



## **Cass Centre for Professional Service Firms – Fifth Discussion Forum**

### **What holds the successful professional service firm together?**

**July, 6<sup>th</sup>, 2011**



The fifth discussion forum held by the Centre for Professional Service Firms at Cass Business School asked, “what holds a successful professional service firm together?” Why do some professional firms enjoy a brief place in the sun while others survive and thrive over a sustained period?

To explore this question, Professor Laura Empson, Director of the Centre, brought together an eminent panel of speakers from three very different types of professional firm. They were joined by an audience of professionals, academics, and MBA students in a lively, stimulating, and sometimes surprising discussion.

The panellists were:

**Damien O’Brien**

*Chairman and CEO, Egon Zehnder International*

**William Rucker**

*Chief Executive, Lazard*

**Christopher Saul**

*Senior Partner, Slaughter and May*

‘What gives us strength to cope with change are the things that don’t change – a loving family, a supportive community, and the sacred texts that preserve the wisdom of the past.’

(Lord Sacks, The Chief Rabbi)

In her opening presentation, Laura Empson described how the governance of professional firms evolves over time, and how firms pass through a series of potential crises as they grow and

mature. There are also plenty of other challenges that can threaten the cohesion, or “weaken the glue”, of a professional firm, including geographic or product diversification; mergers and acquisitions; or any major change in the ownership structure such as a flotation. And this is quite apart from the periodic economic and competitive crises which will confront any long-established firm.



So how, Laura asked (pictured), have some professional firms managed to remain strong in times of change?

Referring to Jonathan Sacks’ comment (above) about change, she pointed out that in a successful professional firm, history matters. “The wisdom of the past is preserved in the creation myths which organisational members tell new recruits: the fables of organisational heroes and villains which they narrate when they get together around their campfires – or, rather, around their espresso machines.”

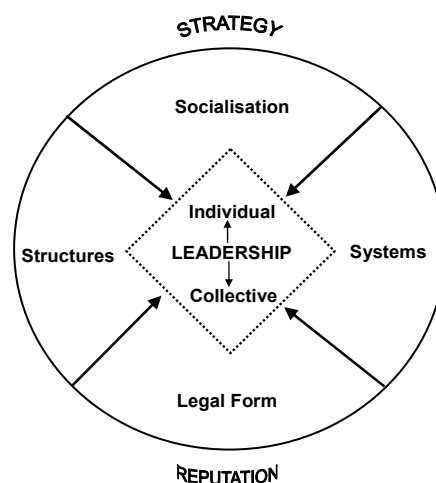
“These organisational narratives help professionals make sense of who they are and what it means to belong to their organisation.”

The loving family and supportive community translate into members of the firm. “Most successful professionals spend more of their waking hours with their colleagues than they do with their families (loving or otherwise),” said Laura. “Jonathan Sacks’ comment reminded me of a quote from one of my research interviews.”

‘The special nature of a partnership is that you’ve got a commitment and buy-in that is so special. People over-achieve the whole time, people are not employees, and they feel that being a partner is very special and very empowering. So you have these amazing people who really feel they can sort of take on the world and feel part of a club, part of a very, very, very special club. And I think in a way that’s really what partnership means to me...It’s quite a personal and emotional thing.’

(Partner, Law Firm)

Laura presented the Partner Dynamics framework that she developed through her research into professional firm governance. She then used this as a stimulus to guide the panel into a deeper examination of the ethos of professional service firms - the combination of beliefs and behaviours that binds a community together.



From Empson, L. (2007). *Managing the Modern Law Firm*. Oxford University Press.

As Laura explained, there is an inherent tension within any professional firm between the needs of the individual and the needs of the collective.

Individuals are driven by the need to lead a fulfilling life. How this is defined will vary from person to person. It may, for example, include pursuing intellectually challenging work, working for prestigious clients or having a high degree of autonomy.

Firm owners, on the other hand, are driven by a dominant need – to maximise shareholder value.

