

Management Consultancy Hiring Survey 2016



EXECUTIVE RECRUITMENT

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Introduction

In April 2015 Prism Executive Recruitment commissioned a survey to investigate the hiring landscape for small/medium sized and independent management consultancy firms. In March 2016, Prism again sought the views of individuals within this sector to build on the 2015 study. Twenty three consulting firms participated in the survey and responded to a range of questions around hiring, recruitment hotspots, perceived challenges and recruitment methods.

While recruitment is dominated by the major global consulting brands and the consulting arms of IT companies, we were interested in investigating the nuances and challenges faced by a different section of the consultancy market.

The survey was undertaken by an independent researcher.

Key Findings

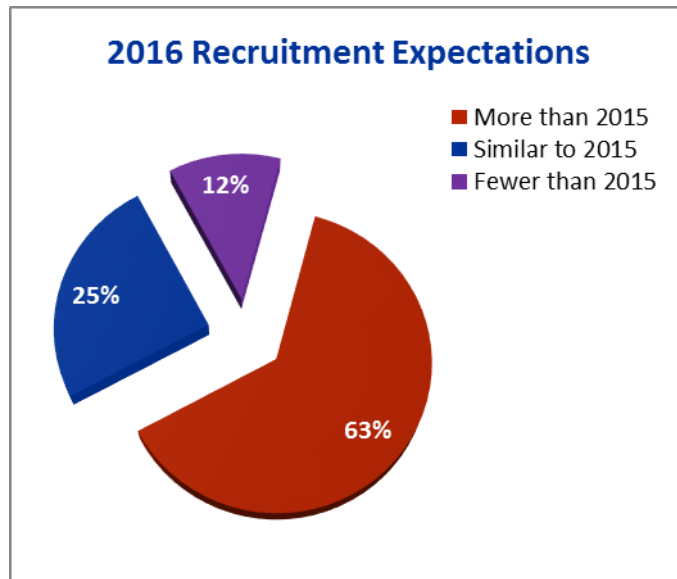
- * All firms participating in the survey aim to increase their headcount in 2016, most by 30% or more, but more than half had failed to hire as many people as they needed last year.
- * A significant increase in direct hiring is expected and a correspondingly reduced role of referrals. Direct hiring is however acknowledged to be difficult, time consuming and slow so it is likely firms will remain resource constrained.
- * Use of agencies remains static but with acknowledgement of the benefits including market knowledge and swifter access to a broader range of candidates than either direct or referral methods.
- * Competition from larger firms and Big 4 is in some cases driving salaries above 'market rate' and some smaller firms find it difficult to compete.
- * The results identified specific areas of difficulty including attraction and retention of Millennials, brand awareness amongst candidates, scalability and the attraction and retention of women.



Summary of Hiring Intentions

One of the most significant observations arising from our results highlights a potential challenge: the majority of firms participating in the survey are seeking to recruit more people than in 2015, but over half had failed to hire as many as they needed last year.

All the firms we spoke to were continuing to recruit in 2016 and 63% were anticipating a higher percentage increase in headcount than 2015. Two thirds were projecting headcount increases of 30% or more.



Reflecting on 2015, 60% of firms surveyed had recruited fewer consultants in 2015 than they had expected. Most firms which did not meet their target increase believed this was because of the shortage of talent in the market and competition from their rivals and the Big 4. A number of firms suffered resignations particularly at the 2-3 year experience level.

