

Managing the Professional Service Firm

By David H Maister (1993)

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Summary by Graham Wilson

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A quick overview – why I have summarised this book

Lots of people work for professional service firms – some are highly qualified, others less so – some are one-person businesses, and others employ thousands. In times of economic plenty, large firms tend to boom. In times of economic uncertainty, many people set out on their own. Almost any discipline that calls for specific knowledge or skill can be regarded as a ‘profession’. From the one-person business, such as a driving instructor working alone or the Parish priest managing the efforts of a small team of volunteers, right through to the Partner of one of the big accountancy practices, and the CEO of a hospital trust, Maister’s book has some relevance. With a little lateral thinking, almost any service provider could get something from it. As manufacturing companies also provide an element of service, they too could benefit from considering the application of his ideas to their operations.

Although Maister published his book in 1993, parts were written in the mid-1980s. Models of organisations have dramatically changed since then and for many the *ethos* on which they were run has changed. Prior to the 70s, most firms were closely linked to a core set of activities, such as advertising, strategy formulation, personnel systems and so on. There was far less diversity of product offering. Since the 90s, we have witnessed the collapse of many professional service

firms and it is worth reading this book with a degree of caution – that said, it is virtually the only comprehensive guide to this topic.

My initial reaction, on reading the book, was that it was antiquated, but as I got into it, I discovered that there were some lessons and tips that I would have liked someone to tell me when I began my career as a consultant. It's with this focus in mind that I've prepared the synopsis.

The complex mix that is 'professional service'

Maister's model of consulting emerged in the 70s and 80s – namely that partner's profits are derived from the surplus generated by hiring junior staff at low cost and billing them out at multiples of that salary – the extent to which this happens is the 'leverage' of the practice.

Even though they all describe themselves as providing exceptional client service, allowing fulfilling careers and delivering substantial profit, professional service firms differ in many ways. David Maister distinguishes between them on the basis of the type of work that they perform:

- **Procedural** – work for which the solution/approach is well known, can be delegated to less experienced staff and to some extent the range of answers can even be 'prescribed'. The key to selling this work is its efficiency. This area has greatest leveraging potential and so has been the focus of most business growth (and hence larger firms) over the last two/three decades.
- **Brain** – work that requires a lot of creativity – calling for professional expertise and for which little can be specified in advance. While this favours sole-traders and boutique practices, larger firms can address it too.
- **Grey hair** – equally unique and difficult to proceduralise but where the delivery of the solution is based on the experience and breadth of the professional.

It is the balance of these different types of work that determines the manning, management, and culture of the firm. As billing levels for the different types of work and staff to perform it vary, so it is necessary to manage the mix to deliver profit for the firm.

Many firms in the financial services and IT sectors fall into the 'procedural' category. By contrast, the likes of Andersen were based on the 'expertise' model – where business schools were the recruiting ground and only the brightest potential stars were bought in. Meanwhile, the accountancy-led firms, are predominantly procedural, they trade on their 'grey hairs' in dealing with difficult issues – again, this is probably one of the sources of their problems in that they lacked true 'expertise' to deal with more intellectually challenging problems.

The two fundamental mismanagement problems of professional practices

Applying the same leverage throughout. More complex firms have different parts with different leverage potential. It could be argued that the problems recently experienced by the very large firms were predominantly because the same leverage factors were expected of parts with widely different potential – thereby creating internal competition, the tendency to take short cuts, and considerable burn-out at junior and middle levels.

Failing to manage promotion effectively. In leveraged environments, the skills expected at the junior level are very different to those at the more senior one and so these firms operate a promotion system that reflects the mix that they need rather than the potential of the people within – essentially this determines how long someone will remain at a certain level and what their odds are of being promoted. Mismanaged promotion leads to an 'up or out' culture.

A highly leveraged firm will need many juniors (as Maister calls them ‘grinders’), preferably increasing their individual level of experience but who are prepared to wait longer for promotion (and hence financial reward). Such a firm only needs a small number of seniors (Maister’s term is ‘finders’) and between the two a moderate number of ‘minders’.

Turning around a problem practice

It is surprising how many managers in professional practices see themselves as ‘turning around’ a problem area. It is always worth asking how there come to be so many areas needing this, but assuming that it is genuine, how do we set about it?

Often the secret lies in identifying what **style** of work that area is genuinely suited to, and then finding the mismatched management assumptions that it is applying. Nowadays, this usually involves reducing leveraging, putting right the assumptions (e.g. wrong recruitment focus, irrelevant incentives or frustrating promotion strategies) and then with a more motivated team, looking to drive profitability through other elements of the profit-margin-leverage mix.

Targeting ‘under-performing’ parts of the business is usually only moderately effective – as they are probably not under-performing in their sector – it is the expectations of them that are unrealistic.

Once the demotivators are addressed, the most successful tactics will usually be to increase fee levels and lower variable costs. Increasing volume of work (a sales drive) is of little effect, as is lowering fixed costs (the traditional focus of a cost reduction programme).

