HARVARD | BUSINESS | SCHOOL

9-904-071
REV: AUGUST 2, 2004

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Strategic Review at Egon Zehnder International (A)

In April 2000, Egon Zehnder International (EZI) executive committee members Claudio Fernández-Aráoz and Damien O'Brien presented to the executive committee their proposal for conducting the first formal strategic review in the firm's 36-year history. Fernández-Aráoz and O'Brien observed:

> The search industry has undergone dramatic changes in the last few years. Internally too, our leadership is transitioning to a younger generation. This is a critical point in our firm's evolution. We should review where we are and where we are going. We should acknowledge and preserve what is valuable in our firm, but we should also identify what we ought to change and how.

The other eight members of EZI's executive committee listened attentively. The environment was changing rapidly, and the organization was also evolving. But the firm had become a global giant by hewing to its principles without question. Would a strategic review weaken the firm's commitment to its business model? Or, was a change in the business model overdue?

Firm Heritage

Upon graduation from Harvard Business School (HBS) in 1956, Swiss national Egon P.S. Zehnder joined the New York office of the advertising agency McCann Erickson. Within three years, he was promoted to vice president in the agency's Geneva office. In 1959 Spencer Stuart, one of the largest search firms at the time, recruited him as international managing director with a mandate to expand the firm's practice into Europe. Zehnder set up offices for Spencer Stuart, first in Zurich, then in London, Frankfurt, and Paris.

Executive Search

Executive search consultants were retained by client organizations to identify and recruit individuals for management positions with the clients. Search firms added value through their research capabilities, market coverage, methodical approach, and ability to see beyond candidates' qualifications on paper.

Professor Ashish Nanda and Research Associate Kelley Morrell prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Executive search originated in the United States during the 1940s as an offshoot of management consulting. McKinsey & Co. and Booz Allen & Hamilton consultants often urged changes or additions to management as part of their recommendations. Their client firms often sought help to identify and recruit individuals for these positions. Several management consulting and accounting firms opened executive recruitment divisions. Soon, however, consulting firms realized that they could not offer both consulting and executive search services because of conflict-of-interest considerations. This led to the development of executive search businesses as independent firms. Most of the eight largest executive search firms in the world had been founded during the late 1940s. Four were started by McKinsey and Booz Allen alumni, and two by alumni of large accounting firms.

Building a European Search Firm

In 1964, Zehnder started his own search firm, Egon Zehnder International (EZI), in response to what he perceived as the unique values and needs of the European business community. When he began offering the service, however, Zehnder ran into intense resistance. The concept of executive search was alien to the European labor market. During the first few years of the firm's existence, when he tried to recruit executives, he would receive threatening letters from the companies that employed the executives. But Zehnder was confident that "if we behaved discreetly and professionally, search would eventually be accepted in Europe."[1]

One of Zehnder's early supporters and advisers was McKinsey partner Al McDonald. "Al had been my roommate at HBS," Zehnder recalled.

> Our friendship had continued through the years. In 1964, as head of McKinsey's Zurich office, Al generously offered to recommend my firm to his clients, but only if I strictly followed specific principles. Al told me, "Egon, there are tenets that you must follow to be a professional. Only if you follow these will I recommend you to our clients. If you compromise on any of these even once, I will never recommend you again." I promised to follow those tenets. They have remained with me to this day and have developed into our firm's values.

Zehnder recited the seven values of EZI:

> First and foremost, we believe that clients come first in everything that we do. The firm comes second. Professionals come third.
>
> Second, we vow to follow a professional approach to executive search. We charge our clients a fixed fee based on value, complexity, and geographic scope. We do not accept contingency commissions, and our fees are not calculated as a percentage of the placements' income.
>
> Third, we operate as one firm, rather than as a collection of distinct profit centers. We believe in collective impact and the strength of the firm as a whole.
>
> Fourth, we believe in adherence to the highest ethical standards. We maintain the strictest confidentiality with both clients and candidates and vow to act in a simple, fair, and honest manner.
>
> Fifth, the firm is owned wholly and equally by the partners. This includes, but is not limited to, not having firm outsiders serve on our board.
>
> Sixth, we vow to nurture an environment that is highly attractive to true professionals who have excelled in their past careers. Our recruiting standards are the highest in the field.

> Last, though not the least, we believe that our consultants should have a lifelong career within our firm. It may be very difficult to get in, but once you get in there is no up-or-out.

Organic Growth

As the firm built its clientele, it grew geographically. "I am not a planner or an intellectual; I am a doer," Zehnder explained. "We had no grand vision of how we should grow. We didn't follow any grand strategy in opening our offices. Client needs drove our strategy. When we needed help with more work, we opened another office." Cash from operations was used to finance growth without recourse to debt. Initial growth was slow. "It took us a good decade to begin gaining sufficient momentum of reinvesting our modest capital to begin increasing our geographic coverage," reflected Zehnder. The firm relied on organic growth, depending on its existing partners to lead new office expansion, rather than acquiring local firms.[a] (See **Exhibit 1** for EZI's revenues across geographic areas in 1996 and 2000. **Exhibit 2** lists EZI's worldwide office locations and distribution of consultants across offices.)

Operating as an Equal Partnership

Till 1978, Zehnder owned more than half the firm's equity. A few of the senior partners together owned 40%, newer partners less than 10%. Recognizing that to retain the best talent he needed to give his partners a larger ownership stake in the firm, Zehnder sold his firm to his partners. In 1978, the firm was converted into a corporation. All partners, including Zehnder, were given equal equity stake and one vote each in partners' meetings.[b] "As a result of this shift in ownership, the partners assumed the full character of equals in voice," Zehnder observed subsequently.[2]

Becoming "Truly Global"

An important decision point related to the firm's expansion came in the late 1980s. "The partnership engaged in a spirited debate on whether EZI should expand its presence in the United States from a tiny base into a large-scale operation," recalled Zehnder.

> One of our executive committee members insisted that we not do so because the United States was too big and too complex a market. He argued that the American clients would trust only American search firms. I violently disagreed with him. He left EZI because of this dispute. But I truly believed that the only way to be a successful global firm was by having a strong U.S. presence. Our clients were telling us that we had to have a credible presence in the U.S.

EZI invested in the United States, opening offices and hiring professionals, hoping that American business would pick up. "We got some business from American subsidiaries of European firms, but work was slow in coming from U.S.-based firms," remembered Zehnder. "Eventually, a few months after we had entered, we were recruited to look for a CFO and three board members for one of the 10 largest organizations in the U.S. We had arrived."

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[a] Exceptions to this rule were an unsuccessful venture with the U.S. search firm of William Clark & Associates in 1987 and the successful acquisitions of the Canadian firm J. Robert Swindler Inc. in 1989 as well as the operation in India in 1998.

[b] To assure Zehnder that he could block "any drastic deviation from our fundamental principles," he was granted super-voting shares that could be used to veto major strategic changes.

Succession

In 1992, Zehnder named Dan Meiland his successor as CEO. "Dan was hired in 1978, and we became very close friends," observed Zehnder. "For any partner meeting address, or any major decision, I would check first with Dan." Meiland reminisced:

> I have been close to Egon for a long time. For several years now, everything that I have done, I have discussed with Egon. He is my mentor, and I cherish his advice. We are very close personal friends and talk every week. In 1980, just two years after I had joined the firm, he told me, "Dan, I want to share with you something in confidence. You are going to take over the leadership of this firm after me." In 1992, he named me CEO.