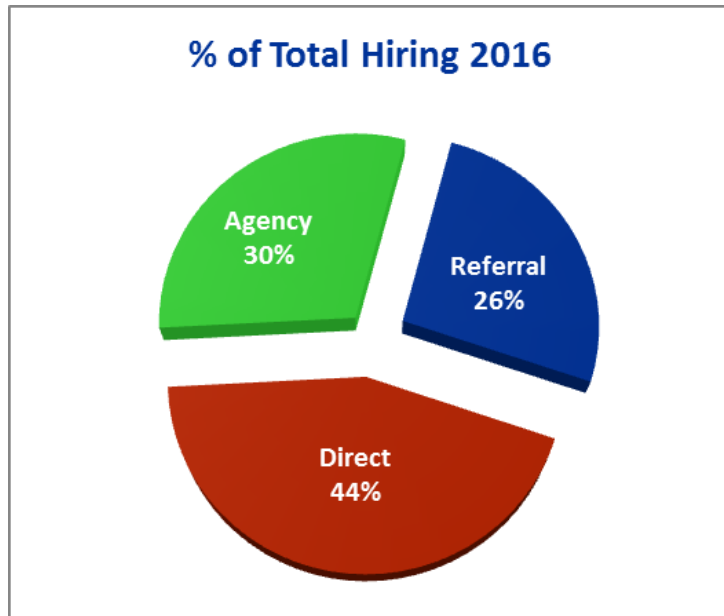
However, experience of attrition is polarised. The majority of surveyed firms did not see attrition as a particular problem, but 25% had been significantly affected and for them it was felt to be an important issue. The finger was pointed firmly in the direction of Millennials whose expectations encouraged them to stay for only one or two years and then move on if salary increases or promotion were not forthcoming. The challenge of recruiting and retaining Millennials will be explored in more detail later in the report.

The high expectations for headcount increase in 2016 seem optimistic in the current climate of talent shortage. It is hard to see how the targets can be met without a significant change in the approach to recruitment. Only one firm seeking to recruit more people in 2016 than last year had achieved their target in 2015.



Recruitment Approach

All firms used a variety of recruitment strategies. The overall split of recruitment methods used across firms is shown in the pie chart.



Hiring via Referral

It was universally acknowledged that this was ideal in many respects:

- Referrers rarely put their reputation on the line unless the candidate is good and can thrive in the firm in question.
- Referrals come from a trusted employee and can often mean a reliable recommendation.
- The personal touch is also a benefit and makes for an easier engagement.
- Referees are tried and tested. There is less risk and more likelihood of a good cultural fit.
- Cost (although most firms will pay a referral fee).

Set against these advantages, a hire that does not work out can result in an awkward or difficult situation. There is also a danger that too much recruiting by referral can lead to homogeneity of consultants. Only one firm used this as their main method of recruitment. The survey highlighted a significant difference in expected sourcing route between 2015 and 2016: last year 40% of hiring was expected to be referrals but this year that is reduced to 26%.



Use of Recruitment Agencies

Expected to account for 30% of all hires, similar to 2015. The perception of executive recruitment firms was almost overwhelmingly positive. They were acknowledged to have good market insight and enable swift access to a greater range of candidates, both active and passive. However they were often perceived to be expensive. This may be because the fee is viewed in absolute terms without taking into account the advantage of faster hiring and the ability to employ revenue earning consultants more quickly if an agency is used.

Direct Recruitment

This was felt by many firms to be cost effective and have distinct advantages:

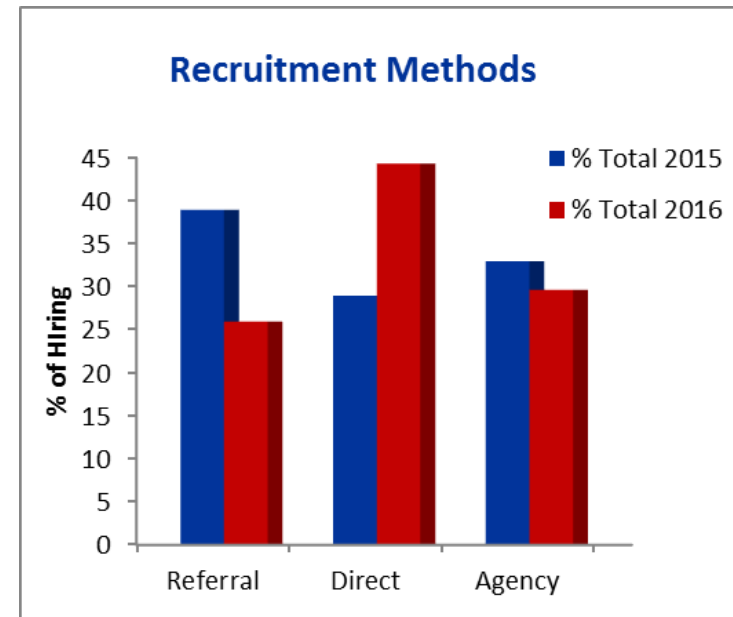
- Some thought candidates preferred a direct approach.
- Firms felt they had more opportunity to gain an in depth direct knowledge of the candidate.
- Increased flexibility.
- It was seen as an opportunity to raise brand awareness.