Within a partnership individual professionals are also joint owners of the firm. So each professional needs to resolve within him- or herself the tension between their desire to make money and the desire to self-actualise.

And the ethos is an expression of how this inherent tension is reconciled within a partnership.

In creating and sustaining a partnership ethos, Laura argued that legal form is in fact far less significant than people think, as a professional firm can behave like a partnership even if it isn't one. Laura pointed out that Egon Zehnder, for example, is technically a corporation under Swiss law, but its 200 senior professionals are bound together by a Partnership Agreement, which sets the tone of the firm and determines the rights and responsibilities of the partners. Laura explained that her research demonstrated that the really important elements of a professional firm's ethos are those that support the legal form: the socialisation processes, partner management systems, and governance structures.

## Authenticity

Laura Empson initiated the discussion by asking William Rucker about Lazard's approach to client service. In the light of the recent criticism that some clients had leveled at investment banks, how did Lazard differentiate itself from some of its more controversial competitors?



William (pictured) responded by quoting a client who, at his retirement dinner, said that Lazard had “always given the advice that's good for me, not good for you.”

He explained: “We do see ourselves as providing the client with what we think is best for them, rather than just chasing transactions...Over 160 years a firm establishes a sense of authenticity: if we had an opportunity to make a great deal of money, but it was opposed to our ethos, we would turn it away.” As he observed, “It takes very little to bring down a professional service firm, and if we gave self-serving advice, the clients would remember.”

Chris Saul, too, spoke about authenticity. He described it as “remaining true to what we hold most dear” – which, in Slaughter and May's case, is also clients. “We want to do a great job. We want clients to keep coming back. We want them to tell their friends. So we ask ourselves: ‘what do clients want? What will deliver that to them?’ That was part of our decision to remain a close-knit partnership – which is what we hold second most dear.”

But he acknowledged that money, also, was an important part of the “glue” that held the firm together: “It's part of the feeling of doing something well and being part of a successful business.”

In the context of an executive search consultancy, authenticity is about personal authenticity, being “comfortable in your own skin”, said Damien O’Brien. “We are in the ultimate relationship business and it’s all trust-based,” he said. “We don’t differentiate between clients and candidates, and we treat each other the same way.”

## Socialisation

Laura Empson explained that, in this context, socialisation is the process by which an individual is evaluated and prepared to join the “society” of partners, and learns how to reconcile his or her interests with those of the collective.



Socialisation begins with recruitment. Slaughter and May does not hire at partner level, so Laura asked Chris Saul (pictured) how they managed to spot potential partners in the callow youths presented to them on the university “milk round”.

He said that at the recruitment stage they looked for a number of qualities: “Intellectual ability and agility; communications skills; and engagement – a sense of fire in the belly and ‘let me at it’.

But then we look for something else: some kind of quirkiness, some kind of charm, the X-factor.”

To the audience’s surprise and amusement, he gave Jo Brand as an example of someone who had the sort of quirkiness and charm that they would look for. “But why not?” he asked. “She’s ironic, funny, warm, a great communicator...she’d be a great Slaughter and May partner, but unfortunately she’s not available.”

“We want to breed good lawyers, but we also want them to be good advisers. What the demanding client wants is an adviser who can think around corners, who won’t be fazed when the awful thing happens at three o’clock in the morning, but will take it in their stride.”

In contrast, Egon Zehnder only recruits mature professionals with a successful track in another career who have never worked in the executive search field. Damien O’Brien described their recruitment process.

“Our ultimate objective is cultural cohesion, and we have an expectation that everyone should become a partner. We have a global hurdle to overcome, so our consultant candidates are sent around the world, to be interviewed by around 30 or 40 people...this creates commitment on both sides. By the time someone joins, they have a large number of contacts already in the firm.”

As Laura observed, the recruitment process thus forms an essential part of the socialisation into Egon Zehnder.

Slaughter and May engage in a similar process two years before partnership (seven years after qualification). They call this the “show round”. As Chris explained, “the potential partner works out of his or her group and is seen by other partners in the firm. By the time all partners gather together to make the decision, 30 or 40 of them have worked with the candidate.”