"The easiest time for me in the firm was when I was appointed CEO and Egon was chairman," recalled Meiland. "If people questioned me, then they would have to question Egon as well." In 1996, Meiland assumed the role of chairman. "The transition process between us was so easy," said Zehnder. "Dan had already assumed the responsibilities of chairman and CEO well before we announced the transition officially. The 1996 announcement simply acknowledged the transition and changed titles."

Entering the Twenty-First Century with New Aspirations and Old Values

At the 1999 partners' meetings, Zehnder shared his dream for the firm:

> A preoccupation of mine for the past 35 years has been the desire for the firm to be an ongoing, constantly growing, dynamic perpetual institution long after we are all gone. This dream has governed much of my thinking and has shaped our key policies and contracts as a partnership. . . . [A] commercial enterprise, like a human life, is a fragile entity. The average life span of a corporation is only 36 years, about the length of a person's business career. . . . How we deal with change differentiates top performers from the laggards. But first we must know what should never change. We must grasp the difference between timeless principles and daily practices. It is well and good to change our daily practices but never our principles, our fundamentals, which have made this firm so successful![3]

By 2000 EZI had grown into a global executive search firm with more than 300 management consultants in 58 offices, recognized as one of the top five global executive search firms, along with Korn/Ferry International, Russell Reynolds Associates, Heidrick & Struggles, and Spencer Stuart. (See **Exhibit 3** for EZI's and its four major competitors' revenues and consultants.)

Zehnder noted with pride:

> Thomas Jefferson once said, "In matters of style, swim with the current; in matters of principle, stand like a rock." We at EZI must remind ourselves often of our priceless values, since one of the greatest threats to any ongoing enterprise is loss of institutional memory. As new partners arrive in this group, as leadership posts shift, and as new challenges are being faced, it is critical that we pass on thoroughly and carefully the substance of these inner strengths of our firm since they are essential foundation blocks for accomplishing the extraordinary goals of global leadership that lie ahead for us. Through the past four decades, we have stayed true to the three core pillars that underlie our firm's success. Our firm's great strengths revolve around our professional foundation of always putting the client first, our reputation for quality in all we do, and our unique partnership spirit.

EZI's "Three Core Pillars"

Zehnder elucidated the three main tenets that he characterized as EZI's defining distinctions:

> The cornerstone of our professional foundation has always been and will always be "*clients first*." If we ever lose that focus and put the firm ahead of clients or foolishly put ourselves individually ahead of either the well-being of the firm or of our clients, then we will be taking the first step along the decline that soon accelerates out of control for most human organizations that lose their way.
>
> The second inner strength of this firm is our *reputation for quality*. This reputation has been steadily built, stone upon stone, over many demanding years. Few assets are worth more, and few assets are more fragile, than reputation. A single client engagement done with below-average work can damage our reputation irreparably. Quite apart from building firm reputation, successfully finishing a client engagement that we know is superior in every way provides the greatest personal satisfaction that we can get from our work. The personal elation we feel upon delivering superior results is a form of compensation that exceeds any material gain. A job well done is its own greatest reward.
>
> The third inner strength of our firm is *our partnership*. Partnership is a relationship like few others in life. Partnership involves feeling part and parcel of a very special group. It means having a positive attitude toward other members and toward the group's common goals. It implies having consideration for others beyond the normal expectations of colleagues in corporate environments. We work as a team—sometimes even with contradictory talents—but always with a sincere appreciation of the diversity that makes the whole of our entity worth more than simply the sum of our individual parts. Our partnership spirit tolerates and forgives occasional sins that a colleague may have committed in the laudable intention to serve clients better.[4]

Clients First

"Clients' interests *always* come first with us," Zehnder emphasized. "After their interests are served, we can then think about the firm. If all goes well on those two priority fronts, we are personally well served." (See **Exhibit 4** for a breakdown of EZI's clients by industry.)

One of the key aspects of the firm's clients-first approach was its distinctive fixed-fee policy, which stood in contrast to the industry pricing policy. Most of EZI's competitors were paid on a contingency basis. "Headhunters" lived up to their nickname by operating on a bounty system, the successful recruiters receiving a proportion of the salary of the post, usually 33% of the candidates' expected annual compensation.

"I never liked the American system, where you were paid a percentage of the current salary of the person you were searching for and only got paid if you found someone the client hired," Zehnder reflected. "That created a pressure to only 'find' people who would demand the highest salary, whether or not they happened to be the most qualified, so you would get the biggest fee. At EZI, we charge a flat fee agreed to in advance for our searches."[5]

In 1976, EZI's CFO criticized the firm's approach of charging fixed fees as too rigid and sought to bring it in line with the approach followed by U.S.-based search firms. "He was brilliant—the firm's CFO, head of the Brussels office, and a fellow HBS graduate," Zehnder recalled.

He was brilliant. He was convinced that our billing system was outdated. But I vehemently disagreed with him. I believed we had to stick with our fixed-fee approach; otherwise, our interests would clash with the interests of our clients. Convinced that I was wrong, he broke away with another executive partner to form his own firm. That firm no longer exists.

EZI's fees were typically higher than its competitors', but occasionally, in searches for top executives, they might be lower. Indeed, some in the firm felt that EZI often "left money on the table" in top-executive searches. "Our fee is calculated according to both the importance of the position and our best estimate of the difficulty of the work involved," explained Zehnder.

We look, for instance, at whether the industry is new to the country of search, at the number of companies we can go to in order to find candidates for our client, and at the language skills candidates will need. We don't always get it right, of course. Often we find ourselves undercharging because the job has proved more complex than it first seemed. But our clients appreciate the efforts we make on their behalf. They recognize that our flat fee encourages EZI to find the right candidates—people who will stay and be productive over the long term—rather than the most expensive ones. So, even if some searches are more challenging compared to the fee we might have charged for them, our clients will probably come back to us in the future with other assignments that will prove simpler than they first appear; when all is said and done, that will leave us even.

Each consultant was expected to conduct an average of 12 searches per year. Average billings per search ranged from $60,000 to $120,000. Two consultants were assigned to each search, one taking the lead and the other acting as backup. Working in tandem assured clients that there would always be a consultant with whom to talk. Moreover, this approach prevented consultants from operating as individual practitioners (see **Exhibit 5** for EZI's consulting approach).[6]

Although expected to place client companies and candidates off-limits for some time after completion of the searches, search firms often found novel ways to minimize or squeeze out of such commitments. At the other end of the spectrum was EZI, which put candidates off-limits as long as they stayed with their client organizations and kept clients off-limits for three years after search completion. EZI consultants who had placed candidates loyally remained in contact with the candidates well after placement.[7]

Speaking at the 1999 partners' retreat, Zehnder emphasized the importance of client service:

Each new search is a critical step in nourishing our client relationships. Only one false step can wipe out a flow of new assignments that have taken years of careful attention to build up. Let us never overestimate how well any client likes us personally. Remember that, individually, and as a firm, our popularity will be only so strong as the level of the client's satisfaction with our last search. Each search is a new challenge to our client relationship and, therefore, to our leadership position in our field. As we grow and become better known, client expectations naturally rise. They are constantly evaluating all we do, how we behave, how well we respond, and how sensitive we are to their every thought and indication. Client first, client first, client first and foremost—*always, everywhere, every day*. Remember that we are constantly being compared with others who spend sleepless nights thinking up ways to unseat us or to squeeze out a trial opportunity with our prestigious clients. Only with superb client attention and the finest-quality client service can we prevent them from gaining even a minuscule window of opportunity.[8]

Character

"Character in our firm and with each of our partners is fundamental to our success and continued prosperity," Zehnder emphasized. Zehnder quoted the French historian and social observer Alexis de Tocqueville's observation that personal character constituted "the habits of the heart" to describe character as "a consistent pattern that constantly recurs, expressing who we are by what we do. No single act or statement shapes our character," he added. "It is an active part of every aspect of our daily lives. For us at EZI, having character simply means that we do nothing either as a firm, or as individuals, that is unethical, immoral, or illegal. To do so violates our character and the deep trust in us by our families, our partners, and by our clients."

