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Session Overview CPD-LIVE 2017

- This session describes some of the key management practices that are used to impact individual, team and firm performance in Professional Services Firms (PSFs). The presentation summarises the findings of Australian research that identified 16 people and firm management practices as central to professional services firm performance

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Learning Outcomes CPD-LIVE 2017

At the end of this session, the participant will be able to:

- Benchmark the strengths of their current management system against 16 high performance management practices and target key themes or specific areas of management to build upon or improve in their own firm or team.
- Reflect on how they manage individuals and teams toward specific performance outcomes. The session provides ideas for new practices and policies that might be introduced to your firm and helps in a gap analysis
- Understand how and why some management practices work well together and why some other practices do not combine well.

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**Managing for
Performance in
Professional Services
Firms**

Dr Andrew Heys

1 hour study = 1 CPD Unit
Practice Management

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Agenda CPD-LIVE 2017

- Distinctive Features of Professional Services Firms and Management Challenges
- Research aims
- Leadership and Strategy, SHRM, Process and Structure, Managing the Culture
 - Leadership and Strategy
 - SHRM
 - Process and Structure
 - Culture
- Typical performance metrics
- Virtuous circles and deadly combinations

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Distinctive Features of Professional Knowledge Workers CPD-LIVE 2017

- Lengthy period of training and qualification – expert knowledge is at the core of a professional's working life – there is an expectation of a certain level of knowledge and skill in a graduate and graduates often have high expectations of the work they will be given and their rate of progression
- Often like to work autonomously and resist overly bureaucratic ways of organising, professional partnerships are still the norm
- Have clear professional responsibilities and enshrined rules and ethics – in a sense professionals 'answer' to both their employer and to their professional association
- Knowledge workers are highly mobile – knowledge is the main point of leverage of a professional knowledge worker – clients are often loyal to an individual not a firm
- Professionals are often 'client oriented' rather than 'firm-oriented'

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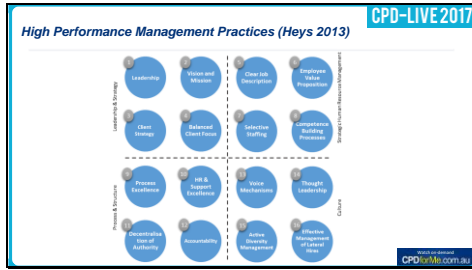
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Management Challenges in Professional Services – Knowledge-Intensive Firms CPD-LIVE 2017

- In PSFs the owner (or partner) of the firm is also a manager and s(he) is also a practitioner. Thus, there are multiple demands on an owner's time. Strategic decisions, management decisions, management of other professional's work and doing client work simultaneously compete for time, inevitably many professionals are 'part time' managers
- Management of professionals is hard to delegate to non professions but technical management is critical – finance – HR – marketing sometimes there is real tension between the two 'camps'
- Deferred compensation is often the norm: work hard now and the "tournament" prize (partnership/equity/bonuses) will come later

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Leadership CPD-LIVE 2017

- Survey participants emphasized the importance of a collegial or transformational leadership style at the top of a PSF – some-one who can set a clear direction for the firm and drive through necessary changes and strategies
- "Leadership" as a driver of performance also implies engendering appropriate leadership qualities and skills at each level of the professional hierarchy
- Leadership development programs are common for newly nominated partners across PSFs but the research says leadership development should begin earlier on, time out for professional development is difficult however and many firms undertake on the job development as the mainstay approach in building leadership capability



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Vision and Mission

- The firm communicates clearly to both clients and employees what it stands for
- The firm has a vision that may be clearly and easily articulated by the Managing Partner
- A sense of purpose for a firm is motivating and as many academics explain is central to motivation, which provides the energy for transformation and sustains individuals and firms over time



Image source: GFK.com

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Client Strategy

- Participants talked about the necessity of asking very clearly - what kind of work do we want to do (and are we good at doing)?
- And who do we want to work for? These two questions seem obvious but at times it can be tempting to break these golden rules for either commercial gain or to pick some low hanging fruit or for other less rational reasons
- Firms with clear client strategies make well-informed market-based decisions. Example - not to establish a banking and finance practice and also client-based decisions - eg. not to act for employees in workplace law matters
- A clear market strategy allows a firm to manage its resources well and to recruit clearly the people it needs to meet the needs of its intended market



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Balanced Client Focus

- In firms where there is a strong client focus there is an absolute dedication to service and the client experience.
- Yet in firms with *balanced* client focus the firm actively manages the 'billable hours syndrome' where professionals burn out seeking to achieve unrealistic hourly targets or client expectations that cause them to neglect all other management activities (and their and other's well-being)

.....Many professionals talk about the brutal and unsocial hours that their work demands in part because "no one" ever says "no" to a client. Learning to manage client expectations about billable time is a really important skill for an engagement manager or partner in a PSF.

