



Retained vs. Contingency---What are the pros and cons?

Ok, so you have made the decision to collaborate with an Executive Search firm in your quest for the best Talent you can find. Now the tough decisions begin. Which firm? Should you give them an exclusive? Would you be better off with a retained or contingent search, and is there really a difference? These questions are tough because few people are familiar with what the terms mean and the benefits that may result from different approaches. Let us see if we can clear up some of the confusion.

First, when should you use a search firm? There are times when using a search firm is not the wise choice. For positions that are (relatively) lower in compensation and local in origin, such as receptionist, admin positions, etc. you are better off on the Internet or using an employment agency. Search firm fees are high relative to the positions mentioned and the recruiter's time is better invested in more sophisticated searches. On the other hand, if you need someone who can quickly and *with insight*, tap into the *appropriate* talent pool for your needs AND who will do the screening, qualifying, and interfacing, then a search firm is the most cost effective approach. Companies often the mistakenly believe they will save the cost of a fee by using Internet resume sites, or other similar avenues. This is usually not the case. The time management spends screening, interviewing, contacting, arranging, reference checking, rearranging, and negotiating usually costs more that the fee the Executive Search firm would charge. Additionally, while management is committing their time to these tasks, they are not performing their primary responsibilities with all of their attention. We all tend to move in circles made up of people we have worked for or with over the years. We all know some people, but rarely do we know most people in our industry unless it is our profession. Many times managers tasked with identifying talent don't know people beyond their circle and don't have access to the "inside scoop" about the realities of candidates' careers.

Once you have decided to use a search firm, the question of how many to work with arises. Should you use one? Three? As many as you can get? Should you go retained or contingent? Tough questions again, until you understand the pros and cons. I do not believe it is ever in a company's best interests to engage as many recruiters as are willing to work on an assignment. For one thing, the relationship between client and recruiter should be deep and meaningful. If developed correctly, the two should work as partners with a common goal. This can only occur when there is commitment, loyalty, and trust.

If multiple recruiters are working on a specific search, they have no choice but to "beat the clock". This benefits no one, including the recruiter. A recruiter has to do a great deal of work to identify superior talent for a client. They must talk to lots of people, which involves phone/email tag, busy signals, traveling schedules, and maintaining confidentiality. They have to read resumes and uncover what they do not say. Peeling the onion involves lengthy discussions. If they know that there are less scrupulous recruiters out there shot gunning resumes so they get them date and time stamped, then they cannot afford to do a proper job. They know that by the time they finish, recruiters who may never even have talked with the candidate will already have submitted the resumes. Everyone loses. Qualified candidates may be rejected because there are questions about who is "really" representing them. Selection of candidates that are fast and easy for interviews may put unqualified people ahead of better choices. Some recruiters do not have the candidate's permission to distribute their resumes. This is a shot in the dark way to go about the business of identifying and attracting talent. Think about the message it sends to candidates when they receive multiple calls about the same opportunity. They conclude that the company is desperate or disorganized, or that something is wrong with the position. It is like the game of "telephone" we played as kids. One person whispering into another's ear totally distorts the message. The same thing happens when too may people tell a story. Someone exaggerates, another misunderstands, and the third is boring. In the end, the impression is rarely good.

OK, so here is my bottom line advise about how many recruiters it makes the most sense to work with. First, whomever you chose should be a specialist in your industry and be familiar with your market. Talk to them. Ask questions and see how they strategize in conjunction with you. Find out what you can expect from them and what



they will expect from you. If it does not feel right, then it is not. Next, if possible, make a commitment to one firm. In the end, it is better to limit the length of the exclusive so you can dissolve the arrangement if they do not work out than it is to muddy the waters. Finally, if you feel you MUST diversify, then do not engage more than 2 firms. If possible, give one assignment to one and a different assignment to the other for the first round so that you may compare. Once you have selected the firm who delivers the most in the best way for you, then use them exclusively from that point on. They will become more familiar with your managers and the corporate personality with each search so that the process continues to improve with every placement. Candidates will know to call them when they desire an introduction to your firm. It makes good business sense.

Now, in order to tackle the question of contingency vs. retained, let us define the terms. Contingency is easier, so I will start there. The recruiter is due a fee if a company hires a person within 12 months from the date the recruiter presents a person(s). It is that simple. When they deliver, they are paid. You can (and in my opinion, should) give a contingency firm an exclusive. One has nothing to do with the other. You retain the right to hire someone referred to you by a different source (other than a recruiter) such as an employee referral, or someone you used to work with, and not owe a fee. So, why should anyone pay a retained fee? In the strictest sense, it means you must pay the fee to the recruiter even if they do not find an appropriate candidate (although there are many derivations and some allow for only partial payment if no candidate is hired). It could also mean you must pay them for someone who walks in off of the street that the recruiter never heard of unless you negotiate a more favorable agreement. Although different firms structure retained fee agreements differently, usually there is upfront good faith money. We all tend to embrace viewpoints that reflect our own needs. As a result, companies often believe there is no reason to pay for a product not yet provided. Stepping around the desk to sit in the recruiter's chair may change your opinion. Many times recruiters invest significant hours conducting searches for companies that change the criteria, promote from within, or decide against filling the position at all. Although there are good reasons why these things happen, the recruiter, nonetheless, has invested the only resource they have, which is their time. While focusing on your needs, they were not able to conduct other searches. Good faith money is just that..... an offer to pay, in good faith, for the time and effort of the search firm.

Does it ever make sense to use a retained search firm? The answer is, absolutely. When the position you are trying to fill is senior, it usually makes more sense to use a retained search firm. Someone who intimately knows your company's history, culture, mistakes, assets, etc should always do these types of searches on an exclusive basis. They must be polished, well known, and respected. The approach is more formal, in depth, and sophisticated. Candidates qualified for senior opportunities expect a retained search because it lends credence.

My suggestion is to identify a search firm that you feel comfortable with that is willing to customize a process specific to your needs. Perhaps having face-to-face interviews is important to you before you meet the candidate(s). Maybe you work better with detailed write-ups rather than verbal information exchanges. Do you want the recruiter to negotiate on your behalf? Should they conduct reference checks? Do you need a strategic partner? Regardless of whether you choose contingency or retained, or decide to enter into different arrangements for some searches, if you don't have a good rapport with the search firm and feel confident they will represent you as you want to be, then you will not trust them to put your needs first. Without trust, the relationship necessarily becomes adversarial rather than synergistic.

In the final analysis, I believe the best possible approach to working with search firms is to find one that does it all. Sales, credit, asset management, (to name a few) positions can easily be completed on a contingency basis. Mid to senior level positions are better handled on a retained basis. Finding a search firm that does both means you won't have to start over when the level or number of searches you have changes. Sometimes they can work on your behalf for a contingency fee. A retainer affirms your commitment to both search firm and candidates for the more sophisticated or extensive assignments (multiple positions simultaneously).