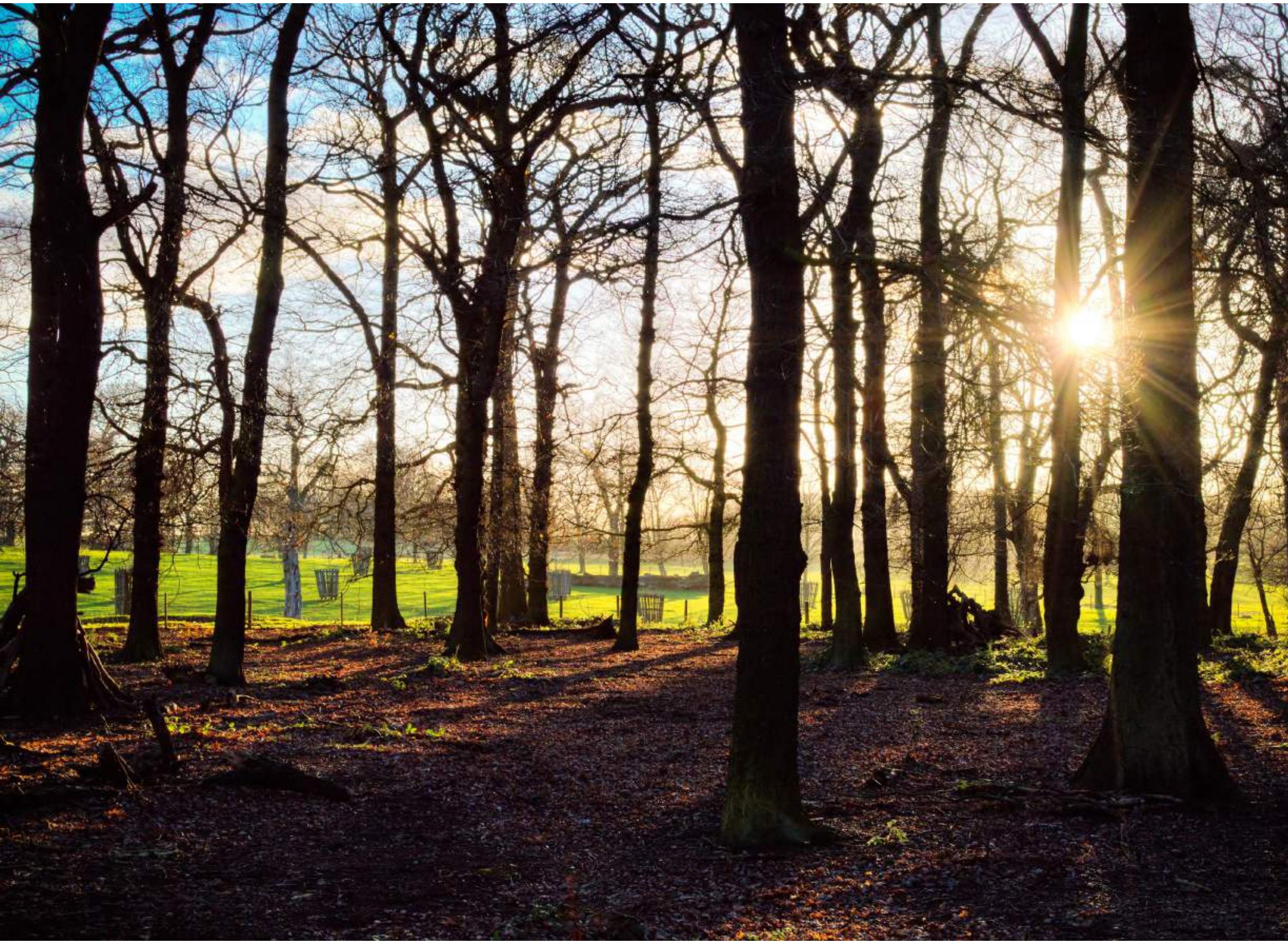
The Association of Executive Search and Leadership Consultants



AESC Insights

2014
The Client Speaks Report

AESC captures, interprets, and summarizes the latest snapshot of client views on the executive search profession.

www.aesc.org

In assocation with

GULLANDPADFIELD

The 2013/14

‘Client Speaks’ Report

The 2013/14 'Client Speaks' Report

Contents:

Introduction

In this, the AESC's third Client report, we wanted not just to capture, interpret, and summarize the latest snapshot of client views on the retained search firm but to go a step further.

