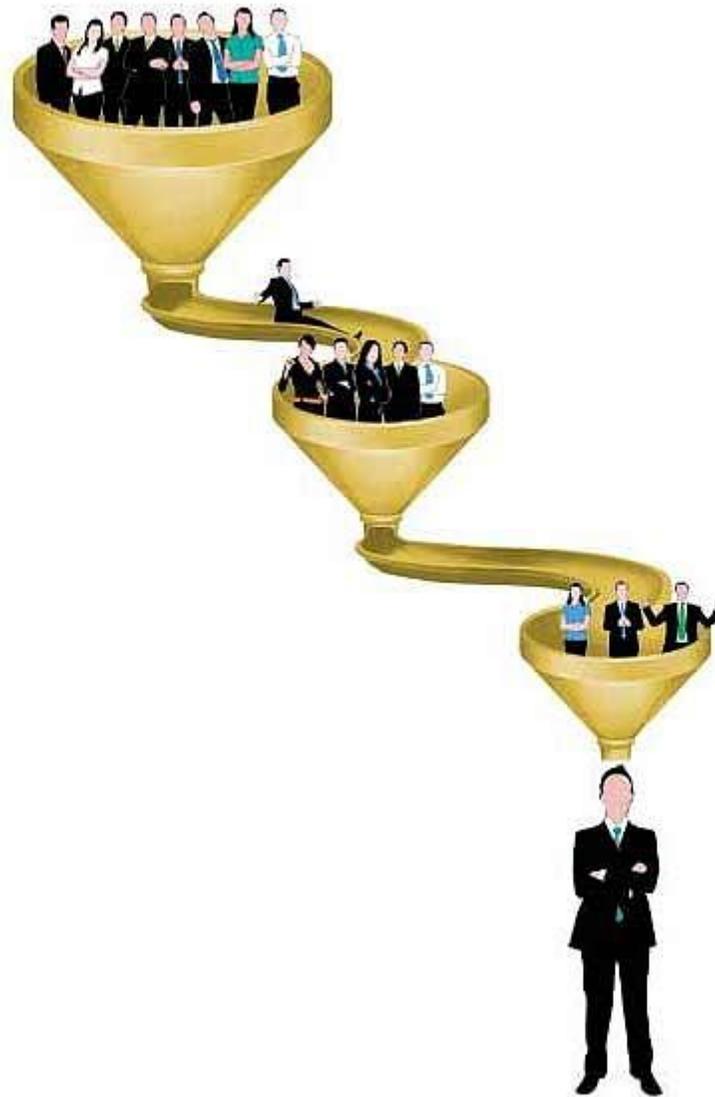


Feature



Getting The Right Man

Hiring companies want more bang for their buck, and search firms are falling in line

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In the rarefied world of executive search, discounts hardly matter. Or do they? Ask SK Dutt, president and head-group HR, ABG Group. “A few years ago, search firms used to be adamant about not cutting even 1% of their commission; now they are more open to negotiations,” he says. He is, of course, talking about the changing attitudes of executive search firms over the past four to five years. Tough times — slowing revenue growth and the pressure to manage costs — have pushed Indian companies to take a long hard look at how cost-effective and accountable their search firm partners are.

This is hardly surprising — hiring at the senior level is a highly monied affair and the cost of mis-hiring can be extremely expensive for an employer

Accordingly, established industry practices are beginning to change. Until now, the standard practice in global search has been to charge fees that amount to a third of a hired executive's annual package. This has begun to drop, with most leading firms such as ABC consultants and Hays Group now charging between 8-17% for mid-level hires. Even for C-suite searches, this fee is being lowered.

Others from the industry agree that 25% is the new norm.

Cash on delivery

Typically, a search firm received a third of its total fees in advance when it got the mandate, another third when it shared profiles of potential candidates, and the balance after closure

If the candidate confirmed but did not join, the search firm still got to retain its fees. Now, companies are being careful, and many are switching to contingent

hiring, where no fee is paid out before the position is closed.

Even in retained search — usually for senior hires that require greater engagement with the search firm — hirers are building safeguards. Subramanian Suryanarayanan, national head, HR, Tata AIG General Insurance, says his firm has now switched to contingent searches for junior levels, while it continues with retained searches for CXO roles as is the industry norm. "We work with select search firms and build covers to protect against monetary risk of non-closure," he says.

Lower advance fees are another option offered by search firms to minimise client risk

Some are willing to even engage on a "rolling" retained basis. "If we have paid an advance and the candidate does not join, then we request the search firm to adjust this amount against a hire in future," says DCB Bank's group vice president for HR, Hamsaz Vasunia.

What if a candidate joins a new position but leaves soon after? While earlier, search firms would not agree with replacing the candidate free of cost or at a discount, now it is more or less a given. "Such guarantees could go up to nine months in case of a CEO or between three to six months for CXO roles," says

Bhavishya Sharma, Director, Athena Executive Search & Consulting.

While most companies work with a loose agreement, some insist on formalising these terms. "We have a strict six-month replacement clause, which is built into the contract. Search firms are held accountable and have to provide a free replacement to the satisfaction of the organisation or refund the amount paid by the company in case of non-closure within the agreed timeframe," says Suryanarayanan

Follow-up call

Most search firms of course try to ensure such situations do not arise. Tripathi says her firm goes even beyond guarantees: "We call regularly, enquire about [the candidate's] performance, and try to settle issues raised by the client," she says. A few are now also agreeing to link their fees to the candidate's performance on the job,

though DCB Bank's Vasunia says there aren't many of them doing this yet. Yet others like Athena are using an innovative approach. "For a recent placement for senior positions at a start-up firm, we took ESOPs as part payments linking us to the long-term growth of the company. For another client, the requirement was for a senior leader who could execute successfully and we would get a bonus if he did," says Sharma.

Search industry executives contend that while the demand for accountability and cost-effectiveness is fine, it needs to be tempered with the benefits they bring to the table. Athena's Sharma points out that the most common reason for a person leaving is not performance but culture. Well, there's no arguing with that.

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