

# Egon Zehnder International - A Case Study

## ***Aligning Marketing Strategies with Culture***

*The "Collaboration" Culture*

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By: **Suzanne Lowe**

Egon Zehnder International (EZI) is the third of three cases about professional service enterprises that intentionally align their marketing strategies with culture. The EZI story is absorbing because it demonstrates that “marketing strategy” can exist at a much more systemic level than “promotion” (which many firms employ as an adjunct initiative). Indeed, the following story makes it clear just how deeply EZI integrates its marketing strategy with its collaboration culture -- and vice versa. One could even argue they are one and the same.

“Collaboration” is increasingly important in the business world. As we’ve entered our remorse phase after witnessing professional ethics breaches from all too many supposedly world-class companies, we’ve been subjected to an increasing din: Proclamations about new ethics guidelines. Fanfares about professional standards. Crescendos about trust. In the midst of all this noise, more and more businesses are touting their effective team work and their seamless collaboration. Yet, in many cases these words simply add to the cacophony. Most likely, these words are part of the promotional programs that many firms employ to reassure clients, or persuade them to return to the fold.

In fact, most of us in the professional service world have only a dim notion of what true collaboration is. We say we “get it.” But beneath our all-too-quick nods of comprehension, most of us still expect professionals to behave like they did before.

Egon Zehnder International, with its heartfelt belief in the selfless goodness of people, and its insistence on conducting itself accordingly, “gets” genuine collaboration. Collaboration is reflected in the way partners and associates behave. It is reflected in the way the firm is organized, in the way work flows, and in the way people are compensated. And it is reflected in the firm’s unique approach to its marketplace.

### **THE EZI STORY**

“Why don’t you come to New York to meet our Executive Chairman, Dan Meiland?” said EZI partner Justus O’Brien in December 2002. “You could conduct your case interview in person.” The author was intrigued; it’s not everyday that a request for an interview generates an invitation to really “look inside” a firm. So she traveled to New York. And there she witnessed a pitch-perfect demonstration of the very topic she sought to profile: the deep alignment of Egon Zehnder International’s marketing strategies with its highly collaborative culture. During the interview, she watched Meiland and O’Brien embody all the aspects that make Egon Zehnder International’s collaborative culture so seamless, so systemic and so truly unique compared to its executive search competitors. There were no breathless fanfares about the firm’s teamwork methods. There were no chest-thumping proclamations about faddish collaboration technologies. Instead there was a quiet, heartfelt account of an ethos upon which the firm was founded and which today helps it thrive even in the face of profound economic disruption in its sector.



## THE ROAD NOT TAKEN

In 2002, EZI was ranked the third largest retained executive search firm in the world.\* With 2001 worldwide revenues of nearly \$300 million (USD), its 300 consultants operate in 58 offices in more than 35 countries. Clients range in size; they include the world's largest organizations, emerging growth companies, government and regulatory organizations, and prominent educational and cultural institutions. More than two-thirds of EZI's engagements come from these existing clients. Industry practices include Financial Services, Consumer, Life Sciences, Technology and Telecoms, Energy & Process, Engineering and Automotive, Services, Insurance, Private Capital.\* There are also professional practices including executive search board consulting and director search, Management Appraisal and Venture Engine.

From the earliest days since it was founded in Zurich, Switzerland in 1964 by Egon P. S. Zehnder, the firm began building the fundamentals of today's true collaboration: equality, collegiality, non-competitive internal sharing and non-hierarchical organizational structures. In many ways, Zehnder's initial philosophy set the firm on a road not taken by its executive search consulting brethren. This philosophy, born forty years ago but continually renewed, serves as the firm's de facto marketing strategy, and has enabled EZI's achievement of its leadership position in the global marketplace. To understand how the promulgation of EZI's culture so deeply embodies its go-to-market approaches, let's look at how EZI does things: the five behaviors and practices that bring Zehnder's viewpoints to life.

