June 24, 2016

WHY A MID-SIZED FIRM IS THE BEST CLIENT OPTION

ZRG Partners' Recruiting Leaders, Kerry Moynihan and Larry Hartmann, Discuss the Way Clients Should Think About Selecting a Search Partner

For clients selecting an executive search partner, the decision is often between a big five firm and a boutique.

We all know the classic story of Goldilocks and the Three Bears, as a little girl goes for a walk in the forest and finds a house, which she decides to enter. There, Goldilocks tastes three bowls of porridge, sits in three different-sized chairs, and lies down on three beds. In each instance, there was an option that was too big or too hot, too small or too cold, and one that was just right. She seemed to always settle on the perfect solution after trial and error and it was always the middle choice.

What does the story of Goldilocks have to do with executive search? Actually, there are some strong similarities. Today, discerning clients are much more educated about the selection process with executive search firms and have tried various types and sizes of search firms, typically with varying results.

Clients now know search firms' strengths and weaknesses much better. The ubiquity of information on the Web long ago obliterated the notion of a "proprietary database" as a competitive advantage. In years gone by, niche industry experience was a unique differentiator, and a long project list was the single selling advantage. This is no longer the case as virtually all successful search firms know how to find the talent and have experts who know an industry and function well enough to perform. So, why pick one executive search firm over another?

Two Typical Options: Big or Small

For the most part, clients have historically selected from two options when recruiting senior leadership talent. The first option was a large search firm, usually one of the big five brands. The second choice was often a smaller search firm that operated independently or as part of a loose alliance of independent businesses operating as a network. The differences between the two are significant.

What is the best option for a client? While there are clearly nuances, there is a growing understanding among progressive clients that both "too big" and "too small" have significant limits. What if there was an option right in the middle? A mid-sized/right-sized global solution that combined both strengths but avoided the pitfalls and challenges of the alternatives?

Too Big?

Bigger is better! Supersize it! Go big or go home! These pop culture phrases reinforce a trend and belief that equates "bigger" with "better." The old belief that "No one ever got fired for picking IBM" still drives some decisions on which search firm to select. But is bigger really better? As a search firm, "big" can have advantages and strengths, but also significant drawbacks and handicaps that, if better known to clients, would be major concerns.

The big five search firms dominate in certain sectors, such as CEO searches with the Fortune 500. They have market share and they have hundreds of partners at each firm covering the markets and in many ways their organizational structure, scale and bureaucracy mirror their largest clients. Is this an advantage? Let's start with the issue of "off limits" and "hands off" policies. If you work with a client, the industry ethical norm is that you do not recruit from that client. That would be bad form, to say the least. How can you partner closely with a client today to find talent and then tomorrow have another partner in your firm recruit away leaders from the same organization? A vivid example can be taken from the Life Sciences/Pharma sector.

The big five search firms are often active with 30-40% of the top 10 companies in each niche or sector they operate. The hands off issues will severely limit the reach and depth of a slate of candidates they can source and develop. If almost half of a market is not approachable, how can you best serve a client in showing the full range market options for key roles? Given a choice, a client would naturally choose broader access to talent, not restricted access. Yet as the largest search firms are forced to continue to grow and grow, they inherently become less effective for clients. Bigger is clearly not better for most clients when selecting a search partner. A professional services firm can't serve both Coke and Pepsi, American Express and Visa, Nike and Reebok, etc. if the firm is truly working to confer competitive advantage to its clients.

Yes, a robust list of past searches in the same sector seems comforting to clients, conveying some depth of experience, but current access is more important than history and this comfort can turn to confinement and candidate constriction. Clients need to remind themselves that if their search firm is conducting five assignments similar to the role they need to fill, the large firm's own partners are competing for the same candidate talent pool and that the client's current access to talent is further constrained.

Now let's add in the complexity of being a public company in executive search to the discussion. Answering to shareholders who want top line revenue growth effectively forces public executive search firms to prioritize shareholder returns above true client concerns. There is a limit to growth in each industry sector for a search firm and the bigger firms are challenged to find a balance that truly serves the client.

This public company pressure is also creating new and more complex challenges. The recent Korn Ferry acquisition of the Hay Group, on the surface, seems strategic and synergistic. But looking at this a bit more closely, some real questions emerge. How can the Hay Group be a trusted and confidential consulting partner to a client, while Korn Ferry could be recruiting away their top talent, all at the same time? Over the years, the long list of clients that Hay has developed are not the same as Korn Ferry's clients, so this conflict is already a real issue, both internally within KFI and externally in deciding how to service clients. Even with the promise of confidentiality and "Chinese Walls" between business units, client trust is bound to be tested. Using the metaphor of the Goldilocks story, this trend will make them too big and too hot for many clients, opening the doors to trying a new solution.

Too Small?

When big is too big, clients have moved work to smaller boutiques. So, small must be better and in some ways it can be. Boutiques for our purposes will be categorized as search firms with 5-25 employees, often formed from partners at the big five firms. The smaller firms have advantages. Their hands off limits are typically not an issue, so their market access can very broad. The client is more likely to be very important to the boutique, so service can be exceptional. However, like the Goldilocks story, being too small has some issues of fit, particularly as a client firm grows. They are often a solid choice for single, specialized projects, but for relationships that need to scale more broadly with volume, new geographies, and more complex needs, the small firms have clear limitations.

