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Management Research on Online Recruitment Companies—Based on Case Analysis of SEEK

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Abstract. This paper explores the study of management research on online recruitment companies, especially to provide a deeper understanding of the management practices of SEEK, Australia's largest online recruitment company, through a case analysis focusing on challenges related to corporate governance, cost of capital, and company structure. With the development of the internet and information technology, online recruitment platforms offer efficient and convenient hiring methods for businesses and job seekers, but they also bring unique management challenges. By analysing SEEK's corporate governance structure, including its board composition and compensation policies, this study reveals key issues online recruitment companies face in governance and capital management. Furthermore, the paper examines SEEK's capital structure and its impact on its operations and growth. Through this case sing of the complexities of managing online recruitment platforms. It highlights both the opportunities created by technological advancements and the governance and financial challenges they face.

Keywords: online recruitment, corporate governance, capital structure, management challenges

1. Introduction

The rapid evolution of the internet and information technologies has significantly transformed business processes, particularly in recruitment. The 21st century has witnessed a shift in hiring practices as companies increasingly leverage online platforms to attract talent. Online recruitment companies have emerged as dynamic players in the job market, offering efficiency and convenience for both employers and job seekers. However, this surge in popularity brings unique management challenges that require attention.

This paper focuses on SEEK, Australia's largest online recruitment company, and explores its management practices in the context of corporate governance, cost of capital, and company structure. This study identifies the critical challenges facing online recruitment firms today by examining SEEK's governance practices, including board structure and compensation policies. Additionally, the analysis of SEEK's capital structure provides insight into its strategic financial decisions and how they impact its operational resilience and growth.

Through this case analysis, we aim to contribute to a deeper understanding of the managerial complexities of online recruitment platforms. This research highlights the opportunities created by technological advancements and discusses the strategies needed to navigate this evolving landscape's inherent governance and financial challenges.

2. Company Description

SEEK is a leading Australian online job advertising platform that connects job seekers with employers across various industries. As stated on their website, SEEK is Australia's number one employment marketplace, offering a range of services to both job seekers and recruiters. Job seekers can search for jobs and find career-related information, while employers can list job openings and recruit the ideal candidate. It is also an international human resources consulting company headquartered in Melbourne. Besides Australia, it operates in China, New Zealand, Mexico, Brazil, Nigeria, Indonesia, Hong Kong, Singapore, Philippines, Malaysia, Thailand and South Africa. SEEK employs more than 3500 people across Australia, New Zealand, Asia, and Latin America. Till 2022, SEEK will finish approximately 55 million candidate relationships, build around 400 thousand hire relationships and help approximately 900 million population exposures. SEEK also focuses on environmental, social, and governance issues in human rights, data trust, modern slavery, engagement with Indigenous communities, climate, and social impact. Overall, SEEK plays an essential role in the Australian job market by providing a convenient and user-friendly platform for job seekers and employers.

3. SEEK's Present Corporate Governance

3.1. Board

Firstly, the size of the SEEK board is eight members. This relatively small board is likely to be nimbler and more efficient than larger boards, allowing the company to make decisions and changes more quickly and avoid damage to the firm's value and performance (John & Senbet, 1998; Eisenberg et al., 1998) [1]. However, it is also important to note that a smaller board may face challenges in diversifying its perspectives and experiences (Elsayed, 2011) [2].

Secondly, the SEEK board has a majority of independent directors, five independent directors among eight members, meaning they do not have any significant business or personal relationships with the company. This increases the likelihood that the board will act in the best interests of shareholders rather than being influenced by any personal interests (Fuzi et al., 2016) [3]. However, the large number of independent directors could threaten the increase in corporate governance costs. As known, independent directors are compensated by services and are required to access more information and training to understand the company's operations. According to SEEK's annual report, the board has a majority of independent directors; this may increase the governance costs, including director fees, information sharing, and extra training fees, which add to the company's operation and costs.