1. *Operating with a single, firm-wide, profit center, rather than a matrix of separate profit and loss centers.* By operating with a single profit center, EZI reduces the potentially negative effect of revenue and profit competition between practices or offices. (EZI employs this method even though it organized into sector specialties in 1997.) "We take the long view. If a particular part of the world or business sector is in a slump, that is not the fault of the consultants who are located in that geography or who specialize in that particular sector," Meiland explained. "We've agreed to be true colleagues; we will carry others when necessary."
2. *Selecting and retaining employees whose interests dovetail with those of the firm.* Among its practices, the firm:
  - a. Hires only those consultants who have significant business or consulting careers prior to joining the firm. This ensures a level of professional experience and maturity that true collaboration requires.
  - b. Hires only those with postgraduate degrees. EZI believes that intellectual collaboration, between its own consultants and with its clients, is of paramount importance.
  - c. Seeks multilingual or multicultural candidates who are comfortable working collegially across a host of invisible boundaries, with businesses that operate in the global economy.
  - d. Screens its candidates for an indication of certain behaviors, notably "evidence of a collaborative attitude." "We use a systematic interviewing approach to get beyond a candidate's 'resume-speak,'" said O'Brien. "It's very results- and details-



focused.” This screening is accomplished by arranging for candidates to be interviewed by 25-40 people in multiple countries and offices.

- e. Pays EZI partners less in tough times in order to keep the firm’s pre-partners feeling secure and content. When the money is tight, partners would rather choose to tighten their own belts. “We have a strategy to grow organically,” declared O’Brien. “We have historically tended NOT to lay people off; we don’t believe it makes strategic sense.” This practice -- certainly a ringing endorsement for the long-term view -- contributes to EZI’s high retention rate.
3. *Training to foster deep collaboration.* EZI pegs its current investment in training as the highest among any of the global executive search firms. Presently pegged at more than five million US dollars per year, EZI’s training program is geared to inculcate new associates into its collaborative culture. The firm’s training program is aimed at three junctures in the employee’s early tenure at EZI. The first occurs within six months of joining the firm, when all new consultants go to Zurich for a three-to-four day training session. The primary purpose of this gathering is to orient the new people toward EZI’s methods of conducting searches and management appraisals. Trainers employ a significant amount of role playing to emphasize the importance of collaboration. The second training program typically takes place by the new consultant’s 18-month mark. At this two-three-day session, they learn EZI’s Performance Oriented Prediction (POP) interviewing techniques (which are based on a proprietary method developed at the University of Michigan). POP techniques are deeply grounded in the spirit of collaboration. At the third juncture, usually within a consultant’s first two years, EZI offers a three-day training program, also held in Zurich, around interpersonal skills and “influencing” skills among consultants. Consultants are taught to recognize and interact with different personality and preference profiles. EZI will soon offer a new element to this training: client relationship building. Other training programs focus on teaching EZI consultants the newest tools and techniques for collaborative problem-solving, and coaching techniques for office leaders.
  4. *Enacting open-book compensation.* Every EZI partner knows every other EZI partner’s compensation. For that matter, anyone who cares to ask will be told about EZI’s open approach to compensation.

Like others at EZI, this ideology -- the ultimate illustration of collaboration -- was Zehnder’s brainchild. He reasoned that money is simply a by-product of one’s work. In order to be focused on the most appropriate goal – solving the client’s problem – one has to be focused on doing the best work. Money must be a distant consideration. EZI disdains the common professional service firm practice of compensating professionals on their individual performance (mainly, the size of their client billings and their selling prowess). Instead, compensation is seniority-based and transparent.

EZI pays its partners through a combination of salary, equity shares of the firm and annual profits. “There is some variation among partner salaries across countries because of variations in the cost of living; people don’t expect to be paid the same base salary in Kuala Lumpur, say, that they would be paid in New York,” wrote Zehnder in a “First Person” article for *Harvard Business Review* in April 2001.\*



Beyond salaries, the distribution of equity and profits is consistent across the firm. Regarding equity ownership, each partner has an equal number of shares in the firm's equity, no matter how long his or her tenure. Because 10 to 20 percent of the firm's profits are plowed back into the firm each year, the shares' value continuously rises. When a partner leaves EZI, the shares are sold back. (Departing partners keep the difference between the value of the shares they bought originally and the value of the shares on the day they sell them back.) In this fashion, seniority is rewarded.

Distribution of the rest of EZI's profit (80-90 percent) is also influenced by seniority. It falls into two pods. The first, divvied up equally to all partners, is a sixty percent distribution of profits. The second, 40 percent, is divvied up according to seniority (up to 15 years of service). After 15 years of tenure, the level stays the same.

