

**“Executive Recruiting for Investment Firms... a Different Type of Odyssey”**

Homer’s epic Greek poem, The Odyssey, recounts the hurdles Ulysses overcame to return to his beloved Ithaca from Troy. While the management team of an investment firm will not have to navigate a minefield of Sirens or a Cyclops, the executive recruiting effort of an investment firm has its own challenges and hurdles that are different from many other investment firms.

When one examines the profiles of successful investment firms, distinct characteristics are revealed. A few of these characteristics include an exceptional level of intelligence, a focus...a sense of purpose that does not allow anything to impede reaching a goal, a comfort...a belief that unique and atypical solutions are the answer and, in somewhat of a contradiction, the ability to be part of a team.

When the CEO of an investment firm is faced with the challenge of hiring a senior level member of the staff (whether a replacement or a new hire), the decision of how to accomplish that is paramount to the ultimate success of the firm. History and experience have shown that the least effective path is to fill the opening is networking. While you may get a personal recommendation from someone you know, that small benefit leads to its biggest problem; your ‘circle’ of candidates is *extremely* limited. Assuring access to the best in the marketplace mathematically cannot happen.

If the CEO decides to retain an executive search firm, the investment firm has definitely moved up the ‘recruiting food chain’. On the plus side, executive search firms, particularly the larger ones, have extensive data bases. This means that having access to a much larger population of candidates will definitely occur; this is obviously a good thing. In addition, these firms also likely have a large client list in this space. Having numerous clients in this space tends to create a comfort level in the client knowing that this executive search firm has filled this type of job before. It will likely be touted that the search firm’s client list includes the top investment firms.

Understanding the structure and business model of many large firms tends to minimize these two ‘advantages’. Having a large data base means that previous clients paid the search firm to develop it. When overhead represents +/- 40% of their total costs, there is tremendous pressure to ‘warm up the data base and serve it over again!’ This does not imply that good candidates are not part of the data base. It does imply that there are financial pressures to save the cost of fundamental research for YOUR opening by presenting candidates whose current acquisition cost was ZERO. Another problem with data bases is that they are more perishable than a head of lettuce. If well refrigerated, a head of lettuce will last 7 – 10 days; not so a data base of candidates. Many candidates in the data base today are no longer available. Even worse, the best candidates may not even be *in* their data base.

It sounds reassuring to hear that a search firm has a client base that includes the top 20 investment firms. However, when you realize that an executive search firm cannot, or at least *should* not solicit (aka, steal) candidates from current or recent clients, selecting such a search firm means that your candidates must come from your 2<sup>nd</sup> tier investment firm competitors.

These are just a few of the factors to understand when evaluating an executive search firm. Referring back to the opening points of this section regarding the unique profiles of investment firms, perhaps some of the most important factors to consider in selecting an executive search firm are the processes and operational model they follow. The critical factors listed below are geared to achieve success in delivering the best candidates for *your* firm. Selecting that search firm brings you to the ‘top of the recruiting food chain’. Their process must include the following 3 phases and their supporting components...

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### **I. RESEARCH**

- Know the Client...its business, history, culture, lines of business & products, successes & failures, opportunities & jeopardies, financials, competitors, annual & strategic plans, the general business climate, what 'sells' the company, etc.
- Know the Division...its business objective, role within the company, organizational structure, interdependencies with other divisions, products & business lines serviced, hiring manager & key team members, divisional targets, etc.
- Know the Position...its purpose within the division, organizational structure, history of prior incumbents, annual performance measures & manager's expectations, background requirements of education & experience, key relationships throughout the company, compensation level & related programs, current business issues, internal & external pressures, what changes & what stays the same, etc.
- Analyze the Labor Market...where are the best candidates working now? Where did they work previously? What companies & people would have been clients of the candidates? To what associations do they belong? What conferences do they attend? What consultants do the candidates use? To what positions/people do the candidates currently report? What positions/peers in competitor companies primarily interact with the targeted position?
- 'Triangulate' the Targeted Candidates...develop a list of 500 – 1,000 people from a cross-section of the analysis of the labor market. Populate and weight the cross section roughly as follows: 40% to those doing the job, 25% to those managing the position, split the remaining 35% to most/all other segments such as clients or other key relationships.

