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Institutional arrangements and the labor market functioning: The case of executive search

Jérôme Gautié, Olivier Godechot, Pierre-Emmanuel
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Abstract

Do headhunters firms improve the matching process, and therefore contribute to the efficiency of the labor market of top executives? Far from being a passive vector, on one hand they contribute to shape companies' specific demand; on the other hand, they initiate the supply of candidates resorting to their networks. Headhunters implement idiosyncratic categories of evaluation in order to fit as well as possible both parties' preferences. If such a type of transaction reduces information costs, it nevertheless produces distortions with regard to the market efficiency. It introduces a bias in favor of mobility between identical jobs (in terms of occupation and industry) and therefore participates to the labor market segmentation, which impedes substitution mechanisms. As a consequence, they contribute to the inflationary pressures that characterize the top executives' labor market.

Keywords: Hiring; Executives; Head hunting; Intermediates; Mobility; Institutions

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Within the standard paradigm of economic theory, institutions and markets are generally thought of as two antagonistic concepts. Thus, in the seminal review chapter of the *Handbook of Labor Economics*, Francine D. Blau and Lawrence M. Kahn define institutions as “the laws, programs, conventions, which can impinge on the labor market behavior and cause the labor market to function differently from a spot market” (Blau and Kahn, 1999, p. 1400). Institutions are then thought of as sources of disruptive imperfections. They refer to the very broad set of factors that move reality away from the Walrasian model of pure and perfect competition, ranging from, in the most typical case, legislative rules or those resulting from collective bargaining, to less organized phenomena such as feelings of justice (Solow, 1990). However, this approach obscures the fact that all markets are based on institutional arrangements – and that these are themselves all the more complex when the market gets closer to the theoretical model, such as, for example, the stock market (Muniesa, 2003), or, in the field of labor, the “professional markets” (Marsden, 1990). Moreover, it is directly opposed to a neoinstitutionalist vision that thinks of institutions as collective arrangements that limit transaction costs and promote the transmission of information (North, 1991). In contrast to institutions that are “obstacles” to market efficiency, we could therefore oppose institutions that support market efficiency.

While talking about “institutions” to designate “intermediaries” in the labor market, such as recruitment firms, might seem excessive – in comparison with more permanent organizations more closely linked to the public sphere – it is heuristic to see the use of headhunting for executive recruitment as an “institutional arrangement”, i.e. as “a mode of organizing transactions” (Ménard, 2003). In the Williamsonian categorization (Williamson, 1994), this recourse to a third party brings recruitment closer to hybrid arrangements and is opposed to both the direct recruitment of candidates on the (external) market by the firm and the internal mobility of its employees.

Intermediaries who are professionalized in this activity (management and feeding of databases, professionalization of evaluation, etc.) would benefit from economies of scale and would make it possible to reduce the overall time and cost of research and to improve the *matching* between employees and firms. They would thus make it possible to improve the quality of information and reduce its cost, and would bring the labor market closer to a perfect labor market (Stigler, 1962). From this point of view, this concrete institutional arrangement would achieve the market efficiency of the theoretical model

better than the alternative institutional arrangements (direct market or organization).

However, research has shown that, far from being mere technical supports for the matching of supply and demand that have already been established – which could therefore be disregarded when modeling “market mechanisms” – these firms play an important role in the very definition of exchange and its expression in terms of supply, demand and price (Bessy, 1997; Eymard-Duvernay and Marchal, 1997). Their activity may not lead to a reduction in the gap between the reality of the labor market in which they operate and the ideal market model (transparency of information, efficiency). These works on recruitment agencies generally lead to the refusal of a unilateral response to the alternative “hindering” institution vs. “supporting” institution. However, they focus more on the effects of exclusion of certain categories of employees produced during the different stages of the judgment than on the quality of the market match generated.

Our objective is to show how the use of headhunting firms contributes to structuring the very specific market of top executives. According to William F. Finlay and James E. Coverdill (Finlay and Coverdill, 2002, pp. 3-5), headhunting has developed strongly in the United States since the mid-1970s. In France, the use of this type of intermediation seems to be less active than on the other side of the Atlantic – but precise data on this point are lacking. It is mainly used in the executive markets, especially for senior executives or executives in the financial, consulting or IT sectors. Although a few large international firms such as Heidrick & Struggles, Spencer Stuart, Korn Ferry, Egon Zehnder..., dominate the sector, it remains relatively competitive¹ and includes many small generalist or specialized firms². In the absence of a census of headhunting firms, it is difficult to specify the number and concentration of the sector. A *Guide des professionnels du recrutement* lists 1,220 intermediation firms and details the top one hundred and twenty-five (which carry out 80% of assignments). But it has the defect of not respecting the

1 For example, in 1998 alone, the market department of a major Parisian bank had recourse to 15 firms for some thirty “hunts” at a total cost of 5 million francs.

2 One of the important reasons limiting the concentration of the sector is the practice of “off-limits” clauses. When a hunter enters into a transaction with a client, the hunter agrees not to hunt employees from all or part of the client’s business for a period of two years. A company that wants to protect its workforce from competition may want to diversify its hunters. Moreover, a major hunter may be less attractive if it is handicapped by such clauses with its client’s competitors.

symbolic, fragile but essential boundaries of the profession by mixing headhunting firms and recruitment firms (which do not do real “hunting” by “direct approach”), firms specializing in *high management* (on which we focus here) and firms specializing in *low management* (even if the one ventures into the territory of the other), firms that only do recruitment and those that also offer strategy consulting services.

Our approach is based on the analysis of the consultants’ practices, using both an ethnographic and quantitative approach (see Box 1). In the first instance, we will follow the different steps in the development of the transaction. In a second step, the analysis of the way in which the transaction is established (the matching) will lead us to question – at a more aggregate level – its effects on the functioning of the labor market.

