THE ART OF
MANAGING
PROFESSIONAL
SERVICES

INSIGHTS FROM
LEADERS OF THE
WORLD'S TOP FIRMS

MAUREEN BRODERICK

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Lessons from Leaders

Foreword

by Jay Lorsch

Successfully managing a professional service firm is indeed an art—as the title of this book suggests—as well as a science.

In the 15 years that I have chaired Harvard Business School's continuing education program, "Leading Professional Services," I have had the pleasure of meeting thousands of senior leaders of professional service firms of all sizes and sectors and across geographies. During these many years of teaching, writing, and consulting on firm management, I have developed a great deal of respect for this fascinating industry with its unique structure and governance style, highly talented professionals, and passionate focus on client service.

As Maureen Broderick states in her book, leading a professional service firm is not a job for the faint of heart. Keeping a firm of independently minded, highly intelligent professionals united and focused on firm goals and strategy requires a delicate balance between structure and autonomy and a unique leadership style.

A handful of levers are critical to building and managing a prosperous professional service firm: talent acquisition, development, and retention; client and services management; strategic thinking; infrastructure design and governance style; equity and compensation; and financial planning and oversight. To work effectively, all of these important management areas of focus must be aligned with the firm's vision, values, and culture which ultimately form the core around which all decisions are measured.

But alignment around vision and values, even for the best-run firms, is not easy in a professional service firm with many owners, diverse practices and services, and sometimes multiple geographies. The environment in which firms operate is fluid and dynamic. Clients and professionals move in and out of the organization, service needs and preferences change, new competitors enter the market, and the economy fluctuates—sometimes violently, as we have certainly witnessed in the first decade of this century. All of these events can trigger

the need for organizational adjustments and sometimes fundamental restructuring. As Tom Tierney and I described in our 2002 book, *Aligning the Stars*, staying on course and in alignment in the midst of change is a tough job for firm leaders.

The Art of Managing Professional Services presents a framework for professional service management that addresses the top areas of focus that firm leaders must monitor to build and maintain a strong organization. The book distills insights, practices, and recommendations from leaders of some of the best-run firms in the business. While there are unfortunately no "one-size-fits-all" best practices or processes for managing a successful firm, you will take away some tangible ideas to adopt and incorporate into your own unique business and culture.

Broderick and her research team have done an excellent job of capturing both the philosophy and the nuts and bolts of professional service firm management. This book is an important contribution to the industry and will undoubtedly remain on all of our shelves as a continuous reference and guide.

Jay Lorsch is the program chair of Harvard Business School's professional service programs and is widely recognized as one of the world's leading authorities on professional services. He is the author of more than a dozen books, including Aligning the Stars: How to Succeed When Professionals Drive Results *(with Thomas J. Tierney, former head of Bain, Harvard Business School Press, 2002). As a consultant, he has worked with some of the world's leading companies and financial institutions, including many global professional service firms.*

Introduction

The influence and clout of the professional service industry are immense. It would be difficult to find a business, government, or nonprofit organization that doesn't rely to some extent on a mix of external professional service providers. Behind every successful global company you will undoubtedly find a team of outside experts who all play a role—sometimes a pivotal one—in supporting that company throughout its history.

With 2010 revenues estimated at close to $2 trillion and a conservative average annual growth rate of 10 percent over the past three decades, the industry is one of the fastest-growing sectors in the world. Accounting, advertising, architecture, consulting, engineering, executive search, financial services, law, marketing, public relations, real estate, research, staffing, and a host of other knowledge-based workers who provide advice and support to businesses are included under the enormous professional service umbrella. The industry employs roughly 20 million people who work in over one million individual firms that range in size from one-person businesses to the Big Four global accountancies that collectively employ over 500,000 professionals.

Yet, despite its enormous size and influence, the professional service industry remains largely invisible to most people. Most professional service firms are privately held businesses, managed for the benefit of their partner-owners. They prefer to work behind the scenes and let their clients take credit for their work. The industry has never been subjected to the same level of scrutiny facing most other sectors. Wall Street analysts don't follow them, business reporters typically don't write about them, and the sector has never been included in any major market research studies by popular business

gurus. Only rarely does a professional service provider make the headlines, as was the case with now-defunct accounting firm Arthur Andersen and the Enron debacle.

