

Executive Search

Destination Boardroom

Seeking and Finding the Leaders For What's Next

Chapter 3

Mapping the Executive Search World

With Eelco van Eijck



Amrop

Leaders For What's Next



Many decision-makers in the private and public sector see executive search as a 'necessary evil'. A tour of investors and business schools, executive and supervisory board directors, throws up some unflattering descriptions. One of these: 'an opaque sector' is probably linked to the industry's duty to exercise absolute discretion. Others signal a clear need for improvement: 'pumping the same names around', 'emphasis on reputation, not merit', 'lack of quality' and 'low innovation'. The battle to professionalize is underway.

1 It's time to raise the game

There are clear avenues ahead for executive talent hiring. One is to say a final farewell to the 'old boys' network'. Another is for Board members and executive search consultants to more actively represent different stakeholder groups. Furthermore, top hires must create the sustainable value now prescribed by many corporate governance codes. However, running an executive search firm is no easy task. There are several common pitfalls (see point 3) and despite the AESC Code of Professional Practice, the sector lacks the disciplinary procedures governing lawyers and accountants. This makes it even more important for search firms to exercise care and prove their value. The best expose their consultants and researchers to ongoing professional development, continuously innovating their processes. This rigor will raise the likelihood of clients listening to their counsel, and in turn, a productive partnership.

2 Mismatches are costly and risk management essential

Beyond the (significant) psychological damage it causes to the individual concerned, a failed hire can have serious monetary implications. These can rise to as much as ten times the annual salary of a heavyweight executive, according to the Harvard Business School, (to cite just one source). A hiring organization should apply the same discernment to selecting a headhunter as it would to choosing a lawyer. On their side, headhunters must immediately signal problems during a hiring process. An optimum outcome requires structure, pragmatism, intuition and agility. Moreover the search process blends the standards and values of three parties: client, headhunter and candidate.

3 There are 6 clear areas for improvement

Executive search firms must beware of the following pitfalls:

- Clumsy communication
- Failure to honor agreements
- Conflicts of interest
- Taking the wrong attitude
- Violating confidentiality
- Declaring too much
- Providing no aftercare.



4 Reaching the boardroom is a Spartan Marathon

It is possible to estimate the number of new high boardroom potentials that step into a given market every year using the following (conservative) reasoning: the total number of graduates (Education courses excluded) leaving tertiary education fans out across ten industry sectors. Around 10% of graduates show management potential after ten years' experience. Of these, around 20% display boardroom potential after a further ten years. We present figures for twelve European countries.

5 There may well be blind spots on both sides of the hiring equation

Those responsible for hiring senior talent, (often board members), are dealing with the shift towards a modern information economy. In addition to sharp and strict supervision, they need an eye for psychological phenomena (administrative behavior). Dutch Business Consultant and corporate governance author Hans Strikwerda warns of several mechanisms that can undermine company interests: change blindness, search heuristics, dominant logic and belief conservatism. Executive search consultants, equally, have a duty to exercise extreme care in this respect.

6 The old boy's network is still a feature of some boardrooms

Board members regularly put forward acquaintances for leadership positions — even during advanced search processes by the professional executive search agency that they appointed. Van Eijck addresses the problem with objective scorecards. He makes his candidate shortlist transparent based on ten selection criteria drawn up in consultation with the client. At a glance, it becomes clear which of the three remaining candidates best qualifies. Still, peer pressure in companies shouldn't be underestimated. Only a good headhunter can turn things round on the basis of concrete evidence, exercising discretion and diplomacy at all times.

7 The executive search sector is coming of age

The signs of professionalization are unmistakable. Small offices have become part of global firms; the approach in executive search has become more business-like, the work more specialized. Clients end up with sector specialists who themselves have international business experience. This is a big difference from the practices of the past. Some partners, including our author Eelco Van Eijck, regularly give guest lectures at universities.

Main messages

- Complacency must give way to transparency and measurable results
- A more active role of headhunters requires considerable character, dedication and quality
- Stricter enforcement of directives leads to stricter professional standards
- Headhunters need to respond better to change in the management and governance of companies
- The executive search sector has already changed, but further professionalisation is needed.

Throughout our series, for pragmatism, we use the gender 'he'. You can also read this as 'they' or 'she'.



