



Cass Business School
CITY UNIVERSITY LONDON

Cass Centre for Professional Service Firms – Fourth Discussion Forum

A new work bargain for professionals?

November 10th, 2010



The fourth Discussion Forum organised by the Centre for Professional Service Firms in the series **Leadership and Change in Professional Service Firms** took as its subject:

A new work bargain for professionals?

'Change, change, why do we need to change? Things are quite bad enough as they are.'
(Lord Salisbury to Queen Victoria)

Professor Laura Empson, the Director of the Centre, introduced the discussion by asking if the professional work bargain, the deal which professionals strike with their firms as part of the employment relationship, needed to change. If it did, she asked, how should it change? These questions were addressed by a distinguished panel of senior executives and experts from accountancy, the law, and journalism.

Joining them were 150 professionals, academics, and MBA students who contributed to a lively and thought-provoking debate.

The panellists were:

Dame Janet Gaymer DBE QC

Visiting Professor of Practice, Cass Business School

Janet was Commissioner for Public Appointments in England and Wales and is a Visiting Professor of Practice in the Centre for Professional Service Firms at Cass Business School. Janet was one of this country's leading employment lawyers and the first female Senior Partner of a major law firm.

Neil Sherlock

Partner, Public and Regulatory Affairs, KPMG

Neil Sherlock is the partner in charge of public and regulatory affairs at KPMG and has a long-standing interest in political issues, from his early years as President of the Oxford Union to his current role as adviser to Nick Clegg. Among his many other roles, Neil is Chairman of Working

Families, a campaigning charity that supports working parents and carers, and helps employers create workplaces that encourage work-life balance.

Stefan Stern

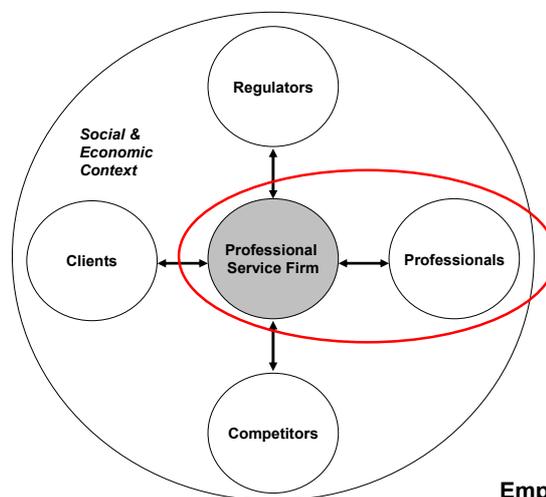
Visiting Professor of Practice, Cass Business School, and Director of Strategy, Edelman

Before joining Edelman, Stefan was the management columnist for *The Financial Times*. In this role he often reflected on the changing world of work and he joined the panel to bring a broader perspective on today's social and economic changes and their implications for management.

Introduction

Underpinning all the discussion forums held by the Centre so far is the argument that we are in the middle of a period of profound and irrevocable change in the world of professional firms. But this is simply a rapid acceleration in a process of change that has been underway for most of the past decade: a fundamental shift in the balance of power away from the firms themselves and towards a group of stakeholders with whom they must contend.

Power Dynamics in the Professional Service Firm Sector



Empson, 2010

The professional work bargain concerns the relationship between the firm and the professionals within it.

This, along with all the other relationships in the framework, is changing. As Laura Empson (pictured) explained in her opening presentation: "Once upon a time – not that long ago in fact – young professionals were prepared to strive diligently for the prize of partnership, and didn't expect very much from their firms in the meantime.



"But the War for Talent shifted the balance of power away from employers towards employees. And as the market boomed, and professionals worked harder and harder to deliver more and more work, Generation Y professionals looked at the stressed and exhausted partners they were working for and thought, 'I don't actually want to be like them.'"

While the recession means that the balance of power has currently swung back to favour the firms, this may be only temporary. Underlying demographic and economic changes are likely to lead to a sustained decline in the number of graduate recruits available. In the long term, professionals should be able to reassert their power and their firms will have to adapt.

The presentations and discussion encompassed two broad themes: the changing **work bargain** affected by the changing commercial environment, and changing **working patterns** which are affected by demographics. Within these broad themes, the discussions naturally grouped themselves around six topics.

Reward



With the news that Profits Per Partner in magic circle law firms had bounced back from their recessionary lows, Laura Empson questioned whether these levels of remuneration were really sustainable in today's economic climate – at least those fees which came from public sector and government clients. She asked Neil Sherlock (pictured) if politicians have yet noticed how much they are paying their lawyers and accountants.

He confirmed that they had noticed and warned that, in an era when the pay of public servants is being benchmarked against the salary of the Prime Minister, lawyers and accountants will not be immune to fee cuts. Government procurement will drive down what they are prepared to pay for advice.