This almost-clandestine nature of the industry is unfortunate for two reasons. First, professionals in the industry have very few places where they can turn for advice and best practices on how to run their business. Segment- and region-specific trade groups gather and share financial benchmarks and management tips and tools from their memberships, but only a few academic institutions, such as the Harvard Business School, Oxford University's Saïd Business School, and the Cass Business School, City University London, have provided a forum for industry leaders across segments and geographies to study and share ideas.

Second, the general business world can learn a lot from professional services. Ten years ago Peter Drucker predicted that leadership in the world economic scene would shift to the countries and industries that have most successfully deployed knowledge workers. Professional services are, of course, the quintessential knowledge-based businesses. Most business and management gurus spent a good portion of the 20th century improving the systemization and productivity of manual labor. In contrast, professional service firms have been perfecting a business model that attracts, nurtures, and retains the best and brightest knowledge workers. Plus, as the old-fashioned mass-marketing and sales transaction models of the last century are replaced by customer-focused product development and relationship-based selling, who better to turn to than the masters of customization and client relationships? Professional service firms, with their talent savvy, fluid service structures, and relationship management know-how, are in many ways the model for the company of the future.

There are several compelling reasons why everyone in professional services and in the general business world should read this book:

- *A comprehensive study of the industry.* Based on more than 130 in-depth interviews with leaders of professional service firms across seven major segments, this book offers an in-depth, behind-the-scenes look at this major global sector.

- *Management insights from the best in the business.* The lineup of firms and professionals who participated in the study reads like a "who's who" of professional services. The Broderick research team spent hundreds of hours with the senior leadership of these impressive businesses, all of whom were extremely candid and generous with their time and insights.
- *Tangible, practical takeaways.* So many business books admire the problems without offering any practical, concrete solutions. This book includes 40 featured "Lessons from Leaders" detailing management practices developed and successfully deployed in some of the world's most respected professional service firms. Firm leaders can shop through these practices and select programs, or components of programs, to tailor and adapt to their organizations.

The Research

Since our goal was to learn from the best, it was important that the firms we interviewed met three basic criteria. First, they needed to be acknowledged and respected by their peers. Because of our many years of work in the industry, we knew which firms were the leaders in each segment. But we confirmed our choices by reviewing the top-rated firms as defined by measures such as top revenue, most prestigious, and best place to work. These organizations were cited by trade associations, independent rating companies, and publications such as *Vault*, *Fortune*, and *BusinessWeek*.

The lineup of firms studied represents many of the top brand names in professional services, as shown in Exhibit I.1. Of the segments studied, consulting is the largest and most amorphous and represents the greatest percentage of interviews, as shown in Exhibit I.2. The consulting umbrella includes numerous subsegments, from the broad category of management consulting to narrower functional areas of focus such as human resources, operations, IT, marketing, business advisory services, and strategy. It also includes firms that focus exclusively on a single industry.

EXHIBIT I.1   Participating Firms

ACCOUNTING
Deloitte
Ernst & Young
Grant Thornton
KPMG
Plante & Moran
PwC
Wipfli

ADVERTISING/PR/ RESEARCH
BBH
Burson-Marsteller
Cohn & Wolfe
Edelman
Euro RSCG Life
Fleishman-Hillard
Goodby, Silverstein
Incite
Ketchum
Landor Associates
McCann Worldgroup
MedPanel
Ogilvy & Mather
Ogilvy Public Relations
    Worldwide
Ozone Advertising
Peppercom
Young & Rubicam Brands

ARCHITECTURE/ ENGINEERING
Black & Veatch
Dewberry
Gensler
Heller Manus Architects
HKS
HOK
Invision
Michael Baker Corporation
NBBJ
Perkins+Will
SmithGroup
Stantec
STV

CONSULTING
A.T. Kearney
Bain & Company
Booz & Company
Booz Allen Hamilton
The Boston Consulting
    Group
Celerant Consulting
Clarkston Consulting
Charles River Associates
CSC
ECG Management
    Consultants
ghSMART
Hewitt Associates
Hildebrandt Baker Robbins
Hill & Associates
Jones Lang LaSalle
Marakon
McKinsey & Company
Monitor Group
Oliver Wyman
The Parthenon Group
Pivot Leadership

