

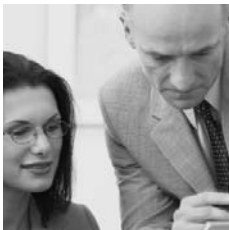
Executive Talent

The Issues Surrounding the
Permanent Recruitment of Senior Management



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Introduction

For us at Executives Online, staying ahead of the game means making sure that we remain responsive to the needs of our clients. Thanks to our position as leading providers of senior interim managers to companies across the UK, and as a growing provider of permanent recruitment services, we have a special insight into the senior executive employment market and so are well placed to anticipate and satisfy those client needs.

However, we are firm believers in the value of supplementing the knowledge and experience that we gain from our day-to-day involvement in the recruitment market with a continuing programme of market research.

Accordingly, we recently commissioned an independent research organisation to investigate the views of clients and potential clients on a wide variety of executive employment topics, with particular emphasis on the recruitment issues companies are

facing today and how they are responding to them. Leading executive recruitment site, Executives on the Web, contributed financial support and content to this research initiative.

For obvious reasons, much of the survey's detail must remain confidential but in this short report we highlight some specific findings that we think will be of interest to anyone involved in recruiting senior managers in the UK. Particularly noteworthy were respondents' views about the difficulty of finding people with the right experience, the length of time it takes to fill a vacancy, and the importance of recruiting senior managers with the right cultural fit.



Ron Brender
Chairman, Executives Online

Background

TSS, an independent market research organisation acting on behalf of Executives Online, carried out 102 interviews with HR managers and line managers responsible for recruiting staff at salaries of £50,000 and above.

The companies interviewed were drawn from a broad spectrum of industries across the UK. Their sizes ranged from small to large but virtually all had an annual turnover in excess of £25 million, with one-third of them turning over more than £100 million a

year. In terms of the number of employees, 58% of the companies said they employed in excess of 1000 people. (*In this report, we define "small" to mean 250 – 500 employees, "medium" to mean 500 – 1000 employees and "large" to mean more than 1000 employees.*)

The respondents were interviewed on the telephone (the interviews typically lasting for 30 minutes) and they were guaranteed anonymity. They were not told that Executives Online was sponsoring the research.

The main priorities and issues driving recruitment practices

Respondents were asked what they considered to be the main priorities and issues that drove their recruitment practices. Their responses are summarised in the table below.

table 1

THE PRIORITIES (% mentions)	COMPANY SIZE			
	Overall	Small	Medium	Large
Finding people with right cultural fit	50	66	64	39
Finding people with right experience	33	34	29	34
Scarcity of good executive talent	31	45	36	24
Finding good people-managers	27	41	21	24
Finding people quickly enough	18	24	21	4
Cost of recruitment	17	24	21	12

Regardless of the size of the company, finding people with the right cultural fit was seen as the top priority, being mentioned by 50% of respondents. However, this overall figure masks significant differences between the views of large and small companies. The latter were much more likely to mention the importance of cultural fit (it was cited by 66% of them) than respondents in large companies (39% mentions).

This difference may be due to the proportionately large influence that recruiting a new senior executive has on the composition and culture of the top cadre in a small company. In a large company, by contrast, the senior management team is likely to be bigger, so the effect on the corporate culture of one new person joining it will be more diluted.

The small sample size in most of the individual business sectors surveyed makes it difficult to draw statistically reliable conclusions about the priority they accord to finding recruits with the right cultural fit. Nonetheless, it is interesting to note that there was a distinct difference in view between the two largest sectors surveyed – the Service Sector (17 respondents) and the Public Sector (19 respondents). 71% of respondents in the Service Sector mentioned

the importance of cultural fit whereas only 26% in the Public Sector identified it as a priority.

This wide divergence may in some cases be explained by the size factor referred to in the previous paragraph – a contrast between small private service companies whose “corporate personality” is often a key selling point with their clients, and large monolithic public bodies where corporate culture is less of an issue in their dealings with the outside world. However, the importance of cultural fit within the Service Sector is plainly more than just a matter of a disparity in organisational size because 41% of the Service Sector companies interviewed said they employed more than 500 people.