Box 1. Methodology

Our study is based on the close articulation of three complementary insights: a quantitative study on a database of one of the two firms studied, a series of in-depth interviews, both with headhunters and with executives who have been in contact with them, and finally, a participant observation of several months (Sorignet, 2004).

The study focused on two “high-end” headhunting firms – Headhunter_1 and Headhunter_2.

- At the first firm, one of the authors worked for a year and a half as a “research officer” from 1997 to 1999. In 2000, the firm agreed to give us part of its database to conduct a quantitative study. The database contains the files (i.e., essentially the CV and the consultants’ assessment of the candidate) of 2,723 people contacted over a three-year period between 1997 and 2000, of whom 1,870 people were actually contacted in the course of 239 commercial assignments. The database also contains information on the client company (turnover, etc.) and on the client’s wishes. In this firm, about ten interviews (from one and a half to three hours) were conducted with the consultants between 2000 and 2003.
- One of the authors worked for HeadHunter_2 for three months during the summer of 2002. A dozen interviews were conducted with consultants and candidates in 2002 and 2003.
- Finally, during a survey on the labor market in the financial industry, certain aspects of the use of hunting by financial industry actors (banks or employees) were observed (Godechot, 2004) and some consultants from other firms (i.e. HeadHunter_3) were also interviewed.

From the HeadHunter_1 database, we can identify the profile of the executives contacted by the first firm, and thus better specify the “segment” of the labor market we are interested in here: the average and median age is 41 years, 86% are men, and their average net salary (1998) – excluding other components of compensation – is 740,000 francs (10% receive less than 400,000 francs and 10% more than 1,200,000 francs). For this same firm (HeadHunter_1), the average duration of the assignments was 6 months (Godechot and Sorignet, 2001).

1. Informing the demand, encouraging the supply: the practices at the basis of the transaction

In order to analyze the role of headhunting firms in the executive job market, we must first understand how they contribute to building demand and supply in this market. The latter is particular: there is no exchange of a “standardized” product, as may be the case in other labor markets, where it is the institutional actors in the training-employment relationship³ who largely shape the exchange – and this is particularly true of professional markets (Marsden, 1990). Although educational qualifications in particular are often necessary conditions, they are far from sufficient, since both the vacant position and the personality of the person likely to occupy it are not fixed ex ante, but are rather the result of the interaction between the client (who opens the position) and the firm. The latter, through the offers it generates and the candidates it proposes, also has a crucial influence on the outcome of the transaction.

1.1 *Building the demand: the client-headhunter relationship*

1.1.1 *The initiative of the request*

Why does a company go through a headhunter to recruit one of its executives rather than through its human resources or through classified ads? W. Finlay and J. Coverdill (Finlay and Coverdill, 2002, p. 38) put forward two kinds of reasons for American headhunting that are also valid for France: reasons of economic efficiency and reasons of political interest. Because of their degree of specialization in a recruitment niche and the returns to scale linked to the organization of a search structure (database, etc.), headhunters would, first of all, have a better capacity to search for and approach suitable potential candidates and would demonstrate greater speed. Secondly, from a political point of view, headhunting would partly bypass the intervention of the human resources department, whose interests may differ from those of the managers looking to recruit⁴. In the case of the executive niche studied here, recruitment alternatives do not always exist. Human resources is not supposed to be able to recruit people above them, and recruiting operations

³ These actors are mainly the training system, which defines diplomas, and the social partners, who develop job classifications and “qualifications” through collective agreements.

⁴ Human resources sometimes retains a role in selecting the headhunting firm, as well as more generally an administrative role in paying for the firm’s services.

must be conducted with the utmost discretion (for example, for a replacement), both internally and externally – which also prevents advertising⁵. External recruitment also makes it possible to avoid and bypass the solution of internal recruitment, whether it be the promotion of a subordinate or lateral mobility. In the decentralized firm organized into profit centers, recourse to external transactions rather than internal transactions is thus a means for a center to preserve its autonomy and avoid political relations with the other centers (Eccles and Whyte, 1988).

Finally, it should be added that in many companies, the manager who recruits benefits directly from the advantages of a precise and rapid search, but does not always bear the costs, as these might be diluted in the company's structural costs. In the words of some human resources managers in the financial industry, going through a hunter is an “easy solution” (Godechot, 2004).

For these reasons, this manager will become the client of a firm. Then a particular consultant will ensure the follow-up of the “mission”. The crucial issue for the latter is to understand the “request”. First of all, he or she has to understand the “subject” of this request. He or she may be confronted with several interlocutors in the client organization (for example, the human resources director and the head of the department where the position is open) who do not necessarily have the same conception of the position and/or the profile of the person sought. It is therefore essential to understand these potential differences, the degree to which they are made explicit and the power relations that underlie them (particularly in order to know who will ultimately decide to hire).

Following an interview with the client, the consultant writes a short document outlining his or her perception of the job profile and the person. The construction of the “understanding of the position” by the consultant is a decisive stake in the stabilization of the relationship between the hunter and his or her client. This document functions as a reassuring signal to the latter and must testify to the firm's competence and its ability to provide an effective service. This is why the time between the client's appointment and the sending of the job description is often very short, as it contributes to the signal effect sent to the client and to the building of a reputation.

⁵ Sometimes the major shareholder directly orders a search for a new CEO without the knowledge of the current management.

1.1.2. Formatting the application

However, the consultant does in many cases much more than simply “adapting” to a clearly explicit demand of the customer. In fact, he or she transforms a singular demand into a “market” demand or, more precisely, into a demand to which he is likely to respond⁶. One of the fundamental tools, within HeadHunter_1 but also in other recruitment agencies, is the database. One of the major difficulties in maintaining this database is the definition of variable nomenclatures. These must be both precise and exhaustive. Numerous classification problems can arise, both for potential candidates (especially those with several degrees⁷) and for the types of positions. Creating equivalence categories to compare jobs that are declared equivalent in companies that are not necessarily so requires finding common denominators, establishing definitions, and cutting to the quick to establish boundaries.

