

Top 8 Reasons Why Leadership On-Demand Makes Economic Sense Today

Introduction

You need talented executives, ready to hit the ground running – and you need them now. Right now. You have the option of searching for a full time employee, bringing in a consultant, or getting an experienced interim executive. This paper reviews the economics to consider in making the best decision to make your executive staffing recession-proof.

Reason 1. Hiring an Interim Executive costs less than a full-time employee.

Let’s look at the facts: a full-time employee, especially an executive, is an expensive proposition. Often our clients compare the cost per day of an interim executive with the base salary of a full time executive. The thought process might look like this: “an interim executive is \$1500 per day; a full time VP is \$175,000 a year, so assuming 240 work days in a year, the full time person would cost only \$750 dollars a day as compared to an interim at \$1500 per day.”

At this point you are probably thinking — “\$750 less than hiring an interim executive — a big savings!”

Wrong — think again!

Salary is only one part of the cost of employing an executive full time. It is the total cost of ownership — salary plus benefits plus overhead plus perks — that must be compared to understand the economic value of an interim executive.

The total cost of employing a senior executive — commonly called the loaded cost — is often as much as seven times more than his or her annual salary. Consider the added costs of health insurance, Medicare, social security, 401(k) matches, and all the other benefits your company provides. Without considering a hiring bonus or mid-year bonus (generally about 25% of first year salary), benefits costs alone can easily add 20-30% of salary that is added to the salary you are already paying the executive. And perhaps you pay for perks – such as parking or gym memberships. The actual loaded cost which includes all the factors above for a full time executive is therefore often more than \$5000 a day¹.

You have none of these costs whatsoever with an interim executive.

Consider the following:

Cost Item	Full-time Executive	Interim Executive
Salary for 240 Working Days	Salary	Fee-based
Bonuses	Yes (25%)*	None
Orientation and new-hire training	Yes	None
Health Insurance	Yes	None
401(k) Match/pension	Yes	None
Perks (Parking, gym, etc)	Yes	None

¹ [Leadership On Demand: How Smart CEO's Tap Interim Management to Drive Revenue](#) by Charles Besondy, Paul Travis, and Theresa Heath. LOD Publishing, LLC; 1st edition (February 6, 2008) P. 71. Besondy estimates that an executive with an annual salary of \$175,000 costs \$5,399 per day for the first year.

Cost Item	Full-time Executive	Interim Executive
IT costs	Yes	Rarely any
Recruiting costs, Finder's fees	Yes (25%)*	None
Relocation costs, temporary housing	Often	None
Social security	Yes	None
Cost to interview	Yes	None
Cost of missed business opportunities	Yes	None
Cost of delayed time to productivity	Yes	None
Severance	Yes (50+ %)	None
Outplacement costs	Yes	None

* Average per cent of first year's salary

If your new executive earns a \$175,000 annual salary, he or she likely has a total cost of ownership in the first year alone that exceeds \$1.2 million.²

Note that we mention the cost of delayed time to productivity — this factor takes into account the lower productivity for a new employee that often occurs during the first 90 days vs. the more immediate impact that an interim executive can have on an organization due to his or her skills, experience, and background.

Reason 2. Hiring an Interim Executive saves you the high cost of risk.

What does risk cost? Risk is why we have insurance. But there is no insurance that an executive, no matter how prestigious and well recommended, can do the job well that you need done in the time you have to do it in. The time it takes to realize that the executive you hired (at all the costs outlined above) is not fulfilling the job can be extensive, and the cost of replacing him or her is

high. And you face the risk of having a newcomer who is learning on the job, where every incorrect move or wrong decision he or she makes can prove expensive and debilitating to the company as a whole. This is avoided with the “been there, done that” experience of an interim executive who has fulfilled the same role successfully before. And risk is further reduced with an interim executive: if for some reason, you have qualms about the interim executive you brought on board, you can work with Cerius to find a more suitable replacement quickly and easily, at no additional cost to your company.

Reason 3. Hiring an Interim Executive saves you expensive recruiting costs.

Executive turnover is high. The cost of locating the right candidate is even higher. If you use an executive search firm to locate employees, you often pay about 25%-30% of the executive's first year salary — in one lump sum — when that executive is hired. For our \$175,000 candidate, the recruiting firm would charge around \$55,312, and even with all the recruiter's sourcing skill, you may not get the candidate that works best for you. Recruiting costs are avoided with an interim executive because not only is the care in selection more closely tailored to your specifications, but there is no charge for locating the best candidates for you to select among.

A recruiting agency, at a high price, will work closely with you to find the candidate who meets your requirements. But they also want to place the person who can command the very highest salary, as their fee is a percent of the executive's first year salary. You may be pressured to raise the base salary you are offering to get a candidate the agency is promoting, guaranteeing both the candidate and the agency a higher return. At Cerius, we listen — we listen to you describe the skill set you need, the role to be fulfilled, and the project to be executed. We look across our broad pool of executives and match the experienced executive with the requirements — at no charge to you. None at all.