The difference between small and large companies’ perceptions of the key recruitment issues and priorities was not just confined to cultural fit. On many of the other parameters – scarcity of good executive talent; finding good people-managers; finding people quickly enough; and cost of recruitment – respondents in small companies were about twice as likely as their big company counterparts to see these as serious recruitment issues. One possible explanation for this is that smaller organisations are less likely to have regular

experience of recruiting staff at the £50k+ level and so are more apt to be concerned about the process. Interestingly, however, the second most frequently cited recruitment priority – finding people with the right industry and functional experience – was the one issue on which there was very little variation across all sizes of company. In large and small organisations alike it was mentioned by 34% of respondents (and by 29% of respondents in medium-sized companies).

Retaining senior executives

Senior executive retention issues did not seem to trouble most of the organisations in our survey. Four out of five (81%) of them said they didn't have a problem in this area. And, on average, they reported that senior managers typically stayed for almost eight years. Nevertheless, for a fifth it was clearly an issue with at least one in ten respondents saying the average stay for senior managers was no more than three years, and one in five respondents (21%) recording an average senior executive tenure of no more than four years.

No significant variations in executive retention were noted between large, medium and small companies. Companies in the South were, however, twice as likely as their counterparts in the Midlands/Wales to say that holding on to senior staff was an issue (18% vs 9%) – a reflection perhaps of the more buoyant job market in the south-east.

Given that companies in the South were also much more likely say that they encounter cultural fit issues when recruiting, our study suggests that they may face a specific set of recruitment challenges.

Most respondents (68%) said they saw no difference in the length of time senior management recruits stayed compared with three years ago, though this view was more likely to be held by respondents who were HR professionals (78% of whom said "No difference") than by those who were line managers

(55%). Or looking at it from another angle, 25% of line managers said senior executives were not staying as long with their firm as they did three years ago, whereas just 8% of HR managers shared this view.

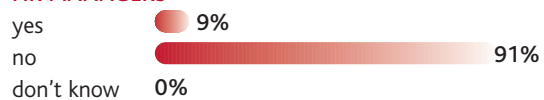
In fact, the 55 HR managers in our survey generally seemed to have a rosier view of recruitment than the 47 line managers we interviewed. This may be because HR managers have a more tried and tested approach to recruitment and are therefore less anxious and pessimistic about the related issues. Furthermore, it's a more central part of their role, and therefore is seen as a less daunting task.

This disparity of views between HR and line managers poses another, more worrying, possibility for the HR fraternity. It could be that in some organisations where HR may be for whatever reason less connected to the line management priorities and to the day to day challenges faced by the "front-line" of the organisation, HR may be unaware of the dissatisfaction line managers experience with the company's usual recruitment practices, and unaware of the recruitment anxieties they face.

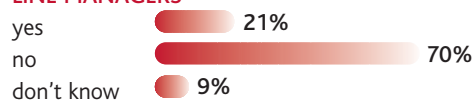
table 2

Is it difficult retaining senior executives?

HR MANAGERS



LINE MANAGERS



How long do senior managers typically stay with company?

HR MANAGERS



LINE MANAGERS



Recruitment problems

As the table below reveals, respondents saw a number of problems with the current senior executive recruitment environment.

table 3

THE ISSUES (% mentions)	COMPANY SIZE			
	All	Small	Medium	Large
Difficult to find people with the right experience	60	69	57	56
Difficult to find people with enough experience	43	62	21	39
Candidates have unreasonable salary expectations	19	28	0	19
Process takes a long time	15	14	14	15
Candidates come a long way in the process and then back out	11	21	14	5
Expensive agency fees	10	24	7	3
Other	33	21	50	36

Of particular interest is the fact that as many as 60% of all respondents said it was difficult to find people with the right experience, or with enough experience (43%). Far from having nit-picky complaints peripheral to the basic task at hand, the respondents' organisations are experiencing difficulty with the most fundamental requirements of recruitment. This suggests either a breakdown in communications about the type and amount of experience required, the failure of the recruiter (external or internal, HR or line management) to identify likely sources of that talent in the marketplace, or the inability to recognise people possessing it when they present themselves.

