Title: Managing the Professional Service Firm

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Overview:

'Managing the Professional Services Firm' draws on more than ten years of research by David Maister, and examines issues ranging from marketing and businesses development to leadership and profit improvement for Professional Service firms.

Two of the key points that have been central to the development of Godliman's culture, are Maister's ideas concerning 'one-firm firms' and the 'farmer vs hunter' model, which we set out in more detail below.

The One-Firm Firm

This model has been adopted by: Goldman Sachs, McKinsey, Author Anderson, Hewitt Associates and Latham & Watkins.

One-firm firms have a remarkable degree of institutional loyalty and group effort that is clearly a critical ingredient in their success.

The one-firm firm system has a management approach that is readily distinguishable from many of its competitors.

Characteristics of the one-firm firm system:

1. **Loyalty**- Institutional loyalty and group effort. Aim to recruit SWANS: People who are smart, work hard, ambitious and nice. This is in comparison to competitors who emphasise individual entrepreneurialism, autonomous profit centres, internal competition, and highly decentralised, independent activities. One-firm firms place emphasis on firm wide coordination of decision making, group identity, cooperative teamwork and institutional commitment.

2. **Downplaying Stardom** – Members of these firms view themselves as belonging to an institution that has an identity and existence of its own, above and beyond the individuals who happen currently to belong to it.

3. **Teamwork and Conformity** – Emphasis on teamwork and "fitting in" create an identity not only for the firm but also for the individual members of the firm.

4. **Long hours and Hard Work** – One-firm firm members are no "slouches." An individual illustrates their high involvement and commitment to the firm through hard work and long hours.

5. **Sense of Mission** – The "3Ss": the goals of (client) service, (financial) success, and (professional) satisfaction.

6. **Client Service** – Significant attention is paid to managing client relations. Client service is more broadly defined than technical excellence: It is taken to mean a more far-ranging attentiveness to client needs and the quality of interaction between the firms and its clients.

While all professional firms will assert that they have the best professionals in town, one-firm firms claim they have the best firm in town.

Other characteristics provided by Dr. Chip Bell include:

1. Entrance requirements into the group are extremely difficult.
2. Acceptance into the group is followed by intensive job-related training, followed by team training.
3. Challenging assignments are given early in the individual's career.
4. Individuals are constantly tested to ensure they measure up.
5. Training is viewed as continuous, and related to assignments.
6. Individual rewards are tied directly to collective results.

"The One-Firm System"

Recruiting: Is either heavily centralised or well coordinated centrally. One-firm firms invest significant amounts of senior time in their recruitment process, and tend to be very selective.

Training: One-firm firms are notable for their investment in firm wide training, which serves both as a way to add to the substantive skills of juniors and as an important group socialisation function.

Growing their own professionals: Rather than make of significant use of lateral hiring of senior professionals. They tend to "make" rather than "buy."

Avoiding Mergers: Deliberately avoid growth by merger. It is clear that this avoidance of growth through laterals or mergers plays a critical role in both creating and preserving the sense of institutional identity, which is the cornerstone if the one-firm firms.

Selective Business Pursuits: Tend to have a less varied practice mix and a more homogeneous client base than do their more explicitly individualistic competitors.

*Outplacement**:*** Consequences of the controlled growth and the avoidance of mergers id that these firms rarely lose valued people to competitors. Turnover is more carefully managed. One-firm firms are able to achieve a very profitable higher-leverage strategy.

Compensation: Compensation systems are designed to encourage intra-firm cooperation. Tend to set compensation through a judgemental process, assessing total contribution to the firm.

Investments in Research and Development: It is relatively easier for one-firm firms to get their best professionals to engage in nonbillable, staff-like activities such as R&D, market research, and other investments in the firms' future. This is a result of the "team player" judgemental system approach to evaluations and compensation.

Communication: It is open and is used as a bonding technique to hold the firm together. Keep everyone informed of what is happening in the firm. The firm will have frequent meetings and gatherings. This openness extends to financial matters as well.

Absence of status symbols: There is a suppression of status differentials between senior and junior members of the firm: an important activity if the firm is attempting to make everyone feel part of the team.

Governance: Consensus-Building Style: All one-firm firms have strong leaders who engage in extensive consultation before major decisions are taken. All these firms do have leaders: They are no anarchic democracies, nor are they dictatorships.

