

HEADHUNTING IN HIGH TECHNOLOGY

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ABSTRACT

High technology is information-intensive: high technology firms require much more information than they can produce themselves, and they require it quickly. Much of this information is acquired by personal and informal means through information networks. Those same networks also provide the connections by which individuals can move easily from one job to another, carrying information with them as they go. With the rapid expansion in high technology activity during the late seventies, informal information networks have proved unable to provide complete coverage and interconnection even in such dense concentrations of high technology industry as Silicon Valley. Consequently, an opportunity has arisen for headhunters — recruiters of key personnel — to provide formal links among informal information networks. A study of the operation of high technology headhunters in Silicon Valley provides some insight into the role of information, and the importance of information networks, in high technology industry.

INTRODUCTION

Some headhunters may prefer to be known as executive recruiters or executive search consultants, but 'headhunter' is both more graphic and more accurate. They are hired by organisations to hunt for key personnel. The process by which they do this, and particularly the unorthodox methods sometimes employed, have often drawn the interest of the curious and the prurient to headhunting. There has been little serious interest in the possible economic consequences of headhunting, and almost none at all in its impact on high technology, an activity in which mobility of key personnel is not only endemic, but fundamental to commercial success. This paper considers that issue.

THE HEADHUNTING INDUSTRY

Headhunting is a twentieth century American phenomenon, the oldest surviving firm apparently dating from 1926. For decades a handful of firms supplied what little demand there was for headhunting services, much of which

emanated from the financial services sector. Not until the late 1960s was there substantial growth in the number of headhunting firms, and not until the 1970s did the industry become sufficiently large to attract much attention to its activities [1]. By 1982 there were 1389 headhunting firms in the United States employing about 9 000 headhunters and the industry had sales of \$1.5 billion [2]. Very few of these firms have much to do with high technology. Although headhunting would seem to be an activity appropriate to high technology industry (industries would be more correct, though more clumsy), its development has been entirely independent.

The headhunting industry in the United States contains six very large firms, a few small firms, and hundreds of tiny ones. The larger the headhunting firm, the greater the resources it can direct to the search: the smaller the firm the more personal the service which can be offered to the client [3]. Excluded from the industry should be all firms which accept fees from potential employees: headhunters are paid only by employers and all other search firms are employment agencies. The distinction is clear in the industry, though not always in that literature which attempts to analyse the industry [4]. While the interests of employment agencies, and of personnel departments within organisations, extend to lower echelons of employees, those of headhunters do not. Their services are hired to seek only very special, and generally well-paid, employees. Headhunters do not compete with employment agencies (though there is clearly some enmity felt by personnel departments), and work entirely above the salary threshold of government regulations which are thought to encumber those agencies. Some headhunters specialise in finding, say, black or female executives [5]; most will consider any commission, though even the largest firms inevitably have greater strengths in some areas.

Much has been written on how headhunting works, and only the briefest of sketches is required here. The headhunting firm is hired by a client organisation wishing to find a new employee of a type unlikely to be unearthed through more conventional recruitment methods. The exact requirements of the client are determined and working conditions investigated before the search commences. That process of questioning, advising and assessing the client's real needs is taken very seriously by some headhunters; it is a form of management consultancy and often regarded as a major part of a headhunter's work. The search itself is conducted almost exclusively by telephone, though there is some initial reliance on published directories, membership lists, accumulated files of resumes and — especially in the case of the larger headhunting firms — on the headhunter's own industry data banks. But the headhunter's main resource is his network of personal contacts [6]. This he exploits unrelentingly, initially to track down likely candidates, and subsequently to investigate their job performance and personality. Only once a short list of candidates has been compiled for the client firm and interviews take place does the headhunter actually meet his selections. For contingency headhunters, only once the client hires one of the candidates is payment

made — nominally 30% of initial annual salary plus expenses. Retainer headhunters, who certainly see themselves as the cream of their industry, receive the same nominal fee even if no candidate is produced. Retainer headhunters sell their experience, influence, and best endeavours to a client, whose business they hope to retain. They offer an information package rather than just a new employee. Indeed, they may well advise that a new recruit is not needed, that the client should re-organise his activities instead, or that a totally different type of candidate should be sought. Many headhunters undertake both retainer and contingency work; most prefer the greater responsibility, interest — and generally income — of retainer work.