These responses could be the result of wider, macro-economic issues that have been at play for some time. Average retirement ages have fallen in the UK by five years since the 1950s, while more recently, the economic inactivity rate for UK men aged 55 to 65 has more than doubled since 1979, from 17% to 37%. Added to this, during periods of corporate restructure during the 80s and 90s, many middle managers were the casualties and youth was often favoured over experience. These combined factors

could now be creating the experience shortfall mentioned by the respondents.

Whatever the analysis, recruitment is on one hand a very basic, yet very subtle task. With so many companies struggling with "Recruitment 101" type problems, clearly there is the need for alternative recruitment options to be tried. As the study shows on page 6, that is indeed how the market is responding.

One in five respondents (19%) also said that candidates have unrealistic salary expectations. This view was especially prevalent in small companies, where 28% of them reported it as a problem. This issue could be exacerbated by the aforementioned "lack of experience" problem. After all, if someone has the right type or depth of experience, their salary demands will be less of a concern. However, if they lack the necessary experience, their salary demands will be felt more keenly and perceived as more unreasonable.

15% of survey respondents said the recruitment

process takes too long, a view that was shared equally across all sizes of business. Small companies, on the other hand, were much more likely to report that candidates backed out at a late stage. (21% said this, compared with 14% in medium-sized companies and only 5% in large companies.)

The cost of recruitment agency fees also appeared to be an issue for small companies: about one-quarter of them mentioned it, whereas for medium and large companies fees did not seem to be a significant problem area.

In general, it appears that smaller companies feel senior executive recruitment problems/issues more acutely than their larger counterparts. There are several possible explanations for these particular employment challenges facing small businesses:

Scarcity of talent

Smaller companies may struggle to find good executive talent and good people-managers because their size makes them less attractive to potential employees. Perhaps senior executives are worried about having the "right company names" on their CV and this may inhibit them from taking up positions with smaller, less well-known companies.

Time pressures

Smaller companies are less likely to have the "management slack" that would allow them to cope with a gap in the management team for an extended period. They therefore need to find people quickly and are keenly aware if the recruitment process becomes unduly protracted.

Cost

Smaller companies are perhaps less likely to be as financially resilient as their larger counterparts and so are more likely to find all extra costs of concern. Given that they also find it harder to find good people and suffer from more candidates backing out

at the last minute, the "cost of recruitment per person found" may actually be greater for them.

High salary expectations & backing out

It could be that candidates have more reservations about working for smaller organisations and so are more likely to want higher salaries for doing so. This reservation may also result in their being more likely to back out if a better job opportunity comes along during the selection process.

Small-company culture

Cultural fit considerations may also be at play here. Cultural fit is a two-way street: on paper a company may look good and offer the right career opportunities, but perhaps as the potential recruits get deeper into the interview process they realise that they will not fit comfortably with the personality of the organisation. Smaller companies wear their culture on their sleeve. A single personality in a small company may be proportionately more able to influence a candidate's decision than in a large company where complex structure and a multitude of people may obscure it.



Recruitment methods

Respondents were asked what methods and media they used when trying to hire senior executives.

table 4

METHODS & MEDIA (% mentions)	COMPANY SIZE			
	All	Small	Medium	Large
Recruitment agency/consultancy/exec search firm/headhunter	81	83	64	85
Advertising in trade/business press	60	48	64	64
Company's own website	48	38	43	54
Employee referral/internal network	45	38	57	46
Jobs board/jobs website	34	31	36	36
Internal CV database	10	10	7	10
External CV database	33	21	50	36
Other	12	17	21	7

Companies generally try a mix of methods when recruiting senior executives. As the table above shows, as many as four-fifths (81%) of the companies surveyed said they used the services of a recruitment consultancy, agency, search firm or headhunter. The figure for the 59 large companies in the survey was as high as 85%.

Most companies said they preferred to retain their recruitment partner's services by paying a set monthly fee. While this may engender a tighter relationship between recruiter and client, it also may be likely to raise the cost of recruitment, especially when fees are paid up-front for searches that ultimately fail. Also of note is the high proportion of organisations relying on search as their primary method. Search, or headhunting, can be a very effective way to produce candidates with precisely defined experience, for example, coming from a particular named set of the company's direct competitors, supply chain or customers. However, it is among the slowest, and because a person must typically be persuaded out of a current role, it runs the risk of candidates withdrawing deep in the process.

