PROFESSIONAL SERVICE FUTURES

THE PROFESSIONAL CHALLENGE

*Growth, globalisation and industrialisation are tempting strategies for professional service firms. But, warn **Dominic Houlder** and **Peter Williamson**, unless properly managed they can put at risk what made firms successful in the first place.*

Fifty years ago professional services — accountancy, law, architecture, engineering, consulting, and advertising — were provided by small, local partnerships of professionals. Today, professional services firms (PSFs) have become global behemoths providing a wide range of services. They are feted by politicians and have a powerful influence on policy and regulations. Their profitability outshines many of their corporate cousins and their hundreds of senior staff enjoy compensation packages that most executives in other industries can only dream of.

For all their success, the rise of the global powerhouses from their fragmented origins is starting to cast a dark shadow: PSFs may be teetering on the brink of crisis.

Consider some recent events: Deloitte & Touche LLP is facing a $7.6 billion lawsuit over the bankruptcy of the Taylor Bean & Whitaker Mortgage Corp; the European Union has expressed concern over the position of the "Big Four" accountancy firms and is proposing wide-ranging reforms including mandatory rotation of auditors; and, after an ambitious merger in 2007, which propelled it to become the world's 23rd largest law firm, Dewey & LeBoeuf filed for Chapter 11 bankruptcy in May 2012.

We believe that if the drive for growth and globalisation isn't more carefully managed, more and more PSFs will risk irretrievably losing the trust of the public and their clients and that loyalty to the ideals of their professions could be drowned out by the quest for growth and financial reward.

Why do PSFs now face this danger? We believe the problem runs deeper than a few rogue employees or inadequate compliance processes. The relentless pursuit of growth

and scale means that today many PSFs face the classic risks of imperial overstretch. As they expand across an ever-wider range of services and try to meet the aspirations of their up-and-coming partners by leveraging an ever-larger pyramid of worker bees, they risk undermining the very foundations that distinguished the professions from their industrial and commercial cousins and which underpinned their success.

We have interviewed the leaders of major firms — PwC, Groupe Publicis, Baker & McKenzie, SAP and Arup — who are re-discovering some of the traditional strengths and values of their professions and re-casting them in new organisational forms. It is time to follow their example and re-invent the professional services firm because simply following a path of relentless expansion without serious adjustment risks eventual ruin. But, re-invention will require some hard choices for the leaders of PSFs. The question they must answer is as stark as it is demanding: how can they enjoy the fruits of global scale and extended scope while remaining true to what makes a PSF professional?

What makes PSFs special?

In most professional services it is difficult for customers to judge quality — until it's too late and they face a potential catastrophe. It's hard to know if your auditor or lawyer did a good job until you face a full-blown crisis or a lawsuit hits; the competence of your structural engineer may only come to light 20 years later when your building is condemned as unsound or a bridge collapses. As a result, customers must impute quality based on the reputation of the PSF and how much they trust the PSF's integrity. Building a high level of trust — necessary for a PSF to be successful — typically called for professionals who reliably put the client's best interests above their own and provided bespoke services that met the client's needs (not a set of sales quotas or profitability targets). Typically this meant that professionals took personal responsibility for both the development of the client relationship and the delivery of the service.

The second thing that makes PSFs special is that professional knowledge is their life-blood. Much of it is hard to codify and to transfer from one individual to another. It is tacit, complex and context-dependent. Gaining that kind of knowledge requires long, arduous investments by the individual professional and willingness among senior partners to mentor and apprentice newcomers. Moreover, to be efficient and effective, PSFs had to have mechanisms where professionals would freely share knowledge among themselves to avoid re-inventing the wheel and to provide the client access to the best knowledge available within the firm regardless of who they had engaged.

Working in these ways, in turn, called for a uniquely professional motivation. Those who traditionally thrived in a PSF were interested in, and motivated by, the professional activity itself, sought personal development and self-actualisation in the profession, had a concern for its future and for new generations joining it. Success brought respect within the community of fellow professionals. To enable this, the organisation of PSFs had to be networked and sociable, with implicit reciprocity based on norms of good citizenship, with few standardised interfaces. It called for a partner culture, at the heart of which was an ideal of cooperation rather than reliance on structures of command and control.

