

Star Search



Trying to fill a seat in the executive suite? In today's competitive market you may have to look abroad.



Not long ago, one senior executive was offered a job with an 80% bump in salary. Unimpressed, he sent his compensation consultant back to ask for more. "The candidate said he'd only be working for a fixed number of years and didn't want to limit his income," recalls Susan L. Chadick, CEO of Chadick Ellig, an executive search firm in New York City. Sound excessive?

Perhaps, but in today's battle for top executive talent, CEOs, CFOs, and other key top-flight managers are in short supply. As a result, candidates with the right set of skills are now calling the shots.

Welcome to the world of executive recruitment, where a number of concurrent trends are driving a competitive market and making it harder to find the right people to fill the C-suite. These include: an increasingly global economy, a shrinking domestic workforce, rapidly changing technology, pressure from more demanding shareholders, and concern about the impact of recent corporate scandals on corporate liability.

All that has translated into boom times for retained executive search companies. The industry's global revenues hit a record \$9 billion in 2006, rebounding from a three-year slump between 2000 and 2003, when global revenues tumbled more than 30% as a result of the dot.com bust and the economic recession that followed.

The Job Boom

Not only is the demand for executive search services soaring, it's also expanding geographically. Once a largely Western concept, the use of specialized firms hired on retainer to recruit top-level talent is now firmly established in countries like Brazil, China, India, and Thailand. While North America still comprises some 44% of the market, the Asia-Pacific region now accounts for 14%, while Latin America comprises 7%, according to the Association of Executive Search Consultants (AESC), the worldwide professional association for



retained executive search firms.

The complexity of the global business environment is helping to fuel this expansion. Today, executives must deal with "multiple products, multiple countries, multiple cultures, and multiple time zones," says Paul Reilly, CEO of Korn/Ferry International, a worldwide search and talent management firm. And because business is now conducted on a global level, companies need executives who are comfortable within an organization that operates 24/7. "It is tough to find them," Reilly says.

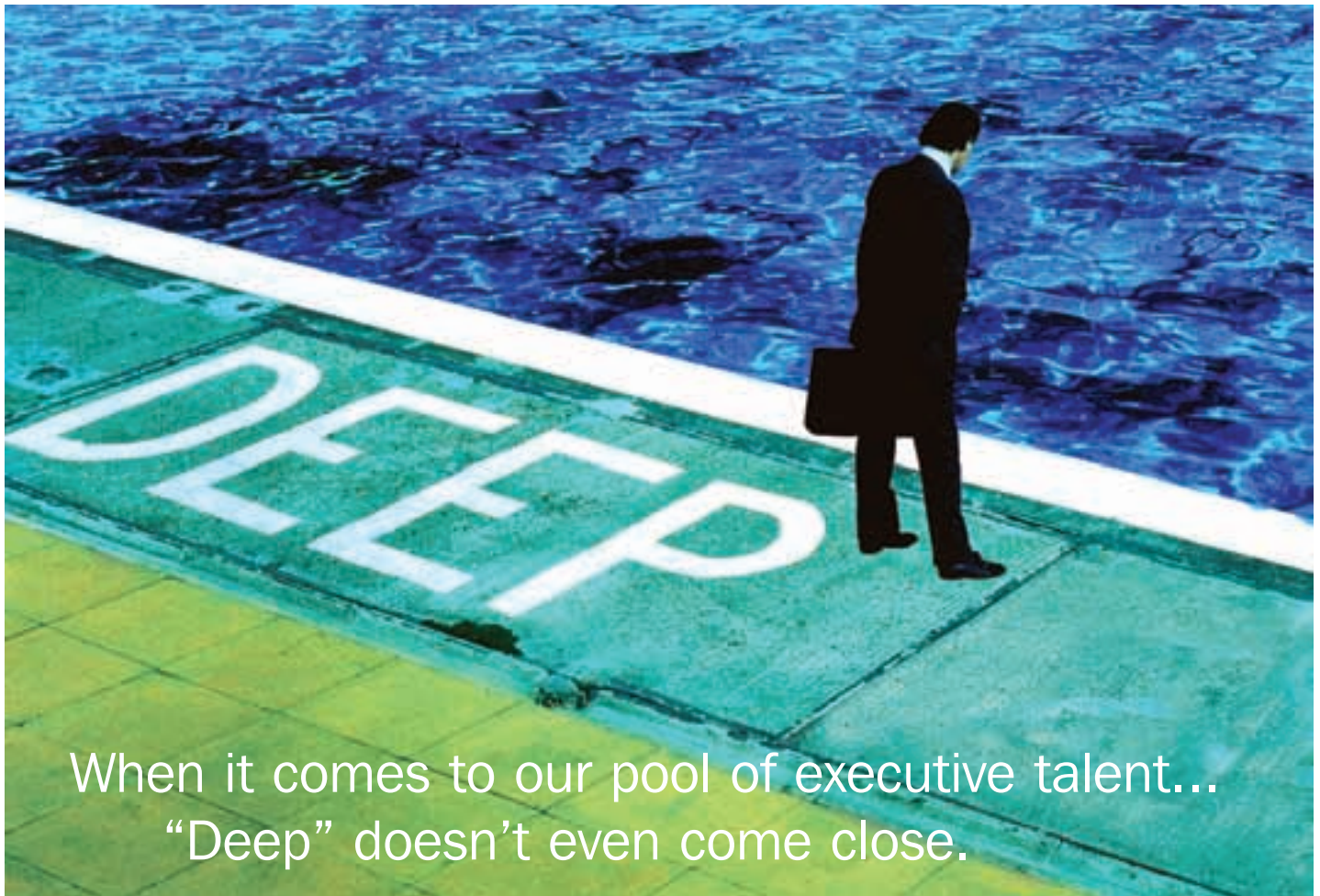
It can also be hard to keep them. Executive turnover is at record levels: In 2005, more than one in seven of the world's largest companies made a change in leadership, according to a recent study by consulting firm Booz Allen Hamilton. That compares to only one in 11 just a decade earlier.