Amrop

1 — A Black Box?

As one board member observes: 'It is difficult to get a view of what a headhunter is doing.' Her diagnosis is understandable but this perceived lack of transparency partly lies in the very nature of an executive search consultant's work. He works behind the scenes, and that raises questions from outside. But detaching successful managers and attracting them to positions elsewhere simply requires absolute discretion towards the candidate and the client.

She continues: 'There is often a search in the same street and that leads to irritation among clients. Drawing on the old boys' network is really out in this day and age.' By extension, another experienced supervisory board member states: 'In the selection process of managers, executive and supervisory board directors, it should be much more about merit than reputation. What did someone do? What went well, what could be better?'

Other reflections are resonating around executive and supervisory board circles. 'Executive search should be an integral part of supervisory board policy, under the direction of the Board of Directors and supervised by the Supervisory Board. A badge of quality wouldn't be out of place for executive search firms, because it would help clients to find a suitable player.'

It's clear that in a world of algorithms, artificial intelligence and big data, more is expected from executive search consultants than slide decks listing the usual suspects and a one-sided reliance on reputations. The director of a corporate governance forum represents the interests of a broad constituency: investors, pension funds, asset managers and insurers. As a source representing this influential 'supporting party', he shines a light on the executive search sector:

'A more active role is needed from board members as clients, and headhunters as executive brokers. From a shareholder perspective, it is of paramount importance that the right executives and supervisors are in the right positions. Diversity in age, gender, nationality and background plays a role here as well as sustainability — with all the opportunities and threats that this creates for company business models.'

In the same breath he adds that the one-dimensional thinking of shareholders, in which generating financial returns is central, is no longer sacrosanct. Rather, it is about what contribution a company makes to society, how companies create value for all stakeholders. 'In the revised Dutch Corporate Governance Code of 2016, shareholder value gave way to value creation for a reason.'



Three top female leaders share their views on the executive search sector

It's difficult to select a company. The question is, which company has which experience. It's not always clear where the centre of gravity is.

Inge Brakman, board member

In the past, reputation was everything, but the world has changed. The question is how to renew the influx, make it more diverse.

Kitty Koelemeijer, Professor and board member

I don't see much innovation in executive search. The lists are not very surprising. There's not much room for young talents.

Marie-Pauline Lauret, corporate director



2 — Mismatches

Headhunters have a big responsibility when it comes to nominating the right candidates. The process requires character and dedication. Mismatches cost companies and institutions a lot of money, time and energy.

It is necessary to say goodbye and reach a settlement with the *persona non grata*. An executive search firm must be called in to find a replacement. There is also usually significant psychological damage, and behind many an ousted executive there is a partner and/or a family.

Mismatches rarely make headlines. It is also remarkable that business schools conduct so little research into the economic damage they cause. The same goes for Central Statistics Bureaus.

Some of the (scarce) literature on headhunters and the industry's own research suggests that a manager who has to clear the decks can cause damage with a price tag of up to five times his annual salary.

However, estimates of economic damage due to mismatches vary widely. The UK Chartered Institute of Personnel and Development (CIPD) equates the cost to two and a half times the annual salary of the professional. Harvard Business School cites three to five times the annual salary — even ten times, if the person who has fallen out of favor performs a heavy specialist or generalist role.

According to Van Eijck, there will always be mismatches: 'If you need a lawyer and you want to win a case, you choose the best. Equally, when it comes to your choice of a headhunter. But watertight guarantees don't exist, this is still human work. It doesn't alter the fact that a headhunter has the obligation to commit to a good match. The starting point is the highest target level in the search for quality. You have to be a real go-getter. If you put this effort in, you can minimize the chance of a mismatch.'

He continues: 'The executive search context always involves a mix of the standards and values of three parties: client, headhunter and candidate. As an executive search consultant you must be aware of imperfections and be transparent about things that go wrong, no matter how difficult that may be. Otherwise, the integrity of your organization will be compromised and you will be too late. This lesson deserves a plaque on the wall above every executive search colleague's desk.'

A good search is all about structure, pragmatism and intuition. The approach has to be in-depth, your network can be helpful in this respect. A headhunter must be able to switch quickly to respond to events in real time. In addition, a developed '*Fingerspitzengefühl*' (touch) helps. The latter must be innate.'



