

Executive Search Summit 2004

(Strategies for the New Business Reality)

Building strategic partnerships with Executive Search firms.

Alfred T. Mockett

Dateline: England July 21, 1992 – 29,000 people left the payroll of British Telecom on that single day as if a decent sized town had just disappeared from view.

That was only the first wave; others would follow in a swinging multi billion dollar restructuring and cost reduction program, which saw us reduce headcount from over 250,000 to 110,000 in just five years.

Hardly the stuff that would make search consultants salivate – or was it?

I had been brought in a year earlier by Sir Iain Vallance, the BT chairman, as part of a leadership team destined to transform a recently privatized monopoly of civil servants into a competitive powerhouse capable of withstanding the onslaught of 200 and more newly licensed competitors.

The culture of the organization, at that time, was characterized by intellectual elitism and meetings, lots of meetings. The professions ruled the roost, the lawyers the accountants, the regulatory specialists, even the protocol department. Sales and marketing were relegated to second class citizenship. Yes, it was a meetings culture. We had scheduling meetings to schedule

meetings, pre-meetings, post meetings even meetings to craft the minutes of previous meetings. The writing of minutes was a revered and celebrated skill. As I recall, during my time as chairman of our German joint venture, the minutes were written first, and then I was expected to conduct the Board Meeting according to the minutes.

All that was destined to change.

Sir Iain brought in the shock troops, his catalysts and agents for change, seeded at every level vertically and horizontally throughout the organization. He considered them expendable, probably of two to three years in duration. Each would help move the organization forward in small incremental steps then leave out of exasperation. And so they came and went, wave after wave, mainly from IT and Fast Moving Consumer Goods backgrounds. I proved perhaps more durable than most, staying the course for ten years.

So how did we populate wave after wave of change agents from the boardroom to the guys up poles and down holes?

In a competitive bake off we selected three global brands from the ranks of the search consultants and established multi-year strategic relationships with them, one firm focused on elevating sales and marketing to the top of the professional pecking order, another focused on bringing in seasoned general managers with many years P/L experience, the third building our international capability. We ploughed millions into this initiative, it proved very successful. All three of those companies are represented in the audience today. That's when I first worked with Geoff Champion, now Chairman and CEO of ChampionScott Partners, then of Korn Ferry.

But with hindsight, what we then prized as strategic relationships, constituted little more than a preferred vendor status, volume dependent supply relationships, characterized by a stair step discount structure.

Fast forward to December 1, 2001. I joined AMS as Chairman and Chief Executive on the threshold of a period during which the economy was not kind to the Executive Search business, the IT services sector cruel to its constituents, delivering back to back down years after 30 years of prosperity, and the competition ruthless in defense of any marginal business opportunity. During this time, we even witnessed competitive bake offs for pro-bono work, in the hope that some day it might lead to fees.

Your industry, by all accounts, suffered much as we did, with revenue declines of 35-40% over two years. Revenue pressure came from relentless cost cutting in your customer base, a move to DIY as search was brought in house, and a strike at the heartland of your cash flow – middle management searches – as companies addressed span and layer issues by cutting middle management, then replacing, if needed at all, from the talent glut using contract recruiters, who worked for modest hourly rates, not fixed fees based on a percentage of first year total compensation.

AMS was potentially a search consultant's worst nightmare. We exemplified the worst of your industry's dynamics. We resolved to slash all external costs, especially consultants. When we needed people, we had many channels at our disposal. We took to the print media; we encouraged resumes through our web site, even for

executives. We used contract recruiters; we paid a bounty for employee referrals. We thought we could not afford your expertise, your cachet. We did not need you to court our talent prospects.

My agenda coming in was certainly not search friendly. I resolved to cut the Board in half, perform radical surgery on the divisional leadership, take out over 100 vice presidents and 2800 professional employees as part of a \$300M cost reduction initiative. There was a talent glut we didn't need any help or did we?

