

Retained vs. Contingency Search



Choosing the Right Approach

Your board of directors is faced with the daunting task of filling your soon-to-be-vacant CEO position. While there may be a viable internal candidate, the board has chosen to look outside the organization as well to ensure selection of the most highly qualified professional available.

With the depth and breadth of your combined contacts in the credit union industry, you'd think it would be a cinch to attract and hire the perfect new CEO. You may be lucky and it may happen that way, but chances are you will need outside professional help to fill such a critical position successfully. That will leave you with another important choice.

Everyone has heard the terms "retained executive search" and "contingency search," but what do they mean and how do they apply to your CEO search? The first step in deciding which is more appropriate for your credit union is to determine exactly

what kind of service your credit union needs. It is critical to do your homework and evaluate the reputation of each search firm under consideration because one type is not by definition automatically better than the other. A reputable firm of either type will gladly provide you with a list of professional references.

Beyond that, there are some fundamental differences, as well as some subtle, but incredibly important ones between the two types of firms. These differences can be divided into five categories: exclusivity, relationships, clarity of roles, economics and talent pool. The following information should help you understand the two methods search firms use.

Exclusivity

A retained search firm has an exclusive contract to source, interview and present qualified candidates for a particular posi-

tion until the position is filled. No other search firm will be endeavoring to fill the job.

The allegiance of the retained search firm is clearly with the credit union. Although it does its best for the candidates, a retained search firm fills vacancies for employers; it does not find jobs for individuals. A retained search firm will exclusively represent your opportunity to qualified candidates, and will not present those candidates to more than one employer at a time.

In contrast, a contingency search firm generally does not have an exclusive contract with either the credit union or the candidate. It will most likely be presenting candidates to multiple employers simultaneously. The credit union may also choose to work with more than one contingency firm on the same search.

Relationship

In a retained search relationship, the search consultant, much like an accountant or attorney, serves as a business partner with whom you confidentially share proprietary information about business and strategic plans in order to identify the best candidates for your vacancy. The relationship should be comfortable, so direct and honest communication occurs.

Every firm, every job, and every candidate is unique. A retained search firm that specializes in working with a particular industry brings a depth of understanding into the relationship. As a result, getting to know the particular organization and its culture, goals, board of directors and characteristics that will influence a successful placement may occur more easily.

A retained search firm can protect your anonymity during the search process if necessary. It can also buffer your credit union from unqualified, but otherwise valued, internal candidates, as well as from the “good ole boy” network of well meaning, but not necessarily appropriate, referrals. You can truthfully tell anyone who asks that the whole recruiting and vetting process is in the hands of an objective third party.

A retained search firm such as D. Hilton Associates is always anxious to

do the search right the first time. It wants the professional relationship with the credit union to continue well into the future. To cement this concept, retained search firms often provide guarantees on their work.

In contrast to the confidential advisory role played by a retained search firm, the relationship with a contingency firm is more clearly sales based. The allegiance of a contingency firm can be blurred because it is balancing responsibilities to both the credit union and the candidates. In addition, although a contingency firm may know your industry fairly well, it generally doesn't have the luxury of getting to know the culture and nuances of your particular credit union.

Clarity of Roles

A retained search firm manages the entire search process and participates in every phase from assessment of the credit union's needs through arranging relocation of the successful candidate, if necessary. A structured agreement will specifically outline the expected outcomes and responsibilities of both the search firm and the credit union.

The retained search firm sources candidates through a proactive approach using proprietary strategies, methodologies and databases and acts as a trusted go-between for the credit union and potential candidates. By knowing your organization intimately, a recruiter in a retained search firm might identify a viable candidate who otherwise would be overlooked because his or her credentials vary from the script. The recruiter will personally meet prospective candidates and conduct in-depth background and reference checks before presenting them to the credit union.

A retained search firm will also negotiate a market-competitive compensation package. This provides the credit union confidence that the salary range is in line and understood by all parties. The recruiter in a retained search will address sensitive issues such as compensation and relocation with the candidates well in advance of a job offer.

In general, a contingency search firm's

primary responsibility is to feed the credit union as many resumes as possible. Unless otherwise negotiated with the contingency firm, the credit union is responsible for screening resumes, interviewing candidates, and checking references.

Economics

The letter of agreement negotiated and signed on engaging the services of a retained search firm outlines all fees as well as service expectations. The search fee is paid by the credit union, not by the candidate, cementing its relationship with the search firm. This pre-established fee is generally paid in stages during the search process, and full payment of the fee is required, even if the candidate chosen originates through a source other than the search firm (e.g., an internal candidate, a personal contact of a staff or board member). The only additional costs might be for the finalists to travel to the credit union for face-to-face interviews.