Here at home, turnover problems are exacerbated by corporate scandals, including the ongoing government probe into backdated stock options that has already cost some 50 executives their jobs. In the first three quarters of 2006, more than 21,000 C-level executives changed jobs nationwide, up 111% from a year earlier, according to Liberum Research, an independent research firm in New York.

At the same time, chief executives who in earlier times might have expected to retire in office are now being shown the door. According to the Booz Allen Hamilton study, firings of underperforming CEOs worldwide quadrupled between 1995 and 2005. And in Europe and the U.S., less than half of the departing CEOs left office willingly.

"The average life cycle of a CEO is now 3.5 years," says Brian Sullivan, Chairman and CEO of executive search firm Christian & Timbers. CEOs used to have six months to figure out the company, six months to develop a strategy, and another six months before their first review, he says. Today, they typically have just six months for all three. "So they had better have a strategy before they even join the firm."

Demographics are also playing a part, by changing the makeup of the global talent pool. In the U.S., some 70 million baby-boomers are headed toward



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* A placement occurs when the client has chosen a candidate who is placed in the role, whether from an outside hire or an internal promotion.

** Stick rate is defined as the percent of candidates placed at a company and still employed by the client company in the same, similar or elevated position. Audited time period of January 2005 through June 2006.

retirement over the next ten to 15 years, but only about 40 million new workers are expected to enter the workforce to replace them, according to the U.S. Census Bureau. The next generation of corporate leaders will come from the 35- to 50-year-olds now in the workforce. But over the next two decades that demographic group is projected to see no growth in the U.S., while it will drop precipitously in some European countries. Germany, for example, is projected to see numbers fall a full 21%. Yet both China and India are expected to see growth of 15% and 67%, respectively.

Going Beyond Borders

Given the dynamics of the marketplace, rising executive talent will increasingly cross national borders. Such international blurring is already starting to take place. Howard Stringer, a Welsh-born American is now chairman and CEO of Sony, a Brazilian-born Frenchman, Carlos Ghosn, is at the helm of Nissan Renault, and Brit Martin J. Sullivan is now CEO of U.S. insurance giant AIG. And in Asia, companies have recently lured top U.S. managers, including Dell's Bill Amelio, who jumped to Chinese computer maker Lenovo, and GM's Phil Murtaugh, now head of international operations at Chinese carmaker Shanghai Automotive Industry Corp.

