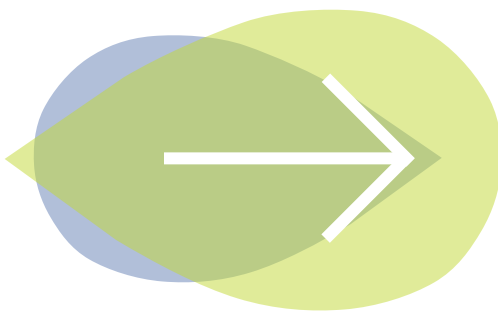
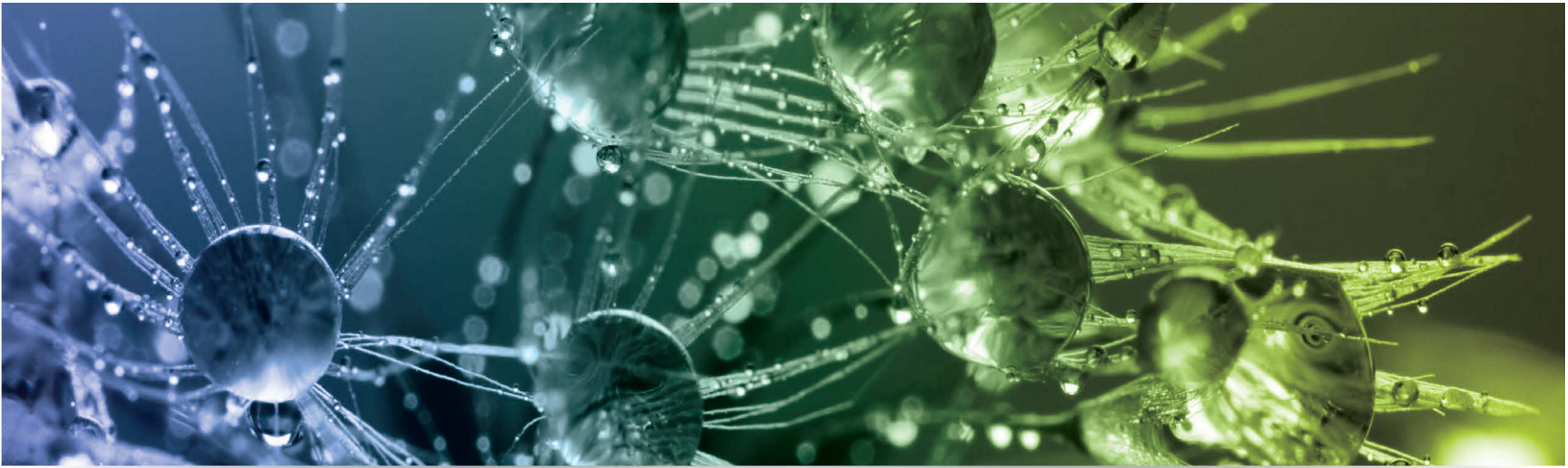




Effective C-Suite Succession: A Comparative Case Study on Executive Recruitment



HEI-RAN (HEI) PARK, IN HER ROLE AS CHIEF HUMAN RESOURCES OFFICER (CHRO) FOUND HERSELF IN A DIFFICULT SITUATION. The president of her company had announced his resignation due to long-term family obligations, giving himself three months to help transition his responsibilities on a part-time basis. The urgency to find his successor was compounded by the lack of ready internal candidates. The company's vice presidents (VPs) were either new to their roles or had been hired from outside, and were not yet integrated enough into the company's operations to assume the presidency. The chief operations officer (COO), although qualified for the role, had no interest in leading the company. The rest of the senior leadership team, including the chief finance officer (CFO) and chief sales and marketing officer (CMO), were not qualified to lead on their own. Consequently, Park and the board of directors were faced with the daunting task of finding a new president externally in a short time frame.



Hei remembered that one of her colleagues from the Society for Human Resource Management (SHRM) recently mentioned that he had been working with executive search firms. Hei sent her colleague a message on LinkedIn, asking if he had time to meet and discuss his experience. During the meeting, Hei learned a few interesting things about the different types of executive search services available. Determined to share this valuable information, she decided to compile her findings to present to the President and the board at the upcoming strategic HR meeting.