The One-Firm Partnership Concept

At the 1999 partnership meeting in San Francisco Zehnder clarified the importance of operating as a one-firm partnership with the help of an analogy:

> Our working relationship and interdependence mirrors in a small way the great Redwood Sequoia National Forests that dominate the skyline in San Francisco. There you will find the largest, longest-living entities known to man. One of these great trees, called the General Sherman Tree, has a trunk some 12 meters across, rising almost 30 stories high. It was a small sapling 1,550 years ago. That same vital living tree that we can see today still grows, though with only one tiny additional ring accumulating in four decades.
>
> Yet surprisingly enough, these giant trees have very shallow roots. The secret of their great strength is that these roots reach out aggressively to other roots all around them. They become heavily entangled with the root structures of other giant trees in this forest for reinforced strength that extends for acres. So, their base is a shallow, wide, but powerful set of interconnects spreading constantly well beyond their individual beings.
>
> Such is our aim for this partnership. May we have the wisdom to emulate these great trees, become intertwined in substance and purpose with our 122 partners, and grow stronger with the conviction that this firm can become a continuing institution, outliving by generations all of our competitors who lack our tightly woven, one-firm partnership roots.[9]

EZI's one-firm culture was exemplified by the partnership structure of the firm. The firm, with its 122 partners, 200 nonpartner consultants, and 240 researchers (typically young university graduates) operating from 58 offices in 39 countries, was organized as a single profit-center partnership. All offices were fully owned by the partnership.

Because of the spirit of equal partnership, Zehnder averred, "we have one of the most horizontal organizations one can imagine for a global enterprise with a minimum of coordination and leadership at the top. Even that leadership from the top has predominantly been one of persuasion and encouragement, normally reflecting the evolving consensus among our partners concerning the routes to progress we at EZI should follow."[10] The central administrative staff reporting to the CEO consisted of a controller, an accountant, and a secretary. The 39 office managers reported directly to the CEO. Operating as a single unit made of 39 nationalities and a kaleidoscope of different cultural traditions was an immense challenge. "This is why we need to remind ourselves constantly of the spirit of partnership and what it means," observed Zehnder.

> Without this spirit of partnership, we could not embrace collaboration across boundaries, which distinguishes us from every other firm in our field. Our spirit of partnership seeks what is the greatest good for all. The cornerstone of our partnership spirit is the goodwill we hold

> for each other. Partnership consists in forgetting what one gives and remembering what one receives. Partnership embraces our intense desire to work together productively, to encourage our colleagues around us, and to perform individually in ways that give them honor and glory even more than ourselves.[11]

Partner Victor Loewenstein explained how EZI's one-firm approach had helped him access the firm's global resources to locate a candidate for a World Bank vice presidency. He was told to search globally for an individual with sophisticated financial expertise, and because the World Bank was trying to diversify its pool of professionals, preferably not an American, a nationality overrepresented at the bank. But Loewenstein was planted squarely in the midtown Manhattan office of EZI New York. Undaunted, Loewenstein sent a memo to "20 different offices in the countries most likely to have pools of people with the required high level of expertise in finance—mostly in Europe, but also in Hong Kong, Japan, Singapore, and Australia." With the field winnowed to six, he crisscrossed the globe to visit the candidates and evaluate the fit between the candidates' personalities and the World Bank work environment. The ultimate choice, from the Netherlands, was a senior partner of a major audit firm. Loewenstein observed that had he been on his own, he might well have never found the candidate eventually selected. But by calling on EZI's worldwide web of connections, the search had succeeded.[12]

"Our partnership reminds me of the beauty, daring and precision of a team of top trapeze artists," said Zehnder.

> We have all held our breath and marveled when watching them perform at the circus. From high on one side of the tent a figure grasps an enormous swing and sails out into the space below. From the other side of the tent another figure swoops down to meet him. At a precise moment one turns loose, does a flip or turn, and is amazingly caught by the partner on the other swing. One after another the scene is repeated. Occasionally, we are thrilled to see two at the same time—hanging momentarily in mid-air—until they clasp the outstretched arms of a partner hanging on the swing by his legs. That is the spirit of partnership we seek.[13]

Partners met twice every year for two days, each time in a different city. Firmwide conferences, held every two to three years, brought together all consultants and spouses. Through formal and informal discussions at these meetings, future direction of the firm was charted. Zehnder explained, "Our destiny and our future depend on our leaving these partners' meetings with a renewed spirit of partnership, with a renewed dedication to our principles, and with an appreciation of the diversity of intelligence that we embrace."[14]

EZI's professionals often contrasted the firm's collegial approach to the more individualistic approach of many of its competitors. One executive at a competitor search firm observed:

> I hoard my information and contacts, because I get compensated on the basis of my listings. If I find a hot candidate in the course of a search for one position, I tuck that name away to keep it for myself for another search instead of sharing it with a colleague. I don't even know if I'll be working with the same company in another year—why should I give away all my resources?[15]

People Strategy at EZI

Underlying EZI's unique organization and work environment was its approach to rewarding and recruiting its professionals.

Compensation

EZI followed a partner compensation system, unique to the search industry, of distributing profits on a "lockstep" basis—depending only on the firm's worldwide profits and seniority. EZI partner compensation had three constituents: salary, equity stake in EZI, and profit shares. No records were kept on individual performance, and no commissions or performance-based bonuses were paid. Some variation in partner salaries was allowed across countries because of variations in the cost of living, but the distribution of equity and profits among the partners was consistent across the whole firm. All partners owned equal shares in the firm's equity, irrespective of individual performance, tenure, or geography. The shares rose in value each year because EZI reinvested 10% to 20% of profits back into the firm. Upon retirement, partners sold back to the firm their shares at existing economic value. Of the profit that remained after setting aside 10% to 20% for reinvestment into the firm, 60% was divided equally among all partners, and the remaining 40% was allocated strictly according to years of seniority. (See **Exhibit 6** for an illustration of EZI's compensation system.)