The third most fundamental problem of professional firms

If inappropriate leveraging and mis-assumptions about style of work are the first and second fundamental problems, then the third is **the inability of more senior staff to appropriately delegate**. For all professional services firms, there is a tendency to overestimate the volume of ‘expertise’ work involved, and to underestimate the volume of ‘efficiency’ work. As Maister says, there is a core tendency of ‘professionals’ to assume higher levels of expertise are necessary to do work and that there is less standardisation possible – a simple problem caused by unresolved ego issues!

Patterns of practice development

The three styles of work, also determine the appropriate practice development (PD) strategies. In Maister’s terms, there are broadly five styles of PD: broadcast, court, super-please, nurture and listen. The marketing mix favours the first two, and firms tend to under-invest in the last three – and if they do anything they concentrate on current activities (products) rather than future needs. The solution is to create far more opportunities for informal listening to clients.

Managing client service

Sadly, the blindingly obvious isn’t always recognised. Linked to the professional arrogance that prevents delegation, is the tendency to assume that we know what the client wants and that by doing a good job (in our minds) we will have done a good job in the clients’ mind. The two are often a long-way apart. Again, the style of practice plays a role – but essentially if I turn to a professional I have probably not got the background to assess them technically – I can only base my judgement on trust, confidence, peace of mind, reassurance and above all, attitude. So it is these ‘softer’ factors that have to be managed if clients are to be won and remain loyal.

This is so important that we’ll put it another way; time and time again, professionals become so oriented to their own point of view that they lose touch with their clients’ perspective – architects fall in love with their own designs, lawyers with their ability to see the minutest

detail, bankers with the elegance of their jargon, consultants with the sophistication of their solution, accountants with the rigour of their analysis.

Sadly, for some professionals, this is about treating human beings as human beings and being empathic to their individual whims. It is always worth paying attention to the reasons why people buy and then proactively manage the firm's response to them.

Good professional firms have service quality programmes. They do so to genuinely respond more effectively. They do not do so to merely satisfy some external auditor.

It is plain common sense that it is easier and more cost effective to sell more to an existing customer than it is to find more prospects and convert them. To many professionals, especially those in the procedural areas, this nevertheless remains an anathema.

The marketing tactics that work and those that don't

Since all firms rely on some level of expertise it is important to demonstrate it – the usual methods are disseminating articles, delivering speeches, and conducting research, with select audiences in mind. Being quoted more widely, as a result, is the cherry on top.

Most other activities are ineffective. Brochures are the glossy equivalent of a business card – you may need one, but don't expect anything of it. Besides most brochures satisfy the egos of the writers/creators but don't impress the readers/recipients.

Most professional firms manage billable time very carefully but, strangely, few manage their marketing time at all.

The marketing mix is a complex one and calls for a variety of different skills across and up the organisation – but essentially marketing is a team-activity. Despite this, most firms create internal competition based on the ability to close sales. This often favours the last person in a chain – a kind of pass-the-parcel game rather than the team.

Before managing the firm, manage yourself

Too many professionals trade on knowledge that they had a long time ago. Reality test yourself:

“What do you know now, or what can you do now, that you didn't know or couldn't do one year ago?”

We often rush from one piece of work to another without assessing exactly what we have learnt from it. “What we are is determined by what we experience, which is determined by what we do, which is determined by what we learn, which is determined by how we interpret events.” Which is why a personal journal and coaching are so effective.

The upward spiral of progression. Learning from your work is crucial for career progression in professional firms – people who demonstrate that they learn from their experiences get given better assignments and so learn more. Those that don't learn get less inspiring assignments (and less investment in their future generally) and so have fewer opportunities to develop. The result is a progressive (and it is often quite quick) separation of the two groups.

And then manage the firm...

Once you have begun to build your own assets it is time to apply exactly the same philosophy to the others in your firm. There will be things that you have limited control over for yourself, but a great deal of control over for others. For example, even quite junior professionals may be

able to **provide useful assignments** to their colleagues. Similarly, you need skills to coach but not direct experience – some of the best professionals are the **confidantes and coaches** of their peers.

Even in the recent past, (in which you may well have been a rising star yourself) the up-or-out system coupled with young professional's ambition meant that little had to be done to motivate them. Today this is far from the truth. For economic and cultural reasons, today's professionals are no longer driven in the same way and most, especially the good ones, challenge this approach. With lengthening odds against them becoming partners or the equivalent, they expect **other forms of motivation** – and that doesn't necessarily mean money. Similarly, many do not even aspire to become a partner seeing them as representing the values of a previous generation.

This becomes a more acute problem still, when we realise that the number of potential new entrants is dropping too. **There is a people crisis, especially among the professions.**

The insecurity of the professional

Most professionals, in the sense that we are talking about, feel an almost neurotic need to constantly and repeatedly test their skills against unfamiliar problems with an uncertain probability of success. They are frequently insecure, have a low sense of self-worth (which they will either deny in public or massively over-compensate for), and are in constant need of external tests of their merits to prove (to themselves) that they still have what it takes. Many suffer from 'imposter' syndrome – a fear that someone someday will expose them.