## Partner management systems

The only example of real disagreement between the panelists came with the discussion of partner management systems – how partners are evaluated and rewarded.

Laura Empson introduced the controversial topic of the lockstep system in her opening presentation: “I’ve always been surprised by the number of lawyers I meet who seem to think a lockstep system is the best way to build a strong partner ethos.”

She gave an example from her research of how, in fact, lockstep can breed deep resentment.

‘I had a partner come into my office recently saying – ‘I am sick to death of getting in the office at 7:30 every morning and watching [name] walk in at 9:10 and leave at 5:00 after doing [XXXXXX-all] all day. I want him out. Get him out of here because he is pissing me off and if he doesn’t go soon, I will.’

(Practice Head)

“Far from being some kind of socialist nirvana, a lockstep firm needs to have stringent partner management systems if it is to be effective at promoting collegiality,” she said.

Both Egon Zehnder and Slaughter and May are committed to the lockstep system. “We adopted it because it works,” said Damien O’Brien. “...it promotes collaboration. There is no downtime, there are no arguments about money: we drive performance by recruiting people who want to excel...and the emotional pressure is immense, much greater than ‘eat what you kill’ where you are the only loser.”



Chris Saul agreed: “What drives people is absolutely peer group pressure. Everybody needs approval. They need to feel that they’re doing well. With the lockstep system there is no clutter about ‘why haven’t I got an extra bonus?’”

William Rucker, on the other hand, believed that “Lockstep breeds complacency. We reward on performance. We reward on contribution to the firm – which includes softer aspects such as bringing on trainees – and on commercial contribution. This acknowledges that people progress differently: some become good partners while some become great partners. And the great partners expect, because the market will pay them, to be rewarded differently.”



Damien (pictured) accepted that the system was not perfect, that there were trade-offs, but emphasised that “in our work there are more shared, less tangible contributions. Many relationships are shared by everyone, and often a client will have relationships with two or three partners. We don’t want there to be competition because of money. The notion of *team* is really important.”

When discussing partner management, Chris Saul explained that Slaughter and May does not have a review process as such, but they do have a “rather quaintly named” *Paterfamilias* system. “Every year I will have a chat with each partner – what did they think about last year? What are their top three objectives for next year? What do they think about the executive team? It’s an hour on the couch, and that’s really helpful...because that sort of intimacy of relationship, that discussion, can really drive performance.”

William was intrigued about how Chris managed poor performance. “Every year we probably weed out the bottom 10 per cent, at all levels. I’d be interested to know what your numbers are, because I can see how you could make it work if you aggressively take out poor performers.”

With a great reluctance to use the term “weeding out”, Chris explained that, on the relatively rare occasions on which a partner “loses their way”, there will be some conversations with him or her about how to make it better. And if they do not make it better, “there will be a more difficult conversation about whether it is time for them to do something else, for everyone’s benefit...believing that they have a responsibility to the rest of the partners not to continue in the partnership if they really have ceased to play a sufficient role in the business...The covenant is full contribution,” said Chris.

Laura observed that the system works because of the need for approval that Chris mentioned earlier. “In that moment, even when delivered with a kindly smile, you are withdrawing your approval. And that will be a brutal experience for that partner, however you dress it up. You can use these subtle signals because the people you are dealing with are very finely attuned to the desire to please the partnership and they will see you as the representative of the partnership.”

## Dealing with crises

In Laura Empson’s presentation she mentioned that the first great crisis in a professional service firm’s life can represent the retirement of its founder. She asked Damien O’Brien how the transition was managed when Egon Zehnder retired as chairman in 2000.



He said that Zehnder had done a “great job” of building his successor (Damien is the fourth chairman in the life of the firm), which created continuity and confidence, and meant that there was “no politicking.” In fact, Zehnder is still very much in the background as a “spiritual presence” and meets all consultant candidates during the global interview process. “He keeps us honest,” said Damien.