If you need a lawyer and you want to win a case, you choose the best. Equally, when it comes to your choice of a headhunter. But watertight guarantees don't exist, this is still human work. It doesn't alter the fact that a headhunter has the obligation to commit to a good match. The starting point is the highest target level in the search for quality. You have to be a real go-getter. If you put this effort in, you can minimize the chance of a mismatch."



3 — Companies

Recruitment and executive search are two different domains. A recent ABN AMRO report uses the following format: the manpower segment recruits talent for positions with an annual salary of up to €50,000. The recruitment segment recruits specialists and managers with an annual salary between €50,000 and €125,000. The executive search segment focuses on the top of the labor market, with annual salaries of €125,000 and above. Top officials often come from this world.

Running an executive search firm is no easy feat. In a rapidly changing world, firms must repeatedly prove their added value. Successful players distinguish themselves by exposing their consultants and researchers to ongoing development, and continuously innovating their processes. One obstacle is that companies are not visible because they are bound to respect client and candidate privacy. In addition, clients do not always pay enough attention to the input of headhunters.

The media regularly reports on the alleged 'cyclical sensitivity' of the sector. According to Van Eijck, however, this is particularly true in the case of *recruitment*: it is here that the economic shocks are the most severe. When the economy is booming, the number of recruitment agencies, partners and employees follows a similar upward curve, while in periods of economic downturn a cold clean-up is often inevitable. With all the painful effects that entails.

The cyclical sensitivity of *executive search* is somewhat different, says van Eijck: 'In my professional practice, it is more counter-cyclical. In bad times, top managers are often blamed for the malaise and are resolutely replaced. I had a lot of work in the crisis years of 2008, 2009 and 2010. What you do see in such difficult circumstances is that for understandable reasons clients look much more closely at value for money.'

Skeptics say that headhunters are hunting for board members and directors to replace those who have previously been hijacked by their competitors. In this way the profession would certainly keep itself occupied, but it's not that simple, according to Van Eijck. 'Anyone who takes his task seriously and is passionate about this profession puts a lot of work into finding top talent and ensures that a search yields a dozen new profiles that go into the database and may be of relevance later.'



Running an executive search firm is no easy feat. In a rapidly changing world, firms must repeatedly prove their added value. Successful players distinguish themselves by exposing their consultants and researchers to continuing development, and continuously innovating their processes.

One obstacle is that companies are not visible because they are bound to respect client and candidate privacy.

In addition, clients do not always pay enough attention to the input of headhunters.



3 — Discipline

The lack of mandatory professional and behavior rules is one characteristic of the executive search industry. Although the Association of Executive Search and Leadership Consultants (AESC) has a Code of professional practice and Standards of Excellence, these guidelines are formulated in a rather generic way and there is hardly any enforcement, alone disciplinary proceedings, as is the case with accountants and lawyers.

Accountants and lawyers certainly have their affairs in better order in this respect. Anyone who visits the website of a National Professional Association of Accountants can immediately search for an accountant by last name. They can tell at a glance whether the person concerned is entitled to practice as an accountant. Bar Association websites are more or less the same. In addition, both professions have disciplinary procedures.

It is understandable that hiring organizations want to know how headhunters guarantee the expected quality. The advantage of disciplinary law is that it tightens professional standards. For headhunters, however, there's no stick hanging behind the door to keep them on the straight and narrow. Disgruntled clients can't take their grievances to a complaints committee — complaints that may be about a misdemeanor, fraud or misconduct.

This experienced board member can easily summarize the demands he places on a good headhunter: 'I expect an executive search firm to have discretion, to speak to a guy who is in the crow's nest. Someone who appears to know the industry. His firm must meet an admissions standard.'

I expect an executive search firm to have discretion, to speak to a guy who is in the crow's nest. Someone who appears to know the industry. His firm must meet an admissions standard.

Board Member

Where headhunters can go wrong

- Clumsy communication
- Failure to honor agreements
- Conflicts of interest
- Taking the wrong attitude
- Violating confidentiality
- Declaring too much
- Providing no aftercare.



4 — Careers

A steep career curve in the private or public sector is like a war of attrition. The best boys and girls in the class prepare from an early age. Cognitive intelligence and communication skills alone are not enough. Other factors must also be present: analytical ability, organizational insight, digital as well as soft skills such as empathy or intercultural sensitivity.