The boutiques are typically regional and if offering services outside the US, are usually doing so with loose affiliations with other search firms who share a banner and logo, but little else. For clients seeking consistency and coverage around the world they will soon outgrow these boutique relationships.

So, many smaller firms have gained market share, as clients have adopted more boutique solutions over the past few years. Yet at the same time, many multinationals are now shrinking their executive search lists and trying to consolidate their service provider partnerships. This dynamic shift has created issues around managing dozens and dozens of different executive search partners, who all operate differently. The boutiques fill a need but again, the fit can have limits. So, what is a client supposed to do if the chair is too small? Is there a seat that fits just right?

Just Right!

What if there was an option that combined the strengths of the top five with the clear advantages of the smaller boutiques? Is this the unicorn of executive search? No, it exists but it is rare and we believe that it is called the mid-sized, global firm that can provide clients the best of both worlds.

With a mid-sized global firm, you typically get big firm partner level experience, but you not the baggage of an overcrowded industry niche. You get priority client treatment, as your value to the mid-sized firm is exponentially higher, usually resulting in better responsiveness and results. Unlike the boutique, the mid-sized global firm can support clients around the world, so scaling relationships works well. Partners at mid-sized firms work better together as true partnering relationships are forged through friendship and collegial teamwork, versus forced partnering under revenue growth pressure that often does not work at the big firms.

In many ways, the search firm CTPartners largely got this balance right, before their demise. They filled a gap that clients were beginning to realize needed filling. They grew their business rapidly to $170 Million in revenues on this premise, taking market share from the big five. Their demise was not centered around the quality of work or the partners, but on unrelated leadership matters best not addressed here. Clients valued the market positioning and the results they delivered.

Who are the global executive search firms that are mid-sized? There are less than a handful of choices remaining. ZRG Partners is one of the fastest-growing players seeking to fill the vacuum in this area. Search firms seem to cluster into either “big” and “small.” The complexity of operating globally creates unique accounting, tax, and system challenges. The working capital and equity requirements often prohibit the smaller boutiques from advancing to the mid-sized level, leaving this gaping hole for client options. The divide between big and small in the executive search industry is wide, but the beauty of finding a right-sized firm in the gap between is worth the effort.

ZRG Partners has planted its flag as a meaningful, growing global player in the retained search market. The firm has grown organically and through strategic acquisitions and has reported a five year 26.5% CAGR, far outpacing industry competitors of almost any size.

Many smaller to mid-sized retained search firms have trouble accessing additional capital to address growth and balance sheet needs. ZRG Partners broke through this barrier and is one of the few firms that continues to invest in new market growth and post double digit revenue increases year after year.

Being smaller can provide for flexibility and nimbleness, but being mid-sized additionally provides for the budget to invest in technology-driven innovation to solve client problems. Being right-sized encourages listening to the voice of the customer, and being able to quickly design and implement solutions that the market wants. The big five cannot turn on a dime and must stay focused on their own requirements, not client needs. ZRG has secured meaningful global framework agreements and is operating around the world with a wide variety of top tier client companies, due to its global reach combined with the responsiveness, innovation, and high quality service delivery that typify our mid-sized, right-sized market positioning.

ZRG has developed unique and leading edge industry solutions by listening to clients and quickly adapting solutions to market needs. The firm's proprietary Z Score process is the result of clients rightly demanding more than just a resume and an opinion from their search firm. ZRG developed a proprietary solution that aggregates interview feedback and turns this into actionable data. Heeding client needs, ZRG Partners developed data-driven tools and solutions that now work in over 30 languages. Last year, the firm completed client projects in 33 countries. ZRG is a new breed of tech-enabled retained search firm, embracing data, analytics, and innovation in the search process to insure that the best hiring decision is made.

Conclusions

In an industry that was historically driven by an oligopoly of five large firms, and where the traditional alternative was to go small, the mid-sized option is a growing and increasingly appealing alternative. Educated clients are surveying the search firm landscape more clearly than ever before. The transparency of issues in the market will pave the way for more firms to fill this gap, serving more clients better, and become the growth stories for the next decade in executive search.

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Korn Ferry as well as running his own boutique search firm. Strategically restructuring boards of directors is a specialty. Kerry also specializes in building executive management teams for the portfolio companies of leveraged buyout and venture capital funds, as well as public companies undergoing dramatic growth or rapid change. Most typically, these are for CEO and CFO roles. Kerry is a graduate of University of Virginia and received his MBA from the University of Pennsylvania, Wharton School.

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Larry Hartmann is the CEO of ZRG Partners, one of the fastest growing mid-sized global executive search firms in the

industry. He is a results-driven leader with a broad business background in executive search as well as in industry. Prior to joining ZRG in 2002, Larry was a founder of Rockford Industries; a NASDAQ traded commercial lending business that supported the medical device and technology market. While at Rockford, the firm went from a pure start up, to an Inc. 500 recognized growth firm through IPO and ultimate sale to American Express. This experience provided a unique view of growing a business, raising capital and hiring talent, through virtually all business stages. After the sale, Larry was an EVP with American Express for three years.

Additionally, Larry also has broad board of director experience. In addition to public company experience as a board member, he has also served on boards in Private Equity and Venture backed businesses as well as in academia and not for profit endeavors.

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