This year we want to think more deeply about the implications of what the client community is saying to our industry and for the individual firms in it. We want to frame the challenges and understand the true strengths and weaknesses of the service that Search firms provide. Above all, we want to ask some penetrating questions, start a discussion, and offer guidance on the points arising from our study about the typical business model of a search firm.

To support our thinking, we worked with Gulland Padfield, the professional services consultancy, to shape and analyze the survey's findings and to consider some of its profound implications for Search firms across the sector.

We propose to build on this approach in our up-coming conferences in 2014 at which we will explore the practical things search firm leaders and management teams could consider to align themselves to the client's evolving needs.

It is clear from the forums and discussions that the AESC hosts that some of our members are responding with bold and imaginative changes and are experimenting with aspects of their business with the aim of finding sustained appeal among the client community and attracting revenue and margin growth as a result.

There are three sections to this report.

- First, the clients' perspective and how it impacts and informs today's market environment for search services.
- Second, where the opportunities are for the industry.
- Finally, in Section Three, we offer a framework for change based on relevant highlights from Gulland Padfield's organizational model of client centricity and we pose some questions that naturally follow from this latest snapshot of client opinion in our industry.

The data for the study was gathered during the summer and fall of 2013, by polling the HR and talent community worldwide.

For every survey completed, the AESC donated $1 to CARE, the leading humanitarian organization fighting global poverty.

"THE TERM 'CLIENT FOCUS' IS OFTEN POORLY DEFINED IN PROFESSIONAL FIRMS. THE BREAKTHROUGH MOMENT COMES WHEN INDIVIDUALS IN THE SAME FIRM AGREE WHAT IT MEANS. ONLY THEN CAN THEY STRENGTHEN THE WHOLE FOR THE BENEFIT OF CLIENTS."

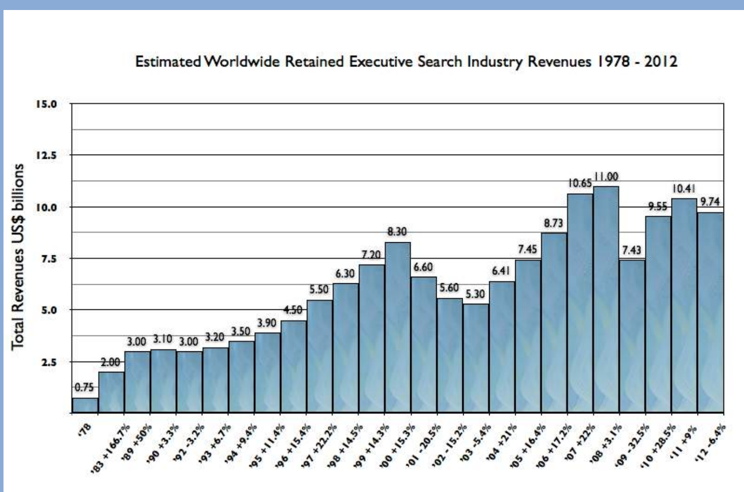
James Edsberg
Senior Partner
Gulland Padfield

Part One: Today's Environment for Executive Search

A Strong Foundation for Growth

The latest figures from the International Monetary Fund's 'World Economic Outlook' indicate that the global economy is stabilizing, forecasting a global growth rate of 3.6% in 2014. This growth is expected to be driven by advanced economies, including the United States, United Kingdom, Germany, France, Canada and Japan.

The theme of economic recovery is echoed in the estimated global revenue of the retained search industry. AESC 'State of the Executive Search Industry' figures reveal that during 2012, global revenue reached $9.74 billion, compared to $7.43 billion in 2009. Furthermore, our Q3 statistics for 2013 reveal a year-on-year growth rate of 11.7% for gross revenue.