Since a retained search firm will be paid the pre-negotiated fee regardless of the chosen candidate's compensation, the credit union can feel confident that there is no incentive to artificially inflate the candidate's compensation package.

By dealing with only one firm, the credit union can save valuable time. In addition, a successful hire may contribute to lowering overhead, reducing turnover and increasing revenues enough to justify the cost of the search.

No matter how long it has worked on a search, a contingency firm is not paid if its candidate is not hired. A contingency firm's fee for a successful placement is based on a percentage (as much as 35%) of the placed candidate's annual compensation. As a result, the cost may be equal to the cost of a retained search if the position is filled through the contingency firm, although the credit union may avoid a fee altogether if it finds the successful candidate itself. In addition, the candidate rather than the credit union may pay the contingency fee. However, the credit union will spend time screening volumes of resumes, interviewing candidates and checking references.

Talent Pool

A retained search firm is not simply a “job filler.” It proactively seeks talented candidates, especially those who may not be actively looking for new positions. Candidates presented by a retained search firm are people identified through its research, or who are identified to them by respected sources, as suitable for the role. While retained search firms do not overlook qualified candidates who approach them, their best candidates often come through cold calling and networking.

A retained search firm generally has a proprietary, confidential database of outstanding candidates. These candidates are generally content and successfully employed. They will not be encouraged to apply for a position unless they are truly interested. As experienced recruiters, a retained search firm will rely on skill, not luck, to identify the most promising candidates from a large, diverse pool. However, they will advertise available positions, and any resumes that are received directly by the credit union can be forwarded to the retained search firm to ensure consistent handling.

Highly qualified candidates from retained search firms are seriously vetted before they are presented to the credit union. The credit union will see only candidates that the search firm has pre-qualified and feels confident can step into the position professionally while fitting easily into the organizational culture.

A retained search firm spends much time with candidates in order to understand their skills, motivations, personality, characteristics, goals, and general outlook on life. The recruiter focuses not only on professional knowledge base, but also on other characteristics and attributes that may influence organizational fit.

In addition, the retained search firm will check candidates’ backgrounds and references. This assures the credit union that its chosen candidate actually possesses the qualifications and skills listed on his or her resume. It also lets the search firm identify behavioral patterns and professional reputation of the candidate. This provides the credit union a

valid picture of each candidate’s personal character, preferred work style and true ability to get the job done.

When the credit union decides to make an offer to a candidate, there is great likelihood the offer will be accepted. Remember, the candidate is generally working with the retained search firm due to a high level of interest in working for your credit union. Once hired, he or she plans to be with you for a very long time. In addition, the retained search firm will have presented the candidate to you exclusively rather than to multiple



clients with simultaneous openings as a contingency firm might.

Finally, the recruiters at retained search firms such as D. Hilton Associates work together as a team. There is no incentive to hide qualified candidates from colleagues, as is sometimes the case in contingency firms.

Candidates presented by contingency search firms are more likely to be actively looking for new opportunities. They may not be specifically interested in your credit union.

In addition, a contingency firm often relies solely on the information listed on the candidate’s resume. Since the resume is designed to present the candidate in the best possible light, it does not always get to the essence of the candidate’s credentials. The latest research shows that some degree of untruth is

common in resumes. As a result, there is a higher possibility of a mismatch when additional checking does not occur. A contingency firm may not know the candidate’s reputation in the industry or how peers and supervisors view him or her because it does not perform reference or background checks.

Since they are competing with other recruiters, contingency firms will often submit as many resumes as possible to the credit union. This method does give the credit union the opportunity to see a broad range of candidates, but can also waste the time required to review inappropriate resumes. On the other hand, a contingency firm may have layers of inexperienced junior staff screening potential candidates using inflexible criteria and may unknowingly exclude outstanding candidates.

General Guidelines

In general, contingency search firms are most appropriate for filling relatively junior to mid-level management positions. These are positions for which many qualified candidates are likely to be available and a reasonably wide range of skills and characteristics may still result in an appropriate fit with both the organization and the job.

Searches for senior level executives or those requiring highly specialized skills are more likely to benefit from the retained search approach. This will ensure that candidates possess the qualifications the credit union requires, and that they are likely to fit appropriately into the organization’s culture. In addition, because appropriate candidates for these positions may be difficult to identify, the contingency firm may divert its attention to other projects that will more quickly yield a fee. The retained search firm doesn’t quit working for you until the position is successfully filled.