Zehnder explained how EZI's compensation system fit with the types of behavior the firm wanted to promote among its professionals:

> First, our approach to compensation forces us to hire consultants who have little interest in self-aggrandizement. We must hire people who are team players, people who get more pleasure from the group's success than their own advancement. These individuals by nature tend to be highly collaborative. They eagerly share information and ideas about existing and potential clients. Similarly, they pass around information about the executives who might best meet a client's needs. Second, our seniority-based system requires us to find people who want to stay with a company for the long haul. . . . Nothing benefits a client and its executive search firm more than a consultant with a well-developed network of executive contacts and a finely honed intuition.[16]

The seniority principle did not extend to consultants who were not yet partners because "they [were] still proving their partnership qualifications on many levels," according to Zehnder.[17] Pre-partner professionals received annual bonuses based on how well they supported their colleagues and how they contributed to the firm's reputation. However, Zehnder cautioned, "The performance we are measuring is not at all financial. For instance, if a consultant has published an article in a reputable business journal, it is marked to her credit because the contribution has benefited the Egon Zehnder reputation. At EZI, a consultant's annual bonus has nothing to do with the billings she has been associated with and everything to do with how partner-like she has proved herself to be over the year."[18]

Zehnder believed that transparency and ease of managing were two big positives of the firm's compensation system. "By contrast, my close friend is a senior partner at a large international law firm," he remarked. "He tells me that his firm has hardly any time for client work during the last month of the year because people are too busy deciding who gets how much bonus for which client. They have to work out who referred which project to whom and who developed and contributed to each project. How awful! They're not working for clients anymore—they're working for the compensation system."[19]

Recruitment and Retention

Zehnder emphasized the importance of recruiting for the firm: "Life must breed. Any organization aspiring to a bright future must continue to grow and innovate. Whenever we recruit for this firm . . . we are naturally looking for growth. But we are also attempting to select those who have already shown their ability to survive and contribute significantly to society and to the advancement of our practice."[20]

For all its offices, EZI aimed to recruit and promote local talent. All of EZI's recruits had significant business or consulting careers prior to joining EZI. The firm did not recruit from its competitors. "Other search firms come to our professionals and ask them to leave, but we don't buy rolodexes," noted Meiland.[21] The majority of EZI's consultants came from line management or management consulting backgrounds. All EZI consultants had postgraduate qualifications, such as MBAs and Ph.Ds. Many were multilingual and multicultural, having worked or studied in several countries.[22] "We couldn't have inexperienced, young people facing prestigious clients," observed Zehnder. "They needed a record of experience to have standing and credibility in front of clients. All our recruits needed to be seasoned with three to five years of experience, with McKinsey, if possible." During the 1980s, EZI was among the most popular destinations for ex-McKinsey consultants. In 1999, 50 out of its 270 consultants were McKinsey alumni.[23] (See **Exhibit 7** for data on EZI's consultants.)

Candidates underwent between 25 and 40 interviews at five of the firm's international sites. If two of the interviewers expressed doubts about a potential candidate, no offer would be made. Typically, only 10% of candidates successfully made it through the interviews.

Partners who met with prospective consultants evaluated them on four dimensions. These included:

- *Cognitive abilities:* problem solving, logical reasoning, and analytic capability
- *Building working relations:* being a team player; having self-confidence, presence, and style; being empathetic and a good listener; having the ability to sell an idea; having maturity and integrity
- *Getting things done:* being a self-starter, with drive, energy, and a sense of urgency that gets results; showing judgment and common sense; being independent, entrepreneurial, and imaginative; having leadership potential
- *Personal fit:* having the qualities of a friend, colleague, and partner; being honest and adhering to one's values; being motivated; being sociable, with "sparkle" and a sense of humor; being modest; having a full personal life and outside interests; understanding the firm and its values[24]

When he was CEO, Zehnder interviewed every individual who eventually joined the firm. "I want to make sure that everybody we hire is better than I am, in some way more intelligent,"[25] he explained. Zehnder disclosed his approach to interviewing prospective consultants:

> Although there are probably few "experts" who would recommend it, I ask very personal questions when I interview people. If an applicant is married, for instance, I might ask her how she met her husband and why she decided to marry him. I ask these questions partly because they are the only ones left to ask—my colleagues have already asked all the technical and professional questions. But I also ask them because the answers to personal questions can often tell me what a person's values are and how he or she makes important choices.
>
> There are no right or wrong answers to my questions, and people can give totally different answers to the ones I would give. And I'm not looking for demonstrations of intellectual brilliance—my colleagues have already done that. What I am looking for is integrity. I want answers that make me feel that the person is warm, honest, and sincere. Those qualities are

> very important in a collaborative partnership like EZI. I want to look inside a person as deeply as I can because that person may well be in the firm for the rest of his or her professional life.[26]

EZI was committed to its professionals over the long run. Ninety percent of consultants hired were invited into the partnership. The firm considered it a failure when a consultant did not make partner. In its 36 years of operation, EZI had yet to close an office. During the 1992 global economic slowdown, for example, some smaller offices were underperforming, but the firm kept them going, in contrast to several other executive search firms.

Professionals responded to the firm's commitment with loyalty. EZI's turnover was well below that of its competitors. In 1998, of the 390 consultants who had ever joined EZI, 233 were still employed with the firm, implying an average turnover rate of below 2% per year over 33 years, compared with an industry average of 30% per annum.[27] (See **Exhibit 8** for data on EZI's retention, hiring, promotion, and turnover rates.) Meiland remarked: "So how do we keep our people? People here say, 'This is the nicest firm I could be with. I have a good feeling here.' It's safe here and people know it."[28]

The Changing Environment

The late 1990s brought a number of changes to both the external and internal environments of EZI. The Internet's growth had triggered a new wave of competition, causing some within EZI to question the firm's high-touch approach. Job-placement sites such as Monster.com had grown quickly into viable businesses for matching candidates with jobs. In 1999 Zehnder had minimized the threat that EZI faced from such organizations:

> Websites are extolling the virtues of searching quickly across vast audiences of individuals to fill middle, higher middle and lower level jobs. Undoubtedly, these approaches will become increasingly important to companies needing a large number of specific skills at moderate to lower levels in the organization. The main exceptions will concern those very few high talents near the top or at the top of the executive or board ladder. Fortunately, we are not just looking for bodies of standard skills to fill knowledge worker positions. Instead, our forte is to carefully identify, screen, persuade, and propose those rare individuals who, in the right roles, can help to reorient, revitalize, and reinforce the strong leadership of our client enterprises. Volume is not our prime objective! Quality is foremost with us![29]

"We can't ignore what's going on," one partner challenged. "To say 'We are not affected by these developments' implies that all our searches at EZI are so high level and sensitive that they will not be affected at all by the Internet. This is just not the case."[30] Spencer Stuart and Russell Reynolds had begun offering Internet-based searches and maintaining online databases to connect clients to candidates for senior positions. "A number of our partners were looking enviously at what Heidrick and Struggles, Korn/Ferry, and Spencer Stuart had done with the Internet," remarked EZI executive committee member John Grumbar. "They were worried that we might be falling behind in the Internet race." (**Exhibit 9** lists what competitors were doing with the Internet, circa 2000.)

Additionally, EZI's competitors had begun to expand aggressively into Europe, often by entering into high-profile mergers with boutique search firms. In 1999, both Heidrick and Struggles and Korn/Ferry conducted initial public offerings, giving them access to capital markets. Zehnder saw the mergers and public ownership as a weakness. "Our major competitors are now under enormous pressures to expand," he exulted.