2012: ESTIMATED GLOBAL REVENUE FOR RETAINED SEARCH: $9.74bn

2009: ESTIMATED GLOBAL REVENUE FOR RETAINED SEARCH: $7.43bn

While there is still a level of apprehension to overstate the recovery of the global economy and the retained search industry, retained search firms have a strong base on which to build. Despite the competitive forces of in-house search departments and contingency firms, there is still a clear market for the services of retained search firms. Almost three quarters of respondents (73%) believe that their use of retained search will have either increased or stayed the same during 2013, compared to 2012. For contingent firms this is lower, at 62%. However, when asked the same question in relation to in-house executive search, 88% of respondents felt that usage would increase or stay the same.

RESPONDENTS' USE OF IN-HOUSE EXECUTIVE SEARCH WILL INCREASE:

2013: 44%

2011: 46%

RESPONDENTS' USE OF RETAINED EXECUTIVE SEARCH WILL INCREASE:

2013: 60%

2011: 61%

The principal reasons for using an in-house executive search team are not surprising: cost, efficiency, and a better understanding of the corporate culture. 44% of respondents felt that the use of in-house executive search would rise during 2013, citing increased satisfaction with internal teams, increased demand from within the organization and a reduced budget for external services.

These findings remain consistent with the trend we have observed in our 'State of the Executive Search Industry' statistics, whereby the number of retained searches is falling while the fee per assignment is increasing – suggesting that retained search is being pushed further up the value chain.

44% OF RESPONDENTS FEEL THAT THEIR USE OF IN-HOUSE SEARCH WILL RISE, CITING:

- INCREASED SATISFACTION
- INCREASED DEMAND FROM WITHIN THE ORGANIZATION
- A REDUCED BUDGET FOR EXTERNAL SERVICES

USE OF RETAINED SEARCH IS 'HIGHLY LIKELY' FOR:

- BOARD RECRUITING
- CROSS-BORDER SEARCHES
- SEARCHES WHERE THE SALARY EXCEEDS $300,000
- MARKET INTELLIGENCE
- CONFIDENTIAL SEARCHES

When is Retained Search Used?

The circumstances of the last five years, with large-scale redundancies and high levels of unemployment, have led some clients to believe that it is a buyer's market for talent. While global expansion of organizations, demand from Emerging Markets for leadership talent, and rising house prices in developed countries, which leads to greater executive mobility, are all creating an environment where the War for Talent is fierce, there remains a belief from some respondents that the candidate supply does not merit the cost of external search services at certain levels. This is particularly the case within the base salary range of $100,000-199,999, where respondents indicated that they would be 'highly likely' to use in-house or contingent recruiters. The situations where clients are 'highly likely' to use retained search are not particularly surprising: for assignments with a base salary of $300,000 or more and for board-level recruitment.

For assignments at a salary level between $200,000-299,999 the picture is mixed, with no single form of recruitment favored over the others. This is perhaps the salary range where there can be the greatest fluctuation of search assignment: from high-value searches for extremely technically-gifted individuals in a product area to future leadership talent for a specific function or region.

The principle area where retained search is challenged by in-house recruiters is in leadership consulting services, harking back to the perception that in-house recruiters have ownership of the talent pipeline and a stronger knowledge of cultural issues. This is perhaps the greatest illumination of the demand for client-centric services that often require a consultant to engage on an assignment in a more holistic manner, taking into consideration the existing talent management practices within the client organization.

Further competition is realized when clients need a confidential search, as contingent firms are as likely to be approached as retained search consultants. However, when asked about their level of satisfaction with confidential services, clients prefer the services provided by retained search firms. While there is an understanding of the strengths and value of retained search in developed economies – such as the United States and Western Europe – the AESC has observed a need for greater education of the client community in emerging economies, where demand for experienced leadership talent is growing significantly, but the value of using external sources for a fee has not evolved to the same degree.