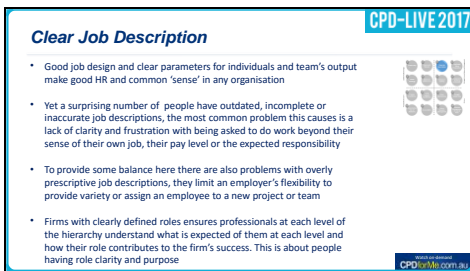


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Selective Staffing CPD-LIVE 2017

- This point is very consistent with an extensive literature about the importance of being very selective in who is hired
- Key aspects of selective staffing include, defining clear selection criteria that fit both the job and also the organisation's needs and desired culture. Good selection involves clearly structured interviews, multiple interviews, multiple interviewees and even peer-based interviews or work sample tasks
- Selective staffing can also apply to promotion - in particular conferring equity on new partners of the firm. Partner selection should be for fit not simply for retention in what is a contested talent market




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Competence Building Processes CPD-LIVE 2017

- The firm is active in growing managerial talent from within the professional ranks and effectively preparing future leaders with development activities - all of this is designed to assist their progression to partner
- Growing talent from within a firm has a lot of benefits, it lessens hiring costs, helps to control culture and also provides known entities as candidates.
- However, sometimes the internal labour market does not provide enough choice and new skills, new people need to be brought in to the firm.



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Process & Structures

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Process Excellence CPD-LIVE 2017

This is the effective allocation of work (appropriate delegation) and also quality assurance processes

One of the more obvious goals of process improvement is to minimise 'write-offs' (uncharged work) and errors leading to client dissatisfaction or client attrition but process improvement is also very beneficial in terms of saving production and labour costs

Delegation is a complex area in PSFs covering many human elements such as hubris (no one can do this work as well as me, the client insists I do this work), hoarding of work in a practice area for personal financial gain and also communication style and skill





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HR and Support Excellence CPD-LIVE 2017

- The firm has high quality HR systems and Executive level HR planning and management, good financial discipline and systems, high quality IT and knowledge management systems
- Not every firm can afford a corporate level of functional support, nor is it needed in every PSF, particularly smaller firms
- However, and within, reason budget should be allocated to providing the highest level of affordable support and planning, smaller firms will most likely use external consultants to assist in providing some rather than employing a full cohort of full-time business managers



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Decentralisation of Authority CPD-LIVE 2017

The firm emphasizes organisational structures and work teams which are as small as the task allows creating familiarity, ownership and engagement among team members

Teams that are well lead and have a clear purpose create a supportive environment that helps to add enjoyment to the work.

The creation of teams also provides opportunities for closer mentoring to occur and for those leading the teams with a chance to develop their management skills




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Accountability CPD-LIVE 2017

- Performance management is the most commonly used approach to drive accountability most professionals are used to having an annual appraisal and to having their remuneration – bonus or annual profit dividend linked to their individual performance or the output of their area or team
- Often however the annual performance appraisal even when moderated by a committee is only capturing the 'what' of performance and not the 'how' of performance, a more complete PM system is one that looks at performance more holistically including behavioural dimensions of performance such as staff mentoring and business development.
- Partners are held to account for their performance and their behaviour




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Culture




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Voice Mechanisms CPD-LIVE 2017

- There are mechanisms in the firm that ensure all the partners 'have a say' in the running of the firm
- There are democratic approaches to governance especially through the elected role of the Managing Partner and a collegial climate and system of management, such as committees for key decisions
- Governance along democratic lines is increasingly difficult in large professional services firms with hundreds of partners and thousands of employees but it is a traditional value of professional partnerships that still has some currency in modern PSPs
- Voice mechanisms as a driver is also embodied in annual employee engagement surveys that are widely used across many industries, they must of course be professionally administered and findings acted upon so management is seen to be responsive to concerns



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Thought Leadership CPD-LIVE 2017

Partners are active contributors to contemporary debates through e.g. authorship of articles, industry papers or speaking at conferences etc.