5. *Evaluating potential partners for their collaboration effectiveness.* Everyone who gets hired to be an EZI consultant is assumed to be partner material. These "pre-partners," in order to have been hired by Egon Zehnder International in the first place, have already been pre-screened as excellent collaborators. Nevertheless, EZI's evaluation process further underscores the importance of collaboration. Each pre-partner is evaluated (annually and at the time they are considered for election to partner) on three fundamental criteria: execution excellence, generating clients, and collaboration with EZI peers and clients. After five years of tenure, potential partners may be considered for partnership. A review committee of six people spearheads the process. At EZI's June partners meeting, the partners agree which pre-partners will go through the review process. In September or October a member of the review committee will be assigned to a subset of pre-partners. Each will spend one to one-and-a-half days reviewing everything those pre-partners have done. The committee reviewer will collect references from anyone with whom the pre-partners have collaborated. With the appropriate information in hand, the partnership review committee then decides which pre-partners to recommend for a vote. Partners are elected by a 2/3 majority in January; from there, the process begins again.
6. *Supporting collaborative effectiveness.* A review process works well as long as everyone understands clearly what to evaluate. EZI has established multiple mechanisms to support collaboration effectiveness.
  - a. A collaboration timetable. When EZI begins a new search, consultants are expected to share the position "spec" within practice groups, by e-mail. Within one week, the consultant is expected to convene a huddle of five to 10 colleagues, by phone and/or in person, to brainstorm in real-time about the search.
  - b. Technology that supports collaboration. EZI uses a proprietary relational database (called ADAPT) that was developed in 1998. Every contact and every search is on this database. All fields notes, e-files, calendars, and folders are cross referenceable, open to all, and simultaneously viewable. But having a database and using it are two different things. At many companies, seeking to enable shared knowledge, the IT department or an IT committee has established an internal database or intranet designed to foster employee collaboration. But in too many cases, few people actually take advantage of the available technology. But at EZI, using ADAPT is a norm, woven into the culture; people know they really can't be



successful without deeply relying on this database for their work with their colleagues.

- c. Executive search “back-ups”. EZI assigns *two* people to every search – a lead and a back-up consultant. This mechanism is derived from the firm’s collaboration philosophy that a team is more effective than a single person.
- d. Research collaboration. Each office has a research capability and each practice has a practice specialist (researchers who have deep knowledge of a particular sector -- retail or packaged goods, for example. These research teams are available across the globe; twice a week they participate in virtual gatherings with consultants and other researchers on conference calls to discuss specific searches, required capabilities, or the need for help.
- e. Bonding opportunities. EZI fosters layers of opportunities for its consultants to develop collaborative bonds. While every practice group sets its own norms, a typical global practice group will meet off-site twice a year, usually during partner meetings, plus one other time a year for regional practice meetings. These meetings help EZI’s consultants to build familiarity and trust together. Absolute confidentiality is required and in-person relationship building is deeply supported (with the firm investing significant amounts in travel). In addition, every three years EZI features a firm-wide conference, usually tagged on to a partner meeting in June.

### **“. . . And That Has Made All The Difference”**

Many professional service firm leaders could assume that the most effective way to align their marketing strategies with their culture would be to use external awareness-building vehicles. “We’ll talk about our unique culture on our web site.” “Let’s develop relationships with selected media that will reflect and further support our cultural theme.” They wouldn’t be all wrong in making this decision; these are effective steps to take. After all, there’s nothing like telling the world something to make you first “get it right” internally.

Arguably, though, promotion is the “outer ring” of other marketing strategies that must precede it. Egon Zehnder, already thinking globally about EZI’s marketplace from the day he formed the firm in 1964, made three critical and deeply strategic decisions that serve as the ultimate alignment force behind EZI’s culture. The net effect was to further sharpen the firm’s cultural difference from its executive search rivals, and to more obviously attract the kind of talent that would embody the collaboration model that Zehnder had envisioned.

- *Fixed-fee pricing*. The vast majority of executive search firms invoice their clients a percentage of the successfully placed candidate’s annual salary. In 1960s, this percentage was about 10 percent; at this writing it hovers at around 30. Zehnder rejected the percentage approach. EZI therefore became the first retained executive search firm to charge a fixed fee for its professional services. No commissions. No bonuses. No matter at what the level of the candidate’s salary was pegged.

This practice was immediately more acceptable to EZI’s European clients, skeptical as they were about the professionalism of search consultants who commission-priced their





services. Their embrace of EZI's fixed-fee pricing helped it build a significant European-Asian base of business that remains a strong point for the firm.

EZI's no-percentage method also had an underpinning of egalitarianism and globalism that the firm's clients favored for two other reasons. "First, we want to demonstrate that we have no monetary interest in recommending a higher-paid candidate or excluding an internal candidate from within the client's own organization," explained Meiland. "Our fixed-fee is comfort to our clients. The second reason relates to the generally higher pay scale of Americans. If we were a percentage-based search consultant, and we recommended an American candidate above other equally qualified non-Americans, one might surmise we were simply trying to obtain the higher commission. With our fixed-fee approach, we won't make more money by recommending Americans. This practice is an effective demonstration that we will recommend the best candidate regardless of our own reward."