RECRUITING RESEARCH FIRMS

Apart from traditional executive search firms, there are also executive search research firms, sometimes referred to as recruiting research firms. These firms help organizations with the time-consuming and labor-intensive stages of the executive search process, such as identifying and contacting qualified candidates in the industry. Once potential candidates are identified, the responsibility for conducting interviews, making hiring decisions, and managing the onboarding process reverts to the client. Recruiting research firms offer the thoroughness of a retained search with the added benefit of cost savings for the latter stages of hiring, which can be managed in-house by the organization's HR department.²

→ WHAT IS EXECUTIVE SEARCH?

Executive search is a specialized recruitment service used to find highly qualified candidates for senior-level and executive positions across various industries. It involves a systematic process to identify, attract, and assess potential candidates for leadership roles, including CEOs, CFOs, board members, and other top executive positions. Executive search firms are hired by organizations that want to fill these critical positions, but may lack the internal resources to conduct the search themselves, or seek the confidentiality and expertise that an external firm can provide.

Executive search is also commonly referred to as "headhunting." The term headhunting underscores the proactive and targeted approach these firms or consultants take in seeking out individuals who are not actively looking for new opportunities but possess the specific skills, experience, and leadership qualities that match the client organization's needs. Unlike traditional recruitment, which often focuses on filling vacancies with active job seekers, headhunting involves a deeper level of engagement with both clients and potential candidates to ensure an ideal fit for high-stakes roles. While headhunting can be used for almost any position, executive search is a more specialized service that focuses specifically on recruiting for c-suite, VP, and other senior management positions.



→ THE DIFFERENT TYPES OF EXECUTIVE SEARCH

There are three main types of executive search, or executive recruiting firms; each operates on the basis of a different contract. In addition to considering budget and timing, organizations must consider which type of contract they are most comfortable with before engaging a search firm.¹

1. **RETAINED SEARCH FIRMS.** These firms operate on an exclusive basis, preventing other search firms or recruiters from being involved in the search. Retained search firms are paid a flat fee, regardless of the outcome, and they specialize in senior executive search.
2. **CONTINGENCY SEARCH FIRMS.** These firms are compensated only upon the successful placement of a candidate. This model means their commitment to each search may vary, often prioritizing speed and accessibility of candidates over finding industry-leading talent. Typically, they target individuals who are actively seeking employment, rather than scouting top performers not actively on the job market. Contingency firms may serve multiple organizations at once, and may present the same candidate to multiple employers, including competitors. This practice can elevate candidate compensation demands, which in turn increases the contingency placement fee, which is typically a percentage of the first-year salary.
3. **HYBRID RETAINED-CONTINGENCY SEARCH FIRMS.** These firms, often called "container" or "retingency" firms, combine the benefits of both retained and contingency models. While they operate on an exclusive engagement basis similar to retained firms, their fee structure is more flexible. Clients pay a portion of the fee upfront, akin to a retained search, but the remainder of the fee is contingent upon the successful placement of a candidate, mirroring the contingency approach. This model offers a blend of commitment and performance-based payment, appealing to organizations seeking both exclusivity and financial flexibility.



HEI SAT BACK AND LOOKED AT HER NOTES FROM THE CALL. She had learned a lot about the different types of executive search firms available, and she was curious about the potential costs associated with each type. While the concept of a retained search firm appealed to her, she wondered whether her organization could afford one. The possibility of opting for a recruiting research firm seemed more feasible. During their discussion, her colleague mentioned that retained search firms sometimes partner with recruiting research firms for the initial phase of recruitment. This information led Hei to consider bypassing the more costly option and directly engaging with a recruiting research firm, thereby managing the subsequent hiring stages internally. However, before making any decisions, Hei recognized the need to investigate and compare executive search firm fees to ensure her approach was both economically viable and aligned with her organization's needs.