Tomorrow starts today. Van Eijck encourages high potentials to talk to a professional who is five years further down the line than they are, and has the job they aspire to: 'They can ask someone what he did to come there. On this basis, talents can work on their cvs and make a well-thought-out, step-by-step plan.'

There's also a downside. Getting into the boardroom is no guarantee of lasting success. Certainly not in times of rapid change. Many managers face setbacks during their careers. In the worst case, they end up on the street. Often they have the self-piloting skills to make a comeback, provided they make it clear who they are, what they can do, and maintain their physical and mental fitness.

5 — Talent Market

How big is the talent pool to which executive search companies have access? Let's take the Dutch example (population around 17 million). The latest Eurostat figures show that 144.200 graduates left tertiary education in 2018 (Education courses omitted). Graduate jobseekers fan out across around ten sectors, from energy and infrastructure to business services, from technology and media to consumer goods and retail.

What does this mean for each sector? Let's assume that around 14.420 new applicants with a college or university education were available to each sector in 2018. According to a conservative estimate, about 10 percent will display management potential after ten years of work experience. For each sector, this then yields around 1.442 managers aged 33 and over. Employers like to roll out the red carpet for them.

Van Eijck: 'This is an important point. Companies are doing all they can to filter this group out quickly. It's these people who get the stamp of 'high potentials. Getting them into the frame is an art.' Once on board, a management development program often awaits: training and coaching. After ten years, these 1.442 managers are 45 years old. Roughly one in five (20%) will develop boardroom potential based on ten years of management experience.

So, between the ages of 45 and 65, 288 executives with boardroom potential were available to each industry that year. That's 2 percent of higher education graduates by industry and only 0.2 percent of the total number of the year's college or university graduates. It's a fine net.

It is physically impossible for a headhunter to track down all these talented men and women. After all, no headhunter can reach 1.442 incoming managers a year. He will have to search for the right executive for a vacancy. In addition, there is a permanent influx of international talent. The latter makes the search process even more confusing.

Snapshot

Since the turn of the millennium, Dutch business has been developing at an unstoppable rate. Its journey in the 2nd half of the 20th century is clearly described in *Business in the Netherlands in the Twentieth Century*. This series captures a picture of a richly diverse economy, with modern technology and advanced financial services, as well as traditional sectors. A country, too, with steadily modernizing agriculture and an intensively-used infrastructure.

We see large multinationals in the Netherlands such as AkzoNobel, DSM, Heineken, Philips, Shell and Unilever and large small and medium-sized enterprise sector containing many successful family businesses. In the second half of the last century, the Netherlands was a prosperous country that exhibited a certain pragmatism, especially when it came to trade and international relations. Standards and values were often based in 'sobriety'.



Lonely at the top

144.420

The number of college or university graduates that find their way into one of the ten industry sectors. Age: around 24

14.420

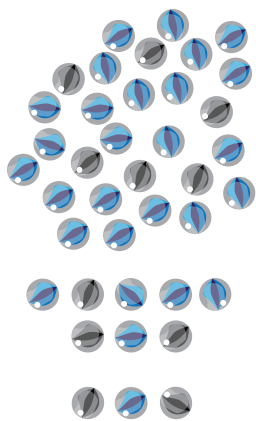
The annual number of talents per industry that will step into a management role on the basis of 10 years' work experience. Age: around 33.

270

The annual number of managers per industry with ten years' experience who will penetrate the boardroom. Age: around 45.

Spartan Marathon

From Lecture Hall to Boardroom in the Netherlands (2018)