I didn't come into AMS to slash and burn; I came to build. This was a proud company with a rich heritage. A company that had committed a few strategic miscues, a company whose business model had lost its fizz. I came in to craft a compelling vision for the future, to articulate a strategy, to deliver that vision, and to underpin the strategy with robust and executable business plans. What was needed was transformation, a radical restructuring, a rebuilding and repositioning, and a restoration of the company to its rightful heritage – a growth company. This had to be achieved, as a public company, in full view of the public while still marching to the beat of the quarterly EPS drum. I referred to it as mid-flight refueling.

As I contemplated my procedural steps, I recalled an article I had read in the Harvard Business Review back in March of 2001. The title was, "The Job No CEO Should Delegate," by Larry Bossidy. In nine years, CEO Larry Bossidy pushed AlliedSignal from a struggling enterprise with only a 10.5% equity return to powerhouse that delivered a nine fold return for shareholders. How? He made finding and developing great leaders his personal top priority, spending virtually 40% of this time on it.

It's impossible to spend too much time on leadership development, Bossidy proclaims, after all, it's top-flight leaders who make a business great. Yet many CEOs skimp on this responsibility (at best) or delegate it (at worst). Bossidy's secret? A hands-on approach to cultivating his firm's future leaders; that too was my approach.

Thankfully, I brought with me on this journey a seasoned old Chief Human Resource Officer from my BT days. He'd been there, done it, gotten the t-shirt many times before. He proposed a "strategic partnership" with an Executive Search Firm. I exploded. To a Chief Executive when someone uses the word "strategic" to justify a business proposal it generally means the numbers don't add up, there's an unbridgeable gap in the business case. When someone uses the word partnership, alarm bells go off. It generally means asymmetric dependency. Why should I consider turning what I perceived as a purveyor of commodity executives into a trusted advisor?

Well, that CHRO proved very persuasive - Garry Griffiths was his name - and that trusted advisor, none other than Geoff Champion.

So let me tell you how I bought off on the concept, how we implemented it. What worked and what did not.

Forging a strategic partnership is about leverage, mutual leverage that is in balance, equally weighted between risk and opportunity. It takes a huge investment of time, a redefinition of the relationship, a level of access, which tests historic comfort levels and finally a different business model and pricing paradigm. In this

endeavor loyalty goes both ways; it bookends the relationship. The trust required of the CEO is earned long before he becomes the client. Many years prior he will have been part of your, a colleague's or a competitor's inventory, your candidate pipeline, or your "head and shoulders" proposition on another assignment. If the CEO in that earlier search life, as a candidate, was treated with respect, with candor, with openness and honesty, with prompt feedback and realistic situation assessment, then the seeds of trust have already been sown. In simple terms, treat the candidate as a client, one day he may be. Build the service ethic in both directions.

First, let's address the investment of time, lots of time. The search consultant must first buy into the CEO's vision; acquire depth and breadth of knowledge on the strategy, the business plans, the market and the competitive landscape.

He or she must get to know the board, the leadership team, and their direct reports, must understand what makes the company work: the priorities, the relationships, the customs and practices, the way we get things done around here. Over time, as company specific knowledge builds, pattern recognition, the emergence of hidden relationships provide that nuanced input to the search process necessary to ensure goodness of fit. I prefer to be a 75th percentile paymaster, for that I want 75th percentile performance. Nuance in the search process helps deliver that.

Now to the redefinition of the relationship with the search consultant. It should look and feel like a virtual membership of the leadership team, not overtly outsider nor insider, a trusted sounding board, a confidant, an extension of the Chief Human Resources

Officer, a team coach, and available mentor. This presence needs to be supportive and non-threatening.

The level of access is crucial, and entirely dependent on trust. I felt very confident in sharing the comprehensive manpower plan, the succession plan and its consequent gap analysis, as well as individual career development plans with Geoff. My door was always open to him; he regularly met with the board. I encouraged him to spend time with my direct reports. The benefits of that open access? A world class leadership team augmented by 19 successful searches for key executives and 24 senior managers, all of whom made the grade with one notable exception – not a bad batting average.