Laura observed that Zehnder did not seem to have been one of those founders “who was working out from day one how he could cash in.” Indeed, in 1978 he shared his majority share of the equity in the firm with his fellow partners to create a truly equal partnership with “one partner, one vote”. This was clearly a very powerful move, and spoke volumes about the sort of firm that the partners had signed up to and believed in. It has become part of the narrative of the firm for those who joined after his retirement. “He was not motivated by money,” said Damien. “He was motivated by purpose and impact, and he wanted to make a difference.”

Flotation is another potentially destabilising challenge that professional service firms face. Lazard went public in 2005, and William explained how this transition was born out of crisis: “Ten years ago, Lazard was owned jointly by the founding families and by the partnership...There was a crisis over the running of the firm and the upshot was that we had to buy the equity out from the founding families. To raise the money, we took the business public.”

He said that this had caused the partners some concern that they would have to behave differently, but in fact “the irony is that we own 50 per cent of the business and share the profits based on a strict compensation ratio, so we have actually gone back to quite a similar model to partnership, with the partners controlling the business and sharing a significant share of the profits.”

## Leadership

Finally, the discussion returned to Laura Empson's Partnership Dynamics framework. Leadership sits at the heart of this model and obviously plays a key part in holding the complex set of dynamics together.

Chris Saul, as Laura reminded him, had once told her, "I would never describe myself as a leader." But if he isn't leading Slaughter and May, she asked disingenuously, then who is? After explaining that the nature of the organisation "is not one of leaders and followers: it's a partnership and is made up in many ways of 122 leaders," Chris reluctantly admitted that he did have a role "in the outer zip code of leadership." He saw this role as encompassing: initiating conversations about strategy and policy; cheerleading for the organisation, and being the "oily rag" to find consensus between the partners.



William, too, agreed that "in a professional service firm you are as much in service as you are in charge. You're there to help partners and support them."

Only Damien described his role in anything like conventional leadership terms: "It's about making sure we stay true to our values; encouraging dissent and debate; having a view of where the firm should be going and being very clear about that... My role is to create an environment in which my colleagues want to do their best and can do their best." However, even he said that he was acutely aware that he was accountable to the partners, rather than they to him: "My role is in their gift."

Laura challenged him about his description of "hand-holding" and helping partners "get back on their horse." "Chris will know if a partner has fallen off his horse because he works just down the corridor from him. You have partners in 37 countries. How do you keep that connection?"

Damien countered that he travels all over the world and spends half his time talking to partners, on the telephone if not face-to-face. "I feel I know our partners extraordinarily well. I feel a strong connection to them, an intimate connection: it's a very, very important part of what I do as a leader. And I also spend a lot of time with clients and partners. I visit clients with them, and that creates a bond and helps me to support them in their key relationships."

## Conclusion

Laura Empson had introduced the event by describing partnership as "striking the balance between the needs of the individual and the needs of the collective."

Echoing this, Stefan Stern (Visiting Professor of Practice at Cass) who was in the audience, pointed out that throughout the discussion there had been a marked contrast between talk of cohesion and collegiality on the one hand, and managing disagreement on the other. This, for Laura, is why she finds professional firms so fascinating: "They are full of highly intelligent, highly motivated, highly opinionated, highly insecure, egotistical individuals, and yet at some level they come together in a cohesive group and work together to achieve a collective purpose."

All three panelists agreed that this tension was central to the leadership challenge. "The best partner meetings are the most robust and challenging," Damien said. "But I want that. I want the partners to be strong and I want them to behave like owners."

“You need to be decisive and to be able to come to your own views,” said Chris, “and you need to be persuasive, because you are selling to some big egos. You need to have the respect of your partners – that is at the heart of having an election process. And finally you can’t afford to have too much ego: you have to be able to suppress it. It has to be biggish,” he conceded, “but it can’t be huge.”

Perhaps he had identified the secret earlier, when he claimed, “A twinkle in the eye is more effective than a thump on the table.”