Thirdly, the SEEK board is classified, meaning its directors are elected for staggered terms rather than all at once. This can help provide stability and continuity on the board, allowing directors to build relationships and expertise over time (Klein, 1998) [4]. However, some investors may consider classified boards as less accountable to shareholders since it makes it more difficult for shareholders to replace directors all at once. Lastly, SEEK separates the roles of CEO and Chairman, which provides a system of checks and balances and helps prevent one person from having too much power or control over the company's decision-making process (Baliga et al., 1996) [5]. This separation can increase transparency and accountability while also improving corporate governance.

Overall, these features of the SEEK board demonstrate the company's efforts to promote good corporate governance practices, which can help foster trust and confidence among shareholders and other stakeholders. However, it still has problems in facing the challenge of diversifying the board's perspective and experience. Another main problem is that many independent directors would produce large governance fees.

3.2. Compensation Condition

According to the information from the annual report, SEEK's compensation policies focus on equity-based compensation, with executives and senior leaders receiving most of their remuneration through equity rather than cash. According to the 2022 annual report from SEEK (p.37) [6], this strategy incentivises leaders to establish a sustainable business in the long term to generate wealth for both leaders and shareholders through continuous growth in share prices. SEEK is committed to utilising shareholder funds responsibly, as evidenced by the total non-executive director fees of $1,520,964 for the financial year 2022, which is below the fee limit. Regarding the Managing Director and CEO, Ian Narev, the company grants his WSP award a half-half mixture of options and rights. Ian Narev's total remuneration opportunity (TRO) reflects a 4.0% increase, with his base salary and superannuation comprising 40% of his total compensation. As per the FY2022 annual report of SEEK (p.40), the company intends to raise the average executive key management personnel and non-executive director fees by 7.5% and 2.7% in FY2023. SEEK aims to attract and retain top talent while responsibly managing shareholder funds. The company's compensation policies prioritise sustainable growth and shareholder value creation through equity-based incentives while ensuring the appropriate use of company resources. However, SEEK's compensation policies still have several drawbacks. Seek's 2022 Annual Report states that the MD and CEO use a mixture of options and rights to generate awards; this makes it challenging to align managerial incentives with shareholders' goals. Kim et al. (2010) [7] stated that as a consequence of the stock price appreciation and dividends from shareholders, the CEO increases dividends by using cash to increase the stock price. When the stock price increases, the CEO could gain a higher share of dividends at the end of the year. Therefore, the CEO prefers taking on more risky projects and following more risky business and management strategies to get an opportunity to win the stock options rewards. In this situation, the CEO only focuses on their interests and makes decisions without considering other possible consequences. Another main problem with the compensation policy is that it does not have a connection with performance. Neokleous(2015) [8] states that company performance and external factors influence stock prices, including the world economy. As there is economic prosperity, stock prices will increase, and then all companies, regardless of financial position, benefit from these favourable economic conditions. In this case, executives who run poorly companies could also attain richer compensation without sufficient and fair work. On the other hand, stock prices decrease during an economic recession, and CEOs cannot attain the same high-level rewards as before due to the fall of stock options. In this case, they choose more risky projects and business strategies to use the company's fund investment to satisfy their hubris and get high-level rewards, leading to a more dramatic economy (Chatterjee & Hambrick, 2011) [9].

In sum, SEEK has implemented several measures to mitigate agency problems and promote good corporate governance. The company's compensation policies focus on equity-based incentives incentivising executives to prioritise long-term sustainable growth and value creation. Additionally, the total non-executive director fees were below the annual aggregate fee limit, demonstrating the company's commitment to the responsible use of shareholder funds. The composition of the SEEK board is also designed to promote good corporate governance. The majority of independent directors provide a greater likelihood that the board will act in the best interests of shareholders rather than being influenced by personal interests. The separation of the roles of CEO and Chairman, along with a classified board, can provide stability and continuity on the board, increase transparency and accountability, and improve corporate governance. However, the drawbacks of corporate governance are still apparent in Board and Compensation Policies. As for the board, the size is too small, and it will cause the board challenges in diversifying its perspectives and experiences. Another main challenge of the board is that many independent directors will increase the governance costs. Regarding compensation conditions, compensation policies still risk challenging managers to align managerial incentives with shareholders' goals. The lack of connection between compensation and performance is also essential to the company's corporate governance.