THE ECONOMICS OF HEADHUNTING

Headhunters are expensive; their fees being a proportion of the sought employee's annual salary, they seek only those employees who will be paid high salaries. Recruitment outside the firm through a personnel department and advertising are also expensive, but the costs of headhunting are likely to be additional to the first of these costs and perhaps even to the second [7]. Consequently, some extra benefit must be perceived by clients. The theory is quite straightforward. Overt recruitment taps only that part of the labour market that is actively looking for employment: headhunting searches a much larger market of individuals apparently content with their present employment. The sheer size of this market is attractive to clients, but there is also an assumption that the very best candidates are likely to be content and performing well in their present employment. The market value of an unemployed executive desperately seeking a job tends to be low. Headhunting should encourage a more efficient distribution of human capital, and the headhunting industry has the potential to be an asset in an economy.

However, there may well be costs beyond those of supporting such a service activity. The untimely extraction of key employees is likely to be disruptive for companies. Indeed, it could be argued that much of the growth of the headhunting industry is a consequence of headhunting activity itself. Presentation of a key employee to one company is likely to mean urgent demand from another for the services of a headhunter to fill the post vacated. As such employees will probably be difficult to find, the headhunting industry tends to create demand with every head it supplies. Indeed, supply of one head may well generate demand for many more as a single vacancy is passed on from one company to another [8].

Further costs may arise from the operating methods of some headhunters. The least careful or subtle may blight careers by revealing to a current employer an individual's interest in moving. Headhunters may even encourage movement that is not in an individual's best interest; it is not axiomatic that the most mobile executives reap the greatest rewards [9]. Costs will be borne by the company if it feels it must protect itself from the ravages of headhunters; for example, by refusing to release names of employees to

outsiders [10]. Many companies apparently insure against becoming hunting grounds by taking advantage of the code of ethics adopted by the most reputable headhunters, an element of which is that the employees of clients will not be approached within two years of the commission [11]. Such a provision means that a client can rest easy while a headhunter ranges through his organisation, but it also means that small commissions regularly and judiciously awarded to as many as possible of the largest headhunters will keep much of the industry permanently at bay. One of the advantages of smaller headhunters is that they can often avoid such tactics, though an option open to all headhunters is to disregard a code of behavior that is formally accepted by only 62 American headhunting firms [12].

Of course, not all companies see the loss of key employees as an obvious cost. It can be argued that it is in the company's interest to ensure that its key employees go wherever they can be most productive, even that they be helped to depart to a better job. A happy ex-employee joins another information network in his new employment, but still retains links with his old network and can channel new information into that old network [13]. Moreover, his contented departure both creates a vacancy within his old company and boosts the reputation of that company, increasing its chances of attracting talent to fill the post. Not all companies see the unexpected departure of a key employee in quite that light; much depends on the actual and perceived importance of information to a company's operations. High technology firms, in that they are information intensive and heavily dependent on information contained in individuals and passed on by personal and informal contact, are perhaps most likely to adopt this apparently perverse attitude towards employee departure.

INFORMATION AND HIGH TECHNOLOGY INDUSTRY

The innovative process — in every industry — is largely an information process [14]. Information is gathered from a multitude of sources and occasionally new information is created — most obviously during research, but also during other phases of the innovative process, such as development and marketing. The assembly of various bits of information into a new pattern is the essence of a new product (or process), whether that product takes tangible or intangible form. In many mature industries, the marginal information content of a new product over its predecessor may be small, and the information pattern may be little changed. Larger corporations within such industry may already possess much of the information required for this new pattern. They may find, however, that their own complex and rigid organisational forms tend to inhibit the assembly of new information patterns. Indeed, large companies, especially in established industries, are often castigated for their lack of innovative zeal, although this is usually attributed to low incentive to innovate rather than to their inability to exploit information resources.

High technology industry is markedly different, as might be surmised from the importance of small, new firms in that industry. A high technology firm does not necessarily require more information than other firms in order to innovate, but it does require more information relative to other inputs. Its activities are information intensive; so much so, in fact, that it cannot possibly rely on internal sources for all the information required. The high technology firm must actively seek information outside, and is dependent on the efficiency of information channels to the world beyond. Those channels — developed and exploited by individuals rather than by firms — join to create personal and informal information networks. The characteristics of information make it a difficult subject of negotiation and hard to price, so that information is commonly exchanged for other information and channels must conduct information in both directions. The high technology firm must supply information in order to procure information, though what it supplies need not be from its own internal sources.