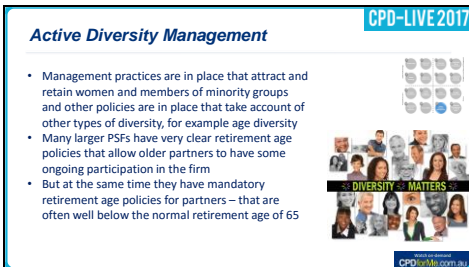
Having the 'leading lights' in a particular area in certain areas of practice provides proof a firm is reputable and qualifies it to be considered for particular types of work



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Active Diversity Management CPD-LIVE 2017

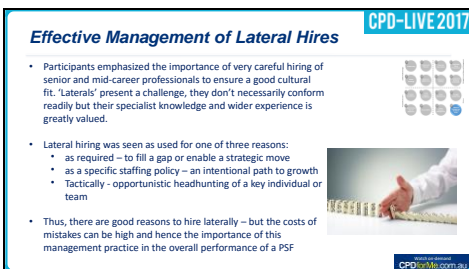
- Management practices are in place that attract and retain women and members of minority groups and other policies are in place that take account of other types of diversity, for example age diversity
- Many larger PSFs have very clear retirement age policies that allow older partners to have some ongoing participation in the firm
- But at the same time they have mandatory retirement age policies for partners – that are often well below the normal retirement age of 65



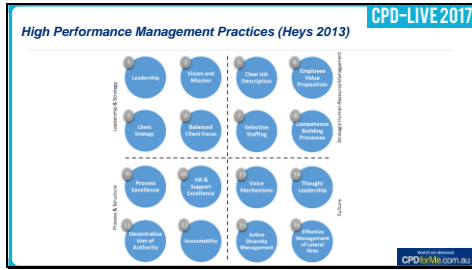
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Effective Management of Lateral Hires CPD-LIVE 2017

- Participants emphasized the importance of very careful hiring of senior and mid-career professionals to ensure a good cultural fit. 'Laterals' present a challenge, they don't necessarily conform readily but their specialist knowledge and wider experience is greatly valued.
- Lateral hiring was seen as used for one of three reasons:
 - as required – to fill a gap or enable a strategic move
 - as a specific staffing policy – an intentional path to growth
 - Tactically – opportunistic headhunting of a key individual or team
- Thus, there are good reasons to hire laterally – but the costs of mistakes can be high and hence the importance of this management practice in the overall performance of a PSF



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Financial Performance Measures CPD-LIVE 2017

- **PperEP**
Profit per equity partner (net operating income / number of equity partners)
- **RpertFE**
Revenue per total fee earners (gross revenue /total number of fee earning staff.
- **RperPnr**
Revenue per partner (gross revenue / number of equity partners)
- **Amlawindx**
American Lawyer Profitability Index (the ratio of all lawyers (or fee earners), minus equity partners) to equity partners, and profit margin, which is the ratio of net operating income to gross revenue multiplied by 100. It can also be obtained by dividing profits per partner by revenue per lawyer

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People Performance Measures CPD-LIVE 2017

Employee Turnover Rate
Percentage of all full time employees who voluntarily leave a firm for avoidable reasons per year

Employee Engagement – Employee Satisfaction
Engagement survey scores – employee satisfaction survey scores

Employee Productivity
Realisation rates – number of billable hours sold relative to the number of billable hours available

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Virtuous cycles and deadly combinations CPD-LIVE 2017

- How well do your HR and management practices work together?
- Virtuous cycles occur when there is a high level of coherence among the HR/management policies and practices adopted within a firm's management system.
- Positive 'bundling' or 'powerful combinations' occur among HR practices where the benefits of one policy multiply the effects of others. ... in contrast
- Deadly combinations can also occur. These are instances where firms have policies in place in conjunction that appear to have conflicting purposes, for example a common mistake is putting in place a lot of training for and expectations of teamwork but leaving the remuneration system untouched and having performance based pay based on individual KPIs

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Summary CPD-LIVE 2017

- PSFs have a very distinctive workforce, ownership structure and management culture – it can be difficult to transfer conventional management wisdom to this environment
- Yet, professional services firms are without a doubt becoming more corporate and more business-like and thus we see that
- Some of the 16 practices presented here are ones that are commonly used in the wider management arena and at the same time some are quite distinctive to the PSF environment
- Be aware of the importance of thinking about how the introduction of a new practice into your firm will effect the existing system of management, try to think about the interaction of policies particularly deadly combinations need to be considered carefully. Good luck and thank you for listening in.

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