EXECUTIVE SEARCH
Egon Zehnder
    International
Korn/Ferry International
Major, Lindsey & Africa

FINANCIAL SERVICES
Bain Capital
Duff & Phelps
Houlihan Lokey
Piper Jaffray
Raymond James
Thomas Weisel Partners

LAW
Allen & Overy
Clifford Chance
Cravath, Swaine & Moore
Cuatrecasas, Gonçalves
    Pereira
DLA Piper
Eversheds
Fish & Richardson
Freshfields
Jackson Lewis
Latham & Watkins
Mayer Brown
Morrison & Foerster
O'Melveny & Myers
Orrick
Seward & Kissel
Skadden, Arps
Slater & Gordon
Sullivan & Cromwell

EXHIBIT I.2   Interviewees by segment

Architecture/Engineering, 12%
Financial services, 6%
Executive search, 4%
Accounting, 15%
Management consulting, 28%
Advertising/PR/Research, 15%
Law, 21%
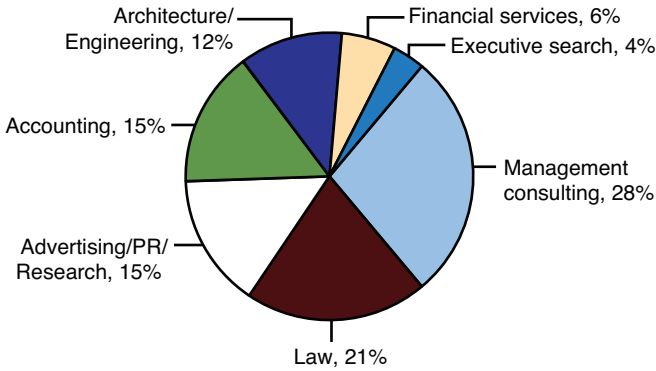
Second, the firms interviewed had to be in business for a decent length of time—in fact, the older the better. We wanted to study firms that had survived a downturn or two, and, even more impressive, had survived beyond their founding fathers. As shown in Exhibit I.3, 84 percent of our responding firms are more than 50 years old, and 28 percent are more than 100—certainly a decent survival rate for any business.

EXHIBIT I.3   Length of time in business

>100 yrs, 28%
50–100 yrs, 56%
<10 yrs, 5%
10–40 yrs, 13%
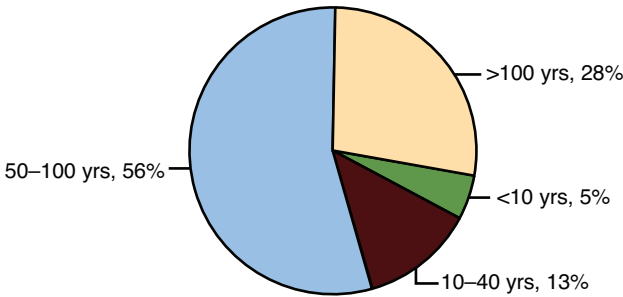
Finally, the firms studied had to be financially successful. Most professional service firms are privately held businesses, so financial data is not readily available. Although all of our interviewees volunteered their top-line revenue numbers, we do not know, nor did we ask, for bottom-line profitability numbers or percentages. We viewed compliance with our first two criteria as evidence of financial stability. The top-brand firms in the business typically translate into the highest revenue generators. As a result, many of the firms we studied fall into the top revenue brackets in the industry. However, we also spoke to a

selection of superbly managed small businesses that range in size from
$5 million to $100 million in revenue, as shown in Exhibit I.4.