There are formal channels through which information travels. Patent specifications, licences, books, journal articles, trade publications and conference papers are obvious examples. Information may also be embodied in the hardware a firm produces and sells. None of these, however, guarantees that information transferred will be strictly relevant and comprehensive — or sometimes even comprehensible. There are other, informal channels through which information can flow which are able to compensate for the inadequacies of formal channels. The importance of personal contact as a means of gaining and supplying full and specific information has long been recognised in studies of the process of technological change [15]. It is not argued that personal, informal contact is a substitute for more formal means of information transfer, but it is an essential complement.

High technology industry in the United States is heavily reliant on personal, informal channels for information flow. Key employees have their own networks of contacts who readily supply information which is not obviously proprietary in exchange for other information. Personnel mobility has long been high in the industry as employees take advantage of the information they possess and carry it with them to new jobs [16]. Very often the information which flows in this way is commercial rather than strictly technical because it is essential to the success of high technology industry that information from the market be mixed as early and as thoroughly as possible with technical information. Very often the information that is most valued by high technology industry is apparently insignificant, more related to practical experience and inspiration than to the sort of information acquired for a university degree.

The way in which information travels in high technology industry in the United States is partly cause and partly consequence of that industry's frantic pace of technological change. Because information can flow fully and rapidly when there are personal and informal channels, change is swift. Because change is swift, there is a need for information to flow fully and

rapidly. The one begets the other. U.S. high technology industry continually adjusts to change; even the semiconductor industry — now thirty years old — has refused to display the characteristics of a stolid, mature industry [17]. Most high technology industry in most other countries — especially the large corporations which qualify for so much policy support in those countries — has great trouble keeping pace [18]. The problem is, in part, an infrastructure which is not conducive to rapid information flow along personal and informal channels. Only the Japanese, forced to compensate for the total absence of such channels with a completely different system of organised information flow, have overcome this obstacle [19]. In many other countries, and even in those parts of the United States distant from centres of high technology, there is inadequate recognition of the importance of information to high technology, of the personal and informal channels through which much information must flow, and of an infrastructure conducive to the flow of information in this manner. Headhunting has become part of that infrastructure.

HIGH TECHNOLOGY HEADHUNTING

Headhunting was uncommon in high technology industry until fairly recently: it is still uncommon in high technology outside the United States, despite the presence of branch offices of the major headhunting firms in many countries. The procedure was scarcely necessary for an industry with the agglomeration advantages offered by such complexes as Silicon Valley, and with its own highly developed and thoroughly exploited information networks reliant on personal and informal contact. Until the mid-seventies, key employees in Silicon Valley or Route 128 high technology industry knew each other or knew of each other [20]. Information passed freely and the competitiveness of all firms was dependent on the instant heavy flow of information from outside sources. Under such circumstances, the containers of information — the individuals — often moved to neighbouring firms and conveyed information 'on the hoof'. High employee mobility was also a consequence of individuals constantly acquiring new information in order to retain their value in their industry, and no matter how efficient the information channels, copious quantities of fresh information were most easily obtained on the spot. Employees who failed to retain their mobility tended rapidly to lose their value to high technology industry.

That situation has changed. High technology industry has grown well beyond its microelectronics core and has imposed, and often actually spawned, a whole host of disparate industries with little more in common than their heavy dependence on information and on the means by which it flows. The informal networks still exist, but are no longer adequate to the increasing demands made upon them. Even in Silicon Valley, where intense concen-

tration of high technology activity has generated, and is the product of, no shortage of thriving informal networks, the information system has been unable to satisfy fully the demands made upon it for key employees. Headhunters have been tempted to enter a new market, not that the networks of headhunters in any way rival or compensate for existing informal networks. What the headhunters have done is tap into those existing information networks to create a formal link between several informal networks. While it is the failure of existing networks to cover comprehensively what has suddenly become a massive industry that has allowed the admission of the headhunters, it is the very strength of those existing networks that keeps the headhunters in business.

There are other forces which have made headhunting appropriate to high technology industry. Firms which were young and small only a decade ago and which were the very core of high technology industry, have grown older and larger. With the assumption of more bureaucratic organisational forms, and the consequent sacrifice of some flexibility and informality, access to information networks has been impaired [21]. Production methods have also become much more costly; hence the information surrounding those methods is more valuable, but the facility with which it can be quickly procured through the networks less certain.

