Searching for the right results

Kelvin Thompson may not look like a head-hunter at first glance, but the world of executive search is changing rather more radically than just the way that they dress. He explains how to Anthony Thomson

What exactly do you do?
Three things. I still do a lot of work hiring COOs and CIOs for financial services firms, particularly on the wholesale side. I also chair our hedge-fund practice, so I do a lot of work within the hedge-fund community, which is looking to bring in senior leadership teams as they "institutionalize". And I also sit on the Heidreck and Struggles leadership team as head of innovation. That role is to categorize how we, as a global firm, are revisiting the work we do in order to service our clients better as their needs evolve. So moving beyond search.

Is the search business going out of fashion, then?
Definitely not! It's not going out of fashion, but it is changing – quite dramatically. If you look at the evolution of professional services, there are always tipping points, where the industry goes through substantial change because the market and client environment is changing. Search has gone through that recently. It is maturing, and going through the classic business stage where you have big players and developing boutiques. The middle players have gone.

Executive search is still, for a lot of firms, very important – they need that service. But it has to be done differently, and as part of a larger "human capital" piece. The firms that can capture that will capture the market, and will add value to their clients over and above just filling a job.

Where do you think you add value?
The value used to come mainly from doing the search, but those days are over, because all the research is available on the web. The value now comes from having a depth of understanding, which is a combination of science and art – of what's going to work for that firm's DNA; identifying which executives will be successful in leading it or working within its leadership team; which type of leadership the firm needs for its next phase of growth; and then being able to analyse and define that with the executives you are looking at. And then challenging the clients, because their preconceived notions of what or who they think they want may be wrong.

How good are companies at briefing you on their needs, now and looking forward?
The successful financial services companies are outstanding at it. A lot of the follower firms still struggle with it, but have the competence to do it.

There are three forms of capital in a firm – financial capital, idea capital and human capital. Banks have become experts at the process of managing financial capital, and over the last ten to fifteen years they have mastered idea and technology capital as well. If you look at the growth of the dot-coms and what they are doing as far as the private equity world is concerned, it's the financial companies that are behind it. They have a real depth and understanding of methodology, of how you look at where you should be going in the future and how you use that capital.

Those firms that caught the wave a while ago are also outstanding with human capital. That's looking at where they should be in six to seven years time, what type of human capital they are going to need, the leadership they are going to need and how they are going to manage and develop it. The firms that have put that in place – whether through learning centres, knowledge centres or psychometric analysis – are very good at it.

The other firms have the capability, but they just haven't applied it to human capital yet. They are starting to. We believe very strongly that the firms that have understood this – have the methodologies in place and recognize that the CEO and the leadership team themselves, not just the human resources director, must see human capital management as a core competence – will lead the market.

The service experience is largely delivered by the staff of the organization. Who is responsible for aligning people behind the vision and the values – the HR director or the chief executive?
It's the role of the leadership team. That's the other thing that firms, particularly the larger ones, are having to grapple with – that the firm is now too big for one person. Therefore it's the job of the whole leadership team. For example, every senior executive in financial services has to have technology competence, because technology is their business. It cannot be left to the CIO to make every single technology decision.

In the same way, the HR director doesn't sit there and take every single human capital decision – or stay silent when other issues are being discussed.

There was a time when the chief executive was considered the chief marketing officer on the basis that "everything was marketing". And the way you are describing, it is the chief executive who is also the chief human resource director, as human capital is vital to business success.
Jack Welch himself said he was the firm's HR director. The way I look at it is like a Rubik Cube. Historically you could imagine the classic hierarchical roles arranged on each face of a cube, with the chief executive on top and the others – finance, marketing, technology and so on – below. But nowadays all the top people have to understand, and participate in, each other's disciplines, so it is as if you have moved the Rubik Cube around and mixed up the faces.

The role of executive search is to analyse what the best *team* looks like for that organization and where the gaps are. So if you're making a "distress purchase" because someone is leaving – what are the holes you are looking to plug now, but also – as this Rubik Cube moves around – where are the holes likely to emerge over the next few years? Because you should be buying in and importing the skills for the future as well as for today.

If you are looking at a new business development opportunity, the role is how to form

Kelvin Thompson joined Heidrick & Struggles in 2000 as a senior partner in the San Francisco office. His clients include global Fortune 500 companies across all industries: key Wall Street investment banking corporations, global consumer products companies, and global telecommunications, software and services technology clients. His experience in executive recruitment spans Europe, the United States and Asia, and his board experience includes non-executive and advisory roles for several American and European firms.