The disadvantages were also clear:

- Labour intensive and time consuming.
- Focussed predominantly on 'active' candidates.
- Lack of 'reach' or network of an agency.

- Opportunity cost of internal recruitment vs agency recruitment not always considered.

Direct hiring i.e. advertisements, in house recruiters etc. in 2015 was 26% and this year is, somewhat optimistically, expected to be 44% of total hires.



It is interesting to note that despite the shortfall in recruitment which many firms experienced in 2015, they do not intend to increase their use of agencies, but instead expect to shift their acquisition of candidates from referral hires to direct recruitment, despite acknowledging the difficulties of this method.

The Top Consultant [Management Consultancy Channel Report of 2016](#) states that consultancy jobseekers' preferred recruitment channels are agencies and personal referrals. According to their research corporate websites currently generate only 15% of all applications to management consultancy employers. Whilst direct recruitment will also utilise internet job sites and social media, it may be short sighted to avoid a recruitment method known to be favoured by candidates.

The results of the survey revealed a further correlation:

- Firms experiencing fewest problems in recruiting in 2015 had recruited the majority of their hires via agencies.
- Those which reported most challenges last year used agencies either rarely or not at all.

This implies that it may be difficult to accelerate hiring without increasing the use of executive recruitment firms.

There is a common perception that agencies are an expensive option, but a cost benefit analysis suggests that if an agency can bring forward the date of hire by, for example, 6 weeks then the recruitment fee could be largely paid for by that 6 weeks' extra utilisation. The opportunity cost and implications of not fulfilling planned headcount increase is greater still.



Recruitment Challenges in 2016

Surveyed firms were asked to identify any specific recruitment challenges they were currently facing.

Hiring at Consultant/Senior Consultant level

Most recruitment is expected to occur at the consultant/senior consultant level with 68% of firms surveyed saying that the greatest increase in headcount would be in this category.

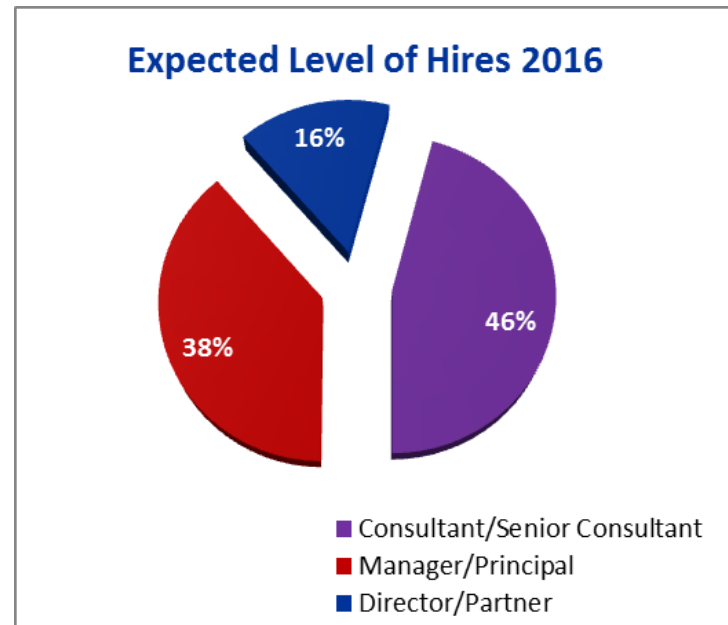
A number of firms commented on finding (and retaining) graduates and less experienced consultants. While the supply of graduates means that recruitment at this level is less of a problem, several firms commented on the quality of graduates coming from university. One firm in particular noted that this appears to be a 'bad academic year' and that their normally high conversion rate through the interview and assessment process has recently decreased and has been the lowest for the last 7 years.

A possible explanation may be the competition from an increased number of other graduate opportunities including those in banking and finance and the engineering and industrial sectors (two markets showing the biggest growth in graduate vacancies).