My advice on the business model for Executive Search Consultants is to accept the narrowness of scope of the business proposition for what it is and become more competent and accomplished as a result. Don't keep adding to the portfolio of products trying to garner a bigger share of my existing spend. The objective should be to fully populate the succession plan to the point where it is self sustaining.

The shift in the pricing paradigm - I'm quite prepared to offer a monthly retainer to encourage the level of investment of time and effort required to build such a relationship in addition to fees for each successful hire, though at a rate of (say) two thirds of industry norms.

There are, of course, some potential downsides. Among those we considered carefully, but did not experience at AMS, are:

- Coziness with the executive search firm could perhaps lead to complacency;

- Effectively sole sourcing may limit the pool of talent by restricting potential candidates to those that the executive search firm can access;
- Knowing how restrictive legislation oversight and monitoring are getting in the US, this type of relationship exposes us to potential accusations of cronyism and unfair selection;
- Over time the executive search partner could become too influential in the company and hires might start to mirror their personal prejudices.

But enough of the downsides, let's talk about capitalizing on the upsides. I attribute our success here to the structure of our partnership. The foundation of the relationship centered on weekly face-to-face sessions between the CEO, the executive search firms account team, the head of human resources, business unit leaders, and other staff members (on an as required basis). This partnership approach allowed all parties to fully appreciate my thoughts, my expectations, and strategy for success. We developed a bond of trust, which allowed the executive search partner to be equally committed to the vision, and thus, so in tune with the organization that knowing the best fit in a person became second nature. The end result was the recruitment of the top 19 executives and 24 senior managers. I have no hesitation in saying that the top team recruited was world class. To make such a partnership successful of course required a great deal of hard work by all parties to constantly monitor the effectiveness of the search process and the adaptability of the

organization to the new intake and the appropriateness of the new hires.

Secondly, we had to focus on retaining and developing the existing talent as well as the new talent. Aside from the obvious review of compensation, promotion and training policies, it is essential to develop profiles of required competencies and assess existing executives against them. Again, I adopted the partnership model using an outside firm (recommended and managed by my executive search partner) to interview the existing top 40 managers with a 360 degree assessment of their capability with follow-up coaching sessions to develop the individuals in accordance with the new leadership competencies. We improved the managerial competencies, already designed in partnership with an executive coaching firm, to line up with the new corporate culture, to which I aspired on behalf of the company.

Thirdly, we crafted a succession plan, three layers deep into the organization and established a Top 200 Talent Pool. The designation of these internal, high potential people did a great deal towards solidifying “the direct reports to the direct reports of my direct reports”. We facilitated interaction among these executives from all lines of business by organizing a leadership seminar series using external leadership role models to demonstrate different but effective leadership styles. This series was designed by and run in partnership with our executive search partner.

Fourthly, we had to assess the extent to which we were capturing the hearts and minds of the workforce. We used an annual employee survey, which we conducted at the same time every year,

to insure continuity, credibility, and trend data. We did this again in partnership with our external assessment group partner. We also conducted a separate high level review of senior management's belief in the new strategy, tolerance of the changing culture, and loyalty to the senior executives, and to me. This too, was conducted in partnership with a high caliber trusted independent coaching executive who had supported me in my previous role.

Overall, I believe this unique approach gave me the ultimate holistic game plan for attracting and developing the best. This could very well be the key differentiator of highly successful executive search firms.

In summary, growing not hiring strong talent is the preferred course over the long haul. However, there are times in the lifecycle of a company owing to shifting markets, competitive pressure, the pace of change, when damaging gaps appear in the collective capability of the leadership team. Corrective action is required, involving tapping into outside talent pools, the objective of which should be to fully populate the succession plan to the point where it, once again, becomes self-sustaining. Under these circumstances, the right type of partnership in a holistic approach to the challenge delivers results.

This takes a huge investment of time, a redefinition of the relationship between the company and the search consultant, a level of access which tests historic comfort levels and finally a different business model and pricing paradigm. I've done it. It works.

Thank you very much for your attention.

I'll gladly answer any questions you may have.