

## The Costs of Hunting Heads: Finding Employees

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### STARTING UP: *Practical Advice for Entrepreneurs*

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The most valuable assets of most high tech firms (i.e. people) go home at night- or perhaps early in the morning in the case of software developers. As the company grows you have to fight the decreasing quality problem- i.e., the Founders (all "10"s) hire the second wave of employees (who are mostly "9s"), who hire others ("8s" or below) until the company is full of mediocre people who drag the whole place down.

So how do you find good people? The Founders probably know some quality people from other jobs and companies, but these people are usually only in the Founders' area of expertise. You can get referrals to good people from your accountants or lawyers but this only goes so far. There are several emerging job matching/placement services being developed on the Internet but these too are limited. Eventually you are going to have to make a classic "make or buy" decision- either you commit to an active internal recruiting program or you hire a pro.

The "Do It Yourself" Option. The benefit here is that you will save short-term cash by not having to pay a pro. The negatives are great- will you devote the time to recruiting or will you put it off to deal with short-term fire drill problems? Do you have the knowledge and contacts to do a good job? In recruiting you will be presenting an image of the company to the industry- so take it seriously.

The "Hire the Pro" Option. This will cost you cash in the short run, maybe even significant cash, but it may pay off in the long run by getting you good people while allowing you to focus on your core strengths. There are a number of types of "pros" and the choice depends on your recruiting needs.

Retained Search. These are the very best and most expensive recruiters. They are used for the President/CEO or VP level searches and they generally work as follows. The search firm works with you to scope out what you really need by getting an understanding of your business, plans and strategy. This is particularly key in earlier stage business where you may think you need a controller for short-term cash management but what you might really need is a CFO who can develop and implement a financing strategy. In larger companies, the evolved organizational structure may define the needs more clearly. The search firm should have a clear idea of your corporate culture, especially when a senior level person is the goal- an IBM VP with 15 years of experience may sound great on paper but could be a disaster for a young entrepreneurial company. The search firm will develop written job specs and a list of companies to be searched for candidates. You should review this list

with the search firm- e.g. you may not want them contacting people at a firm you have targeted as a strategic partner etc.

Once the search begins the search firm will be actively managing the process- both with your company (lining up interviews and insuring follow through) and with the candidates identified (e.g. providing information, arranging for travel and hotel for out-of-town candidates). The firm will usually provide written reports/summaries of the job interviews and impressions of/from the candidate and your people. For promising candidates references will be checked - both candidate provided and those identified through independent research.

How do you choose a retained search firm? As with any service providers you need to ask people you trust who know the players. The knowledge and experience of the search firm in your industry is important as well as the chemistry between you and the search executive.

The price? The retained search firm usually gets 1/3 of the budgeted first year cash compensation for the position (base plus bonus). Stock options are usually not factored in. So for a \$150,000 position the search firm will get \$50,000, of which 1/3 is paid when you retain the firm, 1/3 after thirty days and the balance after sixty days. You will also be billed for expenses- most search firms want to control the payment of such things as air fare and hotel for candidates in order make sure things go smoothly. These expenses might average \$800 to \$1,000 or more per month. Typical high-level searches are concluded within 60 to 90 days of initiation. Many search firms shy away from dealing with early stage companies, but those who are active in this sector may be willing to take some stock instead of cash- e.g. up to 30% of the fee. However, think twice about giving up equity- it could be a most expensive hire if the company takes off.

Contingency Searches. Contingency search firms are usually used for middle level/ multiple position searches. Unlike retained search firms, you pay only when they deliver someone you hire and they typically charge about 20% of the first year cash base compensation. You generally won't get as high level of service on structuring the position- you should still go through that process yourself- or in managing the process or in reference checking. You should count on receiving a "flood" of resumes and you may have a good deal of work to do in sorting through them to find the right type of person. Although some contingency search firms will do "cold calls" to identify candidates, in many cases the resumes you receive will be for people who are looking to leave their jobs or who are out of work. This is not necessarily bad- you just need to factor it in to your decision.

Do It Yourself with Unbundled Assistance. You don't have to make a total "make or buy" decision. You can do some of it yourself and hire in expertise in particular areas. For example:

Contract Recruiters. For about \$35 to \$70 per hour contract recruiters will assist you in running an in-house recruiting operation. They might come in one day a week and work with your staff in defining position specs and organizing the process. A typical engagement might be in a situation where a new product line is being developed and launched and where you will need a range of people including software development engineers and support staff for sales, marketing and technical and customer support.

*Researchers.* For \$50 to \$100 per hour a researcher will identify potential candidates at other companies and do reference and background checks.

*Advertising.* The old "Help Wanted" ad works for the right jobs. Expect to pay \$3,000 for a multiple job listing. Use one of the ad agencies who specialize in newspaper ads- they are paid a commission by the newspaper when they place ads. Like travel agents and airlines- you won't get a lower rate from the newspaper so you might as well use the agency and take advantage of their expertise in designing ad layouts etc.

Good Luck and Happy Hunting!

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*DISCLAIMER: This column is designed to give the reader an overview of a topic and is not intended to constitute legal advice as to any particular fact situation. In addition, laws and their interpretations change over time and the contents of this column may not reflect these changes. The reader is advised to consult competent legal counsel as to his or her particular situation.*