→ EXECUTIVE SEARCH FIRM FEES

RETAINED SEARCH FIRMS. Retained search firms are the most expensive type of executive search firms, typically charging between 25-35% of a candidate's total first-year compensation, including salary and projected bonuses. This fee is often quoted as a percentage, but some firms also offer a fixed fee, which helps to eliminate the incentive to negotiate higher salaries for their candidates, thereby increasing their own earnings.³

The fees of large retained executive search firms, such as Korn Ferry, Spencer Stuart, Heidrick & Struggles, Russell Reynolds, and Egon Zehnder, usually start at \$100,000. This fee structure positions them as viable options primarily for top-tier organizations capable of offering executive salaries of \$300,000 or more.⁴

In addition to the initial percentage or fixed fee, retained search firms often charge administrative fees, and pass on search-related expenses, such as travel costs. According to recent research, the average cost per hire for an executive-level employee in the U.S. is \$14,936.⁵ When administrative fees are included, the total expense for Hei's organization could amount to an additional \$15,000–\$20,000 in additional fees.

An emerging, more cost-effective alternative is the boutique retained search firm. These firms are smaller and more agile, able to tailor their services to the clients needs. Because the firms are smaller, they also often have lower overhead costs and accept clients providing lower executive compensation.⁶

CONTINGENCY SEARCH FIRMS. Contingency search firms cost less than retained search firms because they only get paid when a candidate is hired. They usually charge 20-30% of the candidate's first-year salary.⁷

RETAINED-CONTINGENCY SEARCH FIRMS. Hybrid retained-contingency firms require an upfront retainer, usually in the region of \$8,000, and charge 20-25% of the candidate's first-year salary upon successful hire, blending elements of both retained and contingency models.⁸

EXECUTIVE SEARCH RESEARCH FIRMS. Executive search research firms, or recruiting research firms, structure their fees differently, charging either per candidate, by the hour, or through a flat fee for the entire project. The flat fee model is more beneficial to the client, because it prevents the search firm from supplying additional candidate names or extending the search unnecessarily to increase their compensation. Overall, fees for recruiting research services can range from \$50,000 to \$300,000 depending on the number and type of roles for which the organization is hiring.⁹



REVIEWING THE FINANCIAL IMPLICATIONS, HEI FELT DISCOURAGED. Her organization, a mid-sized financial institution, generated respectable revenue, yet it wasn't sufficient to engage a large, retained search firm. The president's annual earnings, including salary and bonuses, totaled approximately \$200,000. This indicates that a boutique agency might be the only viable option, although initial Google searches did not provide any promising leads.

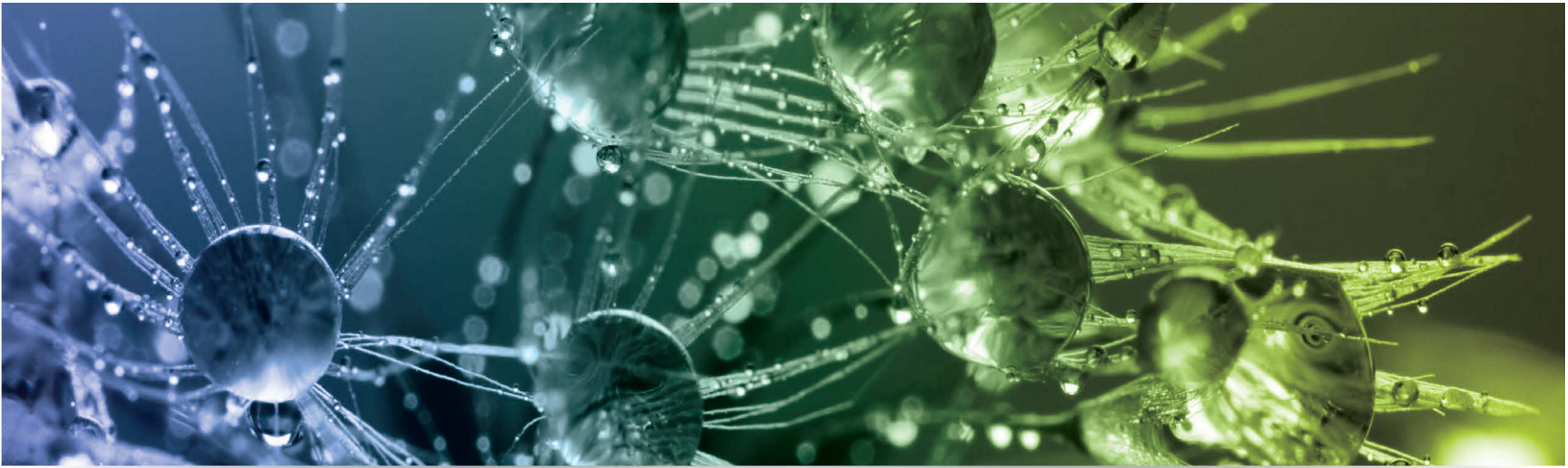
Hei briefly considered the option of engaging with a contingency search firm, but even if the firm charged only 20% of the candidate's first-year compensation, that would still amount to nearly \$40,000 — an investment that might not guarantee the quality of the candidate. In contrast, a hybrid retained-contingency search firm would cost \$8,000 more, but provide Hei's organization with an exclusive engagement, a more comprehensive candidate search, and presumably a higher caliber of candidate.