Per industry sector around 10% develop to manager-level after 10 years

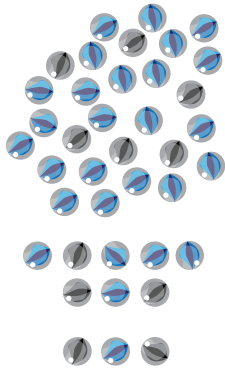


After a further 10 years 20% penetrate executive board level



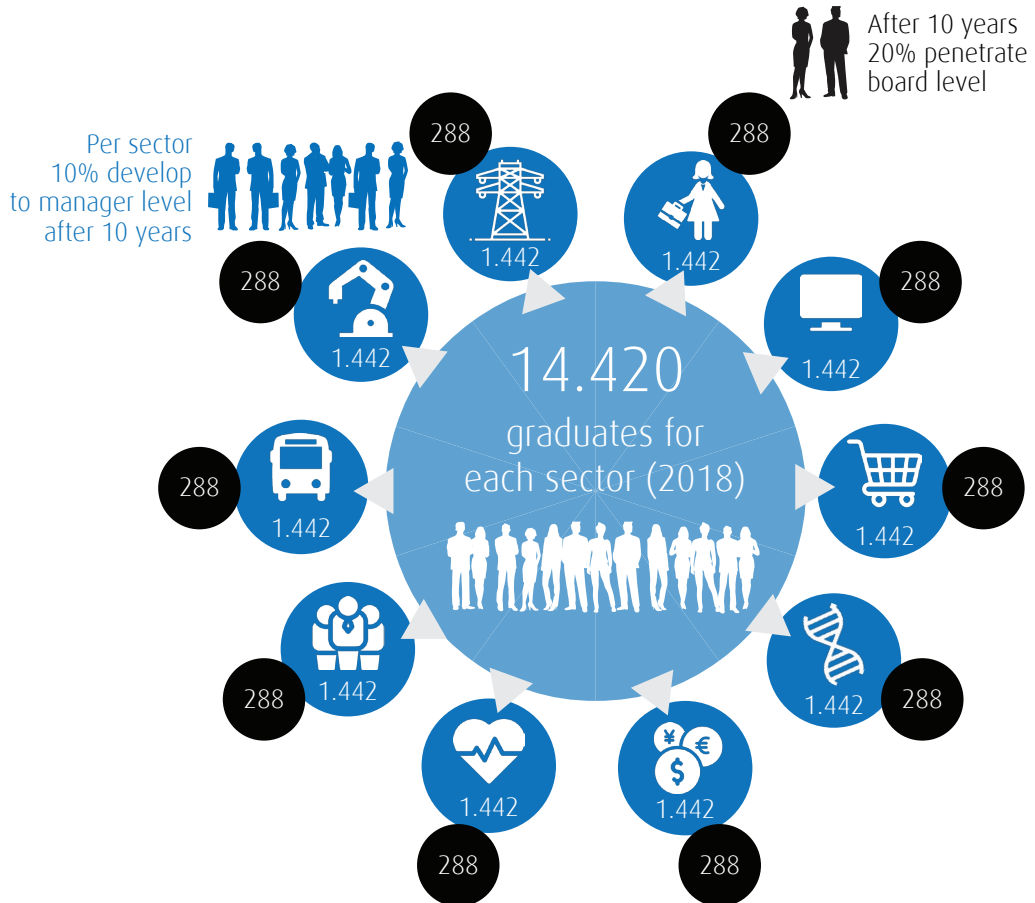
board members

Source: Eurostat
Tertiary Education in Each Field of Education, 2018
Graduates in Education excluded from analysis



