


Pressure points

The past year's economic woes have refocused management attention on embedding and fine-tuning the precision and flow of key business operations. Attention to detail and a clear long-term plan are the principal requirements when probing a firm's productivity levels.

By Laurie Young



One consequence of the recession for many companies at the moment is a feverish discussion of potential productivity improvements; more innovation in a long story of remarkable productivity gains in manufacturing. During the 1990s, for example, the productivity improvement in American manufacturing led the world, and the story in agriculture is the same. Approximately two per cent of the current American population works in agriculture (as opposed to 90 per cent in 1790), but that two per cent produces more than at any time in history. Time and again, other sectors have had to reach for more creative means of improving quality and reducing costs.

The professions, by contrast, have hardly been touched by the need to improve productivity. Having enjoyed protected markets, a boom in demand and fat margins, many professional practices have been able to concentrate on quality of advice and intuitive relationships with clients, rather than a rational approach to the design of business operations. There are signs, though, that this is about to change.

Pressure on the professions

The pressures on private practices are accumulating and they are not just recessionary. In law, for instance, business clients are beginning to challenge items they call ‘commodities’. Most projects contain administrative functions or routine processes that have been the source of inflated billing to date. Clients are demanding that even the elite ‘magic-circle’ practices strip out these items and find ways to differentiate between valuable professional insight and routine tasks.

This pressure itself results from a fast-growing international trend: the informed buyer. In law, accountancy, ‘executive search’ and many other professions, the person who represents the interests of a large company now tends to be someone who is qualified in the industry. Not only are chief financial officers (CFOs) and internal counsel qualified accountants and lawyers, many have also had a spell in private practice and know the dynamics of the supply industry. It used to be the case, for instance, that executive search partners could deal directly with main board members and use the mystique of their industry contacts to generate high-margin work. Now, however, many have to first negotiate with a vice president of ‘talent’, who is likely to be an ex-headhunter themselves.

The informed buyer, in turn, leads to that most difficult of all specialists: the purchasing director. Ever since the Enron debacle, there has been a relentless trend to involve purchasing specialists in the purchase of high-end professional services. Although the prime motivations are transparency and good governance, the leaders of many of the world’s largest firms have found that professional buying has reduced cost and mitigated risk. Auditors are being subjected to formal ‘rotation’, consultants to ‘beauty parades’ and lawyers to ‘panel reviews’. In some parts of the world clients have even experimented with internet-based auctions. Two years ago, one French consumer product manufacturer reviewed its international search-consultancy roster. It reduced the agencies used by the worldwide firm from 20 to three, and changed the nature of the service they received. The business has since applied this process to consultancy, law and accountancy, as have many other companies of all sizes. In 2008, Jonathan Dutton, chair of the Australian Institute of Purchasing & Supply, said that this is a world-wide trend, and that purchasing specialists are currently learning how to buy professional services effectively.

Merger mayhem

Changes prompted by regulatory pressure are also likely to affect a specific area of work important to many practices, namely M&A. This runs through city partnerships like a name through a stick of Brighton rock. I know partners who have been shocked at just how much of their practice has been decimated by the crash of M&A-related work. In the past, enduring firms have simply moved practitioners into counter-

cyclical work and waited for the City to come back. I suspect, however, that this time it will be different. The investment banks have long followed the ebb and flow of financial bubbles, allowing inefficient and risky practices to survive because reward has been so large. Yet even before the latest crash, many were beginning to question how they buy professional help. A number of bankers, for instance, were beginning to reflect on the fact that parts of M&A were so routine that lawyers were only really needed to ‘paper a deal’. And if change was in the air before the credit crunch, it will be inevitable after. The world population will not forgive their politicians if the bankers are allowed to return to work with no legislative or regulatory reform. It may be that vast earnings will allow sloppy margin control to continue in highly lucrative niches like private equity, but not elsewhere.

This, in turn, will hasten two pressures increasing for professional practices: external funding and City listing. There is an inexorable drive among the world’s professions to limit the risk of partnership. Many have now become limited liability partnerships (LLPs) and others are still looking at different forms of ownership and funding. In accountancy, for example, the ‘integrators’ (publicly-owned companies that buy small practices and create networks) are back with a new and effective model. One in Australia has grown very fast in recent years, and is now just a whisker behind the big four. In law, consultancy, investment and executive search, a number of partners have floated their firms in different parts of the world. This is a fundamental change that alters the financial dynamics of a practice and changes partnership behaviour. Over time, publicly-owned practices become leaner, cheaper and meaner. So even if a partnership doesn’t need external funding, it is likely to find itself competing against viciously-focused, streamlined and effective public competitors.

These forces are accumulating, and unlikely to diminish. Even as we come out of recession, it seems unlikely that professional practices will be able to return to the Halcyon days of fat margins and luxurious lifestyles. The hunt will be on to improve productivity with the same sense of urgency and creativity as has occurred in other sectors.