Kelvin was previously President of the American operations of Norman Broadbent and Chairman of its global new media, entertainment and technology practice in Europe from 1995 to 1997. He moved to the United States in 1997 to build the "NET" business for the firm, initially in New York and then in Chicago, Washington DC and San Francisco.

Most recently, Kelvin was appointed Global Innovation Leader for Heidrick & Struggles.

the team in advance, so that you have a CEO, CFO and CMO that work well together rather than individual job specs. A lot of it comes down to the fact it is too big a task for one person. It is about that team.

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Michael Porter talked about the seven big challenges facing chief executives. One of them was to understand they were not in charge of the business, because they can't know everything. How would you define the role of a business leader?
There are two answers, depending on the type of organization they work for. The great business leader in what we would call a "traditional" firm – which is about long-term shareholder value and building the institution for long-term success – is someone who takes a key role in terms of the leadership team, whether they are leading it or are part of it. The really great business leaders have an understanding of the shareholders, the other stakeholders and their role in society – so there is some added value over and above just making returns to shareholders.

Then there is a new breed of firms, the new hedge-funds. What is the role of a hedge-fund as a firm? Are they there for long-term sustainability? What does a company mean when it says its lifetime is meant to be short? Then you get into a different territory. If the objective of that organization is to make as much money as possible for the investors, then the role of the great leader is someone who knows how to find and pick the best people, and orchestrate them to get the best returns in the shortest possible time. In this case you lose some of the more ethereal and added-value things, and get down to some very raw issues.

There has been a loss of trust, particularly on the retail side of financial services. Why don't stakeholders trust banks and insurers? One perspective we are exploring is that, traditionally, financial services companies had a purpose – to help you buy your house or protect your widow – and making money was a by-product of doing those things well. As Drucker said, "Profit is the by-product of running an organization well". A lot of companies seem to have lost sight of this, and believe that their only purpose is to make money.
In some cases, if we face reality, firms that are here for a short period of time may well have this as their purpose. The other, more traditional companies have a higher meaning than just making money.

You generally make money by doing something for somebody.
In the new digital world, companies such as eBay, are very successful at influencing communities in terms of communications with other individuals. The successful financial services organizations are starting to play around with this business model. Within the company, they are asking how they are making the best use of their human capital, and how people interact. Or looking outside, how to effect, in the most positive way possible, the communications and relationships between one person and whoever his next degree of separation is. Then you get into this new eco-system, where companies like eBay created whole industries in their own right, where people are now employed. It doesn't necessarily make any money, but it creates the infrastructure and architecture for employment. So if you go back to some of the banks and their roles in the community, if they actually did enable the infrastructures to allow some of those communities to thrive, what would be the kick-back to them in the

long term? If you take your Drucker example, if they built those infrastructures and that produced further profits, it would be a damn good thing and everyone would therefore trust more as a result.

One assumes that the hedge-funds have clients for whom there is a purpose. Perhaps it is producing absolute returns in negative markets. In your experience, are hedge-funds purely about making money?

No – I said *some* hedge-funds. A lot are moving to the long-awaited goal of institutionalization. So how do you institutionalize a hedge-fund that is there for the long-term? The misunderstanding is that it's a high-risk proposition. The original concept of the hedge-fund was to de-risk your investment portfolio. Those firms that were actually providing significant long-term returns for their investors and are starting to build up long-term institutional bases – they are there for the long term in order to manage their investors' money better than anyone else. Some are there just to make as much money as possible in a short period of time. That's fine – but that is a new definition of a firm, and not one that you join to build your career.

Where do you see hedge-funds going? It's a bit like iPods. They have come from nowhere; everyone is saying that all the old technology and old-style fund managers are history.

The ones we work with are not blind to the fact that people still do vanilla investing, because clients still want it. So they are tending to move into the different forms of capital beyond classic arbitrage. And they have deep respect for organizations in the past that have developed significant business models which are very successful in other forms of asset management. Those are the guys that are really building the institutions.

We tend not to work with the ones that are criticized for having just the single strategy – whether they are fly-by-nights or are here for the long-term. It's the very nature of our business to work with those who want to build for the long-term – otherwise, why pay us the money and spend the time with us that they do?