Advertising in the trade or business press was used on average by 60% of companies, but small companies were less likely to use this method than their medium-sized and large counterparts. Cost is probably a deterrent for the smaller companies – especially when compared with other media. Smaller companies may also be concerned that their name will be less of a draw when up against their much bigger rivals "on the page".

table 5

The type of agency used:



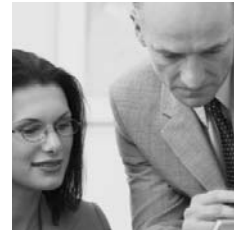
Many larger companies also routinely advertise their vacancies in business media as an adjunct to their PR activity, believing that regular recruitment advertisements will help communicate how the company is expanding, its dynamism etc.

Public Sector organisations were the greatest users of press advertising, 89% of them adopting this method.

Interestingly, respondents in the Public Sector were less likely than the average to depend on employee referral/internal networks when looking to recruit senior people. Just 26% of Public Sector managers said they used this method, compared with 45% of interviewees as a whole. It may be that those in the Public Sector feel uncomfortable deploying (or admitting they deploy) such an informal method, one open to personal influence.

The Web is now a major recruitment tool. Half of all respondents (48%) said their company used its own website to advertise vacancies and one-third (34%) reported using external job boards or websites. Given the volumes of traffic they are likely to attract, large companies are predictably more likely than small ones (54% vs 38%) to use their own website as a recruitment medium. However there was little difference in their respective use of jobs websites/jobs boards.

It is worth noting here that the Web-based job boards named by respondents may provide an indication of the relative immaturity of the job-board market and of its fragmentation. Monster, the most frequently mentioned board, was used by a mere 7% of respondents, while 4% said they used their own website and 3% said they used Totaljobs. A large number of other job boards were used but none of them by more than one survey respondent.



Which recruitment methods are the most successful?

Turning to the relative success rates of the different recruitment methods, some techniques were judged to be far more successful than others. The use of agencies, consultancies, search firms and headhunters was thought, by a considerable margin, to be the most effective approach. As many as 60% of respondents said agencies were the “most successful” method, with print advertising being described as the “most successful” by only 19% of respondents, and internal networks by only 10%. The other methods barely registered in the “most successful” category.

When, however, the question was widened to ask about the “second most successful” method, internal networks and the company’s own website fared rather better, coming in with mentions by 17% and 16% of respondents respectively.

Measurement

While organisations are willing to explore a mix of recruitment techniques, they are not testing them in a very scientific way. For instance few are measuring what matters (the quality of candidate hired) to determine whether their recruitment process is delivering and almost 10% have no formal measurement of whether their recruitment is successful.

table 6

Measures of recruitment success

Quality of candidate hired



Quality of candidates coming forward



Number of applicants



Speed of process



When they fail

According to the survey, although recruitment agencies of one form or other are the most successful method, on 16% of occasions the agency fails to come up with the candidate eventually hired. This rises to as many as 25% of cases among smaller companies.

table 7

How often does your recruitment agency fail?

Overall



Smaller companies



It is no surprise that our survey found that HR professionals are more adventurous in their approach to recruitment than ordinary line managers. We found that they are more likely to resort to job boards/jobs websites (38%) than other managers (30%); and 16% of HR professionals use external CV databases, whereas this method was favoured by just 2% of other managers.

Moving forward

62% of all respondents said they didn’t foresee a change over the next five years in their use of existing recruitment tools or in the amount they spend on each. Of the remainder, 20% did expect a change (the amount being spent varying depending on whether or not recruitment becomes a more critical issue) and 18% did not state their view.

The importance of the Web in recruitment is underlined by the survey’s findings on advertising budgets. On average, 42% of general recruitment advertising budgets, and 33% of executive recruitment advertising expenditure, is currently devoted to online tools.

Although this has barely shifted during the past 12 months, between 22% and 23% of all respondents said such online expenditure will increase for both types of recruitment during the year ahead.

Filling vacancies: how fast and how many?

Whatever recruitment method or methods companies deploy there is obviously room for improvement because companies, on average, said they take more than 4 months to fill an executive vacancy – and 25% said it takes them at least 6 months.