At the same time, Western firms are looking further afield for their next generation of leaders. As Korn/Ferry's Reilly recalls, just five years ago about 2,000 business students showed up for a talk he was giving at Beijing University because they were eager to get jobs in the U.S. Today, it's the Western companies that are courting Chinese candidates, who increasingly opt to stay in China to take advantage of burgeoning business opportunities there. "And the competition is just as fierce in India," Reilly notes.

So which industries have the most voracious appetite for executive talent? The list is long, with demand soaring in areas ranging from telecommunications to life sciences. "The professional services industry is on fire," says Christian & Timbers' Sullivan. And as the Sarbanes-Oxley legislation continues to draw attention to areas of fiduciary responsibility, there's high demand in all industries for chief financial officers as well as people with forensic accounting and litigation support skills.

Talent Scouting IOI

Companies often start their search by looking for talent within their own industry, figuring there's an



advantage in recruiting someone who understands not only the products and processes, but also the competition. Yet given the current pace of change, searching within the industry may not always yield the best results, says Sullivan. For one thing, evolving technology means companies are creating executive jobs that never existed before. Chief convergence officers, for example, now manage the intersection of multiple technologies where old and new media meet—such as the use of cell phones to watch *I Love Lucy* reruns. And then there are the skills required by fledgling industries producing new products, such as nutraceuticals, which blend nutrition products and pharmaceuticals.

That means companies can't just steal someone from a top competitor. They may need to look within unrelated industries and consider people who, at first glance, may seem an unlikely fit. "Okay, you run Apple

Winning the Talent War



When it comes to building a top-flight leadership team, recruiting is only half the battle. Companies may be able to hire the best and the brightest, but today's competitive talent marketplace can make it tough to keep them on board.

"It is fine to hire," says Paul Reilly, Chairman and CEO of Korn/Ferry International, a worldwide search and talent management firm. "But not if you hire 50,000 and lose 48,000."

A better approach, Reilly says, is to think of talent as a critical resource to be managed. That means companies should be asking not just how to recruit its top leadership team, but also how to train, motivate, reward, and keep them.

To provide companies with a single source with answers to all those questions, Korn/Ferry began creating a menu of talent management services back in 2000. Today, Korn/Ferry is not only the world's largest executive recruiting firm, but also a key resource that helps corporate clients align, assess, train, develop, organize, compensate, and retain their key people.

Close to 20% of Korn/Ferry's revenues already

In order to keep executive all-stars, companies need to find creative new ways to reward and motivate them.

come from services other than retained executive search. Clients, for example, can turn to the firm to get governance guidance for their board of directors, to plan management integration after an acquisition, or to improve the on-the-job performance of an individual executive. There's also a separate group that focuses on recruitment of middle managers.

"Clients want solutions," says Reilly, adding that they *don't* want to have to patch together multiple providers to get them. Talent management is a relationship business, and using a single provider means that companies can be more nimble, as the initial groundwork has already been done.

Korn/Ferry's Leadership Development Solutions Group, for example, offers a variety of programs that can be easily tailored to individual client needs. Each

program takes advantage of cutting-edge tools, and has the ability to be adopted anywhere within a global organization. Most recently, Korn/Ferry acquired Lominger Ltd., a leadership development organization offering research-based applications, which now build on Korn/Ferry's consultative solutions.

One such program, Strategic Management Assessment, is designed to help clients take stock of existing talent. Through self-assessment, peer review, and in-person interviews, the program helps clients understand and optimize the mix of skills, behaviors, and values found within their organization. It can be used with individuals or groups, and is customized to each client's ultimate goals.

Having identified areas in need of improvement, clients can take the process one step further through individual coach-



Opening doors to the C-suite: Korn/Ferry's Chairman and CEO Reilly

ing. Korn/Ferry coaches take on a wide range of assignments, from helping an executive settle into a new job in Hong Kong to working with a team in Detroit to improve its on-the-job performance. Multicultural, multilingual, and multifaceted, the coaching program can even help executives craft a better balance between work and personal life.

Having a talent management system in place often makes it easier to recruit top talent, and gives companies a competitive edge as the talent war heats up. As Reilly explains, companies that train their own leaders do a lot less recruiting. They also send a positive message to rising talent. That message: We think you're worth the investment. ■



KORN/FERRY INTERNATIONAL

Computer and you want someone who will create the next iPod for you," says Sullivan. "That person may exist at Lawrence Livermore Labs where they are doing stuff with sound waves that ties into what you are interested in."