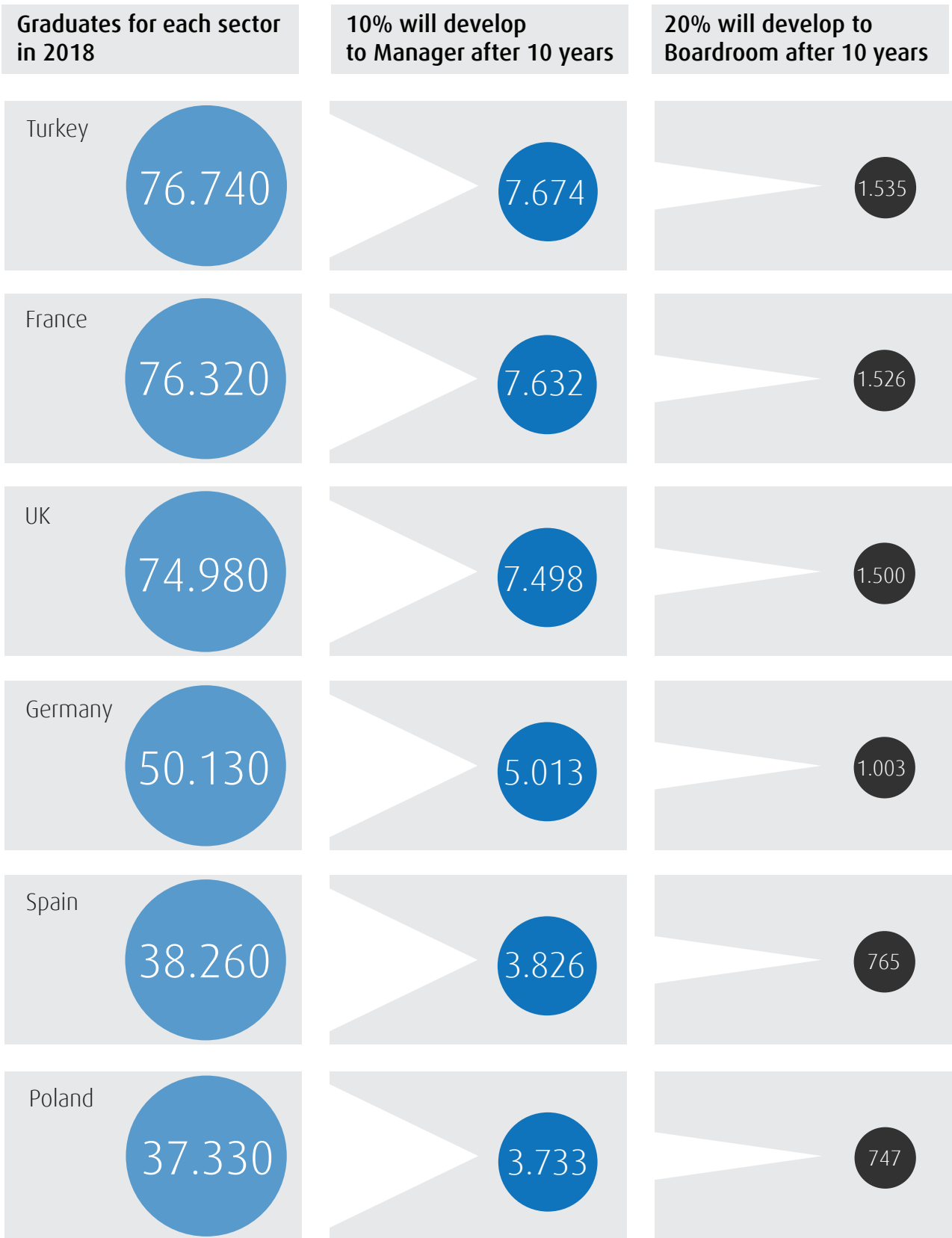
Magnifying Glass on the Knockout Race

Only the High Fliers Reach the Boardroom



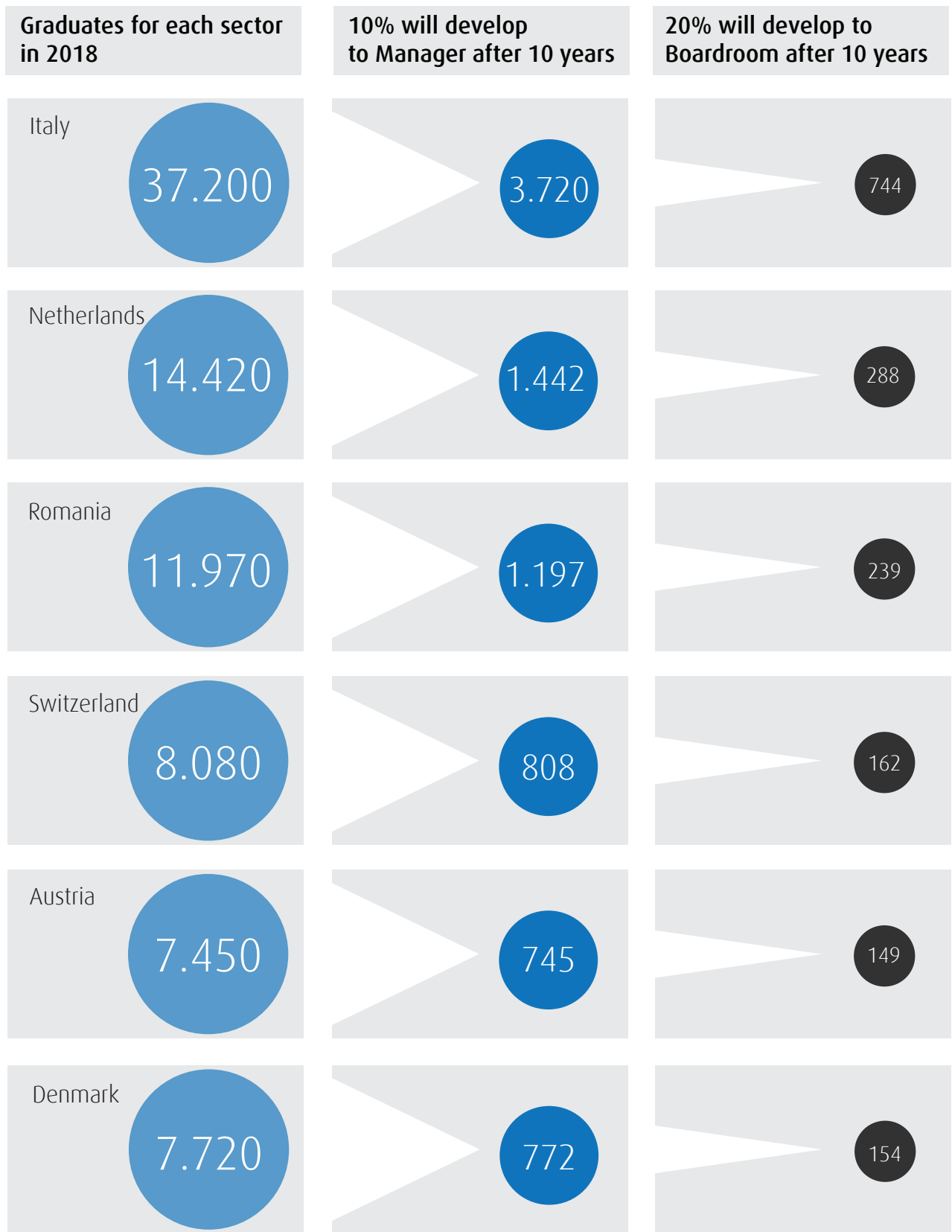
Source: Eurostat: Tertiary Education in Each Field of Education, 2018. Education Graduates excluded from analysis.

Spartan Marathon Around Europe



Source: Eurostat: Tertiary Education in Each Field of Education, 2018. Education graduates excluded from analysis.

Spartan Marathon Around Europe



Source: Eurostat: Tertiary Education in Each Field of Education, 2018. Education Graduates excluded from analysis.

6 — Blind Spots

Those responsible for hiring senior talent, in many cases board members, have to keep pace with the shift towards a modern information economy. In addition to sharp and strict supervision, they should also have an eye for psychological phenomena (administrative behavior). In his book on corporate governance, consultant Hans Strikwerda mentions various psychological mechanisms by which the interest of a company could be violated, including change blindness, search heuristics, dominant logic and belief conservatism.

Change blindness means that individuals do not notice modifications in their surroundings; *search heuristics* is the phenomenon whereby decision-makers tend to rely solely on the first piece of information when making subsequent judgements; *dominant logic* means holding on to an existing success model for too long; when falling prey to *belief conservatism*, we tend to interpret new information in such a way that it is consistent with existing views.

Headhunters have blind spots, too. Van Eijck: 'I was looking for a marketing manager for a dairy company and initially focused on candidates working for the usual big brands in the industry. That seemed like a logical move, but in the end I found someone with a technical background working in the potato industry. Not an economist, not a marketer, but the dream candidate based on specific knowledge and skills. It is therefore important to look for people from completely different backgrounds in a search.'

Against this background, it becomes clear that looking at the new reality through twentieth-century lenses leads to myopia and that the 'old boys' network' is no longer sustainable. That is also the opinion of several decision makers we consulted. In short, in a nutshell, administrators and supervisors have the task of understanding the new complexity of the economy and society and translating it into new forms of organization.