EXHIBIT I.4   Firms by revenue

>$10 billion, 7%
$5–$9.9 billion, 1%
≤$100 million, 16%
$1–$4.99 billion, 28%
$100–$499 million, 32%
$500–$999 million, 17%
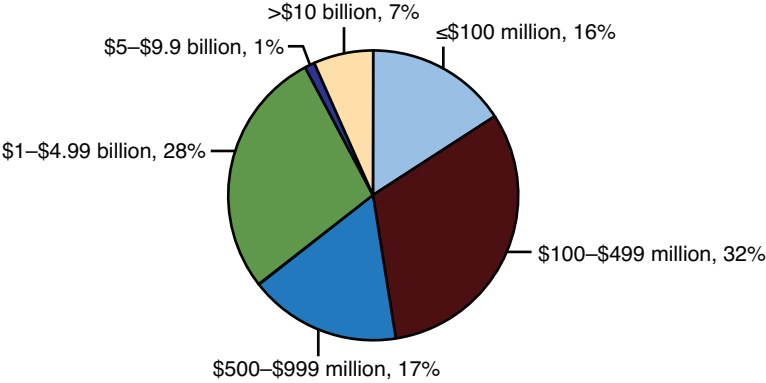
We interviewed the leaders of each organization, which included
the chairmen, CEOs, and managing partners, as well as a mix of
COOs; regional, service, or industry leaders; and nonbillable depart-
ment heads in finance, marketing, and talent management. Typically,
the chairman, CEO, or managing partner was the first in his or her
organization to be interviewed, followed by others in the firm who
were recommended for follow-up discussions. Sixty-two percent of
our interviewees were the top leaders of their organization—chair-
man, CEO, or managing partner—as shown in Exhibit I.5.

EXHIBIT I.5   Interviewees by title

COO,
11%
Region/
Service/
Industry leads,
18%
Leadership
(chairman,
CEO,
managing
partner),
62%
Non-billable
department
heads
(finance,
marketing,
talent),
9%
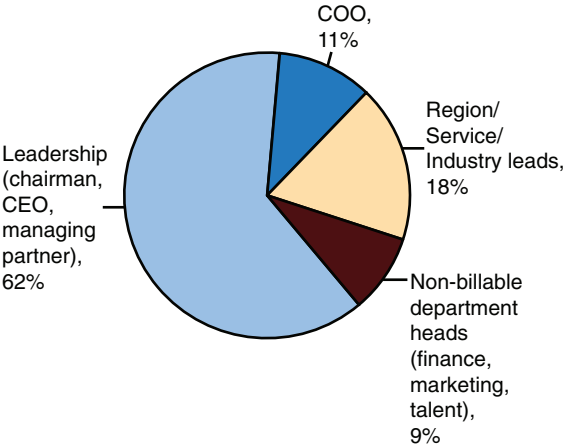
Chapter Guide

This book discusses some of the keys to firm management that emerged from our interviews. Chapter 1 presents an overview of industry characteristics, both good and not so good, and introduces the Broderick PSF Leadership Model which introduces the ten areas of focus for professional service firm leadership that formed the basis of our research. Chapters 2 through 10 discuss each area of focus in the model and present profiles of best practices uncovered during the course of our interviews. Chapter 11 explores the elusive subject of leadership. It features insights and musings from our interviewees on what it takes to be a successful leader of "incredibly smart and independent people" in the challenging and demanding world of professional services.

If you're a professional in the industry, you will enjoy reading the direct quotes from your colleagues on various aspects of the business. On a practical note, you will take away many good ideas and practices to incorporate into your organization. Most professionals tend to benchmark themselves with other firms within their individual segments. You will be surprised and pleased to find that many excellent ideas and best practices can be learned from a broader cross-segment. Advertising and public relations firms are superb at client account management, engineering and accounting firms are rigorous at strategic planning, consulting firms have some excellent training and mentoring programs, and law firms can teach us a great deal about successful teaming.

If you're not in the professional service industry, you will gain insight into the inner workings of some very successful firms, many of which you have probably worked with during the course of your business career. Hopefully you will discover some practices to apply to your own company. There is much to explore!

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Professional Services
Characteristics, challenges, and leadership model

"The fundamentals of the professional service business are brutally simple; it's about talent, it's about clients, and it's about teaming to bring it all together to create and deliver value."

—Jim Quigley, CEO, Deloitte
Touche Tohmatsu Limited

"Those corporations that get out ahead of the curve and take a page out of the playbook of successful professional service firms are more likely to be successful themselves."