But finding the right skill set doesn't necessarily mean a good match. There are other factors to consider. "The biggest reason executives fail is the culture," explains Korn/Ferry's Reilly. Simply doing a background check and reading a résumé doesn't provide sufficient information about a person's leadership style, problem-solving ability, or the way he or she thinks.

Assessing Skill Sets

That's why a growing number of companies are making use of assessment tools. Candidates recruited through Korn/Ferry, for example, are commonly asked to spend an hour answering questions on the computer. After reading a business case study, they may be asked to decide if a drug company employee—recently moved laterally to a branch office—was being punished or rewarded for taking risks in the past. There are no wrong answers. Rather, the questions are designed to reveal how a candidate makes decisions, thinks about processes, and works with others.

"We offer it in all of our searches, and about 40% of our clients require it," says Reilly. Some companies

feel so strongly about these assessment tools that they won't even consider a candidate who declines the test.

Sensitized by news stories exposing corporate corruption, companies are also taking a firm stand on integrity. They're shunning any candidate who carries even a whiff of past scandal. And candidates are applying similar due diligence when assessing potential employers.

"In the post-Enron market, senior executives are taking great care to make sure that they aren't about to join companies that are going to fall apart," says Peter Felix, president of the Association of Executive Search Consultants. And even after they decide to sign on, executives are going to great lengths to protect themselves, negotiating every detail from their arrival to their eventual departure. "It is rare that they do not have a 30-page contract," Felix says.

Candidates who pass muster and are willing to make a change can demand big dollars. Last year the average CEO in the U.S. was paid \$10.9 million, or 262 times an average worker's earnings of \$28,310, according to the Economic Policy Institute. That means an average CEO earned more in a single workday than an average worker earned in 52 weeks.

The Bait and Hook

But while the compensation is astronomical, money typically isn't the motivation for making a corporate leap. "At these levels, it's all about opportunity," says Christian & Timbers' Sullivan. "They want to be somewhere where they can have a huge impact." That's one reason so many CEOs are being drawn to the private equity side of the market, he says. Since private firms are less regulated than public companies, many executives feel they have a better chance of making their mark if freed from regulatory headaches and activist shareholders.

That means public companies that want to compete need to take the time to craft a compelling story. Small companies may find themselves at an advantage here, says Janice Reals Ellig, president of Chadick Ellig. Hedge funds, for example, have attracted some impressive talent because they offer not only money, but also a close-knit environment where people feel they can make a difference. "Some of my large clients are actually marketing themselves as big 'small' companies," she says. "They want candidates to see that they can have an impact in a large global company."

With powerful forces now reshaping the industry, organizations may find it advantageous to rethink their recruiting strategies. Some, for example, may need a change in attitude. Aggressive Wall Street firms might not become kinder or gentler, but they may want to take a closer look at how they treat rising talent.



Executive turnover is at record levels. Corporate scandals, the aging talent pool, and global competition is fueling the trend.

"Companies will have to be careful not to be overly arrogant," cautions Chadick, noting that too many just assume they will always be able to buy the talent they need. By embracing changes in the market, she says, companies can create more effective organizations by building a better balance of work and family life, thereby creating a workplace culture that encourages top talent to join the company and stay for the long-term.


Folks who are building their careers should also pay close attention to changing marketplace demand, since the talent wars will benefit some more than others. "It's never a great job market for everybody," says Chadick. Those with the right combination of educational credentials and experience will find themselves in great demand, while those who don't match the current corporate ideal may have a harder time finding their way.

That said, however, it's clear that folks who take the time to build their professional credentials will have significant opportunities. Recently minted MBAs, for example, may want to live abroad to get that increasingly important international experience. "If I was 25 years old,

I would go to China," says Reilly, noting that the skills learned in that expanding economy will open many doors in the future.

Some even see these trends creating a global opportunity to break down traditional barriers and ultimately create a better world. "I don't want to go overboard about this," says Peter Felix of the AESC, "but successful modern economies require a mobile labor market." Executive search firms—by helping talented people cross national, cultural, and industry boundaries—can help the cream rise to the top, he says. And that can only be a positive force in creating a truly global economy. ■

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