In this work of categorization, the nomenclatures of headhunting firms (themselves non-standardized) may conflict with the classifications of other players in the market (HR strategy consulting firms in particular). It is important for the headhunter to keep control of the definition of the position (and therefore to try to format it according to its own categories). For example, HeadHunter_1 had agreed to conduct a search for several positions for a luxury multinational whose organization had just been modified by a large strategy consulting firm. The latter had proposed a new organizational chart based on the transversality of positions. As one of HeadHunter_1’s consultants pointed out: “We were asked to look for profiles that don’t exist. They invented very pompous, complex and trendy job names but I don’t see what we can do with that.” However, the size of the contract (more than 3 million francs) forced Headhunter_1 to accept the job definitions established by the strategy consulting firm. Its tactic was to gradually and implicitly redefine the positions to match known and qualified candidates for what appeared to be the core business of the position, whose identification was blurred by a sophisticated name. One consultant remarked, for a position for which he was in charge of finding the candidate: “In fact, what he wanted was

6 François Eymard-Duvernay and Emmanuelle Marchal show how a recruitment consultancy firm transforms a vague request for a “right-hand man” of an SME into an executive assistant, with very precise age and diploma criteria (Eymard-Duvernay and Marchal, 1997, chapter 2).

7 For example, a candidate with both a BTS and an MBA raised many questions from the consultants at HeadHunter_1. Should they consider him (both for the statistical formatting and for the analysis) under the first degree or under the second?

a good purchasing manager and not some crazy thing. The strategy firm [X] came first and we decipher what we know about the company's needs and the reality of the market.

More generally, the difficulty does not only consist in "formatting" a job profile, it also lies in the fact that the client sometimes sets conditions in terms of diploma, career path, age, etc. that the consultant considers difficult – or even impossible – to meet, particularly in relation to the proposed functions and remuneration. Here again, all the subtlety of the consultant is to lead the client to revise the initial "demand". From this point of view, the strategy of selection, preparation and presentation of the candidate can play an important role.

1.2 Generating the offer: the search for candidates

The consultant's work is primarily based on the "direct approach", according to the terminology used. This consists in transforming employees of other companies, who are not necessarily looking for a new job, into candidates. The direct approach is the core activity of the "hunt" or at least what will constitute the reputation of a good "hunter". In order to identify these job offers, which are not very visible and which are often unaware of their existence, the consultant first mobilizes his or her social capital and/or identifies potential candidates through repertoires of top schools' alumni, magazines specialized in the distribution of executive appointments, and the economy pages of the general press in which high-level executives are quoted.

To discover potential candidates, the consultant also has recourse to informants – the "sources" – who are likely to indicate names. Even if the sources are partly pooled at the level of the firm, they constitute above all an individual capital. The ability to mobilize brings into play on the one hand the previous trajectory of the consultant (who has often held a position of responsibility in a company), and on the other hand the reputation he or she is credited with as a headhunter. The headhunter can address himself to people with whom he has strong links: former professional relations who are supposed to have information on potential candidates, but also friendly relations built up throughout his career as a consultant (former candidate or client who has become a friend). However, the essential of his sources resides in links that can be qualified as "weak" following Mark Granovetter (Granovetter, 2000) made up of former placed candidates, presented

candidates, privileged interlocutors in client companies but also of persons recommended by other sources and contacted most often in their name. The relationship between the consultant and his or her source is based on the “gift” mode: the person likely to give information generally does so willingly, free of charge, but implicitly expects, on an unspecified horizon, that he or she will be given a service in exchange (job offers, search for a candidate, provision of information on market prices). In short, the accumulation of social capital, at the individual level as well as at the level of the firm, is a key element in the transmission of information and, consequently, in the functioning of the labor market.

In all cases, the candidates, sources and clients contacted during or outside the assignment are meticulously recorded in the hunter’s database, constituting a reusable asset for subsequent assignments. While, in the vast majority of cases, the consultation of the database only gives at best a first indicative list of potential candidates that could correspond to the position and that must be completed by new candidates, we have been able to observe that certain missions priced at 40,000 euros are carried out in a few days, or even a few hours, by consulting the database. At this point, it is a question of staging this speed and making it a sign of excellence and not of the ease of the candidate’s search process. In order to justify its remuneration, the firm has every interest in making people believe that its work is still based on the “hunting” activity. This is also part of the process of personalizing the relationship with the client, who expects the consultant to adapt to his or her specific needs and to find “the rare pearl”, the result of a relentless search and not simply the consultation of a pre-constituted database.

1.3. Evaluating candidates: the underside of an intimate transaction

1.3.1. Objectivize the evaluation

The first candidate selection request in the database or the first telephone contact with the candidate consists of verifying that the potential candidates meet the overall “specifications” of the position by the client. It is at this stage that the so-called objective variables (education, experience, age) will play the most important role⁸.

⁸ However, the database used is limited to the candidates met by the headhunter and does not allow us to measure the modalities of this first selection.

After this first selection stage, the consultant invites the potential candidates to an interview, where he or she evaluates their quality, presents the position and sometimes even prepares them for the final interview with the client.