Opting for a recruiting research firm seemed logical, but even with fees on the lower end of the spectrum, the cost was similar to that of a hybrid firm, leaving her team to handle the time-consuming hiring and onboarding processes. While Hei knew they were well-equipped to onboard a capable successor, she wasn't sure she had the capacity to rigorously screen and interview a list of candidates alongside other pressing tasks.

To better assess her options, Hei created a table summarizing the expected costs associated with each type of executive search firm and their fee models:

Figure 1. Fee models and expected costs for Hei's organization based on the type of executive search firm.

	TYPE OF EXECUTIVE SEARCH FIRM			
	RETAINED	CONTINGENCY	HYBRID	RESEARCH
FEE MODEL	35% + \$15,000– \$20,000 admin and related expenses	20–30%	\$8,000 + 20–25%	\$50,000–\$300,000
EXPECTED COST	\$85,000–\$90,000	\$40,000– \$60,000	\$48,000–\$58,000	\$50,000–\$60,000



All things considered, should the board and President opt for an executive search firm, Hei would recommend they choose a hybrid retained-contingency firm with a respected network and reasonable flat fee. However, before committing to this proposal, Hei decided to explore potential alternatives for executive recruiting apart from executive search firms. She was pleasantly surprised by the options that she found:

➔ ALTERNATIVES TO EXECUTIVE SEARCH

Beyond working with an executive search firm, there are several options to supplement the executive search, hiring, and onboarding process. Organizations and HR professionals might consider:

ADOPTING HIRING SOFTWARE. Hei's organization could invest in — or temporarily subscribe to — hiring software that may help them complete the executive search process on their own. A quick Google search indicated that such software typically ranges from \$30 to \$100 per month. However, researching, selecting, and learning to use the software would require additional time and effort. This option, similar to working with a recruiting research firm, would also leave Hei and her team with a lot of work that she didn't think they had the capacity for this quarter.

STARTING WITH AN INTERIM EXECUTIVE. As an alternative, Hei's organization could hire an interim executive, affording them more time to seek a permanent successor on their own. Hei's research suggested that an interim executive could be hired for almost any length of time, or even on a part-time basis.^{10,11}

In terms of fees, interim executives are usually quoted at an hourly, daily, or monthly rate. According to the "1% rule," an interim leader's daily rate should equal 1% of a permanent candidate's annual compensation.¹² This would imply a daily cost of approximately \$2,000, or \$360,000 for six months, significantly exceeding the salary of a permanent president, making it an effective yet cost prohibitive option.

CONSULTING WITH A SUCCESSION PLANNING EXPERT. Lastly, Hei considered working with a succession planning consultant, specialists in evaluating, selecting, and developing talent. Such consultants could assist in creating a leadership pipeline for the president's role and other key positions, addressing immediate needs and preventing future crises by preparing an internal talent pool. The starting price for these services is close to \$20,000,¹³ which is a much more feasible price point for Hei's organization. The only problem is that she still doesn't have any internal talent who are ready and willing to step into the president role. Hei decided to explore the succession planning consulting option further to see whether a consulting engagement could help her organization bridge the gap.



