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Headhunting market recovery

The past 12 to 15 months have witnessed a sustained revival in the international headhunting market after a three-year recession that began in the autumn of 2000. The revival, however, has not been achieved without a significant reshaping of the industry according to a new book that has tracked some of the changes.

The worldwide executive search industry had been worth between \$8bn and \$9bn in 1999 at the height of the dotcom boom when the average tenure of a US chief executive fell below three years, according to *Headhunters and How To Use Them**, by Nancy Garrison Jenn.

By 2003 annual worldwide revenues had collapsed to something between \$5bn and \$6bn. The biggest firms, Korn/Ferry International and Heidrick & Struggles each shed about 700 staff during this period.

At the same time firms were forced to indulge in price cutting and diversification, introducing new business streams in order to offset the losses in pure search. Some of these businesses, such as coaching, management assessment, board practices and HR outsourcing have become important features of the larger firms.

The downturn also led to a few big name departures who sometimes took the opportunity of leaving a larger firm to set up smaller partnerships or "boutiques", sometimes specialising in a particular sector. These smaller firms tended to make up what they lost in scale by maintaining closer client relationships that were less likely to be affected by the "off limits" issues facing bigger firms. The so-called off-limits problem arises when a headhunter wants to recruit from a former client but is barred from doing so by a previous contractual agreement.

Such concerns were often overlooked during the boom years when some companies ignored the usual etiquette owed to clients. Among the questionable practices introduced at this time was "parallel processing" – offering the same candidate to more than one client on the basis of who could move the fastest. The practice was similar to gazumping in the house market. In fact there are a number of similarities in the trades in houses and executives. Standards in both sectors tend to fall when the markets begin to overheat.

There are signs that firms that have benefited most from the upswing in business are those that have tried to concentrate their efforts on service quality. For boutiques this is evident in the way that assignments are handled. The headhunter you meet tends to be the one that executes the assignment. This was not always the case when big firms tried to bulk up their revenues as they pursued ever greater sales volumes.

That the big firms have been fighting back was confirmed in the March issue of Executive Recruiter News, a US-based industry newsletter, that noted a 38 per cent increase in worldwide fee revenue at Korn/Ferry for the 12 months to January 31, 2005. This big gain was matched by a 39 per cent growth in fee revenue for its important North American market.

The revenue growth has consolidated Korn/Ferry's position as the world's largest executive search practice with \$438.10m in 2004, well ahead of second placed Spencer Stuart that recorded \$378.10m fee income in the year to September 30

2004. In terms of revenues today there is very little difference between Spencer Stuart, third placed Heidrick & Struggles (\$375.40m worldwide fees in 2004) and fourth placed Egon Zehnder (\$335.70m) in the ERN rankings. The final member of the big five is Russell Reynolds Associates with \$272.75m in 2004 revenues that rose by 35 per cent. Indeed all of these firms enjoyed double digit revenue growth, a marked contrast to 2001 and 2002 when revenues across the whole industry fell by 22 per cent, then 16 per cent respectively.

The big improvement after a fairly flat year in 2003 reflected increasing job creation at senior levels across most industry sectors and across most regions. The North American market accounts for about half of all executive search business, with about 35 per cent of revenues sourced in Europe and Asia, Latin America and Africa absorbing most of the remaining 15 per cent. But firms believe there are strong long term growth opportunities in China, India and Russia, says Ms Garrison Jenn.

The big question for clients however is: has the shakedown experienced in the industry done anything to improve service levels? Giles Crewdson, UK managing director of Korn/Ferry believes that much of the industry is re-shaping itself around a professional service format where client needs are met by team responses in which people share knowledge around the firm.

This does not sound to be a million miles away from the Egon Zehnder model where its partners have consistently presented themselves as consultants working for the overall benefit of the firm. Egon Zehnder charges fixed fees for its searches and partners are paid a salary unlike the "eat what you kill" system promoting star performers that still dominates the marketplace.

"I think the Egon Zehnder model going forward is something we have to look at," says Mr Crewdson. "There is a link between how you reward people and how you behave."

"The contract is between the client company and the headhunting company first and foremost. Then there are the people working on the assignment. That requires us to move ultimately from individuals to teams," he adds.

Beyond this rare recognition for the strategic merits of an industry competitor, his remarks are revealing for two reasons. Firstly, they demonstrate a growing confidence among the industry leaders that they can best exploit their size advantage by securing better co-operation and integration across their international branch network.

Secondly, they signal a divergence in the competitive approaches of boutiques and larger firms. Korn Ferry's diversification into other human resources services such as board assessments and the deployment of psychometric testing is a sign that it is moving closer to its roots in professional services. Lester Korn and Richard Ferry left what is now KPMG, to set up Korn/Ferry in 1969.

If a more professional approach is indeed the future for headhunting it is to be hoped that search businesses begin to exercise more influence on the diversity of boards. In the recruitment of non-executive directors, the opposite seems to be the case with few signs that search firms have resisted the flight to conservatism displayed by boards in the wake of corporate governance reforms.

A new report from Heidrick & Struggles, Corporate Governance in Europe, What's the Outlook, based on a study of 300 of Europe's leading companies found that the

average age of board directors is almost unchanged at just over the age of 58. As for diversity, the report finds slightly fewer foreigners on domestic boards – 16 per cent – than the 17 per cent recorded two years ago when it last conducted the survey. The proportion of women had increased from 6 per cent to 7.3 per cent. The biggest changes, of course, have been in pay, up from 55,000 Euros on average in 2003 to 63,500 Euros this year.

** Headhunters and How to Use Them, A Guide for Organisations and Individuals, by Nancy Garrison Jenn, is published by the Economist in association with Profile Books, price £20.*

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