Boardroom culture is also changing. In the 80s, the CEO was first among peers. There was collegial decision-making. The end of the last century saw the advance of the macho man who took all the power for himself and dominated decision-making: *L'entreprise, c'est moi*. Nowadays, the CEO often sets the course in tandem with the CFO, supported by other members of the C-Suite. It's pragmatic. In Dutch boardrooms, as in many other countries, power has a subtle tendency to take itself for granted. This brings us to the old boys' network of directors and supervisory board members who regularly put forward acquaintances for leadership positions on the basis of their own authority. Van Eijck: 'This even happens during advanced search processes conducted by a professional executive search agency hired by the same supervisory board member.'

Van Eijck has a clear answer to such undesirable interventions: making the selection process clear with the use of scorecards. He makes his shortlist of those candidates who emerge transparent by basing it on ten selection criteria drawn up in close consultation with his client. At a glance, it becomes clear which of the three remaining candidates best qualifies to be nominated. With this, he has a strong advantage in his hands: 'When a board member pushes forward someone he knows, experience shows that the individual usually complies with only four, at most five, of the agreed selection criteria, while my shortlist includes candidates who score on almost all of them. A supervisory board member is then quickly convinced that the person he has proposed is the wrong choice. By the way, there are decision makers who have never seen scorecards. They're surprised at my way of working.'

These are often highly-valued board members. In addition, the candidate that has been put forward often knows he is not suitable. But peer pressure in companies shouldn't be underestimated. And this can sometimes go a long way. Only a good headhunter can turn things round on the basis of concrete grounds — as long as he follows a discreet and diplomatic path.



7 — New Perspectives

The executive search profession has changed dramatically in recent decades. The time when candidates called headhunters from a phone booth and hotel lobbies served as meeting places is passé. The old boys' network hasn't disappeared, but it's losing strength. Simply calling up friends from business schools is no longer enough. Professionalization has made its entrance in executive search, but there is still a long way to go.

Nonetheless, the symptoms of professionalization are unmistakable. Small offices have become part of global firms; the approach in executive search has become more business-like, the work more specialized. Clients end up with sector specialists who have international business experience. A big difference from the practices of the past. Some partners, including Van Eijck, regularly give guest lectures at universities.

Other things have remained as they ever were. Annual reports, journals and websites regularly send signals about important vacancies. The internet and to a lesser extent social media offer vast volumes of business information. In addition, the phone is still a prime communication method, preferably in combination with a pre-message by SMS or WhatsApp, because discretion in this profession remains a pre-requisite.

Main Messages

- Complacency must give way to transparency and measurable results
- A more active role of headhunters requires considerable character, dedication and quality
- Stricter enforcement of directives leads to stricter professional standards
- Headhunters need to respond better to change in the management and governance of companies
- The executive search sector has already changed, but further professionalisation is needed.

Eelco van Eijck is Managing Partner of Amrop in the Netherlands and a Member of the Amrop Global Board.

He is recognized in the Dutch and wider European market as one of the leading FMCG and retail experts in executive search. He combines 15 years senior management experience with 15 years in executive search. FMCG and retail companies seek Eelco's advice in seeking talented (international) executives, from CEO/GM, Marketing and Sales, to Finance, Supply Chain and Digital positions. In Life Sciences, Eelco supports industry-leading globals in their search for management, commercial and specialized leaders.



The background of the top half of the page is a technical drawing of a mechanical part, possibly a gear or a shaft, with various dimensions and annotations. The drawing is in black lines on a white background. It includes circular features with diameters like $\phi 55$, $\phi 120$, and $\phi 25.1^{+0.1}$. There are also surface texture symbols like $Ra 2.5$ and $Rz 20$, and a 45-degree chamfered edge. The drawing is partially unrolled, showing multiple sheets of paper.

About Amrop

With offices in all world regions, Amrop is a trusted advisor in Executive Search, Board and Leadership Services.

Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.

Amrop's mission: shaping sustainable success through inspiring leaders.

www.amrop.com/offices

Series based on 'Bestemming Boardroom, Over Zoeken en Gevonden Worden'. Authors, Eelco van Eijck et al., Pub. Boom, Amsterdam (2017). Translation, Editing and Design by Steffi Gande.

©2018 Eelco van Eijck & Boom Uitgevers, Rotterdam. All rights reserved.
Photography by 123RF, icons by www.flaticon.com



Amrop