In *Headhunter_1*, the consultant gives the candidate two marks (one general, the other in relation to the mission) and makes a short written report of the meeting which has both an evaluative and mnemonic role. It is at the end of this meeting that he or she will decide whether or not to propose that his or her client meet the candidate. A regression shows that the so-called objective variables – which are decisive at the pre-selection stage – play a much smaller role at this stage (see Appendix A). Apart from the adequacy of the position offered by the client and the position occupied by the candidate (i.e. the fact that the candidates occupy the same position in the same sector – we will come back to this), it emerges from this exercise that very few of the coefficients are significant at the 10% threshold: the “categories of judgment” of the consultants are difficult to objectify at the collective level. They must be assessed at the level of each consultant, but also in “action”, given the importance of the interview in determining the personal value score.

In fact, when questioned, the consultants emphasize that the quintessence of their work consists of going beyond the simple mobilization of objective criteria defined *a priori* (such as age, gender or degree) to appreciate the individuality of the person and his or her suitability for a position that is also unique.

1.3.2. An objective evaluation?

The relativization of the role of “objective” variables (i.e. those that appear in the CV) automatically has as a corollary the valorization of more subjective aspects. In most of the interviews with consultants, the parallel with matching on the matrimonial market is explained, and refers, more than a simple metaphor, to a claimed analogy. In this context, it is indeed the personality of the candidates that needs to be grasped, beyond the more directly professional skills (linked to training and experience).

From this point of view, it is interesting to analyze, in addition to the notes which summarize two forms of judgment, the written remarks of the consultants on the candidates they met, thanks to the statistical analysis of the vocabulary used (see Appendix B). Vocabulary relating to the description of the career is of course very present, as can be seen from the importance of the

occurrences of ‘experience’ (875) and ‘international’ (394). It also rubs shoulders with words describing less professional and less objectified characteristics of people. The strong occurrences of ‘good presentation’ (147), ‘speaks’ (well or poorly) (306), ‘expresses himself’ (76), show that the ways of speaking, which are inseparably social skills and technical and strategic skills within the company, attract particular attention. In the same way, the frequency of mentions referring to physical characteristics, height, color of the ‘eyes’ (630) and ‘hair’ (458), show that body assets, even in intellectual management jobs, are not indifferent for the headhunter and the client, in particular when these body attributes lead to positive judgments (‘beautiful’, ‘elegant’, etc.) Finally, the judgment is also a ‘personal’ judgment in the sense that the affinities that the candidate arouses in the consultant (‘nice’, ‘sympathetic’, 412), or the moral qualities that he or she succeeds in having attributed to himself (‘serious’, ‘honest’) count in the judgment.

Should we see in these annotations the proof of the drifts of the consultants’ practice, giving free rein to their preconceived ideas or those of their clients (referring for some to “habitus” affinities)⁹ and excessively psychologizing the relationship with the candidate? One could then rightly, as F. Eymard-Duvernay and E. Marchal (Eymard-Duvernay and Marchal, 1997; Eymard-Duvernay and Marchal, 2000) question the relevance of their approach, both in terms of efficiency and equity.

1.3.3. The reasons for the psychologization of the relationship with the candidate

Several considerations lead us to nuance this negative view.

First of all, it must be emphasized that the candidate’s personality must be taken into account for this type of sensitive position (executive), as the compatibility of his or her personality with those of his direct colleagues (and in particular those who are recruiting him) is a necessary condition for his or her suitability for the position.

Thus, for example, during the observation phases, we were able to analyze assignments in which the candidate’s personality and his or her fit with that of

⁹ When asked about the importance attached to the annotations on physical appearance and presentation, the consultants tend to put them into perspective and specify that they serve above all as a memory aid to identify the candidate. This denial is certainly only relative, since the consultants can also objectify these variables either in relation to the definition of the position or in relation to the client’s requirements.

the client were particularly crucial. This is the case of a search carried out for a large American sportswear group that wanted to recruit its marketing director. The managing director, 36 years old and American, explained to the consultant that the average age of the company's executives was 35, and that they needed someone young and enthusiastic, simple and direct in their hierarchical relationships, and capable of getting involved in the local community outside of work. Thus, the consultant will be looking for candidates with the image of this young general manager, without a tie, often in jeans and always with a smile on his face. During this mission, the "psychological" dimension of the candidate's personality will be explicitly presented by the consultant as a professional "skill" in the same way as previous experience and the level of education.

If the consultant is undoubtedly not completely insensitive to the affinities which he or she develops with certain candidates because of the possession of a common characteristic¹⁰, the stake of primary importance for him or her is especially to know if the candidate that he or she presents is going to please the customer, as well by his or her objective as subjective characteristics. This exercise is based on the one hand on his or her good knowledge of the client's preferences and on the other hand on an exercise of inference, proven or erroneous. The characteristics recorded by the consultants vary greatly depending on the client's sector. For example, 22% of the candidates for missions for luxury, perfume and cosmetics companies are described as 'elegant', whereas only 5% of them are for all the missions. Body characteristics such as 'eyes' or 'hair' are also systematically more recorded. On the contrary, in traditional industry sectors, the register of physical description and its aesthetic appreciation will be used less and the more traditional vocabulary of company life will be used more: 'international' in assignments for agri-food companies, 'management', 'mf', 'profit' in the electrical equipment sector. Similarly, the mention of the candidate's dynamism is over-represented in the trade sector and speed ('fast'/'sharp'/'quick') in the finance sector.

All in all, it is perhaps not at the level of candidate evaluation that we should look for a possible dysfunction that would lead us to doubt the

¹⁰ For example, at [Headhunter_1](#), consultants use the term 'smart' significantly more to judge a candidate who is a consultant like themselves.

contribution of headhunting firms to the efficiency of the market¹¹. The characteristics of the transaction, which is ad hoc and idiosyncratic, help to explain the nature of the evaluation (and in particular the strong personalization on which it is based, conferring an intimate character on the transaction – to use the notion introduced by Viviana Zelizer (Zelizer, 2001). According to Oliver E. Williamson, these characteristics are precisely those that justify the use of “hybrid” institutional arrangements, with recourse to a third party – of which headhunting firms are one.