> Their new business associates, for those who have merged, are expecting—because they have been promised—far more income than the status quo. For those search firms that have gone public, they are really under the gun to produce higher profit rates than ever, not for their clients, but for themselves. So far, their stock performances have been disappointing, only making their shareholders even more aggressive in demanding higher profits from their consultants. So, they have to go for volume—perhaps to our advantage, as they must become even more commercial and less professional, further distinguishing our firm.[31]

Not all EZI partners felt as comfortable as Zehnder. Some saw the American firms, with their deep pockets and growth ambitions, eating into EZI's core European markets and increasing their dominance in the American market. "The American firms were investing aggressively in growth," observed Grumbar. "Heidrick and Korn/Ferry had access to the significant capital they had raised in their public offerings. We couldn't grow as fast as the American firms. We were a partnership. We were slower, much more deliberate in terms of growth." Meanwhile, EZI's U.S. practice was floundering as it lost professionals to competitors and start-ups that were targeting EZI. Marc Schappell, head of EZI's New York practice, recalled: "When I joined in 1985, there were only 12 consultants in EZI's entire U.S. practice. In the mid-1990s, the U.S. economy was flying and competition among search firms had intensified. We knew that, to be taken seriously, EZI needed to have 100 consultants in the U.S. practice. Such an expansion would place tremendous investment demand on the firm."

Internally, Zehnder announced that he would retire from the firm in June 2000, triggering concern about the firm's future. Meiland was also contemplating shifting his CEO responsibilities to an executive from the next generation. The demographic composition of the firm was changing, and to reflect the changes, its executive committee was being infused with "young blood."

The Strategic Review Proposal

In February 2000, four EZI partners—Claudio Fernández-Aráoz from the Buenos Aires office, Damien O'Brien from the Sydney office, Mark Hoenig from the Zürich office, and Phil Vivian from the London office—attended a week-long executive education program at Harvard Business School on Leading Professional Services Firms. (Three of these four were executive committee members. **Exhibit 10** provides brief biographical sketches of some of the executive committee members.) "The program was very comforting to me because I was able to see that some features that we had thought were unique to our firm, and were criticized by our competitors, also existed in leading firms in other professions," Fernández-Aráoz recollected. But the program also raised concern among the EZI participants that the firm must not sit back on its oars and must proactively adapt to changes. Observed Fernández-Aráoz:

> The session that had a particularly strong impact on all of us was the one on managing change. The professor emphasized the importance of having a high *D*, dissatisfaction with the current situation, for organizational change to be effective. Later that day, as the EZI partners reflected on the sessions, we all shared the concern that the firm's *D* might be too low. Although EZI was doing very well—having experienced nine straight years of double-digit growth—we were concerned that, ironically, our success might be clouding our future. We were worried that the firm was doing so well that we might not have enough motivation to understand and adjust to the ongoing changes.

"We felt that we were approaching an inflection point in the history of the firm," added O'Brien, "and so, we should reexamine carefully the direction of the firm. A worrisome generation gap was also emerging. The younger consultants especially were feeling unsettled by the market changes. They were concerned that the older consultants were not paying much attention to these changes."

The idea of conducting a strategic review began to take shape. Not all four partners were convinced immediately about the need for a strategic review. "Perhaps, because I am one of the more traditional members on the executive committee, I bought into the strategic review only after a while," Hoenig explained. "I may have been fearful of what the process might unleash, or concerned that we were being too hard on ourselves to think that we needed a strategic review." But Fernández-Aráoz, O'Brien, and Vivian persuaded Hoenig that conducting a strategic review at that time would be worthwhile.

When Fernández-Aráoz and O'Brien presented the idea of conducting a strategic review to Meiland, he was lukewarm to the idea. "I have maintained always that strategy is not relevant to professional service firms," Meiland reflected.

> I believe that we just needed to hire the smartest people, allow them to do the best possible job for clients, and everything else falls into place. I was skeptical of walking blindly down a path that could throw all the balls in the air and could lead to a complete revamping of the inner workings, values, and ideals of the firm. The firm was too precious to risk changing everything. But Claudio and Damien coaxed me into presenting the idea of the strategic review to the executive committee.

In April 2000 Fernández-Aráoz and O'Brien presented the idea of a strategic review to the EZI executive committee. They were peppered by questions from the other executive committee members. Who should conduct the review? What should be the mandate of the strategic review team? How should the process be communicated to the partnership? How long should the review process last?

Exhibit 1 EZI Revenues, 1996–2000

	1996 Revenues		2000 Revenues		Annual % Change
Geographic Area	**(US$m)**	**(% of Total)**	**(US$m)**	**(% of Total)**	**(1996–2000)**
Emerging Europe	6	4%	11	3%	16%
South America	11	7%	19	6%	15%
Asia Pacific	21	13%	40	13%	17%
North America	31	19%	74	23%	24%
Western Europe	95	58%	175	55%	17%
Total	**164**	**100%**	**319**	**100%**	**18%**

Source: EZI.

Exhibit 2 EZI Worldwide Office Locations and Consultants Across Offices

		Consultants in Office (2004)		
Year Opened	**Office**	**Partners**	**Non-Partners**	**Total**
1964	Zurich	7	3	10
1968	Brussels	4	4	8
1968	Paris	7	7	14
1969	Copenhagen	10	4	14
1970	London	17	10	27
1971	Milan	5	8	13
1971	Tokyo	5	6	11
1973	Dusseldorf	3	2	5
1973	Madrid	2	3	5
1973	Melbourne	2	1	3
1975	Sao Paulo	3	2	5
1977	New York	7	6	13
1979	Sydney	3	3	6
1979	Amsterdam	7	3	10
1980	Geneva	3	1	4
1981	Frankfurt	2	4	6
1981	Chicago	5	3	8
1981	Singapore	3	4	7
1982	Atlanta	1	2	3
1982	Mexico City	2	2	4
1985	Buenos Aires	3	1	4
1986	Hamburg	3	4	7
1986	Hong Kong	3	5	8
1987	Helsinki	0	3	3
1987	Munich	5	3	8
1988	Vienna	3	2	5
1988	Barcelona	1	2	3

		Consultants in Office (2004)		
Year Opened	**Office**	**Partners**	**Non-Partners**	**Total**
1989	Lyon	1	0	1
1989	Montreal	3	1	4
1989	Toronto	5	2	7
1989	Lisbon	2	2	4
1991	Berlin	4	4	8
1991	Istanbul	0	2	2
1992	Budapest	0	2	2
1993	Athens	2	1	3
1995	Prague	1	2	3
1995	Warsaw	1	1	2
1995	Shanghai	0	1	1
1995	New Delhi	3	0	3
1996	Moscow	1	2	3
1997	Mumbai	0	3	3
1997	Jakarta	1	1	2
1998	Boston	2	2	4
1998	Palo Alto	3	4	7
1998	Santiago de Chile	2	0	2
1998	Bogotá	0	1	1
1999	Jeddah	0	1	1
2000	Dallas	0	4	4
2000	Miami	1	2	3
2001	Stuttgart	0	3	3
2002	Seoul	0	1	1
Total	**51 offices**	**148**	**140**	**288**

Source: EZI.