—Paul Laudicina, Managing Officer and
Chairman of the Board, A.T. Kearney

Operating a professional service firm is very different from running a product-based business. Infrastructures, governance, talent management, compensation, and profitability vary significantly from traditional corporate environments. Firm leaders will tell you that managing a successful professional service organization is a challenging business that requires a delicate balance between structure and autonomy and a unique leadership style. Not to mention the enormous challenge of managing an organization of extremely smart, highly autonomous, and somewhat quirky professionals. It's definitely not a job for the faint of heart.

Common Characteristics of Successful Firms

During the course of our research, we identified several characteristics shared by the world's top professional service firms that offer some important clues about what works and what doesn't in a knowledge-focused business. Some are common traits typically found in most successful businesses, and others are unique to professional services. Collectively they tell an interesting story about the nuances of managing a professional service organization:

- *Values and culture are inviolate.* The leaders of the professional service firms we interviewed were passionate about their firms' values and culture. Values are the bedrock of the organization—the rules that govern behavior toward each other, clients, and the communities in which they serve. In successful firms, adherence to the values is cultivated and rewarded; failure to comply can result in expulsion. The organizations we studied devote an enormous amount of time and resources to embedding their values and reinforcing their culture. In fact, the leaders we interviewed agree that the preservation and nurturing of their firm's values and culture is their number one job.

- *Everything revolves around the client.* Clients are the dominant force, the *raison d'être* in professional services. Everything is driven by client service—vision, values, and culture; infrastructure and governance; equity and compensation; talent management; service development; brand, marketing, and sales. You live or die in a professional service firm by your ability to acquire, serve, and retain clients.

- *They respect and invest in their people.* You might expect that professional service firms would be good at talent management. After all, people are the product. Without committed, highly skilled people, there is nothing to sell. Some impressive best practices are discussed in Chapter 3, "People," but perhaps the most important lesson is that people are treated with respect. Their opinions are valued, they are trusted to interact with clients early on in their careers, and their contributions are expected and rewarded. The successful firms invest significantly in training and mentoring their professionals. Professionals are given a great deal of freedom—as

long as they adhere to the values—and often are limited only by their ability and willingness to perform. People at the best professional service firms feel special and privileged.

- *They operate in fluid, flexible teams.* Professionals move in and out of client and project teams, report simultaneously to multiple team leaders, and must learn to be proficient in a host of skill areas. They are constantly stimulated and challenged by a variety of mentors and team leaders and are exposed to a wide breadth of clients and businesses. As a result, the people in professional service firms are extremely flexible and adaptive. They thrive on the diversity and variety of their work. It's one of the reasons why so many top business school graduates—65 percent according to a Harvard statistic—join professional service firms. It is an exciting place for a bright person to work.

- *Organizational structures are extremely simple.* Even the global, multibillion-dollar professional service organizations we studied are essentially lean, flat organizations with a few leaders at the top and minimal administrative layers. In professional services, autonomy and entrepreneurship are encouraged and valued. Most professionals aspire to practice their skills and work with their clients, not lead the organization. Too much bureaucracy drives them crazy. In fact, if the firm's structure becomes too cumbersome and rigid, more often than not people will simply ignore or bypass it.

- *The senior team owns the business.* In a partnership model, a group of professionals are invited through a rigorous selection process to buy into the firm and become owners of the business. Not all professional service firms are partnerships; in fact, many are corporations, and although most are privately held, a few are publicly traded. What is interesting is that no matter the structure, the senior leaders are treated as owners. Professional service firms have created an environment in which the senior team is empowered and committed to making their firm successful. Becoming a "partner" is considered an honor, awarded after years of challenging work, long hours, and intense training. It is a serious commitment, not only financially, but also emotionally.

- *Everyone serves.* "I serve at the pleasure of my partners." "My job is to be a custodian of our values and culture." "You know I don't get paid any extra to do this job—I do it because I love this place." Most of the leaders we spoke with in our study grew

up in their organizations, and all are highly skilled and respected in their areas of expertise. All have managed some of their firm's most valued client relationships and have generated significant revenue over time. Many leaders continue to either actively manage or are heavily involved in client work. Unless you are in the industry, you probably can't name many professional service firm leaders. They largely work behind the scenes. Yet many of them have been at the helm of their organization for years—some for decades. They are, in fact, the epitome of business author Jim Collins' Level 5 leaders, described in his book *Good to Great*. Not only do leaders serve their partners and their organizations—everyone serves. Go to any website or pick up any professional service firm brochure, and you will undoubtedly see this word repeatedly. Professionals serve their clients, their communities, and each other. It is an ingrained mind-set within the industry.

