

Search Firms Stretch the Limits

Agree to client demands for deferred payments and extended employee guarantees; even tweak fee structures

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In times like these, it isn't easy being a search firm in India. Clients are calling multiple shots.

A senior-level search firm, counted among the world's top 10, had to tweak its fee structure to win a mandate. It helped hire a managing director for an Indian infrastructure firm in July last year. The company agreed to pay the search firm 50% of its fee a month after the managing director got placed, but linked the remaining 50% to his variable payout this year. Search firms that look at senior appointments are usually paid in three tranches, and all installments come once the candidate has been picked.

"The bet paid off as the candidate exceeded expectations, but what if he had not? Deferred payments can be a double-edged sword," says a senior consultant at the firm, requesting anonymity.

Apart from deferred payments, senior-level search firms in India are also having to acquiesce on extended performance guarantees, and detailed candidate reference checks. Clients cite financial instability and a liquidity crunch as reasons to tighten the screws on search firms. Search firms that have a franchisee model have a fair share of autonomy in their dealings with clients and are hence particularly at the receiving end of such requests, unlike wholly owned global subsidiaries.

The search business is now a buyer's market, says Arun Das Mahapatra, partner in charge of Heidrick & Struggles. "Mandates come down to six from about 10 in a slow-down, and you have the same set of firms vying for a smaller pie. It puts clients in a position where they can impose terms and conditions," he says.

NEW FEE MODELS

In a bid to retain clients, search firms are tweaking their fee models. EMA Partners has introduced two new fee models in India. Its standard global model is taking one-third of the fee upon being signed as a retainer, a third after two to three weeks, when they present the shortlisted candidates, and a third after the candidate has been picked.

But in India, it introduced a system of charging one-third the fee once the firm has

When The Going Gets Tough

HOW SEARCH FIRMS ARE RE-WORKING THEIR MODELS

Spearhead Intersearch

Has revised retainer fee structure. Takes 25% in four installments closer to the candidate joining service

Has extended its performance guarantee clause by year-and-a-half from the standard six months in select cases

EMA Partners

Their global model: Take one-third of fee upon being signed, one-third after two to three weeks when presenting the shortlisted candidates, and one-third after candidate has joined

New Fee Models in India

One-third is taken once the firm has been signed on and two-thirds once the candidate has joined

Stanton Chase

Extended its performance guarantee clause to six months from three months for clients

Executive Access

Inserted accountability clause for CEO-level searches a few months ago. This entails taking about 50% of the fee six months after the candidate has been placed

Another new model is a fixed fee one, which is not a percentage of the candidate's cost to company

been signed on and two-thirds only when the candidate has been picked. The third fee model, introduced two years ago, is an upfront fixed fee model and not a percentage of the candidate's cost to company. Clients are increasingly asking for these two models in a bid to de-risk themselves, says Ajay Singh Shekhawat, client partner at EMA Partners.

The firm took two-thirds of its fee only when the candidates had been picked in four CFO search mandates for a Mumbai-based oil and steel group a few months ago. "Increasingly, there have been instances where our fee has been delayed," says Shekhawat.

Spearhead Intersearch revised its retainer fee structure by taking 25% of the fee in four installments closer to the candidate's joining period from the standard three-installment model for select cases. Its clients are also increasingly asking for the fixed fee model. "The upfront fixed fee model gives

them greater assurance, as opposed to a percentage of the candidate's CTC as they may make modifications in later stages. The premium talent pool is small in India, and they would not want to pay the search firm more if they think of hiking the candidate's salary," says Jyorden Tshering Misra, MD, Spearhead Intersearch.

IMPROVING ACCOUNTABILITY

Search firms are also realising that their work is under a sharper lens, with companies expecting more value for money in a difficult period.

Local search firm Executive Access was asked by clients to insert an accountability clause for its CEO-level searches a few months ago which meant changing its fee model in keeping with the new terms of service. From a three-installment payment system a few years ago, it now charges 50% of the fee, six months after a CEO is placed. For CXOs and head of business func-

tions, it is 40%, says Ronesh Puri, managing director. "An accountability clause ensures greater alignment of interests with the clients. Clients want to be doubly sure of who they are hiring in tough times," he says.

Though it has not made uniform revisions to its fee structure, global subsidiary Heidrick & Struggles has also made amendments. The firm's fee is 33% of the candidate's CTC in the first year of service. "At times the salary rises to Rs 2 crore and we are asked if we can reduce it to 31%. We are also asked if we can extend our payouts by 15 to 20 days. We have done that when the mandates are big, but it becomes tough to go back to your usual fee when market conditions improve," says Mahapatra.

Stanton Chase extended its performance guarantee clause to six months from three months two to three years ago. A performance guarantee clause mandates a search firm to repeat the search if a candidate leaves the company due to unforeseen reasons. "The performance of search firms is being evaluated with greater scrutiny and we need to be circumspect about who we shortlist. The pay for performance culture is being extended to search firms too," says Sameer Karayi, senior consultant at Stanton Chase.

Spearhead Intersearch, on its part, has even extended its performance guarantee clause to one-and-a-half years from the standard six months over the past two years in select cases. "Companies are looking for harder bargains," says Misra.

DETAILED REFERENCE CHECKS

Companies are also pushing for more detailed reference checks for candidates. "Today, for any top-tier global executive search firm, it has become important to submit comprehensive candidate recommendation dossiers. We have to cultivate candidates and hand-hold them till the time they join," says Shekhawat.

At Executive Access, reference checks for candidates have increased to 6-8 per candidate from the usual two to three over the past few years, says Puri. "The perception of the search firms is changing from that of mere brokers. They are expected to be stakeholders in the candidate's performance," he says.

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