One firm also noted that at this level it is a very competitive market and candidates are now much more

inclined to try to negotiate their package as "*they know their value and are savvy*". The firm would previously have expected to negotiate with the senior hires, but not the more junior. This is a new trend.

It was mentioned that bigger firms had invested less in their graduate programmes between 2008 and 2012, and this has resulted in a lower number of trained consultants now available at this level and Manager (see below).



Hiring at Manager / Principal level

- There is very strong competition for people at this level, particularly those with specialist expertise.
- Because there is a skills shortage at this level, high calibre candidates are not on the market for long.
- High demand for scarce resources is pushing up salary expectations and smaller firms struggle to keep up with the Big 4 in this respect.

Hiring at Director / Partner level

- Strong competition for senior talent particularly those with proven business development experience and the ability to deploy these skills in smaller firms.
- Multiple offers and counter offers can be a problem and this is having an impact on salary expectation.
- Cultural fit is important and makes hiring difficult especially when sometimes combined with a requirement for very specific, niche expertise.



Key Issues

We asked our survey participants questions around particular aspects of attraction and retention which are current "hot topics".

These are issues common to all consultancy firms, but are challenges which small and medium sized firms may find easier to address than larger firms. Some of the characteristics of smaller firms such as flexibility and a less hierarchical structure could be used to advantage and to differentiate themselves as employers.

Millennials

This was the survey question which provoked the greatest reaction. Half the firms surveyed described hiring and/or [retaining Millennials](#) as 'very challenging' or a 'critical concern'.

Comments included the following:

"If they are good, they are always on the lookout. It is important to the firm to retain the talent."

"They come onto the grad programme, do 2-3-4 years and then move out. They rarely go to other MCs, they join a client, opt for a lifestyle change."

"Retaining is hard. The firm must match their expectations and ambitions. They think they are ready to run when they should still be walking."

"They have the travel bug – the firm doesn't even bother to try to hire this age range now. They have no work ethic."

One firm described retaining Millennials as a 'nightmare'. In an effort to address the problem they have had to review salaries, look at work life balance, offer sabbaticals and ensure they give their staff adequate recognition.

"This group love to be recognised and praised."

In addition they aim to identify and mentor high potential people and create a long term vision for them within the firm.

Why is this an important issue? Firms may not be recruiting from this age range now, but will be recruiting experienced 'senior' Millennials for Manager and Principal level positions in future and there is no evidence that their motivations and characteristics will change as they age. What may be required is a critical review of the way in which companies accommodate their employees' expectations of career development, monetary reward and work life balance.



Women in Consulting

The recruitment, [retention and promotion of women](#) is recognised as one of the biggest issues for management consulting firms. [Five large consulting firms](#) have recently joined forces in an initiative to understand the issues posed by gender diversity in the management consulting profession. We were keen to hear the views of the small and mid-sized firms.

Approximately half the firms questioned were proactively seeking to attract and retain women: the other half either didn't recognise this as a problem or did but thought there was little they could do to make the working environment more female friendly.

- Attracting and retaining women in consulting is not a problem which is specific to working mothers. Whilst it is one factor, it is worth noting that some of the work-life balance issues which discourage senior women from remaining in consulting also apply to men and to the Millennial generation, of both sexes.
- Having few or no women in the firm led more than one firm to suggest they therefore didn't have a problem!

Several firms felt that their smaller size allowed them much greater flexibility to accommodate the needs of working mothers.

A comment was made by one respondent that:

"Once we have women on board we work very hard to keep them happy and are very pro flexible working. Good women are rarely on the market as they tend to stay loyal to firms who treat them well."

There are several reasons why gender balance in consultancy should be a goal. A Source for Consulting survey showed clients prefer gender balanced teams as they are seen as delivering better quality solutions, against several measures. A [McKinsey study](#) showed that diverse companies are more financially successful while a study by MIT and George Washington University found that gender-diverse teams tend to be more productive.

Furthermore, failure to attract women is to overlook a large pool of talent whilst the failure to retain them means the loss of the considerable investment in the departing staff member as well as a reduction in headcount.