- *No individual "selling" bonuses.* "We always put our clients' interest first," states the EZI corporate brochure. Zehnder believed that EZI "must hire people who are true team players, people who get more pleasure from the group's success than their own advancement."<sup>\*</sup> The manifestation for this ideology was Zehnder's decision that no EZI professional would be paid any kind of performance bonus – not a cent of it -- for selling an engagement to a client. Instead, every professional would be paid a pro-rated slice of the firm's total profit. At first, this principle was followed for reasons of professionalism. Zehnder didn't want his consultants to be motivated by the wrong incentive; he felt business developers too often "sinned" in their pursuit of a sale. The only emphasis, he felt, should be on organizing to solve the client's problem. "Most firms pay a bonus of 30 to 40 percent of the fee for a project that individuals generate," confirmed Meiland. "But we don't want people pursuing the wrong goals."

As time passed, it became clear that this model was also reinforcement for the firm's collaboration culture. A culture of individual rainmakers, EZI believes, builds internal competitiveness – and eventually a kind of psychological fire wall -- between peers. This is a detriment to a firm's overall business health, and dampens the deep trust and collegiality that EZI seeks from its professionals. When the technique of awarding individual selling bonuses is not an option for *anyone*, however, people tend to share information more willingly. They can work together in a more team-oriented way. The potential for geographic or practice area business development vagaries is negated.

- *No hiring from competitors.* EZI's "no-selling-bonus" ethos is unheard of in its sector and in the professional service arena generally. Historically, many professional service firms, in their efforts to foster a rainmaker business model, built well-defined schemes for awarding monetary bonuses to the professionals (typically, but not always, these are equity partners) who sell the firm's engagements. Even today a majority of professional service enterprises maintain this practice. EZI finds that its global executive search competitors employ this "individual selling bonus" approach. Once search professionals have been exposed to this method, however, EZI believes, they are unlikely to be truly comfortable in EZI's uniquely egalitarian culture. The firm is so certain of this notion that it will not hire any consultant from other executive search firms who has participated in a commission- or percentage-based compensation model of selling.



There are still more examples. Zehnder, even though he is the firm's founder, made a deliberate choice from the beginning to pay some of his managers more money than he paid himself. Moreover, EZI has chosen to remain a privately held firm; it has also avoided a practice that until recently was pervasive throughout the executive search sector: giddy-up, instant-growth acquisitions.

## **COLLABORATION: TROUBLE FREE?**

One wonders, "How can these guys be so harmonious, so generous? Doesn't human nature drive us all to try to advance over others?" Indeed, EZI leaders acknowledge, a commitment to collaboration requires a strong will – and even a big wallet. There were times in the past when EZI partners had to finance the salaries of their global peers whose regional or country-specific economies had stumbled, making their ability to add to the firm's profits impossible. "Yes, we have had to remind ourselves about our values," acknowledged Meiland.

## **THE RESULTS**

For the executive search sector, the last decade of the twentieth century saw unprecedented revenue gains. EZI, like others, grew steadily. It has been consistently ranked among the largest global retained executive search firms in the world.\*

But the beginning of the new millennium did not smile with favor upon the executive search arena (especially in the United States). "After ten consecutive years of uninterrupted growth, the retained executive search industry in the U.S. posted one of its worst years ever as combined revenues for the 25 largest U.S. firms declined 30 percent or more than half a billion dollars (\$523.5 million) in 2001." And for the top six global firms, "combined worldwide revenues for this entire group were approximately \$1.8 billion, representing a decline of 23.7 percent or \$600 million from the previous year's total of \$2.4 billion."\*

Egon Zehnder International was among those firms experiencing a revenue downturn. But, in a surprise to everyone but EZI professionals, its 2001 annual worldwide revenues were down only seven percent. This kind of financial performance demonstrates EZI's global strength and its ability to maintain a balanced revenue stream even in the midst of dizzying sector growth rates or precipitous sector downturns.

But EZI's results demonstrate more than financial prowess. In the executive search industry, the average turnover rate among partners is 30 percent. EZI's attrition rate is dramatically lower, averaging only two – five percent annually.\*

EZI's worldwide stature is the envy of many professional service firms, regardless of field. Its consultants are published in leading publications like the *Harvard Business Review*. Industry observers talk about EZI's competitive resilience with admiration.\* Its research is respected worldwide. Its consultants are sought out by leading academics and governments for their insights and new methodologies. And its global clients return again and again.

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