Exhibit 3 Executive Search Firms' Revenues (1996–2000) and Consultants (2000)

Revenue comparison, by geography (2000)

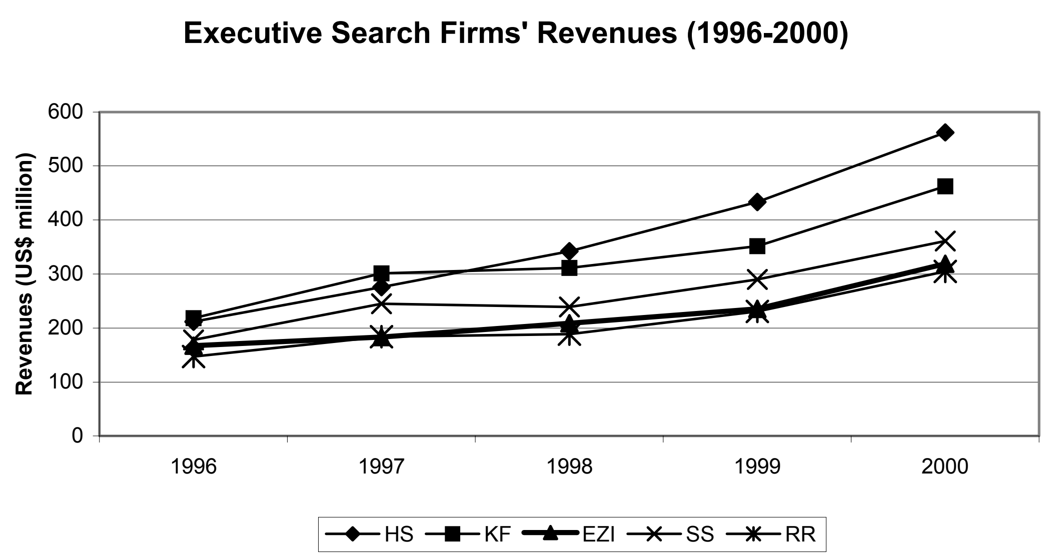
Revenue ($m)	Europe	North America	Asia Pacific	South America	Total
Heidrick & Struggles	169	342	34	17	562
Korn/Ferry	112	271	49	30	462
Spencer Stuart	124	196	26	15	361
EZI	**186**	**74**	**40**	**19**	**319**
Russell Reynolds	101	161	37	6	305

Revenue share (%)	Europe	North America	Asia Pacific	South America	Total
Heidrick & Struggles	30%	61%	6%	3%	100%
Korn/Ferry	24%	59%	11%	6%	100%
Spencer Stuart	34%	54%	8%	4%	100%
EZI	**58%**	**23%**	**13%**	**6%**	**100%**
Russell Reynolds	33%	53%	12%	2%	100%

Consultants comparison, by geography (2000)

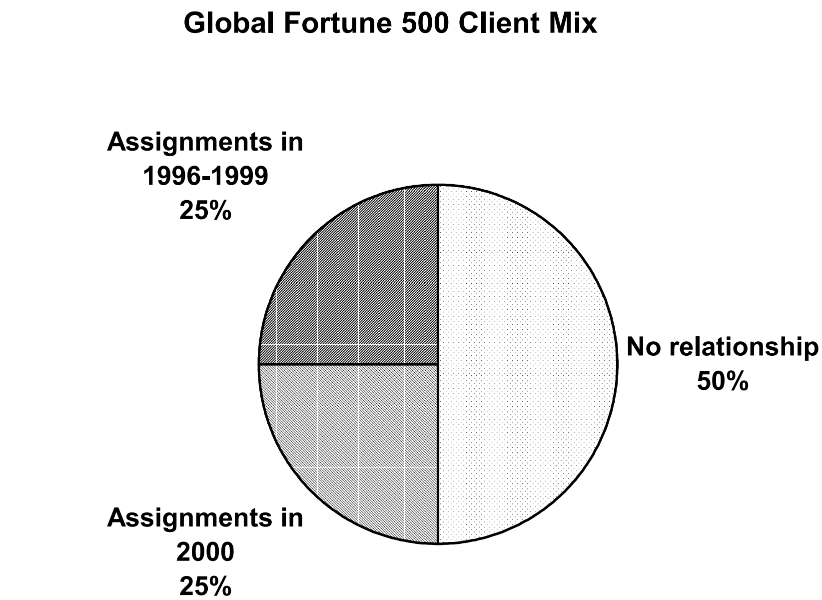
Consultants	US	Non-US	Total
Heidrick & Struggles	452	393	845
Korn/Ferry	399	387	786
Spencer Stuart	118	170	288
EZI	**58**	**234**	**292**
Russell Reynolds	132	159	291

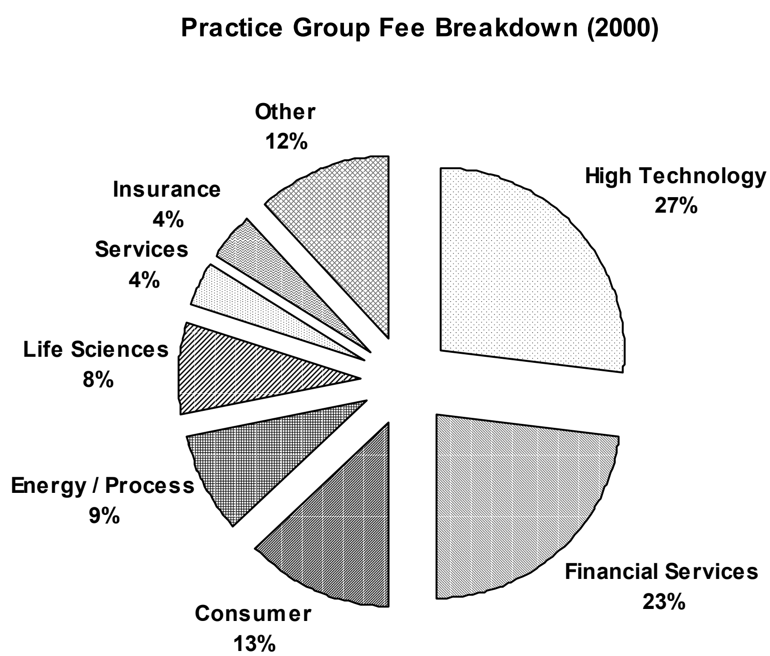
Consultants	US	Non-US	Total
Heidrick & Struggles	53%	47%	100%
Korn/Ferry	51%	49%	100%
Spencer Stuart	41%	59%	100%
EZI	**20%**	**80%**	**100%**
Russell Reynolds	45%	55%	100%



Source: EZI.

Exhibit 4 EZI Clients' Profiles, 2000





Source: EZI.

Exhibit 5 EZI's Approach to Consulting

At EZI, a typical search lasted three to five months and comprised six steps:

Understand the client's situation

To better understand the executive position to be filled, search consultants sought through research, meetings, and observations to understand as much about a client's organization and its specific needs as possible. "You must understand the specific goals the client organization has in mind for the candidate who will fill the position. You must understand the exact role to be filled, its tasks and responsibilities, and the skills and person attributes necessary," explained an EZI consultant.