The tools of productivity

So what tools have helped other sectors to compete and improve effectiveness over the years, and can these be deployed by the profession? Is it possible to reduce costs, improve quality and still impress clients? Is there a means to substantially improve partnership productivity?

One strategy is the proactive management of the process of operations. In manufacturing companies, the operations process has long been focused around the assembly line. Entrepreneurs like Sloan and Ford made history by designing, automating and improving the manufacturing processes of their companies. Their legacy still influences much business thinking today, but

operations strategy has gone far beyond the actual production line. Operations specialists have used 'just in time' principles, for example, to involve trusted suppliers in the heart of their business operations; at the same time cutting warehouse costs. The internal layout of factories and the movement of capability to low-cost labour markets have been fundamental in making continual improvements in the cost of production.

At the heart of this, however, is a clear-sighted overview of the operations process, so sophisticated that it is now a specialist discipline in many leading universities. In fact, the research in this area has extended into service businesses as western economies have become more service dominated. Organisations like IBM global services and MacDonald's have been at the forefront of dialogue with leading academics about the application of operations theory to the productivity improvement of massive, international service businesses. The professions are strangely absent from this field. Few have taken the time even to 'flow chart' the processes that their clients experience every day, and even fewer routinely investigate ways to improve, amend or automate aspects of their daily delivery.

Client closeness

The second major trend is the 'co-creation of service', one of the fastest-rising fields of work in the service sector. This is an extension of the idea that all services have at their heart; a process through which clients and customers move. There is evidence that repeat buyers like to take more control of this process themselves as they become familiar with the workings of the supplier. In large business-to-business markets, this led to an interesting consequence that has allowed some to gain real advantage. Trusted suppliers have been able to map the end-to-end processes of their work with internal client teams. The activities are tracked from the moment they are initiated by an internal business unit, right through the specialist function (like finance or legal) to the external supplier. This allows enormous productivity improvement in the overall supply and, in some cases, has led to the first suppliers dominating trade with a major organisation.

The third (and probably most misunderstood) factor is technology. Although private partnerships tend to be reluctant to invest in technology (as it reduces the cash available for their annual profit share, for instance), the effective deployment of technology is at the heart of productivity revolutions in many industries. Yet technology is affecting the professions in several profound ways. First, the diffusion of modern communication technologies is making it easier to communicate across the world. The internet and e-commerce stimulate cross-border trade in a wide variety of services, which can be delivered cost effectively through modern electronic highways. This opens up new international opportunities, while also enabling thoughtful practices to outsource components of their work to cheaper labour markets like Malaysia, India and Australia.

Modern technology is also changing the nature of client services, however. It is now increasingly common for partnerships to create extranets for their clients, and elite practices are going much further. Allen & Overy, for example, has launched a range of streamlined, IT-based services, which supplement, and in some cases replace, some of their traditional services. In other parts of the world, professionals are experimenting with the use of social-networking technology to improve client relationships. There is no doubt that the automation of white-collar, intellectual work is advancing. Yet it is in practice management that technology has the potential to yield the most remarkable productivity gains. From client data and case management to marketing and knowledge exploitation, there are viable tools to be deployed. Professor Richard Susskind calls this "disruptive technology" because of its potential to transform the professions.

Questioning quality

The final source of effective productivity is a range of conceptual tools. Early on in the productivity revolution, for example, American and Japanese manufacturers adopted a technique called 'cost of quality'. This estimates, in hard analytical terms, the financial implications of failure (such as having to scrap a number of products each day) and prioritises analytically-based projects to reduce those costs. Around this idea grew a number of approaches (including *TQM*, *Kaizen* and *six sigma*), which have been widely adopted by manufacturing and service businesses since. These might seem conceptual or faddish, but they have revolutionised both the costs and quality of industries run by numerically-driven engineers, where, in the most extreme cases, people can die if they get their calculations wrong. At the heart of professional practices are issues like leverage, utilisation rates and the unintended consequences of ill-conceived administrative projects that could be tackled in the same way. Moreover, a wide range of companies take quality programmes such as *six sigma* very seriously, and would flock to professionals who offered to undertake joint client/supplier projects.

Among all the issues clamouring for the attention of senior partners, this sensible, rational approach to systematic productivity improvement ought to be included. Manufacturing and agricultural businesses are way ahead of the professions, setting plans to gain an edge and using cost targets to reach for radical and creative productivity gains. Forces affecting the professions worldwide are now likely to make this the norm for surviving practices. It would be sensible for managing partners to develop a realistic, long-term productivity plan and borrow ideas from other sectors to achieve progress. ■

Laurie Young is a Fellow of the Chartered Institute of Marketing and was previously global marketing partner of PricewaterhouseCoopers. He can be contacted at: lauriedyoung@aol.com