> In our view the relentless pursuit of growth and scale means that today many PSFs face the classic risks of imperial overstretch.

Behind the PSF organisation was the profession itself, which assured quality by defining professional standards, instilling a master-apprentice model that developed loyalty to the profession as well as the firm, and which was typically self-regulating through supervisory bodies.

All of these factors — the central role of customer trust and reputation, the unique characteristics of knowledge in professional services and the motivations and

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behaviours necessary to succeed in this environment — meant that the optimal PSFs were relatively small partnerships. Within the best of these, the professionals knew, trusted and cooperated with each other. They were bound to uphold the integrity of their profession as well as their firm, and they could develop trusted relationships with local clients whose interests they knew intimately and were personally committed to serve.

Since those bucolic days, huge pressures and potential rewards for growth have intruded, accompanied by the relentless march of globalisation. So the leaders of PSFs face a crucial question: how can PSFs be re-invented to ensure these traditional characteristics that define professionalism can withstand the strains of growth, and whether there are limits to scale and scope beyond which the PSF loses its professional soul?

Why grow a PSF?

We asked PSF leaders why their firms need to grow. Two reasons stand out. First is to reap the potential opportunities created by the globalisation of customers, knowledge and the media. For David Yates, former Chief Operating Officer of legal giant Baker & McKenzie, global expansion offers the advantage of providing a consistent, quality service to increasingly global clients. Ian Powell, head of PwC's Central Cluster (encompassing EMEA and South Asia) echoes this and adds that having a wider portfolio of services confers richer data and insight into clients.

Terry Hill, former Chairman of Arup, emphasises the knowledge benefits of growing to global scale. Hill gives the example of the Hong Kong equestrian stables for the Beijing 2008 Olympics. "You might not realise what it takes to stable several thousand horses. We can design the buildings, but had anybody had any experience of actually stabling 5,000 horses for two weeks? So we just put the question out on our systems and it was stunning. We had actually got people who, in their private lives, ran stables. All that experience was there to fix that challenge in less than a week." Arup's knowledge management system is called Arup People, on the basis that all knowledge is tied to people. "So when you look up something on our intranet, the first thing it does is give you names. And the idea is that rather than downloading a report that was done somewhere else and then reading through the report to find data about the drainage system for stables, you'll find the person who did it."

Maurice Levy, Chairman of advertising superpower Groupe Publicis, sees in emerging sectors, such as digital media, the need to embrace an inherently global business. "We have to work across the globe with a community of digital natives who build their lives in a world without boundaries."

The second growth imperative is maintaining the ability to attract and more importantly, to retain, the right talent. Ian Powell says that a firm like PwC needs growth to provide "career dynamism". There is, he says, "the human aspiration to grow, to be part of a growing enterprise, to be adding something to the world, to be opening up new markets".

This is echoed by Bernd-Michael Rumpf, former Global Head of SAP Services, who points out that PSFs need to grow in order to retain skills. Unless they can do so, he observes, their economics will be undermined by having to train new recruits who will leave before they become earners for the firm. Growing a PSF's global reach could also provide new sources of satisfaction for professionals. We asked Arup's Terry Hill to describe the benefit of belonging to Arup rather than a standalone boutique for, say, an acoustic engineer. Global scale and scope was a key difference: "As a member of Arup, there is the ability to transfer your skills from an opera house to a high speed rail line."

We don't doubt these pressures, nor do we doubt the opportunities and benefits that a PSF gains by growing in size, service portfolio and international reach. But we also believe there are serious risks associated with driving for ever-greater scale and scope. Foremost among these risks is sleepwalking into industrialisation: a shift that if not properly managed can undermine the very foundations of a PSF's success.

The rise of industrialisation

Looking back to 1999, Bernd-Michael Rumpf of SAP Services told us that the IT consulting industry had then been about experts. Others who did not know about IT saw it as a black box. This meant that IT consulting organisations were essentially a collection of individuals delivering their knowledge. This approach was required because, at that time, the industry's products were neither easily understood nor implemented. Clients wanted individuals with their own specialist knowledge working on site. The shortage of qualified resources led to tolerance of individualistic behaviour — some likened IT consultants of the day to hot shot lawyers or tax gurus, others called them IT divas.