USE OF IN-HOUSE SEARCH IS ‘HIGHLY LIKELY’ FOR:

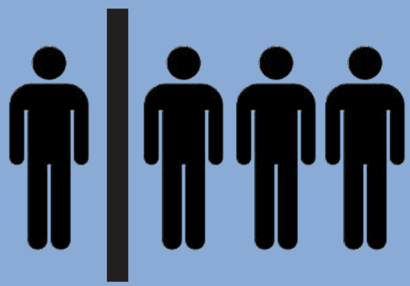
- SEARCHES WITH A LIMITED BUDGET
- SEARCHES WITH A LIMITED TIMELINE
- SEARCHES WITH A SALARY RANGE BETWEEN $100,000-200,000

USE OF CONTINGENCY SEARCH IS ‘HIGHLY LIKELY’ FOR:

- CONFIDENTIAL SEARCHES
- SEARCHES WITH A LIMITED BUDGET
- CROSS BORDER SEARCHES
- SEARCHES WITH A SALARY RANGE BETWEEN $100,000-200,000

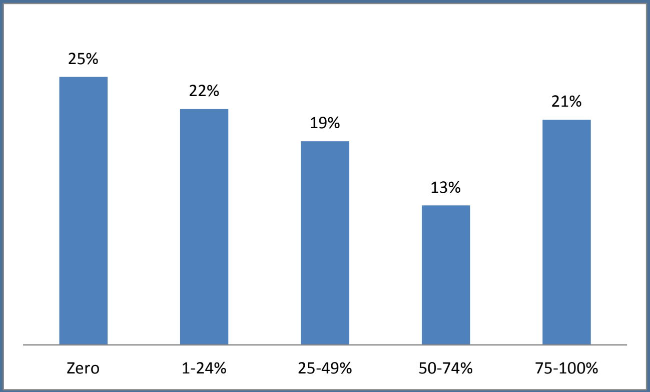
The Threat of the Internet

An often quoted threat to the future of retained search is the rise of internet job boards and social networking sites. LinkedIn alone promises the potential to connect with more than 230 million individuals, aligning opportunity with scale at a low cost. The danger is specifically the power that these mediums cede to in-house and contingent recruiters, particularly as respondents to our survey indicated that they are ‘highly likely’ to use in-house recruiters or contingent firms when there is a limited budget or limited timeline.



25%
OF RESPONDENTS
SAID THAT NONE
OF THEIR SEARCHES
ARE POSTED ONLINE

APPROXIMATELY WHAT PERCENTAGE OF YOUR IN-HOUSE SENIOR EXECUTIVE SEARCHES ARE POSTED ONLINE THOUGHT SERVICES SUCH AS LINKEDIN, THE LADDERS ETC?



When we asked what percentage of in-house senior executive searches were posted online through services like LinkedIn and The Ladders, the results were very mixed. 25% of respondents said that none of their searches are posted online, but there is no conclusive figure to draw from the results. This indicates that, while social media and internet job boards aren’t going away any time soon, their influence is maybe overstated. Usage is likely to vary significantly for different industries and regions. Particularly at the $300,000 and above level where retained search is heavily favored, there is no evidence to suggest that these online tools are more beneficial than proprietary databases that many retained search firms have built themselves.

Part Two: Opportunities For Retained Search

Establishing the Value of Retained Search

More than one-third (37%) of respondents felt that the price of their last retained search was greater than the value provided. However, 38% said that they don't have any method for measuring return on investment of a search. This hints at a disconnect between the perceived value of search and the marketed value, indicating that clients need greater support in measuring the success of an assignment. Indeed, when asked in what areas search firms could better service clients, the most popular responses were 'more transparency regarding process,' 'more metrics' and 'regular status updates'.