Confirm proposal and specification

Consultants wrote thorough proposals including detailed descriptions of the positions to be filled and past experience and personal characteristics of an ideal candidate describing how they would approach their searches. Specifications focused on critical competencies for the role and were developed together with the client.

Conduct systematic search

Consultants conducted in-depth searches first for target companies, then for potential candidates. Their sources included industry research, internal and external databases, consultants' mental rolodexes, and their firm's contacts. A list of names was derived based on screening the "hard facts": industry-specific and functional skills, relevant achievements such as having successfully executed a turnaround of a distressed company, and other requirements such as language ability. Consultants personally contacted potential candidates and references to obtain as much input as possible on each. A consultant explained why EZI consultants made all their own calls instead of leaving that task to the research department, as competitors tended to do: "We do this for a reason. It makes us better discussion partners with our clients. We accumulate knowledge of the industry and learn about every possibility. This is especially helpful in the U.S. market, where people want to be presented with all possible alternatives."

Interview potential candidates

Consultants appraised potential candidates' "soft facts" personality, charisma, drive, and other human qualities through face-to-face interviews. A consultant's goal was to separate candidates who would likely be a good "fit" with a client's organization from those who were merely "qualifies." Comprehensive written reports of eight to 15 pages per candidate were prepared and presented to clients for review. Such reports were not the industry norm; EZI wanted its clients to feel that "we understand the problem better than anyone else does."

Present candidates and check references

EZI was the only major search firm to have a policy of attending initial meetings between clients and candidates. Observed one EZI partner: "How can you call yourself a consultant if you aren't actually there for the meetings between your client and the candidates? If you spend a day with your client locked in a room away from telephone calls and responsibilities, and meet with each candidate, and see how they interact with the client, then and only then are you prepared to offer your recommendation, should you be asked to do so."

Assist in negotiations and follow-up

Consultants assisted in negotiations with finalists. EZI also helped clients structure their offers and acted as an intermediary between the two parties. Consultants typically devoted 20% of their time to understanding a client's needs and drafting a proposal, 40% on researching potential candidates, 20% interviewing and presenting potential candidates, 10% checking references, and 10% formulating deals.

Source: Michael Yoshino, "Egon Zehnder International: Implementing Practice Groups," HBS Case No. 398-052 (Boston: Harvard Business School Publishing, 1998).

Exhibit 6 An Illustration of Partner Compensation at EZI

EZI did not divulge the compensation of its partners.[a] But the mechanism for determining partner compensation is illustrated in the following hypothetical example, which compares a one-year partner's equity increase and profit share with those of a 15-year partner.

Suppose EZI has a total of 100 partners with an accumulated seniority of 750 years, each partner has an equal number of shares in the firm, and EZI's profit after paying base salaries is $75 million. Ten percent of the profit is put back into the firm, increasing each partner's equity by one one-hundredth ($75,000) of that amount. The remaining $67.5 million is divided up. Sixty percent is apportioned equally among the partners. Each partner gets $405,000, one one-hundredth of this amount. Forty percent is allocated according to seniority. It is divided by the total number of seniority years, 750, to produce a base number, $36,000; each partner receives an amount equal to the base number multiplied by his or her seniority years. The equity returns and profit shares of the two hypothetical partners are as follows:

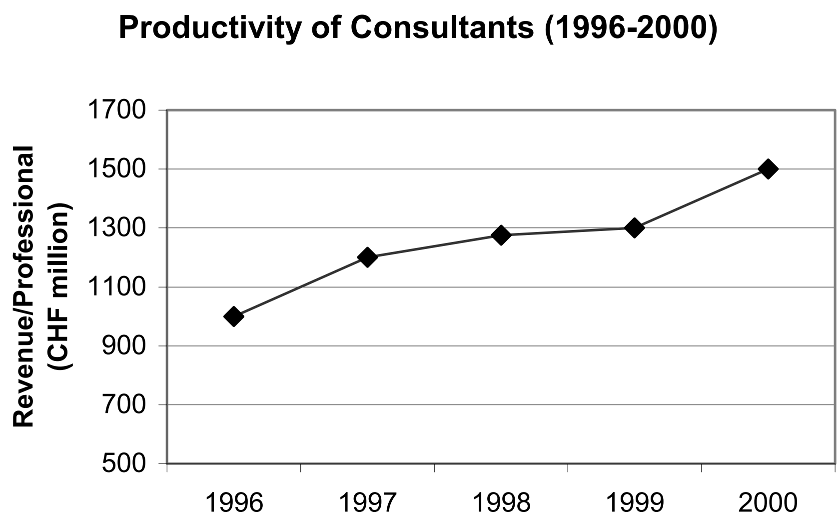
Equity increase and profit share	1-year partner	15-year partner
Increase in equity value (One one-hundredth of 10% of the $75 million profit)	$75,000	$75,000
Share of equal-profit pool (One one-hundredth of 60% of the profit remaining after 10% is put back into the firm)	$405,000	$405,000
Share of seniority pool[b] (A figure based on years of seniority)	$36,000	$540,000
Total	**$516,000**	**$1,020,000**

Source: Egon Zehnder, "A Simpler Way to Pay," *Harvard Business Review*, April 2001, Reprint No. R0104B, p. 6.

[a]In 1994, approximately $30 million in profits were shared among the firm's 80 partners, with shares ranging from 0.8% for a junior partner to 1.65% for a partner with 15 years or more experience with the company. (Timothy Devinney and Marc-Antoine Cousin, "Egon Zehnder International: Asian Expansion," Australian Graduate School of Management, University of New South Wales, 1997.)

[b]Someone who had been partner for one year had one seniority year, a two-year partner had two seniority years, and so on up to 15 years, when a cap came into effect. The pool was divided by the total number of seniority years to produce a base number; each partner received an amount equal to that number multiplied by his seniority years. So a 15-year partner would get 15 times more from this portion of the profit pool than a one-year partner.

Exhibit 7 EZI Consultants' Productivity and Leverage, 1996–2000

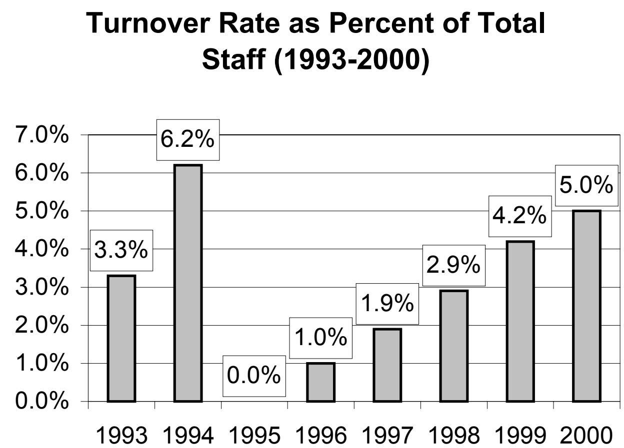


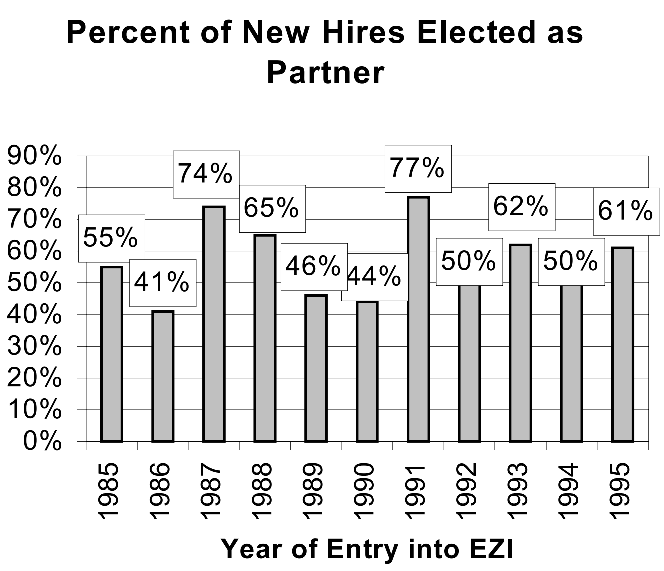
Leverage Ratios (1996–2000)

