February 9, 2009

The Washington Post

Search Firms Feel Chill of Recession

Executive Headhunter Shops Cutting Back

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Peter Metzger
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Millions of Americans have lost their jobs, tens of thousands of them in the Washington region, many in the financial services and information technology fields. And now, the industry that traditionally has been fueled by workplace turnover and executive departures is feeling the repercussions of the economic downturn in its own ranks.

Over the past month, in response to shrinking revenue and declines in demand for their services, some of the nation's top executive search firms have announced or quietly begun implementing plans to trim their workforces, consolidate offices and move their services toward more business consulting work.

In the D.C. market, boutique firms with high-rent offices are downsizing to reduce expenses and meet corporate cost-cutting directives. Firms are luring top headhunters from the competition and trimming those who lack the active Rolodexes to keep clients coming in.

"The industry is on its back, floored," said John W. Franklin Jr., president and founder of JWF Advisors, a D.C. consulting firm that specializes in helping executives make career transitions. Search firms, Franklin said, "are all taking out the bottom fourth of their people."

It can be good for business to cull less productive workers and upgrade staff. But when public firms are forced to think in terms of quarterly earnings, Franklin suggested, they may also have to pass up opportunities to bring on new talent and build for the future. Korn/Ferry International, the largest publicly traded executive search firm in the country, led the search that yielded a successor to former New York Federal Reserve president Timothy F. Geithner, last month. At the same time, the firm's overall number of searches declined in the second quarter of '09, its fee revenue dropped and the firm announced it would lay off 15 percent of its employees. Locally, company officials said they have trimmed several of its search partners who work out of its K Street and Reston offices.

"We haven't done a dramatic reduction, yet," said Nels Olson, who manages the local Korn/Ferry offices, which employ 28 consultants. "We're not saying we wouldn't go through that going forward. We're as sensitive to the overall economic impact on our business as any other is." Earlier this year, Korn/Ferry announced a shift in focus to providing more executive consulting services and mid-level and interim placements.

At one of Korn/Ferry's top competitors, Heidrick & Struggles, the second-largest publicly traded U.S. executive placement firm, searches dropped 20 percent more than expected at the end of last year, and in January the company announced that it would seek to save about $30 million by closing and consolidating some of its 21 U.S. offices and by cutting 12 percent of its workforce. At the same time, the firm is restructuring its practice to beef up its executive advisory services, a process that is prompting it to take a $20 million write-down.

"Reductions in head count are by far the most difficult decisions, but are necessary to position the company for the future," chief executive L. Kevin Kelly said in a statement. Locally, the firm has offices on Pennsylvania Avenue and at Tysons Corner, where it has trimmed the number of search consultants to 11 from 14, company officials said.

Headhunters are expecting 2009 to be a grim year for their business. Kennedy Information's Executive Recruiter News this month declared that "Cutbacks at large firms portend more of the same." A survey done in December by the Association of Executive Search Consultants indicated search consultants' overall outlook for 2009 is "negative," though they are hoping for an economic rebound later this year.

If there is room for optimism, it is that the restructuring of the mortgage, banking and financial industries will create demand for more placement of restructuring officers, turnaround experts, distressed-asset managers and forensic accountants. Headhunting firms are anticipating clients will need to place executives who will help their companies win bids to build bridges, roads and other infrastructure projects called for in the federal stimulus package.

But, said H. Edward Muendel, co-founder of Stanton Chase, "the reality is there is going to be a lag time before it hits the streets." And meanwhile, with the details of the economic stimulus program still being hammered out in Congress, it's not entirely clear to search firms how to get their foot in the door, or even where the doors will be.

"It's a big guessing game," said Peter Metzger, vice chairman and head of the Washington office of CTPartners, an executive search firm that helps place senior lobbyists and trade association heads. Search firms are putting out feelers throughout Washington trying to figure out where the opportunities will be and how to find the right candidates, he said.

For now, he said, his firm has decided to hold off on pursuing business related to the federal government's Troubled Assets Relief Program. "It is so cumbersome and bureaucratic at the moment, it's just a bridge too far."

What is clear is that gone are the days of executive searches that a critic once described as "visiting the freezer, thawing out a couple of stiffs and sending them over to the client to be hired," said Robert J. Brudno, managing director of D.C.-based Savoy Partners.

"I think the real issue is going to be what happens in the industries that are going to continue to be hurt by economic forces," Brudno said. "I think the story is still much more of the tide going out. It's going to take a while before it comes back in."