37% OF RESPONDENTS FELT THAT THE PRICE OF THEIR LAST RETAINED SEARCH WAS GREATER THAN THE VALUE PROVIDED

38% OF RESPONDENTS SAID THAT THEY DON'T HAVE ANY METHOD FOR MEASURING RETURN ON INVESTMENT

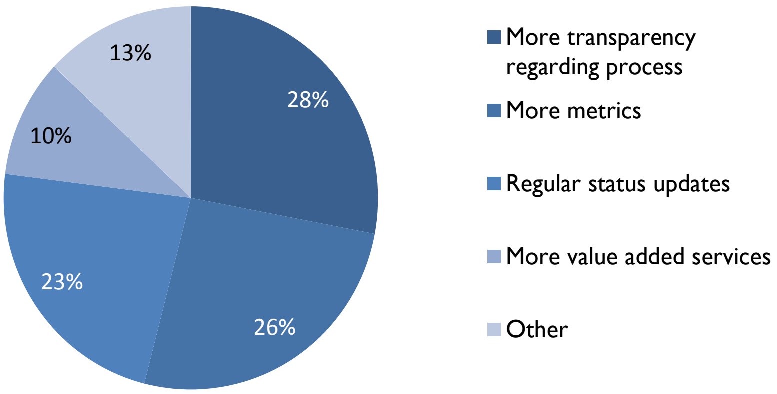
The metrics that are most commonly measured by clients are 'time to complete' and 'overall performance of the recruited candidate'.

It is therefore interesting that two of the main areas that clients feel search firms could improve are process-related (providing greater transparency, more metrics and offering regular status updates), while the two most measured areas are concerned with the efficiency of a search and the quality of the hire.

Our survey results reveal that retained search firms are most commonly selected due to the reputation of either the search firm or the consultant, or because of a firm's industry or functional specialization.

This focus on reputation shows that there is a level of trust with regards to the outcome of a search, but once again illustrates that more can be done to reassure the client during the search process itself.

Some areas where search consultants could better service their clients are:



THE MOST FREQUENLY MEASURED METRIC BY CLIENTS IS ‘TIME TO COMPLETE’, FOLLOWED BY ‘OVERALL PERFORMANCE OF RECRUITED CANDIDATE’

The aspects of retained search that clients find the most valuable are ‘confidentiality’, ‘commitment to a successful outcome’ and ‘integrity of message to the market’, therefore demonstrating that the value proposition of search has not shifted, but the need to measure the results beyond price and finding a successful candidate are becoming more apparent.

85% of respondents either ‘strongly agree’ or ‘agree’ that they want to build a stronger relationship with executive search firms in the future and there is clearly greater appetite for more interaction with a search firm in order for the client to truly feel that they have retained the services of a ‘trusted advisor’.

THE LEAST FREQUENTLY MEASURED METRIC BY CLIENTS IS ‘TENURE OF RECRUITED CANDIDATE’, FOLLOWED BY ‘COST PER HIRE’

“RECESSIONS ARE CATHARTIC. THEY SWEEP AWAY ELEMENTS OF STRATEGY THAT PREVIOUSLY SEEMED PERMANENT. IN AN ERA WHERE CLIENTS WORK WITH MANY ADVISORS AND JUDGE THEM BY RESULTS, IT’S HEALTHY TO QUESTION WHETHER THE ‘TRUSTED ADVISOR’ LABEL BEST ENCAPSULATES THE REALITY OF HOW ADVISORS AND THEIR CLIENTS DO BUSINESS TODAY”

James Edsberg
Senior Partner
Gulland Padfeld

Developing a Genuine and Profitable Partnership with In-house Consultants

The term ‘trusted advisor’ is used regularly to describe the relationship between a consultant and a client, but the expectation has shifted: to build strong relationships, clients are looking for greater transparency and a willingness to demonstrate::

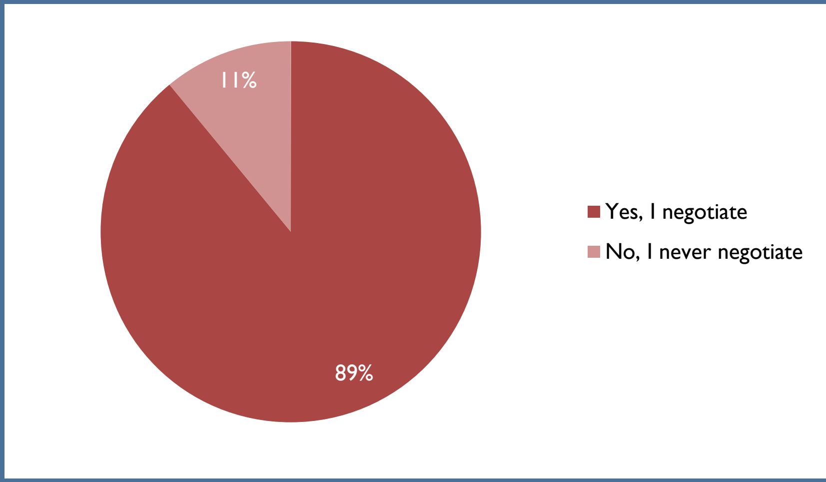
- a detailed understanding of the clients’ organizational culture (and where this may vary in different geographies and functions),
- the perception of the client organization in the market, and
- a proven track record of assisting the onboarding process. For example, two-thirds (65%) of respondents believe that a retained search firm should remain engaged by onboarding the successful candidate.