2. Matching: from transaction to market

The setting in contact of the selected candidates and the customer is a key moment of the transaction. It is during its process that the price – i.e. the remuneration – is negotiated, negotiation in which the consultant can himself take part. Still starting from the practices at the “micro” level, the analysis of these stages of the transaction allows us to better understand, at a more aggregated level, the role of headhunting firms in the overall functioning of the market.

2.1. Linking: a contribution to the compartmentalization and segmentation of the labor market?

Although the matching process is presented (primarily by the consultants themselves) as an idiosyncratic match (finding the unique person for the unique position), one can question its results in terms of “resource (re-)allocation” in the executive labor market. Headhunters are often accused of recruiting “clones” to fill vacancies – i.e., favoring candidates who occupy the same type of position in the same sector – and thereby fostering the compartmentalization and/or segmentation of the labor market.

¹¹ Our approach thus differs from that of F. Eymard-Duvernay and E. Marchal (Eymard-Duvernay and Marchal, 1997). They analyze the “imbalances” constituting each form of judgment and their effects in terms of exclusion. They then define a “balanced judgment” which, by maintaining the balance between the different conventions of judgment, would allow the judgment and the functioning of the labor market to be both “fair” and “efficient”. If, by restating the reasons for the forms of judgment analyzed, we understand their relevance (and we will not comment on their “fair” or “unfair” character), the fact remains that the matching mode generates biases with respect to the market model, as we will see in the second part.

In fact, when analyzing the database of the firm HeadHunter_1 concerning a certain number of missions carried out between 1996 and 1999, it is striking to see that the space of possible transfers on the labor market is reduced during the different stages to a movement between two equivalent positions. We analyze the correspondence between, on the one hand, the function and sector of the position offered by the client and, on the other hand, the functions and sectors of the positions held by the candidate during his or her career, using as a nomenclature the particularly detailed lists of the job hunter (about a hundred categories for functions, of which about forty are actually used, and 1000 categories for sectors, of which 250 are actually used). When movements occur for identical functions and sectors, the level of detail of the categories leads to the definition of movements from the same to the same¹². The recruitment process organized by the headhunter favors very circumscribed movements on the labor market and contributes to the tightness of each of the labor micromarkets.

The changes during the recruitment process are very clear (see table 1). The proportion of people who do not occupy (or have never occupied) a position exactly in the job profile defined by the client (or defined jointly by the client and the hunter) decreases sharply. The people who are furthest from the definition go from 22% of the candidates at the stage of the first interviews of the candidates by the hunter to 18% of the candidates during the presentations of the candidates to the clients to 1% of the candidates finally retained by the clients. This process starts even earlier. At the stage of the database query and the consultant's sorting of the results of the query, a relatively limited set of potential candidates is defined in relation to the real possibilities of mobility between functions and/or sectors. This result is visible when we compare the much smaller relative share of candidates who do not share the sectoral and functional properties during the interviews (22%) than when we analyze recruitment movements on the same population with other types of intermediation than the headhunting firm Headhunting_1 (34%)¹³. The work of eliminating all members of related labor markets that

12 The most used functional category ('exec director' equivalent to general manager in the broad sense – including subsidiary manager –) covers 18% of HeadHunter_1's candidates (all CV lines combined) and 27% of the candidates in post. The most common sectoral category, 'management consulting serv', covers 7% of the candidates.

13 It is obviously not known how the change of company marked on the candidates' CVs occurred. It may have been organized in some cases by a recruitment firm (including HeadHunter_1), or by any other channel. The direct relationship between the recruiter and

began at the query stage of searching for potential candidates in a database also continues during the more qualitative phases of recruitment, interviews, presentations, interviews, and hiring. “Clones”, those who occupy exactly the same position in the same sector, especially at the time of recruitment, are particularly favored during the recruitment process: 8% among the interviewees, 12% among those presented, 55% among those hired, even though this is not, in this world, outside of the mediation of Headhunter_1, the only mode of transfer on this labor market (8% according to the lines of CVs).

Table 1. Correspondence between the candidate’s profile and the job profile of a headhunter

Step in the recruitment process. Match between the position offered and the position(s) held	Candidates interviewed by the hunter for a customer	Candidates presented by the hunter to the client	Referred candidates hired by the client	Change of position outside headhunter ^a
1. Sector and function always different	22 %	18 %	1 %	34 %
2. Same sector, but always different function	8 %	7 %	10 %	11 %
3. Same function, but always different sector.	49 %	50 %	14 %	36 %
4. Held a position in the same industry and a position in the same function at least once in his/her career (but never both together)	4 %	5 %	8 %	4 %
5. Same sector and function at least once in career but not in last position held	8 %	9 %	13 %	8 %
6. Same sector and function in last position held	8 %	12 %	55 %	8 %
Total	100 %	100 %	100 %	100 %
Workforce	1796	721	110	3925

Note: 22% of the candidates interviewed by the headhunter have never held a position of the same function or a position in the same sector. This is the case for 18% of the candidates presented by the headhunter to the client and 1% of the candidates hired by the client. On the contrary, in the case of company changes noted in the candidates’ CVs, 34% were to positions for which the candidate had never held either the function or the sector.

^a Change in firms contained in the first two lines of the candidates’ CVs.