- *They stick to their knitting.* Diversification is not an important concept in professional services. While many professional service firms offer a mix of service offerings and often tout multiple areas of expertise, they never venture too far from their roots. The Big Four accounting and consulting firms that work hard to distinguish between their audit, tax, and consulting services still remain firmly under the general advisory services umbrella. Even the major industry segment roll-ups of WPP, Publicis, Interpublic, and Omnicom stick to the related worlds of advertising, public relations, and market research. Many product-based businesses, particularly in the technology sector, have created consulting services or solutions businesses to extend their offerings and interactions with current customers, elevate their relationships to the C-suite executives, and capture the higher margins that services typically provide. In contrast, professional service firms have chosen not to venture into the product world, preferring to remain close to their core competencies.

- *It's about the work more than the money.* Profit is not the primary driver in professional services. People typically enter the business because they really like what they do and often have spent many years studying and training to perfect their skills. They typically don't join the industry to start their own firm or build a giant business. They want to do what they have spent years learning to do—practice the law, design and build a bridge, launch a global ad campaign, or solve a complex business problem.

It's Not All Good News

Of course, not all professional service firms are successful or wonderful places. Similar to other businesses, the vast majority of firms do not survive beyond their founders, growth is challenging, and some are just plain unpleasant and dysfunctional places to work. And just as the broader business world definitely could learn some lessons from professional services, the industry likewise needs to learn a thing or two from its clients. Some of the most notable lessons we observed in our research revolve around innovation, long-term strategic planning and investment, process efficiency, and marketing—or, more precisely, the lack thereof:

- *Change is slow.* The professional service industry is slow to evolve. Although service offerings have changed over time to adapt to changing client needs, competition has intensified—as one interviewee complained, "It's just not as gentlemanly as it used to be"—and mergers and acquisitions have altered the landscape for many segments. Technology has made managing the business and serving clients more efficient. Occasionally an event or disruption occurs in the market—such as the Sarbanes-Oxley Act in the accounting world, the rise of digital media in the advertising business, and the banking crisis for financial services—that forces firms to make some significant changes to what they do and how they do it. But basically the underlying structures and business models have not changed much in the past century.

- *Professional service firms are shortsighted.* Unlike product-based businesses, which have concrete deliverables, predictable production and sales cycles, and standard performance metrics, professional services is oriented toward the short term. Work traditionally is project-based and typically short-lived; clients come and go, making the sales pipeline unpredictable; and most professionals rarely stay in one firm for their entire career. Keeping busy short-term-oriented professionals focused on the big picture and a long-term strategy is a challenge to firm leaders. Plus, in a partnership structure, most of the firm's annual profits are distributed to the firm owners every year. Firm leaders lament the fact that it is often difficult to find funding for long-term strategic investment in new ideas and projects, because this involves reallocating partner earnings.

- *Process improvement is low on the agenda.* In general, process efficiency and improvement have not been a top management focus for professional service firms. Particularly in the bill-by-the-hour segments, there is little incentive to improve the underlying process of how work gets done. There is a general belief in the industry that each assignment is unique and therefore few processes can be made routine. Independent professionals like to run their own show and are resistant to the concept of standardization. Firms that offer more repeatable solutions, such as in the outsourcing and systems integration businesses, are much further down the path of understanding and managing their cost structures and revenue drivers.

- *Marketing and sales are evolving.* Marketing and sales, with a few notable exceptions, are relatively unsophisticated to nonexistent in professional services. The concept of brand is understood and carefully protected in the successful firms we studied, but most do not know how to strategically target and expand their markets or systematically sell their services and manage pipelines. For many professionals, marketing and sales are still mysterious and somewhat distasteful activities.

- *Diversity is just a concept.* As in most of the corporate world, diversity has not reached the upper ranks of professional service firms. Of our more than 130 interviewees, only four women and one non-Caucasian male held the top positions in their organizations. Green shoots of diversity programs surfaced throughout our interviews, and quite a few firms have invested time and resources to attract and retain women and minorities. But the truth is, it is primarily a white male world in the leadership ranks, and it will be quite some time before this fact changes significantly.