4. Cost of Capital and Capital Structure Analysis

Cost capital and Capital Structure analysis is essential to the company's management and operation. The capital structure determines whether a company finances itself through debt or equity. The management team needs to weigh the costs and risks of debt financing against the dilution effect of equity financing. A reasonable capital structure can help the company reduce financing costs and secure more funds for operations and expansion. As for analysing the cost of capital, the company can select the financing method best suited to its current financial situation and optimise capital allocation.

4.1. Cost of Capital

4.1.1. Cost of Debt

The cost of debt is calculated as the current long-term bond rate spread. The spread can be found in the table of the interest coverage ratio related to the company's rating. The Interest coverage ratio is 8.365. The interest coverage ratio is more significant than six and less than 8.5. Therefore, the company's rating is AA, and the spread is 1.24%. The 10-year Government Bond Rate in June 2022 is 3.08%. Consequently, the cost of debt is 4.32%.

4.1.2. Cost of Equity (using regression)

In this case, the average 10-year Australian government notes return is treated as the risk rate(rf). The ASX index value calculates the market returns (r_m). SEEK's 10-year stock price calculates the stock return (r_i). The excess returns are $\mathrm{Ri} = r_i - r_f$ and $Rm = r_m - r_f$ .The beta was obtained from the regression model: $R_i = \alpha + \beta R_m + u_t$. Using the given historical data, the Beta is 1.4931, which is the slope of the regression model.

Assumes the expected market return is the historical average market return (the annual return of the ASX 200 index), which is 5.55%. The risk-free is the average risk-free rate, which is 2.57%. Thus, the cost of equity $\mathrm{E(r_i)} = r_f + \beta\left(E(r_m) - r_f\right) = 7.02\%$.

4.1.3. Weighted Average Cost of Capital (WACC)

Discovering Assuming the book values of debts (D) are the market value, the value of debt is long-term debt + long-term capital lease, which is A$1538.9 million. The market value of equity(E) is the weighted average diluted shares outstanding time stock price, A$8001.88 million. From the calculation, the weight of debt(r_d) is 16.13%, and the weight of equity(r_e) is 83.87%. At the same time, the tax rate(T) is 29.57%. Therefore, $\mathrm{WACC} = \frac{\mathrm{D}}{\mathrm{D+E}} r_d\left(1 - T\right) + \frac{E}{D+E} r_e = 6.37\%$.

4.2. Capital Structure

4.2.1. Current Capital Structure

SEEK's current capital structure is shown in the figure below. The Debit / Capital ratio is 0.16, and the debt-on-equity ratio is 0.19. The book leverage is 0.45. SEEK has a moderate level of debt in its capital structure, with a higher proportion of equity financing.

The book leverage indicates that the company has significant debt relative to its total assets, but it would be necessary to compare these ratios to those of its peers.

Table 1. Book value from SEEK's 2022 annual report

Long Term Debt	Capital lease	Value of debt	Value of equity	D/E Ratio	Book Equity	Book Leverage
1362.1	176.8	1583.9	8001.88	0.19	0.16	0.45

4.2.2. Cost and Benefits of Using Debt

Using debt can provide a company tax shield benefit and increase the company's market value. The higher tax shield would decrease the company tax paid and increase the company's leverage. This will lead to the company facing future solvency problems (Gryglewicz, 2011) [10]. The company's book leverage and debt-on-equity ratio are at a low level of 0.45 and 0.19, respectively. This means Seek has a low probability of facing a solvency problem in the future.

Although a higher debt ratio would increase the tax shield and provide tax reduction benefits to the company, too much debt would cause financial distress. However, in this case, Seek's debt-on-equity ratio is not significant. This means the probability of SEEK facing financial distress is lower, and the relative financial distress cost is lower. If a company borrows to its limit, it will lose the option of financing future projects through debt. In this case, if the company encounters an unforeseen investment opportunity or business deficit, it cannot utilise the debt financing option if it has already exhausted its borrowing capacity. Besides, SEEK has fewer tangible assets, such as PP&E, to be treated as collaterals. Thus, SEEK faces a loss of financial flexibility with the increase in leverage.