Since then, says Rumpf, things have changed. There have been more entrants, increased competition, and an influx of cheaper IT personnel from India using global delivery models. Software products have also evolved enormously. These changes have led to a fundamental shift in the industry; a shift from "show me the person" to a project or service approach. Unlike 15 years ago, projects are now so large (they can be worth between $300 and $500 million or even up to $1 billion) that IT consulting firms cannot sustain delivery based on teams of individuals working at the client's site. Much of the knowledge that used to reside in the heads of a few specialists is now embodied in processes, tools and products that can be reliably replicated at large scale, drawing on capabilities and capacity from around the globe.

This industrialisation of IT consulting has brought enormous benefits to both customers and the PSF providers. It has made the industry much more efficient and the results more reliable. It has allowed increased division of labour, the repeat use and creation of saleable content (such as tools and methods to be used in testing, located in "testing factories"). By "productising" knowledge it can now be made available to many more clients and new technology can be rolled out much more rapidly than in a world centred on individual experts as the repositories of know-how. Industrialisation has also allowed for greater leverage: the ratio of juniors to seniors in a firm. Profit per equity partner could rise, not just as the pyramid broadened its base (with more people working for each partner) but also because junior people could be billed out at higher margins as knowledge embodied in tools and processes boosted their productivity. For SAP services, the growth enabled by industrialisation was also necessary to support the expansion of its core business of software sales and to support the expansion of its ecosystem. In this context, growth and industrialisation of services were a practical necessity for SAP.

Similar shifts have begun to happen in other areas of professional services. David Yates of Baker & McKenzie told us of the trend towards industrialisation in certain areas of legal work. "We have set up a global back office in the Philippines where we have a strong history. Low end work supports work at the higher end: we use paralegals in trademark registration and must have some of this commodity work to keep the high end IP assignments." Industrialisation also allowed greater leverage. "Tax and transfer pricing has no leverage possibility as a practice, but there are many possibilities for greater leverage in M&A and litigation."

As the benefits of better productivity, more consistency, and better margins accrue with industrialisation, a spiral can be ignited. Industrialisation demands costly infrastructure investments that, in turn, require higher profits to support them. PwC has recently invested $400 million in audit methodologies in parallel with rising profit per equity partner.

The organisation can also become hooked on growth: Bernd-Michael Rumpf at SAP Services found that as industrialisation necessitated sales functions being separated from delivery, continued success of the sales staff depends on continued growth, which required further industrialisation.

There is nothing inherently wrong with PSFs surfing the industrialisation wave. Provided, that is, this results from a conscious decision after careful weighing of the costs and potential risks as well as the benefits.

Reconciling industrialisation with what makes PSFs special

Industrialisation has proven successful for both clients and PSFs in the IT consulting industry. But being in the vanguard of industrialisation, IT consulting provides an instructive guide not only to what is gained, but also what is lost. This is important because the balance might not prove so favourable in some other areas of professional services. Bernd-Michael Rumpf told us that industrialisation and productisation in much of the IT consulting industry has fundamentally changed the role of the professional services individual. "It is no longer about what the single professional can do," says Rumpf.

In Rumpf's view, it made good sense in IT consulting services to push industrialisation forward as far and fast as possible in order to respond to changes in technology, customer requirements, globalisation and to meet competitive challenges while remaining profitable. But he is also clear that the central roles of knowledge and professionalism remain. What is required is to recognise the limits of the individual in delivery. Success still requires a close relationship with the client, but the professional's role is now to orchestrate complex projects drawing in and integrating knowledge and capabilities from many different sources. He emphasises that a key task of leaders in PSFs is to smoothly manage the transition to the new reality.

He observes: "Originally most people came into the industry because of the chance to interact with advanced technology: they enjoyed doing new stuff on the leading edge of their profession. Today the focus of delivery personnel is specialisation: delivery of one part of a productised service. Excitement about technology and learning new stuff is no longer the only priority: training days have been reduced for all professionals across the industry. Older staff members who are wedded to the idea of mastering their profession and working on unique client problems risk becoming orphans in the new system." In this environment there is a need to motivate individuals to update and reinforce their specialist professional knowledge; "getting individuals to learn and build knowledge for the love of it" so that people are still "known for something" as experts in the more complex, industrialised environment. One mechanism is to make space in the organisation for a dual career path where people can grow as specialists and in managerial roles.