Don’t headhunters make an effort to diversify and still offer their clients a certain variety of profiles at the presentation stage? According to them, the

the recruit may allow for more risk-taking and freedom from the match between the original and the new position.

clients are not ready for novelty, whereas the headhunting firms are trying to make the market more fluid. In fact, if we analyze the results of the consultants' proposals, the compartmentalization of the market seems to be more the result of the client's choice than of the headhunter's policy (see Table 1, the contrast between columns 2 and 3). When the latter proposes several types of candidates for the same assignment, the candidate eventually hired is always one of those with the closest degree of proximity to the position: a candidate from line 6 of Table 1 is preferred to a candidate from line 5, one from line 5 to one from line 4, etc. However, we can see that the hunter accompanies this movement by presenting a carefully balanced panel of personalities. Thirty-three percent of the assignments where the hunter presents the client with only "atypicals"¹⁴ are successful. The rate rises to 50% when the consultant presents only "typical" candidates and to 84% when he or she proposes both "atypicals" and "typicals", knowing that in this case the recruitment is always done in favor of the latter.

Introducing atypical candidates into the sample that will be presented to the client may thus be more a question of a proven commercial strategy, moreover explicitly assumed and claimed as such internally by the consultants, than of a concern to widen the range of choices – and thus to make the market more fluid. By presenting a small, differentiated and hierarchical sample, one is led to believe, in a Gaussian logic, that the extremum (i.e. the "typical") of the hierarchy presented is particularly rare and precious and that it is imperative to seize the opportunity¹⁵. On the contrary, if we propose several specimens that perfectly meet the client's specifications, we plunge the latter into the embarrassment of choice and he or she, faced with the absence of a candidate emerging from the lot, may prefer to postpone his or her decision, believing, from the abundance of candidates in the profile, that we can wait and try to find by another method a candidate that emerges, to finally have the satisfaction of stopping his decision on a rare pearl. For example,

14 Candidates that we call "atypical" are people who have never held a position whose function and sector are identical to those defined by the client (they correspond to the people on lines 1 to 4 of the table). "Typical" candidates are people who have already held a position that is identical in terms of function and sector to those defined in the job profile (lines 5 and 6 of the table).

15 A strategy can also consist in introducing among the atypicals a "star", according to the internal terminology of the milieu, – i.e. an exceptional candidate, whom the consultant is aware that he/she may be oversized for the position, but who will allow him/her to impress the client by illustrating the quality of his/her "pool" of candidates.

during a search for a production manager position for a large automotive supplier, the consultant gave the following instructions to the search manager: “We need five candidates to present. Out of the five, I want two who perfectly match the specs (i.e. the characteristics requested by the client). The other three a little less good to highlight the other two.” The research manager will then select essentially on the basis of previous experience and degree. In this sector and this function where “self-taught” people are not rare, the consultant will first present candidates with degrees from top engineering schools, his two favorites being graduates of Polytechnique and the Ecole des Mines de Nancy respectively. The other three will have lesser degrees (two from second-tier engineering schools and one from a DESS), although they have the required professional experience. This management of the portfolio of candidates allows the consultant to actively participate in the choice of the client, and even to direct it, which provides greater chances of success in closing the mission quickly.

2.2. *Compensation determination: an inflationary role?*

The headhunter does not just put people in touch with each other: very often, he or she plays an important role in setting the terms of the hiring contract, and in particular in negotiating the compensation.

2.2.1. *Candidates' expectations*

As far as candidates' expectations are concerned, an apparent paradox emerges from the interviews: many executives, in the course of the same interview, can both assert that money is not important to them and describe themselves as very demanding in their negotiation of their hiring compensation. Beyond the possible dissimulation¹⁶, this apparent contradiction can be resolved if we understand that these statements are situated in two different registers.

In *absolute terms*, we are dealing with a population that declares that its material needs are largely covered, and whose priority in work is rather to achieve fulfillment.

In contrast, it is in *relative terms* that the level of compensation matters: in this highly competitive market, compensation is a signal of quality (Spence,

¹⁶ In front of the researchers as well as in front of the consultant, it is obviously not conceived as decent and/or strategic to admit to being too motivated by money.

1973)¹⁷. Being *relatively* low paid and/or undemanding on compensation can directly indicate poor skills and/or performance, or indirectly poor market knowledge and/or bargaining power – all characteristics considered as flaws. The past and present remuneration of the candidate is therefore strategic information – nevertheless relativized by the differences in remuneration according to the sectors (with equivalent diploma and position, the world of luxury pays much better than the automobile industry), generally known by the headhunter. The consultant always tries to obtain this information, sometimes demanding it in a rather brutal way (injunction to present salary slips) when the balance of power allows it.

Just as important as the amount of compensation are the components of compensation – which can be very diverse for the population studied here. In fact, remuneration covers a very broad field (salaries, bonuses, various benefits in kind), so that there is practically a continuum between remuneration in the strict sense of the term and all the positive characteristics of a job. Moreover, more than for other professions, symbolic considerations (for example, the size or brand of the company car) interfere with strictly monetary calculations. But as a result, there is some blurring of what is and is not negotiable. The monetary or non-monetary claims of the candidates are so many “signals” that can be deciphered in a positive or negative way by the consultant. For example, one candidate was able to obtain a commitment from the company that wanted to recruit him to pay for his membership in a very exclusive sports club. When asked about such a request – for which he had acted as an intermediary – the director of HeadHunter_2 described it as “indecent”.

2.2.2. *The role of the consultant*

The headhunter often acts as an intermediary in determining compensation. In fact, the firms we studied have some leeway to negotiate with the client to set the compensation offered. This room for negotiation varies according to the type of position. The more the profile sought requires skills considered “rare” on the market, the more the headhunter can negotiate the candidate’s remuneration upwards and therefore his or her fees. Symmetrically, the consultants negotiate the remuneration with the candidates. If the headhunter defends his or her client’s interests first and foremost, he or she can also

¹⁷ This signaling role is also explained in the interviews by both the consultants and the managers.

defend the candidate's interests when he or she has the ideal profile for the position. In this case, the headhunter can suggest to the client to award a form of bonus for excellence to the ideal candidate.