### **II. SOURCING & DEVELOPMENT**

- Exhaustive Sourcing...call & email a cross section of the targeted population (minimum of 500; no maximum) and call targeted candidates. Fundamental research must be conducted at the beginning of each search.
- Initial Matching...of those identified as potential candidates, their background is matched to position requirements.
- Phone Screening...after it is determined that candidate appears to match the requirement on paper, a brief, 10 minute phone call is held to verify key qualifications.
- Phone Interview...if the phone screen is positive, an in-depth phone interview is scheduled (usually 60 – 90 minutes).
- Personal Interview...if everything still looks promising at this point, a personal interview is scheduled & conducted (usually +/- 2 hours).
- Candidate Write-Up & Presentation...fully developed, qualified, and interested candidates are presented to the client. This initial presentation includes a written evaluation, their resume, a 3 year compensation history and their interview availability for the next 4 – 6 weeks.

~ Broad Statistics & Ratios:

Calls /Emails	: Potential Candidate	700:60
Potential Candidate	: Phone Screen	60:40
Phone Screen	: Phone Interview	40:30
Phone Interview	: Personal Interview	30:15
Personal Interview	: Client Presentation	15:9
Client Presentation	: Client Interview	9:7
Client Interview	: Final Candidate	7:5
Final Candidate	: Position Filled	3:1

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### II. SELECTION

- Client Review...the hiring manager & Human Resources review, evaluate and decide which fully developed candidates are invited for interviews.
- Client Interviews...the initial slate of candidates (+/- 7) to be interviewed on-site will typically meet the hiring manager, the HR rep, peer(s) to the open position and peer(s) to the hiring manager. The 2nd round of candidates (+/- 5) will typically meet again with the hiring manager and the HR rep, plus some mix of the same manager & position peers and additional ones. The 3rd and final round of candidates includes the successful candidate. Many clients want this elite group to submit to a small set of assessment tools measuring the unique characteristics and requirements of the investment firm. After this validated assessment occurs, the final candidates (+/- 3) will typically meet with the hiring manager, the top HR executive, the CEO (if not the hiring manager) and other key executives, as appropriate.
  - Depending on the level of the position, the final candidate(s) might also meet certain Board members.
- Candidate Offer...when a tentative decision is made on the top candidate, extensive references and background checks are conducted by Grahall. Upon completion of those references satisfactory to the hiring manager and HR, an offer package is constructed. The formal, written offer is extended. The executive search consultant can be as involved as desired by the client. It is expected that the formal offer is a signed document jointly agreeing to the conditions of the offer.

To sum it all up, the selection of an executive search firm is a crucial step in perpetuating the success of an investment firm. To properly assess possible search firms, be sure to understand their differences, not just their similarities. Key differentiating factors for consideration include:

If **engagements are executed only by senior consultants**, then...

- *Your search is not delegated to junior team members*

If **fundamental research** is conducted for every assignment, then...

- *They deliver the best in the marketplace, not just the best in a database*

If there are **few 'off limits'** in candidate sourcing, then...

- *Your search can incorporate virtually all possible candidates*

If there is **rational pricing**, then...

- *Fees will start at a discount to the competition and*
  - *the % fee will also go down as targeted compensation goes up*
- *Plus, there will be a Fixed Fee where...*
  - *The \$ fee is based on targeted total cash compensation and the final candidate's actual compensation does not impact the fee, thereby having...*
  - *No supplemental invoice*

If there is **guaranteed client satisfaction**, then there are overarching business values which always favor you, the client.

- *You can demand contract retained search, with payments contingent upon the client's definition of success,*
  - *where invoicing is based upon performance milestones, not the passage of time and*
  - *successful completion precedes payment in full*