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Rumpf points out that the professional relationship between provider and the client also changes. Individuals are still very important in managing client relationships, but today the customer is buying the power of the organisation as a whole. The service is no longer delivered by a group of people the client knows. The sales process is heavily influenced by the purchasing department, not just the CIO, so it's more difficult to demonstrate differentiation on dimensions that are hard to quantify.

Industrialisation can also put a brake on the pace of innovation. "New services are not rapidly billable as the sales force needs to understand the key customer benefits and how to sell them, which takes time — this may be a three-to four-month period," says Rumpf.

In some types of professional services, industrialisation and the unique characteristics of professional services can be reconciled, delivering the benefits of improved efficiency and reliability, bringing knowledge to larger numbers of clients, and the accelerated diffusion of new technology that we saw in IT consulting. But in other PSFs they could undermine the very foundations of the business by destroying trusted relationships with customers, allowing sales of a product to dominate over looking after the customers' best interests, and alienating staff from their clients, their profession, and their colleagues so that mentoring, knowledge sharing and even professional integrity become things of the past. In these professions, leaders of PSFs face a conundrum: how to reshape their organisations to gain some of the benefits of surfing the waves of industrialisation while trying to proactively protect and reinforce the distinctive features of the traditional professional services model.

Surfing away from industrialisation

Some firms have decided the answer lies in limiting their quest for the benefits of industrialisation. Despite its global reach, for example, Arup has determinedly stuck to its pure professional services model, seeking to reinforce its values and behaviours as it grows. This starts with its ownership structure: Arup is set up as a trust. Terry Hill says that this structure makes its distinctiveness possible. "We have supreme independence as a Trust." The structure leaves Arup free to live out "our founder's passion for the work we do".

Given this ownership structure, Hill continues, "we in Arup can concentrate only on two things and that is our staff and our clients. There's no sideways distraction with investors or banks. We do five times more investment in our own technical processes, and five times more research than any of our competitors. Ten years after our graduates join, 75 per cent are still with us. That is just amazing really and it's double or treble any of our competitors.

"We are neither a charity nor a short term profit maximiser. We attract people who love the built environment, design, excellence, the search beyond off-the-shelf solutions and global opportunity. We will not be the biggest engineering company per se, although we may dominate some segments where the market fits who we are." Arup has no growth targets (although it has grown in every one of its 60 plus years). "We are wary", says Hill, "of the quality stress that comes with growth. As growth stops in one area, people are free to migrate to and/or create new endeavours in situ. I'd like to be able to say that growth is so unimportant that we can stay still or even shrink — in practice we don't." Arup's compensation and incentive system is consistent both with its ownership and its emphasis on promoting the free flow of knowledge so essential to successful professional services. Arup divides its profit pool evenly over the whole firm — "Here the ethos of not pursuing personal wealth at the expense of others is key," Hill observes. This avoids internal competition and so promotes sharing of work.

Arup also shies away from transfer pricing. "We have a philosophy in Arup that anybody can use any information: any lessons, experience anywhere else in Arup free at the point of use. So if I find here that somebody's got a problem over there I just tell them how to do it."

The culture of sharing is further underpinned by the way in which Arup's flat nine-grade seniority structure functions. "There is no up or out: not all have to rise as fast as each other."

Professional lessons

The cases of SAP and Arup show the need to respond to the pressures for industrialisation in today's world while recognising the characteristics that make PSFs distinctive. The leadership of other PSFs must address the question of how to maintain the beneficial features of the distinctive professional services model that evolved throughout the history of the professions while pursuing the potential benefits (and sometimes imperatives) of growth, scale and industrialisation. PwC, Baker & McKenzie and Groupe Publicis have all sought in different ways to balance the tensions between the classic professional services model and the pull towards growth and industrialisation. Together with the experience of SAP Services and Arup, five main requirements for success in the new era of globalisation and industrialisation of professional services emerge:

01

Clarity about where we are and have to be on the spectrum between traditional professional services and industrialisation

For Ian Powell at PwC this means continually asking: "is industrialisation going too far? After a certain point it's too much." The logic here implies a willingness to exit or outsource activities which demand a more industrialised approach: Powell refers to PwC's decision to exit systems integration, for example, when PwC sold its management consulting business to IBM.