Historically, retail financial services businesses have tended to be run by accountants, actuaries or investment bankers – all generally risk averse. Recently we've seen a rapid growth of retail entrepreneurs in the financial services space – people skilled in understanding customers and consumer needs, but with no experience of financial services. What will create the agenda for the future business leader? Sector specialism, or the ability to lead talented teams of individuals?

Digital Equipment had a really good model before its difficulties. It used to look at a T-shaped model, where

to be a leader in the organization you had to have a breadth *and* a depth. And we tend to put exactly that together for clients – everyone around the executive team will tend to have a deep expertise in something, but also have a breadth covering general management, how to organize people, management motivation and

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so on, and a deep fascination for customers, consumers and what is happening externally.

The more forward-thinking firms are considering now the depths they will need in two or three years time, so they can hire those skills and bring them onto the leadership team now.

Most of the CEOs I've talked to say it's not their strategy that differentiates them but their

execution. And the execution must be down to the management team.

Yes. And how that management team is organized. Here is another misunderstanding. One of the failure traits of the unsuccessful CEO is that they keep banging on about "get on the bus or get out of the way" and "don't worry about the business strategy – get your people on the bus and start driving". That is fine if your whole leadership team is united and working in the same direction, but if the CEO is driving the bus by himself, he's probably going to get lost, which is the bad thing with that analogy.

The scale of change has been amazing. In 1980, there were no financial services companies in the Fortune 100, and Citigroup and Morgan Stanley probably only had six or seven thousand people each. Now the task of managing huge, global, 24-hour-a-day organizations, with customers that expect 24-hour-a-day service, is too big for one person. Now you need leadership where two plus two equals seven – and the successful firms do that.

How would you respond to the view that the number two is the "least best" person to take over as chief executive?

I think it's a fallacy. The number two can easily take over if he has the competency and skills for the job. And if he has been successful within the DNA of that organization, they have a much greater probability of success than an outsider. Totally against our industry, but in reality true!

You work in Europe, North America and Asia. Do you see any material differences in your business?

The leadership differences across the globe are dramatic in terms of the culture, the global outlook of the organizations, the way people view what leadership is, and what people think a firm is there to do. There is a very fierce focus in America on performance to create results. In Europe, a lot more of the cultural and national issues are really important.

A guy who ran one of the major pharmaceutical firms in Asia was having real problems in Japan because they couldn't hire Japanese people. Japanese people wanted to work for firms that benefited Japan, but all *their* profits flowed through Australia. That's a big issue to face. If you can't recruit the best people in your industry in a certain country, you are unlikely to be the most successful firm in that country. It's the understanding of the cultural sensitivities, what each of those different countries is about, that becomes a much bigger issue.

You cannot be an American vanilla firm that just puts American ex-pats everywhere. Neither can you do hands-off management, hiring local leaders and leaving them to do what they want – because they won't understand what you are trying to do either.

So how do you fuse that melange of heterogeneous cultures together and make it work as one unanimous whole?

That's one of the biggest new challenges of the last ten years. Is there a difference between an international guy and a global guy, and what does global really mean? What are the issues when you get to losing trust with consumers? To benefit your shareholders, you will be driving down costs by outsourcing, but that means sacking a lot of the people working for you in the most expensive areas like America and moving that to Bangalore. That's a massive issue.

And as the leadership team, you have to make some fairly fundamental decisions that will affect your consumer population base. If you don't do that, you can't be competitive and provide your consumer with the best rates. Those fundamental ethical issues are only a problem because firms can now operate on a global basis.

What about gender perspective? Britain leads Europe, with roughly one in eight of executives female. But this is still massively unrepresentative of the whole population. Why?

Because it takes a long while for people to come through the ranks. I'm far more positive about the female population than most. I believe we're seeing the tip of the iceberg, and there will be a lot more women in senior leadership jobs in the next five to ten years – despite the fuss over Carly Fiorina!

Ten years ago, there were almost no women personnel directors in top British companies. Now 80% are women. You may say – that's personnel. Maybe, but over the last twenty years the percentage of women in senior executive roles in Fortune 100 firms has grown from 2% to 14%. That is a huge shift, but it will take a bit longer for them to reach 50%.

There is far less discrimination today. In fact there is more positive discrimination to bring women in, and with changing demographics there will be no choice but to employ older people, women and people of all races. And, aside from equality issues, women bring a lot of other nuances, abilities and understanding to the leadership team.

I interviewed Tom Peters recently. He argues that in many industries women are the largest group of purchasers, so it is crazy not to have women as part of the management team.