Brand Awareness

As expected this was seen as a significant challenge for small and medium sized players. Several firms commented that being a relatively small and unknown name was a hindrance in recruitment and that it was a significant concern for the business. We explored the firms' perception of the part their brand played in the ease or otherwise of recruiting. In most cases they felt the problem was only at the initial stage of attracting applicants.

One firm noted:

"We are small and relatively unknown but we do have a really strong brand. Once introduced people love the brand."

Another commented:

"Once the candidate is in the process it is not a problem at all but the attraction can be difficult."

Most firms found that once a candidate was in the process they were very positive.

"It is easy once people are in the door. We have a distinct message we find people warm to easily."

Several respondents stated that this was an area where agencies were able to make a difference in the role of [brand ambassador](#) and this was supported by evidence from our survey. We found that the firms who expressed the most concern about the challenges of brand recognition in the recruitment process were those who relied exclusively on referrals and direct recruitment.

Brand is a crucial factor in recruitment:

- Employer brand must be compelling enough to attract applicants.
- A strong brand is perceived by prospective employees as a future asset on a CV.

Executive recruitment firms are experts in 'selling' smaller and less well known firms to good candidates who may not have considered the career opportunities such employers can offer.



Candidate Experience

Finally, as mentioned above, when questioned about candidate experience, almost all firms felt it was something they were good at. Being totally within the firm's control, this is perhaps not surprising. All felt they got good buy-in from candidates and positive feedback on the process.

Prism's observation is that this view of the candidate experience is overly optimistic. It is not often as positive as these responses suggest and may understandably be skewed to reflect the feedback of the successful candidate.

Nevertheless, this is one area where small and medium sized management consultancy firms can really excel: they have the flexibility to ensure a candidate has a very positive experience. By paying as much attention to the candidate who is not offered a job they can ensure even the unsuccessful candidate can be a positive brand ambassador.

Scalability

Scalability of hiring in response to business demand will always be more challenging in a smaller organisation and this was borne out by the cohort, three quarters of whom described it as a 'headache' or 'major concern'. A number of firms relied on associates, but with rapid changes in demand it was still difficult to be reactive.

One firm also noted that as a small firm:

"When we have the need we have to question whether that hire should be permanent or contract – will the need continue after the current demand is over?"

Although the "associate" business model removes the risk of consultants "on the bench", the problems with reliance on contract staff are well documented:

- Lack of a talent pipeline within the firm.
- Lower profitability/squeezed margins.
- Detrimental effect on thought leadership.
- Cultural fit may be sacrificed in favour of a swift increase in headcount.
- Associates have less company loyalty and will promote their own 'brand' rather than their employers'.
- Potentially a less attractive work environment for permanent employees.



Summary

Our survey highlighted the following key points:

- All firms participating in the survey aim to increase their headcount in 2016, but more than half had failed to hire as many people as they needed last year.
- The consultancies which were most successful in achieving their headcount targets for 2015 were those who made greatest use of executive recruitment consultancies.
- A key hurdle to recruitment for small / mid-sized firms is brand awareness and the ability to secure the initial interest of candidates. This is particularly evident with firms who rarely or never use agencies for recruitment.
- Competition from larger firms and Big 4 is in some cases driving salaries above the market rate and smaller firms find it difficult to compete.
- The attraction and retention of both Millennials and women in consultancy is a critical issue for small and mid-sized consultancies even if not all fully appreciate it. There is commonality in the reasons for this, work life balance being an obvious example.

Conclusion

There is a continuing skills shortage, which shows no sign of improving.

2016 headcounts targets, which are even more challenging than in 2015, will not be met without a significant change in the approach to recruitment and the increased reliance on direct hiring is unlikely to be successful.

A focus on the cost of agencies fails to take account of the revenue generated by the successful hire which may be delayed, or not happen at all, using other methods. This is constraining growth and profitability.

By virtue of their culture, flexibility and less bureaucratic structure there is potential for smaller firms to be at the forefront of a paradigm shift in the way consultancies accommodate their employees' expectations of career development, monetary reward and work life balance.

For further information or to discuss any aspects of this survey please contact Chris Sale, Managing Director, Prism Executive Recruitment on: 01784 898049 or csale@prismrecruitment.com

<https://prismrecruitment.co.uk/>