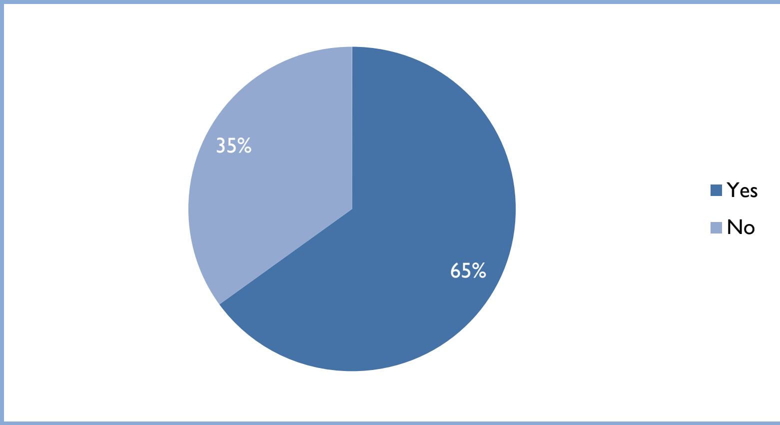
The respondents' attitudes towards in-house consultants demonstrate that they are willing to look inward for leadership consulting and market intelligence research. However, a recent article in Harvard Business Review with a worldwide AESC member firm indicated that leadership consulting will now contribute more than 40% of their total revenue.

Clearly it is in the interest of retained search firms to consider what they want their long-standing strategic partnerships with in-house consultants to look like. A closer alignment could paint retained firms as objective advisors who have access to a deep well of knowledge about client talent management strategies and cultural issues.

According to the survey results, search firms are currently bypassing purchasing departments, with 89% of respondents choosing to do the negotiation of terms and conditions themselves in some or all cases. Having to deal with purchasing departments can complicate or slow down the process of serving a client, and therefore there is an opportunity for retained search firms to capitalize on this by forming stronger bonds with in-house consultants.

DO YOU PERSONALLY NEGOTIATE TERMS AND CONDITIONS OF THE SEARCH CONTRACT OR PASS IT ON TO ANOTHER DEPARTMENT (SUCH AS PURCHASING)?





DO YOU BELIEVE A RETAINED SEARCH FIRM SHOULD REMAIN ENGAGED BY ONBOARDING THE SUCCESSFUL CANDIDATE?

Part Three: Recommendations For Retained Search Firms

Opportunities to Evolve

This study makes the case for the industry to continue to evolve. The encouraging news is that the fallout from the ‘freak’ conditions that followed the financial crisis in 2008 have now passed: the point of maximum pressure on the search business model is now behind us. However, despite better growth prospects, there remains a series of challenges to which search firms of all sizes and across different regions should address.

First, as well as looking outwards to clients for the answers, search can learn from the decisions and strategies of other branches of the professional service sectors. In particular, how law firms, and accountancy & business services practices have adapted the way they do business in ‘low growth’ environments. The debate about how a firm defines and charges for the ‘value’ of its services to clients currently rages as strongly in the legal and accountancy sector as it does in search.

> “SEARCH CAN LEARN FROM THE DECISIONS AND STRATEGIES OF OTHER BRANCHES OF PROFESSIONAL SERVICE SECTORS”

Firms across the professional sector in general are wrestling with issues relating to their structure, governance, succession and how they innovate and invest in technology. Search does not have to figure out an answer to these challenges on its own. These and other aspects have been debated in other, parallel industry forums. Thinking about which have valuable read-across implications for search and which do not, is one thing we aim to explore further at AESC events in 2014.