Competition of a new sort has developed; no longer is it limited to members of the same information network. The new high technologies have inspired many aspiring entrants to high technology industry. Such novices may still be on only the periphery of established information networks and may have yet to gain full admittance. Even in older parts of high technology industry, such as semiconductors, there have been new entrants unfamiliar with the old ways: Japanese and European companies have acquired ownership of Silicon Valley companies in order to tap into the local information networks, but have not always gained easy access. When the U.S. government prosecuted Hitachi in late 1983 for stealing secrets from IBM, the Japanese (who had simply mimicked the behaviour of American firms) were astounded [22]. In these new competitive circumstances, some American high technology firms have resorted to strategies they would have shunned a decade ago [23]: some lobby for government assistance, some attempt co-operative R & D, and legal action to prevent ex-employees using information gained in previous employment and to discourage others from leaving is now not uncommon [24]. Similarly, the stock options which previously enticed key employees to move to small, new firms, are as likely to be used nowadays by firms which have grown older and larger as 'golden handcuffs' to retain employees. There is, of course, still a great deal of mobility of key personnel in high technology industry, but there are probably now more obstacles to that mobility than ever before. Such obstacles provide nothing but opportunity to the headhunting industry.

SILICON VALLEY HEADHUNTING*

Silicon Valley — in Santa Clara County, south-east some 30 miles along the Bay from San Francisco — is the established heart of the world's high technology industry and is now the location of many headhunting firms. Just how many is uncertain. The big six executive search firms all have offices there, but most of the local industry comprises much smaller units, including many one- and two-man outfits.

Nearly all the headhunting companies in Silicon Valley seem to deal with high technology industry, some exclusively. Nearly all of those contacted in 1984 reported that sector to be the major growth area of their business. Few companies specialise in individual technologies or job functions. Surprisingly, even those headhunters most involved with unearthing key employees for high technology industry are unlikely to have a technical background themselves. Qualifications in commerce, management and psychology are most common and relevant technical knowledge has been either rapidly acquired when necessary or exploited in others who are part of a network. Headhunters see their task as being much more concerned with managerial consultancy (in their negotiations with client companies) and with salesmanship (in their efforts to induce good employees to accept new employment) than with technical matters [25], and this is as true for high technology industry as for any other. All headhunters are utterly dependent on their networks of contacts and those who have entered their industry from, say, experience in the personnel department of a high technology firm, have had some advantage in a ready-made network. Those who lacked such an initial advantage have gradually built up their own networks by assiduous telephone contact. The network is the first of a headhunter's two most valued assets: the second is his good reputation with client companies, a matter of particular concern to retainer headhunters dependent on repeat business, but relevant to all headhunters. With a poor reputation and a weak network a headhunter is unlikely to fare well.

That is not to say there is limited competition in high technology headhunting; far from it. The industry was booming in 1984 with the growth of new high technology industry and an abundance of venture capital. There are, though, virtually no barriers to entry to the headhunting industry at all; anyone with a telephone can establish himself as a headhunter and some have little more than that [26]. During the high technology industry recession of 1981, the headhunting industry contracted sharply as its less viable members dropped out [27]. During growth phases new entrants are readily attracted, and new entrants have the obvious effect of reducing prices. Cut-price headhunting is common and client companies shopping around in 1984 could find a contingency headhunter for 12% or 15% — rather than

*Interviews were conducted with some two dozen headhunters in Silicon Valley during July and August of 1984.

30% — of annual starting salary. In the retainer part of the industry, increased competition seems to have just the opposite effect. The retainer headhunter offers the client company an information package rather than just a body and that is much harder for clients to value. Consequently, they tend to rely on the price tag as an indicator of package value and while competition forced prices down for contingency headhunters, retainer headhunters typically increased their rates from 30% to 33 1/3% and even 35% in order to counter competition.

The headhunting industry is totally unregulated and desperately anxious to retain that position. Individual headhunting companies in Silicon Valley may choose to affiliate themselves to the national association (the Association of Executive Search Consultants), but many see AESC as having little to do with high technology and view joining as an unnecessary expense. There is a Californian association (the California Executive Recruiters Association) with over 70 member companies in August 1984. Its main function seems to be the hiring of a lobbyist organisation in Sacramento to fend off any threat of regulation [28]. Only companies finding employment for those paid less than \$25,000 a year require a licence in California and that salary range is well below the level considered worthwhile by most headhunters, a level which currently seems to be \$50,000 a year [29]. Regulation would, of course, cramp the style of many headhunters, and would restrict the methods used by some. However, it would also restrict the free flow of inexperienced entrants to the industry and make life rather less fraught with insecurity for existing participants.