But then I would say you can't do business in China unless you have got someone who is Chinese in a senior executive capability to influence your strategy. Firms are only starting to realize that in some cases.

We have just launched an HR special interest group in the Forum, on the basis that HR directors have a huge influence on the overall marketing strategy – because it is staff who deliver or deny the marketing promises. What do you see as the biggest issues and challenges facing HR directors?

There is a belief that HR departments are not necessarily the places to put knowledge management and development questions. There has been a movement, particularly within financial services – HR has been seen historically as transactional and not strategic – to have those things outside the HR department. That is not a good sign.

One of the biggest challenges going forward is the HR directors' credibility on the senior executive team, when human capital in its broadest aspects becomes, and is seen as, a strategic pillar. If they themselves don't have the credibility, they will find themselves removed from their roles and business people put into them, as has happened with IT and finance. CFOs are not always bean-counters these days, nor CIOs technologists. They are senior executives who just happen to have depth in that area.

The challenges as far as human capital are concerned are huge. The demographic changes that are taking place are enormous. The ageing population means you have to look at other forms of employment, as people don't necessarily want jobs for life anymore, or perhaps want to downsize later on. So you have to create new ways to employ people – and if you can't provide the human capital for the firm, you can't do the job.

And employing a global workforce working twenty-four hours a day around the world presents a whole new set of competitive challenges.

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What will they have to do differently?

You have to remove the ivory tower. Human capital issues are no longer the responsibility of the HR director. They may be accountable, and they must ensure they have the right people in the business, but they must devolve the capital responsibility across a number of senior executives, amongst whom they must be seen as very credible players. So they must be at line meetings and discussions rather than sitting in the HR department, just as IT and finance have had to move themselves from their own floors and into the business.

The other thing is they must address is the approach to the bringing-in of top talent. Sometimes it will be a distress purchase, but they themselves should take responsibility for what talent the company will need in five years time – which requires business understanding and involves some form of risk. Putting that sort of programme in is beyond many firms today, but it is exactly what the top HR practitioners like Pepsi and GE are doing.

The need is for someone who really understands human capital to challenge the hiring that is done to make sure it is correct.

It would seem that the right sort of HR directors who can manage human capital should be required to be board directors.

Not necessarily board directors. In America, we have gone away from the need for every senior executive to be a board director. They should be on the top team and in every single strategic discussion. Not because of their job title, but because they have significant value to add.

Today, all disasters at senior executive level are very public.

There is a similar debate in Britain as to why marketing directors are not on the boards of most companies, representing the consumer at the very highest level.

I sit on our leadership team at Heidrick and Struggles, not because of my job title but because I am perceived to have value to add. You would have to have a pretty indecisive chief executive if the marketing director didn't add value to the executive team.

So if someone has value to add to a board, they will end up sitting on it. I had to face the same thing with chief information officers, which was my foundation in the early days. In Britain, they wanted to sit on the board, and globally they wanted to be on the top team but report in to the CFO. But it's the value-add that is important, not the seat. If your CEO is a luddite, then get out of the firm. If you have an advanced CEO in the leadership team and you are not in it, start looking at your own skills and capabilities – as opposed to what the hierarchy says.

Corporate reputation is the single greatest issue facing CEOs, together with the associated issues of brand and corporate image. How do you see the HR director impacting on that?

It depends on the company. Take a consumer-orientated financial services company in fast-growth mode. And let's assume they are recruiting 2,000 people a year. Just from a very basic tactical level, in order to recruit that number, you probably need to contact around 100,000 people, every one a potential customer – and I've never known why so many companies don't understand that. Those that do use their external recruitment as key to the whole way they approach the marketplace – the experience someone has when being approached to join a firm is pretty important.

The reputation of a firm is undoubtedly damaged by wrong senior executive hires. That reputation results in consumers not wanting to buy their goods, or in significant share price issues. The need is for someone who really understands human capital to challenge the hiring that is done to make sure it is correct.

I would challenge any financial services firm that has not invested significantly in understanding what its corporate DNA looks like, and how it is going to measure people against that. They should be de-risking the recruitment process significantly – which means they should be spending serious time and money on how to interview and assess any senior executive that comes in, to make sure they are going to fit the orchestra. If they don't, you will see some disasters happen, and today all disasters at senior executive level are very public. Managing this, and controlling this, is a heavy load on the shoulders of the HR director.

So do you think you can you find me a proper job?

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