Consider What You Mean by Client Focus

When it comes to business strategy, the term ‘client focus’ is often poorly defined. But in today’s environment, professional firms need a clear sense of what it means for them. This report indicates that clients are challenging their advisors to consider client focus on two levels: for the individual consultant and at the level of the search firm itself.

The degree of client focus of the former is rarely in doubt: the overwhelming majority of individuals in professional services can justifiably say that they are client focused; they care, they go the extra mile, they make themselves available for calls at the weekends, etc. But it is quite a different question to ask whether the search firm, as an organisation, has ‘client focus’ i.e., whether its structure, processes and culture, enable and incentivize its staff to deliver the high standards of focus and services that its clients demand.

> “THIS REPORT INDICATES THAT CLIENTS ARE CHALLENGING THEIR ADVISORS TO CONSIDER CLIENT FOCUS ON TWO LEVELS: FOR THE INDIVIDUAL CONSULTANT AND AT THE LEVEL OF THE SEARCH FIRM ITSELF”

Appreciating this need for ‘institutional’ client focus is important – in even the smallest search firms. The breakthrough moment comes when both institutional and individual client focus are defined and addressed so that both the search firm and those working in it, reinforce, support and strengthen the whole.

Acknowledge and Act on the Signs That Most Clients Want Specialists

The debate continues in some quarters of the search industry and inside some firms, 'Is it better to be a generalist or specialist?' Clients indicate in this research that they highly value sector and market expertise. Expertise is one of the principal ways in which to demonstrate and sustain high value.

The resistance on the part of some search consultants comes from a wish not to be pigeon-holed. But there is no indication from clients that to be specialist in one sector means that one cannot be specialist in any other.

Many search firms will benefit from aligning their people, resources and brand around a clearer specialism in one or both of two dimensions – industry vertical (e.g. Retail, Construction, Wealth Management) and practice level (e.g. Board level, CFO, Sales director).

ACCORDING TO THE SURVEY RESULTS, THE MOST IMPORTANT FACTORS FOR SELECTING A RETAINED EXECUTIVE SEARCH FIRM ARE:

- THE SEARCH FIRM'S REPUTATION
- THE SEARCH FIRM'S INDUSTRY/ FUNCTIONAL SPECIALISM
- THE CONSULTANT'S REPUTATION
- THE CONSULTANT'S INDUSTRY/ FUNCTIONAL SPECIALISM

Client Relationships

One of the observations from the Client study is the respondents' desire for greater transparency and consistency in the process of search and better use of performance metrics for a mandate. Put simply, the 'how' in search is what interests clients and is the way in which they assess the true value. Defining and explaining more clearly how a firm conducts a search also offers the firm greater opportunity to differentiate in the minds of clients.

Is it Time to Widen Your Product Offering?

Many search firms have considered and are taking steps to pilot and make progress with enlarging the offering for search into areas including candidate assessment and organisational need and in some cases, even into business strategy and its implications for organisational structure and talent needs. Some search firms are building the capability to deliver this 'in house'. Others are acquiring teams and firms with a complementary offering and integrating this with the main search offering.

Strategic flexibility is one of the strengths of the professional firm's business model – and all professional firms have taken some major steps to add, adapt and evolve their fundamental service during the downturn. For firms willing to make the investment and commitment, search has an opportunity to do the same, and there are already many examples of firms creating new revenue streams as a result..

About the Association of Executive Search Consultants

The Association of Executive Search Consultants (AESC) is the worldwide professional association for the retained executive search industry. The AESC promotes the highest professional standards in retained executive search consulting, broadens public understanding of the executive search process, and serves as an advocate for the interests of its member firms. For more information, or to download the AESC Code of Ethics and Professional Practice Guidelines, please visit www.aesc.org.

About Gulland Padfield

Gulland Padfield is the specialist consulting firm that works with professional and business services firms in the area of Client Strategy.