→ SUCCESSION PLANNING CONSULTING

Depending on the organization, succession planning consulting can take a variety of forms. However, Hei noticed that most services include talent assessments, success profiles, and resources to supplement the selection and development process. Hei appreciated the six-step succession planning process outlined by SIGMA Assessment Systems. The organization also had a vast ecosystem of tools and templates available online for free. After downloading and browsing the Succession Planning Guide, Hei believed these resources could significantly benefit her organization. She contemplated whether, with adequate support, her organization might be able to create a viable succession plan using the internal talent available to them. She scheduled a complimentary call with one of SIGMA's consultants to explain her organization's leadership situation and see what help they may be able to provide.

On the call, Glen Harrison attentively listened to Hei explain her situation and asked a few questions relevant to her particular situation. He then assured her that they had worked with organizations facing similar challenges in the past, suggesting a strategy to address the immediate lack of available internal candidates for the president's role by dividing it into several functions. This strategy had worked for clients in the past. Based on a brief overview of Hei's company's organizational chart, Glen suggested they consider creating an executive board consisting of the COO, CFO, and CMO. With the appropriate training and development, these three individuals collectively fulfill the president responsibilities until one of them was prepared to assume the role fully.

Hei mulled over this alternative. She wondered whether the COO would be open to a joint presidency. She also questioned how the CFO, CMO, and COO could be supported in their current roles while assuming the responsibilities of the president. Hei wondered whether their new VPs were up for the challenge. Working with SIGMA would certainly help — Hei and the board would have access to coaching and customized consulting along the way. Hei decided to pitch this alternative to the board next week and see which option they preferred.

→ THE DECISION

A week later, Hei found herself seated in the boardroom with the board of directors. She briefly explained each of the solutions she had explored, ultimately focusing on the two alternatives she believed merited their consideration (refer to Figure 2). Given the information available, which option would you advocate for as the most suitable for Hei's organization?



Figure 2. Pros, cons, and cost of working with a hybrid retained-contingency versus a succession planning consulting firm.

	TYPE OF SERVICE	
	HYBRID RETAINED-CONTINGENCY FIRM	SUCCESSION PLANNING CONSULTING
EXPECTED COST	\$48,000–\$58,000	\$20,000
PROS	<ul style="list-style-type: none"> ▪ Able to fill the president’s role without requiring any re-allocation of internal talent. 	<ul style="list-style-type: none"> ▪ Able to fill the president’s role, however it would require the reallocation of internal talent. ▪ Includes a comprehensive succession planning process. ▪ Candidates are internal, allowing them to carry organizational knowledge, experience, and relationships to their new position. ▪ Hei receives support during the onboarding and talent development process
CONS	<ul style="list-style-type: none"> ▪ No overall succession plan process; this is a temporary “Band-Aid” solution to the problem. ▪ The candidate will be external and have no pre-existing organizational knowledge or relationships. ▪ Hei is responsible for most of the onboarding and talent development. 	<ul style="list-style-type: none"> ▪ In the immediate future, the president’s role will be split into multiple roles — it will take longer to fill the role permanently in terms of a single, fully-equipped candidate.

READY TO GET STARTED?

If you’re ready to start your succession planning process, learn about SIGMA’s [Succession Planning Launch](#). Our services, available both in-person and online, will mobilize your leadership team to create a plan that aligns with your organization’s needs. Our consultants can condense six months’ worth of succession planning into two half-day sessions. By the end of the Launch, you will have a detailed and customized 12-month succession plan for each member of your leadership team. [Contact us](#) for more information or reach out to our consulting team below. We’re always happy to chat!



→ SPEAK WITH A CONSULTANT



EMAIL GLEN



SCHEDULE A CALL

Glen oversees SIGMA's sales and marketing activities. As a skilled presenter and trainer, he has designed and delivered engaging workshops and webinars for senior managers and HR professionals. Glen knows our material inside and out, and can tell you first-hand stories of the work SIGMA has done with its clients. If you are interested in learning more about SIGMA's succession planning services, send him an email or give him a call! He'd love to chat with you.

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