The Broderick PSF Leadership Model

We identified ten management areas of focus that we hypothesized were at the top of the leadership agenda in professional services. We started with the traditional McKinsey 7-S Framework for organizational structure, shown in Exhibit 1.1, as the foundation of our study. We planned to develop the questions around each of the seven variables in the model. But based on discussions with our research advisory

panel and the initial group of interviewees, we redesigned the framework to reflect several important areas of focus that are both critical and unique to professional service firm management.

EXHIBIT 1.1   The McKinsey 7-S Framework ©
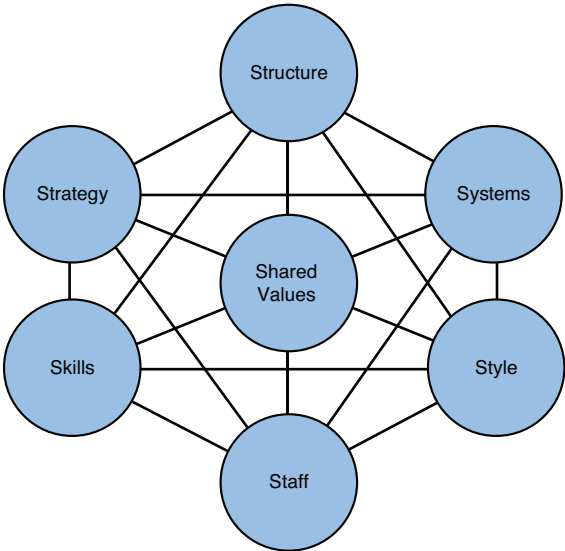
In the end, we expanded the variables from seven to ten, kept some of the S's, and added some P's and one F to create the Broderick PSF Leadership Model, shown in Exhibit 1.2. We determined that the original atom figure of the McKinsey model was the best way to visually depict the importance of organizational interdependence and the need for alignment around each of the ten variables. As in the McKinsey model, our research validated that shared values, along with a shared vision and culture, are the nucleus of every successful professional service firm.

EXHIBIT 1.2   The Broderick PSF Leadership Model ©
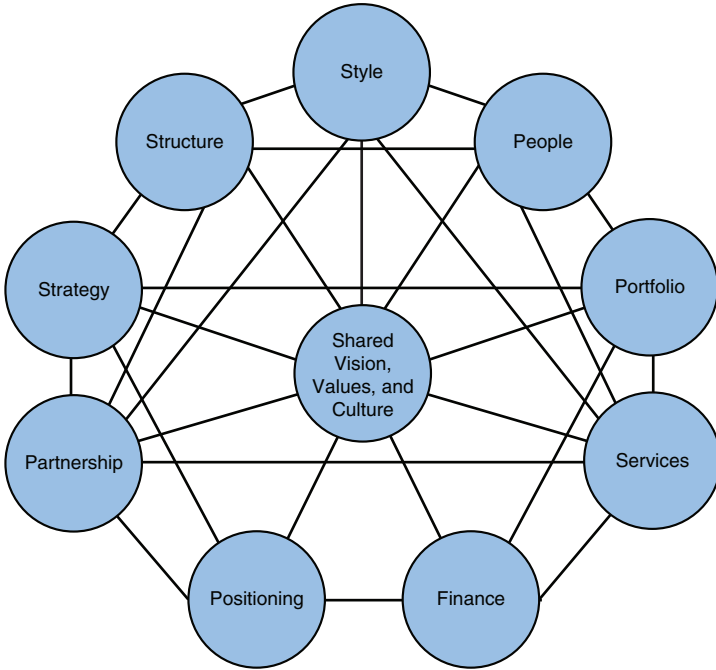
To keep the firm operating at maximum strength, leadership must constantly monitor and tinker with each of these critical pieces of the organizational puzzle. But even the best firms in the business can find themselves out of alignment at certain periods in their life cycle. And virtually all of the leaders interviewed admitted that many areas of their organization need attention and improvement. The key is maintaining a vigilant focus on the firm's vision, values, and culture—the anchor and core of every successful professional service firm.

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