That the headhunting business generates upward pressure on salaries is often reported. A human resources manager of a large bank pointed out that headhunters, by charging the mission in proportion to the salary of the person recruited, have a direct interest in increasing the price of the people they hunt. For their part, consultants simply claim to pass on "market prices". For example, a consultant from the firm HeadHunter_3 explained to us that he has to do a lot of work educating his clients, to get them to accept them¹⁸. "Many clients, he explains, think that the hunter has an interest in auctions, because they are stunned by the prices", a reaction that would testify to a certain "immaturity of behavior" [of clients]. In his opinion, invoicing the mission *ex ante*, according to the characteristics of the mission and not the price of the person finally hired, would make it possible to avoid price distortion.

These new practices of invoicing do not however annihilate the upward pressures. At the time of the definition of the profile of the position by the customer (which is to a large extent a co-production of the customer and the hunter), the consultant has a double interest to put upward pressure on the proposed range of remuneration. On the one hand, he or she will rate the mission anyway based on an estimate of the market salary, which generally amounts to between 25 and 35% of one year's salary (fixed + variable) of the candidate's profile. On the other hand, if the defined range is high, he or she also knows that it will be easier for him to find a candidate quickly and this mission will turn out to be less costly for him or her. The speed of the rotation of the missions is indeed an essential factor of the profitability of headhunting firms.

3. Conclusion

Headhunting firms play an important role in the executive search market. Interacting with client companies, they help to shape the demand – in terms of job profile and personality. On the supply side, consultants generate and

¹⁸ As W. Finlay and J. Coverdill (Finlay & Coverdill, 2000, p. 404) also point out, "Headhunters will frequently let client know it they think the salary and/or fee is too low."

make an initial selection of candidates, mobilizing strategies and evaluation categories that are difficult to grasp at an aggregate level. If we follow the progress of a transaction, a transaction which we have seen to be very singular, even intimate, we can have the impression that the headhunting firm, at the price of translation, seduction and influence of both parties, spares no effort to propose candidates who best meet the real or imagined preferences of the principal.

With its sophisticated logistics (database, “sources”, networks, etc.) and its strategic sense, it effectively participates in the significant reduction of search costs, and therefore of transaction costs. Should headhunting firms become a “support” institution for market efficiency?

In fact, the aggregation of singular transactions suggests that these “institutional arrangements” are not institutions that simply serve as the basis for a market operation close to that of standard economic theory. It is less the analysis of the judgment – on which F. Eymard-Duvernay and E. Marchal (Eymard-Duvernay and Marchal, 1997) – than the analysis of matching which shows, on the contrary, that, in certain respects, this arrangement contributes to distancing reality from the “pure” model. This institutional arrangement contributes to the segmentation of the labor market, without being entirely responsible for it. This mode of operation tends to discourage substitution mechanisms between different functions and sectors, and to increase the feeling of scarcity. The latter – added to the methods of pricing the assignment and negotiating the candidate’s salary by the firm – contributes to inflationary pressures – which have notably been reflected in a sharp rise in executive compensation over the last decade.

Appendix A. Variations in the candidate's evaluation (overall score) as a function of his/her characteristics: results of a regression model (ordinary least squares)

Variable	Terms and conditions	Parameters
Constant		3,27
Training (several formations possible)	Prestigious MBA (14%)	Yes +0,10 * No -0,02 *
	IEP-Paris or ENA (10%)	Yes +0,10 * No -0,01 *
	Other MBAs (15%)	Yes +0,08 *
		No -0,01 *
	Polytechnique-Mines Paris-Centrale Paris (11%)	Yes +0,08
		No -0,01
	Medium-sized business schools (12%)	Yes +0,05
		No -0,01
	Parisian business schools (15%)	Yes +0,01
		No -0,00
	Other major engineering schools (11%)	Yes +0,01
		No -0,00
	Medium-sized engineering schools (12%)	Yes +0,00
		No -0,00
	Small business or engineering schools (10%)	Yes -0,01
		No +0,00
	Faculty of Law, Economics or Management (34%)	Yes -0,01
		No +0,01
	Other scientific training (14%)	Yes -0,04
		No +0,01
Miscellaneous Humanities (8%)	Yes -0,04	
	No +0,00	
Other Anglo-Saxon training (4%)	Yes -0,05	
	No +0,00	
Professional school (e.g., purchasing school) (2%)	Yes -0,14	
	No +0,00	
Unknown degree (3%)	Yes -0,21 *	
	No +0,01 *	
Age	< 35 years (17%)	+0,08 *
	35-39 years old (25%)	+0,03
	40-44 years old (26%)	-0,01
	45-49 years old (19%)	-0,01
	> 50 years (12%)	-0,14 **
Gender	Male (86%)	-0,01
	Female (14%)	+0,07
Original function	Management (28%)	+0,08 **
	Commercial (8%)	+0,04
	Market finance professions (5%)	+0,01
	Audit/miscellaneous (8%)	+0,01

	Human Resources (5%)	+0,01
	Financial (10%)	-0,00
	Professional and other occupations (1%)	-0,03
	Not determined (9%)	-0,04
	Production (8%)	-0,17 **
	Partner (8%)	-0,22 **
Sector of origin	Agri-food (4%)	+0,11
	Finance - Real Estate - Insurance (11%)	+0,05
	Electrical equipment (7%)	+0,05
	Metallurgy - Automotive (9%)	+0,04
	Consultant (9%)	+0,03
	Communication material (6%)	+0,02
	Trade & Transportation (6%)	+0,01
	Culture & State (6%)	+0,01
	Chemicals and energy (12%)	+0,00
	Other equipment & building (8%)	-0,01
	Computer equipment (2%)	-0,02
	Cosmetics (4%)	-0,05
	Textile (3%)	-0,09
	Other business services (11%)	-0,13 **
	Not determined (0,5%)	-0,67 *
Suitability of the candidate's salary with that offered (before negotiation)	Salary offered less than the candidate (17%)	+0,11 **
	Salary offered 0-40% higher than the applicant (19%)	+0,12 ***
	Salary offered 40-100% higher than the candidate (12%)	-0,05
	Salary offered 100% higher than the candidate's salary (4%)	-0,11
	Missing information (48%)	-0,07 **
Adequacy of positions	Same sector & function (14%)	+0,14 **
	Different sector & same function (32%)	+0,03
	Same sector & different function (6%)	-0,02
	Different sector & function, missing information or candidate not on assignment (48%)	-0,06 **

