and extensive networks give executive search consultants an edge over in-house recruiters, who tend to be limited by traditional “post and pray” tactics and social media outreach.

By partnering in-house teams with third party executive search firms, organizations can create more cost savings than they would if they were to use only one resource. Companies can expand on these savings even further by establishing a relationship with a select few search firms to execute all of their mission-critical search assignments instead of reaching out to many firms on an ad-hoc basis. According to the Senior Vice President, International Buying, Planning and Logistics at a $1B+ women’s specialty retailer, “From a candidate’s perspective, working with client organizations that have an ongoing relationship with an executive search firm tends to be a better experience than those who say, ‘I haven’t been able to fill my CFO job, so let’s call up Company XYZ and see what they can do.’ The longer term relationships tend to be smoother.” Partnering with only a few firms not only reduces the time spent explaining the organizational structure, culture and challenges to the search partner, it also fosters a more consultative relationship between the client and managing partner. A deep understanding of an organization’s strategy, culture, challenges and opportunities gives the managing partner better insight on the type of candidate that would be most effective, streamlines the vetting process, and allows the partner to identify and attract the right candidates faster.

Few companies regularly leverage the entire range of services search firms have to offer. During my time at Kohl’s, I would often call upon search firms to get back-door references on people we weren’t able to source internally. As the Assistant Vice President, Director, Global Talent Acquisition at the $3B+ global wine and spirits company previously mentioned, individuals tend to be more candid with executive search consultants than in-house recruiters when giving references for former colleagues. Finding and placing the best talent, not just the best available talent, is crucial for future organizational success; as such, honest, first-hand references are useful tools for forecasting how a candidate will function in a new role. Since I established solid working relationships with a few external search partners, I was able to tap into a network that spanned far wider than the internal database we had built at Kohl’s and get information and references I would have otherwise not had access to. A search firm can serve as a valuable resource for client organizations on a wide range of executive leadership issues that extend beyond the transactional nature of the search itself, often without a fee involved.

Closing Thoughts

It is certainly true that the recruiting industry has evolved in recent years, but the idea that executive search is becoming obsolete as companies shift their recruiting efforts in-house could not be more off the mark. As companies continue to make headlines for creating internal talent acquisition departments, it is important to remember that 84 percent of human resources representatives continue to retain external executive search firms for key assignments. Organizations should steer away from single-track recruiting efforts, such as relying solely on either in-house recruiting or external executive search, because neither option can produce the same results as a strategic partnership between the two. Organizations should build and nurture in-house recruiting teams to support entry to mid-level search assignments, while also partnering with leading mid-sized search firms to deliver first-class results for mission-critical, senior-level assignments.

Executive Recruiting in the Digital Age: Evaluating In-House vs. External Search

ABOUT MIKE MAGURANY

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Mr. Magurany conducts searches in all functional areas, including merchandising, merchandise planning and allocation, marketing, e-commerce, finance, information technology, store operations and human resources. His client experience includes assisting big-box, specialty and department stores, as well as consumer packaged goods/food/durables and B2C e-commerce companies with external hiring and executive leadership management strategies.

Prior to the formation of NGS Global, Mr. Magurany was Partner at Nosal Partners LLC. He was previously the Head of Leadership Recruiting for Kohl’s Department Stores. During his six years with the company, he partnered with executive management to successfully recruit over 100 influential senior level executives across a variety of disciplines and corporate functions.

Before joining Kohl’s, Mr. Magurany was a senior consultant with Heidrick & Struggles in Chicago. As a member of the firm’s Global Consumer Practice, he advised clients across the consumer packaged goods, food, consumer services and retail sectors on executive succession and talent acquisition strategies.

Mr. Magurany holds a bachelor’s degree from the University of Illinois - Urbana-Champaign. He and his wife reside in the Milwaukee area with their two daughters.

ABOUT NGS GLOBAL

With 17 offices across the Americas, Europe and Asia, NGS Global provides the extensive resources of major global executive search firms along with high-touch service, accelerated completion cycles and superior candidate access made possible by a mid-sized platform without external shareholders. Through our commitment to industry expertise, cultural knowledge and partner-led search execution, we deliver exceptional value to our clients.

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