² Ibid.

Reason 4. Hiring an Interim Executive saves you expensive opportunity costs.

It takes a long time to hire a new executive. While you are trying to ensure you get the best candidate for your company, the job remains open and valuable work is not getting accomplished. Researchers estimate this cost of lost opportunity for a senior executive is over \$1,000,000 in the first year alone. Because an interim executive can fill the position immediately, you have the ability to get an important product to market on time, or launch a new sales campaign that drives revenue while you search for a full term executive. The time to hire for a full time executive is between 15 and 18 months on average, often two full years. Your business needs to fill that gap — and fill it wisely — with an experienced professional executive who can manage complex business challenges from Day 1.

Furthermore, using an interim executive provides you access to world-class talent that could otherwise be out-of-reach as a permanent hire — because you can bring that executive in to fill a gap or solve an immediate problem on a short term or part-time basis, as meets your needs.

Reason 5. Hiring an Interim Executive saves you upfront training and orientation costs.

The honeymoon period for a full time executive can be extensive, sometimes as long as 100 days. Part of that initial time is taken with cost-bearing items, such as training and orientation, which is usually hundreds to thousands of dollars for an executive, and with getting to know the people and the politics of the entire organization. This period may include travel to distributed business units or to meet remote executives or key customers. Why is this different for an interim executive? The interim has a task to perform, knows how to perform it — and executes. The political aspects of “getting to know you” and the costly aspects of training and orientation are removed.

Reason 6. Hiring an Interim Executive gives you maximum flexibility —further providing cost savings.

When you hire a full time executive – that’s what you get – full time. With an interim executive, you pay only for the days you use in productive work. If your

product launch can be accomplished in 4 days a week, or your marketing campaign executed in 30 hours a week, that is what you pay for. Many interim executives have contracts that are less than the standard 40 hours a week. You can pay for project execution and completion for whatever time it actually takes. *Thus, again, the cost for the interim is less than you’d ever pay for the full time, on-staff equivalent.*

But there’s more — using an interim executive gives you maximum scheduling flexibility. Consider this: you need a VP of Marketing to step in to manage a go-to-market plan. It will take full time for at least a month — but then will taper down. You still want the role filled but perhaps at 3 days a week, mornings-only for 5 days, or every other day for a few weeks thereafter. And perhaps part of that time the interim executive can work in a home office, providing further savings. You are not locked into a 9x5, 5 days a week schedule.

In addition, you have the flexibility to have the right executive for the problem of the moment rather than a permanent, all-purpose executive — you can swap executives in and out as the situation merits without necessitating long-term commitments to specific individuals.

Reason 7. Hiring an Interim Executive saves you the high potential cost of severance pay.

Executive turnover is high. Holders of many high level positions leave those positions as frequently as every 3 years, sometimes sooner. And sometimes the partings are not of their choosing. Particularly in the downsizing climate of today, companies payout in severance and outplacement services is immense. With an average six month salary equivalence in severance for an executive who had been with the firm about three years, the cost for salary alone is \$90,000 plus the added cost of carrying benefits and then the cost of executive outplacement. Executive outplacement can continue for several months and be very expensive per person. None of this applies to the interim executive: there is no cost of separation.

Reason 8. Hiring an Interim Executive offers a different value proposition than contracting with a consultant.

Consultants consult. They may identify problems and suggest solutions, appropriate to their positions as experts. But an expert is different than the “been-there-done-that” experience on the job you get with an interim executive. Consultants charge big bucks for the advice they give (\$300+ per hour), costing significantly more than an interim executive. The interim executive doesn’t give advice; he or she is a world-class champion who executes on a plan to deliver results, provides a professional role model for change and innovation, and ensures successful knowledge transfer to the company before the engagement ends.

And successful business execution is far more cost effective than the expensive advice.

Why Cerius:

Cerius Interim Executive Solutions is the largest provider of interim executive management services in the US, with proven experience in helping small to medium-sized enterprises achieve their strategic and tactical business objectives. We are dedicated to enabling our customers to succeed with our results-oriented executives who bring broad industry and business experience, fill critical gaps in your management team, round out skill sets, or help deal with a crisis. Through a deep resource pool comprised of over 500 executives, we offer a full services portfolio across all management disciplines from which we develop a customized interim executive solution tailored to your needs. You gain immediate access to a carefully selected skill set with the additional leverage of reach to the larger pool of Cerius executives -- to develop new strategies for growth, carry out organizational or cultural change, manage complex projects, or fill business-critical roles currently vacant.

When your business plans call for a move to the next step, call Cerius.

To learn more, contact us at 949-250-0500, or visit our Web site at www.ceriusinterim.com.