As table 8 shows, Public Sector organisations tend to fill their senior vacancies faster than the average, and small companies fill them faster than larger ones. Companies in the North on average fill their vacancies almost a month faster than their counterparts in the South.

table 8

TIME TO FILL VACANCY	MONTHS
Overall	4.0
Public sector	3.2
Small companies	3.6
Large companies	4.3
North/Scotland	3.5
South	4.4

How many senior managers do the organisations in our survey recruit in any given year? The table below shows that the average company said it needed to hire six senior executives each year.

table 9

SENIOR EXECS HIRED %	COMPANY SIZE			
	All	Small	Medium	Large
1 to 2 senior execs hired p.a.	39	52	36	34
3 to 4 senior execs hired p.a.	24	24	29	22
5 to 10 senior execs hired p.a.	16	7	21	19
11 to 20 senior execs hired p.a.	5	3	0	7
Over 20 senior execs hired p.a.	3	3	0	3
Not stated	13	11	14	15
Column total (%)	100	100	100	100
Average number of senior execs hired p.a.	6.1	4.1	3.2	7.8

It is instructive to consider the cost and manpower implications of these figures.

If we assume that companies recruit only when there is an immediate need to fill a new post or when a member of staff has handed in his or her notice, the study suggests that, on average, 2 full years (6 x 4 months) of top performing senior executive time is lost to the company because of the time taken to fill

the vacant posts. What is more, this problem is significantly exacerbated in bigger companies, which need to recruit twice as many senior executives each year and tend to take longer to find each one.

This emphasises the importance of companies retaining their high quality senior staff and of speeding up the recruitment process when vacancies do arise.

The hardest roles to fill

Respondents were asked which senior executive posts they found the most difficult to fill. Positions at the managing director/CEO level were mentioned by 20%, the next highest being director or project manager in the IT function (11%). Finance director was mentioned by 8% of respondents, with senior positions in operations/production/manufacturing and in sales/business development receiving mentions by 7% and 6% respectively.

Filling a senior IT post was reported to be more of a problem in large organisations, 14% of them saying it was the hardest role to fill, compared with 7% in small companies. In contrast, smaller organisations are almost three times as likely to struggle to find the right calibre of finance director than their larger counterparts (14% vs 5%).

One in five of all interviewees reported that the easiest executive role to fill was in the sales/business development function. Next easiest were senior positions in the finance/control function (mentioned by 18% of respondents).

It should be borne in mind, of course, that these perceptions about difficult and easy positions to fill are dependent upon a vacancy or vacancies having occurred in that particular role in the company in question. In other words, a respondent may not have reported a difficulty filling, say, a CEO position only because no such vacancy had arisen rather than because it was easy filling the post.

Recruitment costs

The 30 organisations that were prepared to disclose their expenditure on average spend £122,000 a year (in direct external costs) trying to hire their senior executives. As might be expected, small companies spend less (£39,000) than large ones (£198,000). The small number of responses means we shouldn't infer too much from these figures. Nevertheless, given that the large companies in the survey on average

recruited 7.8 senior executives a year, we can estimate that it costs them in the region of £25,000 to recruit each executive. For smaller companies the cost per recruit is between £9,000 and £10,000.

As noted earlier in this report, more and more organisations are supplementing their recruitment strategies with Web-based solutions – either using their own job boards or external job sites. While these methods have yet to prove themselves as top performers, advertising budget figures suggest their influence is growing.

table 10

HOW IS THE RECRUITMENT SPEND DIVIDED?

	%
Recruitment consultancy/agency/ search firm or head-hunter	57
Print advertising	24
Referral or company's internal network	6
Company's own website	6
Jobs board/jobs website	4
Own CV database	1
Other	2
TOTAL	100

How to improve the senior recruitment process

Finally, we asked the interviewees what they thought might be done to improve the process of recruiting senior managers.

Almost one-third (31%) of all respondents said that reducing the cost would help. Seeing candidates who matched the brief more closely was nominated by 28% and speeding up the whole recruitment process by 25%. Interestingly, these views were held fairly uniformly, regardless of the size of the company for which the respondent worked.