The one-firm firm system is powerful, and highly successful. However, Maister concludes that there are weaknesses. The key danger is self-congratulatory complacency. A firm that has an integrated system that works may, if not careful, become insensitive to shifts in its environments that demand change in the system. Another potential weakness is that it runs the danger of being insufficiently entrepreneurial, in the short run.

Hunters and Farmers

Farmers are like communities. These firms deliberate about what crops to sow, arrive at a decisions, and then “bet the firm” on that crop. One-firm firms are focused on the services they bring to market, and build their success by investing heavily in the chosen areas. They succeed though focus, muscle, and concentrated efforts in a few hand-picked areas. The collaboration teamwork that are the hallmark of the one-firm firms or Farmers derive not from an artistic preference but from the simple fact that since the firm has “bet the farm”, the success of the community depends on whether the crop comes in.

What counts is not individual performance, but contribution to aggregate success. “Being in this together” There is no way for an individual to do well, unless the organisation as a whole succeeds.

One-firm firms are known for their training, methodology development, hiring, and focused marketing is no accident.

The Farmer’s greatest virtue is also its greatest weakness: the fact that large numbers of professionals do the same thing or take the same approach to practice.

E.g. A firm of five partners have to make one of two choices: the first choice is that you collectively decide to practice the same speciality, in the same way, and develop joint marketing plan. The other option is to diversify risk. The five of you choose different specialties, being able to offer your market a range of services. Your success will now depend on the entrepreneurial ability of each of the five partners.

Hunter firms attempt to maximize the entrepreneurialism of the members, by creating the maximum possible degree of individual independence.

Both the Farmer and the Hunter approaches only work when they are done properly. Very concrete management systems are required to pull this strategy off. The Hunter firm must attract, motivate, and reward the best entrepreneurs. In contrast to the Farmer model rewards must be structured to emphasize teamwork and group contribution. The Hunter system requires that individuals rise and fall according to the results of their own entrepreneurial efforts. Hunter systems need to be more short-term focused on their rewards.

It is not enough to be “sort of” a Farmer. To capture the benefits of focus, then a very detailed set of business and management decisions must be made. Firms who attempt to capture both groups of benefits must make significant compromises in management practices, resulting in lessened performance. Firms must learn to capitalize on the strengths of their chosen model

Key Criteria	Hunters	Farmers (Godliman)
Basic Concepts		
Central Principle	Individual Entrepreneurialism	Firm wide collaboration
Key Strengths	Diversity, Flexibility	Focus Strategy
Internal Atmosphere	Competitive	Collaborative
Management Style	Bottom-line numbers focus	“Values” “Mission”
Self-Image	Street fighters	Team Players
Leader	Best Hunter	High Priest
Decision Making	Decentralised (autonomous)	Coordinated (interdependent)
Control Systems		
Philosophy	Results Measurement	Greater use of judgement
Planning System	Mostly financial	Strategic
Profit Centers	Strongly used, tied to compensation	For accounting purposes only
Compensation Systems	Short Term Performance Big range high-low Seniority Counts little	More use of rolling averages Small Ranged high-low Seniority more important

Creating the Collaborative Firm

The tension between individual groups and the needs of the firm are frequently revealed when individual profit centres forego activities whose benefit to the firm as a whole is large enough to warrant the cost, but whose benefit to the individuals profit centre is not sufficient to warrant them engaging in that activity.

Individuals focus on improving the profitability of their own group, rather than assisting other groups in order to penetrate their clientele.

There are not "shortcuts" to creating collaboration: Firms must make the investment if they wish to receive the benefits.

There is no easy answer to creating a collaborative firm; however some principles can be established.

1. **"Long term repeated interaction between the same people."** Cooperation emerges when people find it in their interest to do favours for each other.

2. **"The foundation of cooperation is not really trust, but the durability of the relationship."** Firms that have grown through mergers and lateral hires always have less internal cooperation than those that have grown from within.

3. **"Groups don't cooperate, people do."** Firms must create situations where the same people from different departments interact frequently.

4. **"Cooperation must be a two-way street."** It can only evolve when both parties are in a position to be helpful to the other. If one party is always giving the favour, and the other receiving, the situation will become unstable.

5. **"To get a favour you must give a favour**" i.e. offering information free of charge or obliging immediately. However giving favours first doesn't always work. People who do this may get burned a few times by those who do not return favours.

Once established, collaborative activity can be infectious. If cooperation is worthwhile, those doing it will clearly be seen to be benefiting.

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