So fierce is competition in the headhunting industry that there is almost no contact among headhunters themselves. In an industry which is dependent on information networks there is strangely no network at all among the headhunters. They operate entirely independently and are often unaware of even the names of other headhunters. Though the economies to be gained by exploiting the network of another headhunter are obvious, only one instance of this was uncovered, and then the fee was simply split between the two. Information was not provided in return for information later — an essential characteristic of information flow in informal high technology networks.

Headhunters have rapidly come to play an important role in high technology industry. Although individuals are attracted to the industry by the power it allows them to wield as well as by the money they can earn, they are largely unaware of their distinctive economic function. Not only are they compensating for the deficiencies of informal high technology networks, they are now important in both the formation of start-up firms and in the expansion of those new firms. No longer are spin-off companies simply the product of a few friends deciding to launch out on their own. Abundance of venture capital has meant that venture capitalists frequently initiate the formation of new firms, finding key individuals around whom firms may be formed. This is headhunting work and many venture capitalists are the

clients of headhunters. Even when venture capitalists are not involved, most headhunters participate in gathering teams to start or expand small high technology firms [30]. Lacking a client who is able to pay the headhunter's considerable fees, headhunters are quite willing to perform their services in return for equity in the young firm [31]. It is equity and the prospect of excitement which make such firms so attractive to employees of larger organisations. The individual who has become bored with his security and responsibility in a big company is almost as common among headhunters' candidates as the 'fast track' employee whose ambition out-matches his employer's intentions and capabilities. Headhunters put much effort into matching individuals for young firms; compatibility of work styles and ambitions is apparently crucial and more so in the growth phase of a young firm than in its initial operations. It is at that stage that the talents and interests of some founders will be deficient (especially those with strong university connections) and that the addition of new skills necessary for growth will be required. Inasmuch as young firms are major innovators in high technology industry [32], the new role of the headhunter in fostering their development is important.

The headhunting industry is an information industry, and this, together with fierce competition, is likely to encourage diversification of its activities, particularly in the retainer side of the business. Headhunters require a great deal of information in order to search for candidates and they acquire much more during their search. Headhunting companies — even the very smallest — are beginning to use computer systems to try to cope with this information by packaging it more conveniently [33]. Information packages, though, can have a value unrelated to their contribution to the recruitment process. A headhunting company can, for example, choose to offer market research services to clients — and perhaps raise its status from a contingency company to a retainer company — because much of the required information has already been gathered for recruitment purposes. Headhunters also acquire information in the course of their recruitment work that is of value to those who are not actually seeking employees — stockbrokers and venture capitalists, for example [34]. There is currently some reluctance in headhunting companies to take more methodical advantage of such opportunities because it is felt that reputation with client companies would be jeopardised. There is some justification in that fear, but greater competition in headhunting is likely to encourage headhunters to diversify by exploiting their information more fully. The headhunter's two assets are in conflict to some extent, and the asset of information is likely to prove more valuable — at least in the short-term — than the asset of reputation. Many headhunters have already diversified in what is considered to be a reputable direction by providing considerable management advice both to established client companies and — either directly or through venture capitalists — to young high technology firms.

CONCLUSION

Headhunting appears to have become important to high technology industry in Silicon Valley. The extension of its functions beyond the mere provision of appropriate heads is likely to make the activity even more important. While it is worthwhile exploring the operations of such an industry in Silicon Valley circumstances, Silicon Valley has become something of a model for those who would form policy to develop concentrations of high technology industry in many other parts of the world, and it is interesting to speculate on the role envisaged for headhunting in these nascent high technology centres. At the moment, no role at all would appear to be anticipated. Headhunting, like the information networks on which it depends, is an intangible part of the Silicon Valley infrastructure and tends to be overlooked by visiting foreign politicians and bureaucrats anxious to create their own instant Silicon Valleys by mimicking the original's most visible features [35]. Silicon Valley may not be an appropriate model for others to follow, but if it is, those parts of its intangible infrastructure — such as information networks and headhunting — deserve much more policy consideration than they have hitherto received. It is unlikely that any high technology firm anywhere can prosper in an international market without the key personnel (and the information they contain) sought by the headhunting industry. It may be that such individuals, always difficult to find, have now become even harder to procure without the intervention of a headhunter. Headhunting firms working in high technology, because they are so dependent on informal and often local networks, have little interest in supplying distant markets in which there is little demand. Consequently, a means to secure a necessary resource for high technology industry outside the United States is unexploited, and will probably remain so as long as those responsible for high technology policy in other countries continue to disregard the importance of information, and the means by which it travels, to high technology industry.

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