Because of this, they need frequent reassurance to maintain their motivation. In the absence of good feedback from their seniors, they seek other means – especially 'scoreboard-oriented', visible and well-defined measures of success. Unfortunately these have little bearing on how they are perceived within the organisation.

Their lack of self-respect means that they have a higher than normal need for both **autonomy in their own work** and **involvement in policy decisions** – these serve as powerful evidence that the organisation trusts them, and properly applied are useful motivators.

Unfortunately, ambiguous goals, lack of variety, an absence of feedback, and postponed rewards are common in many professional firms. As a manager and leader, you have the responsibility to address this.

What does it mean to be a Partner or the equivalent?

The portfolio of rewards represented by Partner status in most professional firms include:

- Equity participation
- Tenure
- Autonomy
- Participation in Policy Making
- Income
- Internal Status and Recognition
- External Status and Recognition

Maister is particularly critical of this lumped together approach. As he points out, there aren't two categories of people – 'partner-material' and 'not-partner-material'. Firms are increasingly breaking down the distinction. Similarly, even among the Partners, there are

significant differences between those who are the real wielders of power and those that are not. Overall an individual who desires Partner status is questionable as this rarely brings the returns that they expect.

A more mature approach is to break down these elements and decide which are important to you (or the person you are coaching) and see if there are ways of achieving them without the long and uncertain process of seeking partnership.

'That' people crisis

Professional firms are always in a people crisis. In times of plenty (of work) they lack the right people to do it. In times of famine, they lose the good people early and struggle for the right people to do what little work they have. The key is in the **recruitment and retention of good people**. To achieve these you have to work one-to-one with people, giving them individual attention, coaching them. This is a continuous process and can't be restricted to a once-a-year grand event.

Clearly there are other things that managers can do – particularly pandering to the psyche described above – giving approval, visibility, recognition, and appreciation wherever possible. The Socratic style of good managers comes across in everything they do, from assigning tasks, designing solutions, to chasing progress.

Do you have a strategy?

Sadly, in my view, the one failing of Maister's book is his treatment of strategy. Essentially he assumes all professional service firms have the same one and that the only thing that makes them different is how they try to achieve it (i.e. their tactics).

That said, do YOU have a strategy? A personal one. What is it? As Maister says, **focusing Partners on their personal strategy is one of the most effective ways of improving the overall performance of the firm.**

Creating a productive culture

While professional firms differ in their strategies and the tactics that they use to achieve them, they still suffer from some remarkably consistent cultural characteristics. Most of these arise from the 'leveraging' model that effectively dictates a non-collaborative and self-focused culture.

When he wrote about this topic in 1985, Maister was calling for this culture to be broken down, and for a collaborative approach to be introduced. He describes the preferred model as "The One-Firm Firm". His idea is that in an environment that is focused on the outcomes for the organisation rather than for the individuals, staff demonstrate loyalty, play down their own ego-needs, will operate as effective teams and be highly supportive of their peers.

In the few examples that he quotes, where this collaborative culture has been successfully created, there is a tendency to work excessively long hours at a high level of intensity. Of course today most management 'gurus' argue that this too is unhealthy and look to the examples of *Imagination* and *St Lukes* in the advertising world as setting the new trend, but in Maister's day there were few roles models of this kind.

Two different strategies: Hunters and Farmers

A useful distinction that Maister makes is between firms that are 'hunters' and those that are 'farmers'. The hunter's strategy is to aggressively seek new business, based on what needs are being expressed among their prospective clients. The farmer's strategy is to identify the service lines that they want to deliver and then focus on the development and delivery of these.

The basic conclusion that he comes to is that hunting is not healthy, but it is successful in terms of building revenue, while farming is healthier in the longer term, but it yields a lower revenue in the short term. Nevertheless, there are examples of both strategies working – especially among the medium scale practices. Again, you might find it useful to reflect on what your own strategy is and seek to develop it. A word of caution – as Maister advises – it is rarely appropriate to try to pursue both.

The importance of networking and myth of cross-selling

Virtually all professional firms preach the importance of networking. Very few succeed at it. Again, Maister points to the problems of the ‘leveraging’ system and how this impedes sharing and collaboration. Not only does this compromise individual’s income stream, but it also compromises the professional psyche and its need for autonomy.

Maister warns that the normal reason given for networking is to be able to deliver the range of the firms’ services to the same clients. In practice, few clients have such widespread needs and even if they do, the only kind of cross selling of this kind that works is when there is an individual with a definable expertise that can be presented to the client. Where a whole practice area is relevant it is too threatening to the incumbent part of the firm for it to be introduced.

If you intend building a strategy within your organisation based on networking, then Maister suggests that there is only one area that really works – that is where a national partner has a relationship with a national client and can introduce the firm locally to local offices or groups. The same, of course, could apply at the multi-national level.

For further information please contact:

Graham Wilson
49 Freehold Street, Lower Heyford, Oxfordshire, OX25 5NT

† 07785 222380

† 0870 122 5909

e summary@www.grahamwilson.org

w www.grahamwilson.org

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