Culture & the status quo

Despite the talk of diversity and the drive to attract more women and people with a greater mix of backgrounds and experience, the research suggests that companies are, in practice, not keen to ring in the changes when it comes to recruiting senior managers.

Finding people with the right cultural fit dominates the process, 50% of the board directors and senior HR professionals questioned said it was the main issue driving their recruitment decisions. Similarly the right kind of experience – another classic recruitment challenge – preoccupied a third.

This focus on keeping the cultural status quo is reflected by the very slow pace of change in British boardrooms. For instance, although a study by Race for Opportunity found that major companies were spending an average of £33 per employee on race and diversity issues in 2004, further research just completed (November 2005) by the Cranfield School of Management highlighted that 25 of the FTSE 100 companies still have no women on the Board. Furthermore just 11 of those that do have female board members have them in executive positions.

While it is understandable that companies will want to recruit someone they can work with and who has the right experience, this box-filling, play-safe approach – where the priority is findings a “face that fits” – means many organisations are not exploring the full breadth of senior management talent available to them.

This is something they can ill afford to do, given that in the Executives Online study almost a third said the scarcity of good executive talent was an issue, while over a quarter couldn't find the people managers they need.

table 11

Challenges

Scarcity of good executive talent



31%

Finding good people managers



27%

A key reason for this cautious, culture driven recruitment policy could be the lack of innovation and general stagnation within the recruitment sector. For instance, as already shown, 81% of organisations said they have long-established retained agency/ headhunter relationships, which haven't changed for many years. In the largest companies this rose to 85%. These relationships are typically managed by the HR function. In such a situation the head hunter may inevitably start supplying what they think the client will be comfortable with, approaching the same, limited mix of candidates each time there is a role to fill. The end result is what many refer to as “pale, male and stale” recruits – safe decisions where the brief is all about meeting the needs of the corporate culture rather than actually addressing the corporate challenge.

As other recruitment methods increasingly take hold, it will be interesting to note what impact they have on senior manager recruitment.

Conclusions

Organisations struggle with the most basic recruitment challenges: finding people with the right type and amount of experience to do a job, and whose personality fits with the existing environment. These items are the most fundamental aspects of resourcing, yet they're found to be profoundly difficult.

At the same time, retained executive search firms have a tight grip on the market, with 80% of the interviewed managers using them in their companies.

Unlike most other business disciplines, recruitment seems to have escaped stringent performance measurement – yet its impact on corporate performance is potentially huge.

One of two things may be concluded from this. Either the search firms are doing the absolute best they can with a fundamentally thorny task, or the market has become apathetic, believing recruitment always has to be this tricky and that the process just can't be improved.

Given the advances in technology, the availability of highly experienced management talent to work on a temporary contract basis, the pressure on companies to embrace greater diversity, and the explosion of web-based recruitment solutions, there is clearly scope for organisations to try new techniques – as many are doing.

Those who are least attached to the tried and tested recruitment process – line managers and smaller companies - who are least satisfied with the status quo, who feel their HR department is not responsive enough to their needs, will most likely pioneer new approaches to executive recruitment.

Executives Online

Companies cannot afford painful recruitment delays. Nor can they risk compromising a key position by recruiting a candidate who lacks the necessary breadth and depth of experience. In short they need exactly the right senior manager or director for the job – but they cannot afford to wait for months while a search firm finds them.

It is with this conundrum in mind that Executives Online established its fast-track executive recruitment service.

Drawing on its Talent Bank of over 6000 pre-approved senior executives, spanning every job function and industry sector, all of whom are available to start work immediately, the company is an invaluable recruitment resource for public and private sector organisations.

Executives Online supplies permanent senior managers for every role – from general and functional management right through to the Board. It can also provide interim managers for projects and change programmes or managers to plug a temporary, critical gap.

Executives on the Web

www.executivesontheweb.com is the No1 UK and European executive recruitment website offering £40k+ senior management and executive jobs across all industry sectors within the UK, European and global executive recruitment marketplace.

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Chartered Institute of Purchasing and Supply

Cranfield University

Fareham Borough Council

London Ambulance

NHS

Office for Government Commerce

Portsmouth Housing Association

Save the Children

Slough Borough Council

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