Note: The average personal value score (ranging from 1 to 5) is 3.27 for the population of 2723 applicants. Having completed a major MBA (a characteristic possessed by 14% of our population) increases the score, all else being equal, by 0.1 compared to the average score. On the contrary, not having done a prestigious MBA leads to a decrease of -0.02 of this score compared to the average score. The asterisk (*) indicates that the variation is significant at the 10% level. Two asterisks (**) and three asterisks (***) mark thresholds of 1% and 0.1% respectively.

To avoid reading difficulties specific to the “reference situation”, we calculate here an incremental effect with respect to the overall average and not with respect to a reference situation. The R2 is 85%.

We can see here that the variables describing the characteristics of the individuals are globally not very significant. On the contrary, the last two variables describing the match between the position held and the position offered are much more significant.

Appendix B. Statistical analysis of consultants' vocabulary

The statistical analysis of vocabulary focuses on the notes written by consultants on the candidates they receive. The database contains notes for 2541 individuals forming a total text of 172,845 words. By removing the accents and capitalizing the text, there are 11,723 distinct graphic forms – knowing that the different spellings (gender, number, conjugation) of the same word are distinguished and the names of people and companies have been anonymized and designated by the same code by the firm HeadHunter_1 when the file was transferred. The most frequent graphic forms are, as in any French text, the “tool words”, articles, prepositions, pronouns, etc. which provide little information in a statistical analysis. The list of 1641 graphic forms (excluding tool words) appearing more than 10 times (representing more than 52% of the vocabulary), those of the 2012 2-word segments and the 8870 3-word segments constituted a working basis for the selection of the most interesting words and expressions.

The fifteen most frequent graphic forms (excluding tool words)

Graphic form	N
SS (= Coding of a company name)	3222
VERY	2199
II (= Coding of an individual name)	1665
STECLIENT (= Coding of a customer name)	1246
LITTLE	1066
CONTCLIENT (= Coding of a contact name at the customer)	1037
YEARS	882
EXPERIENCE	875
CC (= Coding of a consultant name)	827
GOOD	802
WELL	691
GOOD	659
EYES	630
ENOUGH	583
KF (i.e. thousand Francs)	500

Unlike corpus statistics which explores the correlations between all the graphic forms, we selected, in this first exploration – calling for extensions – a list of words or expressions which, outside the sentence, were the least ambiguous possible (“big [i.e. *grand*]” is thus ambiguous because it is used to qualify a large number of nouns), those that best reflected the consultant’s assessment activity and those that were the least redundant with respect to the information available elsewhere (the words designating the position held by the candidate are thus redundant with the CV). Below is a list of expressions classified by theme which, within the framework of the present exploratory analysis, we considered relevant.

Register	Expressions	N
Career	EXPERIENCE	875
	INTERNATIONAL	394

	POSITION	383
	CAREER	246
	SALESMAN	237
	DIRECTION	230
	GOOD EXPERIENCE	135
	NO EXPERIENCE	39
Network	SS (= Company name)	3222
	II (= Name of an individual)	1665
	STECLIENT (= name of the customer)	1246
	CONTCLIENT (= Customer Contact)	1035
	CC (= Name of a consultant)	827
	THROUGH II	246
	REFERENCE	128
Candidate's surface	DEVELOPMENT	235
	MF (=Million Francs)	141
	PROFIT	79
	RESULT*	46
	REALIZED* / REALIZATION*	46
Matching	INTERESTS	223
	NOT ENOUGH	77
	NOT INTERESTED IN	24
	TOO BIG FOR	13
Elements of negotiation	KF (i.e. thousand francs)	500
	SALARY	335
	WISH*	232
	CAR	180
	STOCK OPTIONS	35
Ways to introduce yourself	PRESENTATION	289
	GOOD PRESENTATION	147
	SPEAK	306
	EASY	75
	LACK OF CHARISMA	17
Competence	KNOWLEDGE	433
	INTELLIGENT	262
	TRAINING	135
	DID NOT KNOW	34
	SPIRIT OF SYNTHESIS	17
Register	Expressions	N
Moral competencies	NICE / SYMPATHETIC	412
	DYNAMICS	197
	SERIOUS	182

	QUICK	131
	HONEST	70
Body	EYES	630
	HAIR	458
	BROWN	312
	FACE	196
	BLUE	169
	BLUE EYES	166
	BALD	122
	BLOND	80
Aesthetics	ELEGANT	106
	BELLE (ie. Beautiful with feminine genre)	102
	BEAU (ie. Beautiful with masculine genre)	49

The statistical analysis then consisted in studying the correlations between this first list of expressions and the characteristics of the candidates or the client. In addition to the limitations of statistical analysis of vocabulary (impoverishment of meaning by extracting words or expressions out of context, poor consideration of the multiple linguistic ways of expressing the same thing – synonymy –, and the multiple things expressed by the same expression – polysemy –), let us point out here a bias specific to the database: we do not know the identity of the consultants who wrote the note. Each consultant has his or her own writing style, which is also linked to his or her own career path and area of specialization within the firm, and may pay attention to certain characteristics of the candidate that others note less systematically. Unfortunately, the bias specific to the consultant’s style cannot be controlled.

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