With a reputation for bringing a fresh perspective, Gulland Padfield's teams help businesses achieve organisational transformation in how they manage and grow their client relationships. Its teams combine a pioneering approach to programmes which deliver stronger revenues, margins and market share for its clients. Gulland Padfield's teams have worked with many of the global executive search firms and other leading regional and mid-sized boutiques on their business planning process, remuneration models, growth strategy, market & brand positioning and client service.

Gulland Padfield designed the Client Centric Index™, the world's first on-line diagnostic which enables management teams in search firms to transform their performance and profitability by aligning their capabilities, structure and culture more closely to their clients and markets. The Index enables participants to compare the client focus of their organization against an anonymized benchmark of comparable businesses. For more details and to take the diagnostic, visit www.clientcentricindex.com

In 2014, Gulland Padfield is partnering with the AESC on a series of initiatives including a study of buyers of Search services and a session of interactive workshops for participants at the Annual Global AESC Conference in New York on March 11th.

To find out more about the team behind the Client Centric approach to growth strategy visit,

www.gullandpadfield.com

Advisory Board Perspectives

The AESC would like to thank the members of its Global Advisory Board, who contributed these perspectives on the 2013/14 Client Speaks Report.

Maintaining an effective and productive relationship with an executive search professional requires HR executives to have a great deal of trust with their search partner, especially when operating in a rapidly changing business environment. This report supports the notion that providing greater transparency to the process and having a shared understanding of the metrics that will be used to demonstrate the value of the relationship are becoming more and more important.

Human resource executives are becoming much more proficient in tapping into the "big data" now available to them, relying on business analytic tools to drive their talent strategy. This report supports the notion that the most competitive search firms will be those that understand this growing skill set of HR executives, and realize that to be successful, they'll be expected to design metrics that demonstrate the value of a retained search to the business enterprise. As HR executives place greater reliance on business analytics, they'll expect the same from their search partner.

Sue Meisinger
Director
National Academy of Human Resources
and AESC Global Advisory Board Member

The AESC's latest study results highlight the commencement of a turning point in the evolution of the search industry, with the rising sophistication of clients. Search firms need to successfully harness knowhow for assisting in rebuilding institutions impaired in the crises of the last five years. This study highlights the need for efforts and investment at search firms in response to this obvious turning point ahead, which will hopefully lead to a period of triumph for talented individuals and client firms that seek to attract talent.

Clients increasingly look for sophisticated services that extend beyond the traditional acquisition and onboarding of talent. This qualitative shift includes a myriad of services and a deeper understanding of the client's needs, placing greater importance on the need for enhanced capabilities, infrastructure, and talent at search firms. There is an unprecedented shift towards the need for greater trust between clients and firms. Increasingly, CEOs and owners take search more seriously and personally engage with consultants – raising the bar on expectations from search firms.

Rajeev Kakar,
Executive Vice President & Regional CEO,
Fullerton Financial Holdings
and AESC Global Advisory Board Member

The global economy is now facing a more positive economic outlook but with a number of potential threats such as the end of Quantitative Easing programmes, a slowdown in emerging markets, high unemployment, rising inequality and problems in the Eurozone. But as the AESC research has shown, the War for Talent is once again a reality, with a range of market forces conspiring to make a fiercely competitive environment for acquiring the best talent. What this survey also demonstrates is that there is clearly still a definitive market for retained executive search services, despite the increasing competitive forces from in-house and contingency recruiters, and internet based channels. On the basis of other professional services, it seems likely that the winning search firms will be those that really understand their clients and culture and really earn the title of being a ‘trusted advisor’.

Richard Dobbs
Director,
McKinsey & Co
and AESC Global Advisory Board Member

The War For Talent may have remained subdued for the last two years due to the global economic slowdown, but the need to find appropriate talent will be of undiminshed significance as long as businesses compete. The retained executive search services have played a valuable role in assisting their clients in this regard.

Dr Santrup Misra
CEO Carbon Black business and Director Group HR
Aditya Birla Group
and AESC Global Advisory Board Member

Retained executive search remains the key factor in determining who gets the top jobs in society, and this report offers the best guide yet as to how its use is evolving.

Peter Cappelli
George W. Taylor Professor of Management and Director, Center for Human Resources,
Wharton School of the University of Pennsylvania
and AESC Global Advisory Board Member

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