Therefore, the result from the optimal leverage from the annual report is biased toward the inaccurate leverage ratio. Then, this article will analyse SEEK's optimal capital structure using WACC and Regression Analysis.

4.2.3. Optimal Capital Structure using WACC and Regression Analysis

Using the optimal cost of capital approach, the cost of capital declines and then increases with the debt-equity ratio. The following figure shows that the optimal D/E ratio (market value) is 2.3, and the D/V ratio is 0.7. These are higher than the current ratios.

Table 2. Report of finding the Optimal Capital Structure using WACC

	Current									
Tax rate	29.57%									
D/V	16.13%	0.10	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90
D/E	19.23%	0.111	0.250	0.429	0.667	1.000	1.500	2.333	4.000	9.000
Cost of Debt	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%	4.42%	4.52%	4.62%	4.72%
Beta Leverage	1.4931	1.42	1.55	1.71	1.93	2.24	2.70	3.48	5.02	9.65
Beta Unleveraged	1.31									
Cost of Equity		6.79%	7.18%	7.67%	8.33%	9.25%	10.63%	12.93%	17.53%	31.33%
WACC	6.37%	6.42%	6.35%	6.28%	6.21%	6.14%	6.12%	6.10%	6.11%	6.12%

The cost of the capital approach is an objective and straightforward method to evaluate different capital structures. It is the most cost-effective way for decision-makers to identify financial options. However, this method assumes the market is an efficient capital market. In real life, there could be not only capital factors such as regulatory or political risk that affect the company's cost of capital.

The second method, the regression analysis, shows the predicted model for SEEK:

$$\text{Book Leverage}_{\mathrm{i}} = 0.2011 + 0.1060TANG_i + 0.0084SZE_i - 0.4229PRT_i + 0.1393TAX_i - 0.0732LIQ_i + 0.0517PAYR_i + 0.00003LFCF_i \quad (1)$$

where, $\text{Book Leverage}_{\mathrm{I}} = \text{Long} - \text{Term Debt} + \text{Capital Leases}/(\text{Long} - \text{term Debt} + \text{Capital Leases} + \text{Book Equity})$
$TANG_i =$ Gross amount of fixed assets/total assets , SZE_i =(Natural log) Ln of sales,
PRT_i = EBIT/total assets ,TAX_i=Total income tax/EBIT,
LIQ_i = Current assets/current liabilities,
$PAYR_i$ = Dividends/profit after tax,
$LFCF_i$ = Leverage Free Cash Flow from Cash Flow Statement

Table 3. SEEK's input data in 2022

Tangibility ($TANG_i$)	0.6845
Size (SZE_i)	13.9315
Profitability (PRT_i)	0.0830
Tax % (TAX_i)	0.2585
Liquidity (LIQ_i)	1.9779
Payout Ratio ($PAYR_i$)	0.9017
Levered Cash flow ($LFCF_i$)	24.4250

Thus, after the regression model, the optimal book leverage value is 0.29 based on the financial values for 2022. The regression analysis allows decision-makers to take a more holistic view of factors like liquidity size that affect SEEK's capital structure. Moreover, it can help decision-makers identify variables associated with SEEK's potential value creation. However, the limitation of the regression analysis might not consider the dynamic nature of the business environment, and the result might be sensitive to variables. The method of regression analysis is more reliable and objective. Based on the results of the method, SEEK should decrease the optimal leverage from 0.45 to 0.29.

5. Conclusion

In conclusion, the rapid rise of online recruitment platforms like SEEK represents a fundamental shift in how companies approach hiring and talent management. While these platforms offer unparalleled convenience and reach, they also face significant governance and financial hurdles that must be addressed to ensure sustainable growth. The findings from SEEK's case highlight the importance of strong corporate governance, strategic capital management, and alignment between executive incentives and company performance. Addressing these challenges will be vital to maximising the potential of online recruitment companies and ensuring their long-term success in a highly competitive market. By understanding these complexities, stakeholders can better formulate strategies that enhance operational efficiency, foster innovation, and drive sustainable value creation.

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