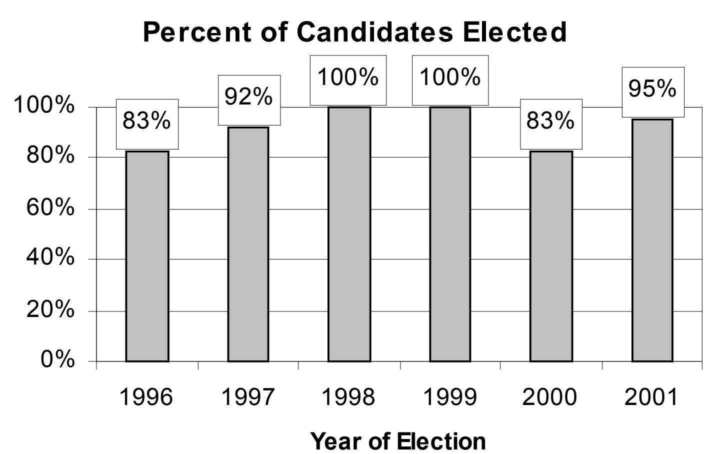
Year	Researchers/Consultants	Support Staff/Consultants	Total Nonconsultants/Consultants
1996	0.55	1.21	1.77
1997	0.65	1.19	1.83
1998	0.66	1.23	1.90
1999	0.75	1.24	1.99
2000	0.81	1.25	2.05

Source: EZI.

Exhibit 8 Promotion, Retention, and Turnover Data for EZI







Source: EZI.

Exhibit 9 Internet Use by EZI's Principal Competitors, 2000

	Dynamic Brochure	Interactive Recruiting Platform	Approximate Capital Expenditure
Heidrick & Struggles	www.heidrick.com	LeadersOnline	$8 million
Korn/Ferry	www.kornferry.com	e-kornferry futurestep JobDirect	$20 million–$50 million
Spencer Stuart	www.spencerstuart.com	SS Talent Networks CruelWorld	$15 million–$20 million
Russell Reynolds	www.russreyn.com The Internet Exchange WEB DNA Q & A with a Russell Reynolds consultant	n/a	$2 million

Source: EZI.

Exhibit 10 Biographies of Select EZI Consultants, 2000

Claudio Fernández-Aráoz received his MBA from Stanford Graduate School of Business and his B.S. in industrial engineering from Argentine Catholic University. Prior to joining EZI in 1986, he worked for McKinsey & Company in Madrid and Milan. He previously served as operations and logistics manager in Buenos Aires. Fernández-Aráoz was a member of the executive committee, based in Buenos Aires.

John J. Grumbar received his MBA from INSEAD and his B.A. in economics from the London School of Economics. Prior to joining EZI in 1982, he was a member of the London Stock Exchange and a director in the international division of Hedderwick, Stirling, Grumbar & Co., London. Grumbar was a member of the executive committee, based in London.

Mark R. Hoenig received both his M.A. and Ph.D. in economics, business, and public administration from the University of Zürich. Prior to joining EZI in 1985, he was an operational auditor in the international consulting and controlling division for Sandoz Ltd. and conducted scientific research in personnel policy and multinational corporations at Betriebswirtschaftliches Institut, University of Zürich. Hoenig was a member of the executive committee, based in Zurich.

Daniel Meiland received his MBA from Harvard Business School and attended the University of St. Gallen for business administration, economics, law, and social sciences. Prior to joining EZI in 1978, he was a director of industrial development for the state of Pennsylvania and Brussels; he served as an independent investment adviser in London and at Kidder, Peabody & Co., in New York; and he worked for McKinsey & Company Inc., Chicago. Meiland was chairman and CEO, based in New York.

Damien I. O'Brien received his MBA from Columbia University and his bachelor's degree in commerce from the University of New South Wales. Prior to joining EZI in 1988, he was an associate with McKinsey & Company, Sydney; held various general management positions within O'Brien Catering, Sydney; and served as a manager for community aid programs in Zamboanga del Sur, the Philippines. O'Brien was a member of the executive committee, based in Sydney.

Egon P.S. Zehnder received his MBA from Harvard Business School, his Ph.D. in law from the University of Zurich, and his faculty of law from the University of Paris. Prior to founding the firm that bore his name in 1964, Zehnder served as the first professional consultant in Europe specializing exclusively in the field of executive search. He also was a vice president of McCann Erickson in New York, Dusseldorf, and Geneva.

Source: EZI.

References

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[2] Egon Zehnder, "A Simpler Way to Pay," *Harvard Business Review*, April 2001, Reprint No. R0104B.

[3] Internal EZI document from partners meeting, June 17, 1999, pp. 15, 18–20.

[4] Internal EZI document from partners meeting, January 20, 2000, pp. 13–17.

[5] Daniel Goleman, *Working with Emotional Intelligence* (New York: Bantam Books, 1998), pp. 305–306.

[6] Michael Yoshino, "Egon Zehnder International: Implementing Practice Groups," HBS Case No. 398-052 (Boston: Harvard Business School Publishing, 1998).

[7] Ibid.

[8] Internal EZI document from partners meeting, June 17, 1999, pp. 3–5.

[9] Ibid., p. 24.

[10] Internal EZI document from partners meeting, June 15, 2000, pp. 16–20.

[11] Internal EZI document from partners meeting, January 14, 1999, pp. 9–12.

[12] Goleman, p. 302.

[13] Internal EZI document from partners meeting, January 14, 1999, pp. 9–12.

[14] Internal EZI document from partners meeting, January 14, 1999, p. 3.

[15] Goleman, p. 303.

[16] Zehnder.

[17] Ibid.

[18] Ibid.

[19] Ibid.

[20] Internal EZI document from partners meeting, June 15, 2000, pp. 7–8.

[21] Goleman, p. 307.

[22] "Corporate Brochure," Egon Zehnder International Web site, http://www.zehnder.com/brochures/ezi.pdf, accessed March 19, 2004.

[23] Pankaj Ghemawat, "Egon Zehnder International: Managing Professionals in an Executive Search Firm," HBS Case No. 700-133 (Boston: Harvard Business School Publishing, 2000).

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[25] "The Hunt for the Best Hunter," *Director Magazine*, November 1990.

[26] Zehnder.

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[28] Goleman, p. 307.

[29] Internal EZI document from partners meeting, June 17, 1999, pp.5–8.

[30] Internal EZI document from partners meeting, June 12, 2001.

[31] Ibid.