02

Defining what counts as success — in terms of profitability, client success, technical excellence, and the development of individuals and the stature of the profession itself

Maurice Levy was promoted to CEO of Group Publicis after rescuing the Groupe's key computer records from the fire in 1972 that went on to destroy the head office premises on the Champs Elysee. The business challenge in the wake of the fire, said Levy, was to convince clients that Groupe Publicis continued to thrive in a time of dispersion and disruption. There was much more to the Groupe than its physical infrastructure; "la souffle et la émotion, la passion" were assets that had not been destroyed in the fire. Building these soft assets, and making sure the organisation focused on delivering work that was tailored to local cultures to meet the needs of clients and talent, would become the definition of success.

03

Forging a closer link between clients and talent, to overcome the dangers of alienation

At Baker & McKenzie (B&M) this means that "clients act as the focal point for us getting together around the world — they give us a common vocabulary, and oblige us to have a shared understanding of their business." David Yates describes the Client Manager (CM) as a critical anchor for B&M as a global firm. "We have 200 global clients and 150 partners who are CMs. The CM connects a global client to local talent, drawing on our range of different capabilities, helping to address resource imbalances across the firm. In some cases the CM sends work to other law firms in areas we don't cover like immigration. Effective CMs", says Yates, "must forget about the timesheet, care about people, go beyond immediate business concerns and have a clear idea of how the client can make use of the resources of the firm." CMs are compensated on the basis of client benchmarks set and judged by B&M's global Executive Committee, as opposed to billings targets.

04

Upholding professional pride and integrity through the equivalent of a Hippocratic Oath

When we asked David Yates what held Baker & McKenzie together, he replied: "Our glue is professional respect. At B&M, partners across the world are personal friends, open to sharing. While a hot shot tax partner might be the highest earner, lower-earning partners can outvote our brain surgeons." Yates accepts that the strong culture of friendship could place a limit on B&M's size.

05

Working tirelessly to reinforce the "partnerial" culture as it has developed in your firm

Ian Powell at PwC sees his key leadership role as reinforcing what he calls the "partnerial model" which consists of: "professional standards, mutuality of interest and willingness to share". This may require tradeoffs and difficult choices. For example, PwC has chosen to operate with a somewhat fragmented or federal partner structure located around countries and practices that permits partners to relate to each other as peers in smaller groupings. It has to accept that this could be at the expense of "getting knowledge to flow", but "as partners we feel we have inherited the business and need to pass it on in better shape, partly in terms of performance but also in terms of its culture."

For managing partners, applying these lessons starts with taking another hard look at whether your firm's inheritance is safe with you. The key challenge, based on our analysis, is to reassess how your firm can re-engineer itself to enable growth, globalisation and greater industrialisation without undermining the foundations of trust, professional knowledge and integrity that are central to long-term success in professional services — and to what extent these objectives can coexist as bed-fellows. This requires clear choices about: the reach of your product portfolio; where to sit on the spectrum of the traditional PSF model through to industrialisation; how to develop a more direct "line of sight" between your staff and their clients' interests; and how to reassert a professional "Hippocratic Oath" alongside the partnerial model of your organisation in an increasingly global environment where competition, new technology and the need to retain talent are creating relentless pressures for growth and industrialisation.

For those individuals climbing the ranks of professional services firms or thinking of joining them, our findings underline the need to re-think one's motivations. Are we joining the profession because we are excited by ideas and the application of our knowledge? Are we motivated by the quality of the work the profession can bring to bear on client problems? Are we willing to share knowledge? Are we committed to building the reputation of the profession for its expertise applied with integrity? Or for us is this just another way to earn financial rewards and bolster our curriculum vitae? The world of professional services will not prosper and reach its potential contribution to global society if it cannot attract people who want to do more for the world than that. ◻

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