Francis Maude, Minister for the Cabinet Office, had already shown scant tolerance for companies that tried to wriggle out of sharing in the general cost-cutting, and Neil said that the minister was already bringing pressure to bear on professional service firms.

Neil was reticent about how much he thought this would affect accountancy firms specifically. Nevertheless "Regulators will be asking hard questions and we have to be ready for them."

Janet Gaymer was not convinced that this message had yet filtered through to law firms, or to partners at any rate.

Motivation



When presenting some of the preliminary results of her current research project in law firms, Janet Gaymer (pictured) reinforced Laura Empson's contention that the familiar pyramidal model of partnership was under strain. This model is based on a simple race 'upwards' through the hierarchy, in which trainees are prepared to work impossibly long hours for the promise of the future reward of partnership.

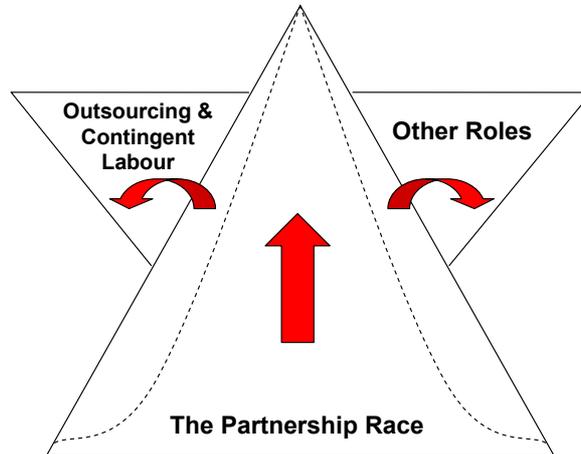
As one of the interviewees in her research study put it:

"The profession is struggling with it. Ten or fifteen years ago, the value proposition was one of professional integrity, job security – this was heavily embedded – we have eroded that. We have made up for it with pay, outstripping inflation. How much more strain can the model take? You can only push the model so far."

The panellists agreed that a large amount of money alone was not a sufficient motivation for most professionals. "Money matters," said Stefan Stern, "but it is not just how much people are paid that matters but how much people are paid relative to others." And with Generation X, who are now moving into leadership positions, the package needs to be more sophisticated: "Money is part of the package, but so is time and flexibility."

Janet proposed that the future might see an amended version of the partnership pyramid. "The pyramid might focus solely on those professionals who are prepared to pay the price to achieve advancement to partnership. However, it might develop to accommodate others who do not aspire to partnership but who are content to transition to new activities according to career and lifestyle choice. They might fee-earn, be part of a contract labour pool, or take up non-fee-earning work in a legal environment."

A New Model?



Stefan felt that if real change were to be achieved, it would be important that the "ears" of the pyramid were not "second-class options". He also wondered if it would be possible for the sides of the pyramid to be permeable – could people rejoin the partnership race?

"Well, it's not happening at the moment," said Janet.

Security

Laura Empson asked Neil Sherlock about the effects of the severe culls of the early '90s in the accountancy profession, when KPMG made hundreds of people redundant, including many partners. Neil said that it clearly had come as a shock at the time – "people had assumed that the work bargain meant that they would be looked after ... [they] had not expected partners to be made redundant." He believed that it had caused people to realise that they had to manage their own careers. "It reinforces the points we have made about mobility," he said. "People have to think – how do you build a CV? Should it be skills-based? How do you get those skills?"



Laura thought the way he described it it sounded like a surprisingly "empowering and energising model". Indeed, this was reinforced by Alistair Johnston (pictured), Global Vice Chairman KPMG and Visiting Professor of Practice at the Centre, who was in the audience. "During the KPMG redundancies in the early '90s there was a sense that we were getting rid of passengers. It was very positive: it reinforced quality and made you feel better about the firm."

Interestingly, these observations from Neil and Alistair echoed similar statements made by Richard Murley (Rothschild), Jeremy Newman (BDO International), and Stuart Popham (Clifford Chance) in the Centre's discussion forum of November 2009.

The shock that redundancies represent is based on the assumption that job security is part of the firm's side of the work bargain. But it seems that they can't necessarily guarantee to be able

to keep that part of the bargain now; and Laura questioned whether it was going to be demanded by younger professionals anyway: "Do Generation Y want job security?"

There was clear evidence from Janet Gaymer's research that many of Generation Y have absolutely no intention of starting the partnership race. "Employers report that people are asking about sabbaticals and career breaks at interview," she said. However, she felt that this shouldn't be taken as an indication that they did not want to feel secure: "We're all against paternalism but we do also like to be looked after."

Younger people and access

At a time when most major professional service firms publicise their commitment to diversity, the Milburn Report nevertheless painted them as poor contributors to social mobility. It is harder now for young people from poorer backgrounds to enter the professions than it was ten years ago. And it may yet get harder. All the professions are now graduate-entry only, which means that if people don't go to university, they are unlikely to get into the professions.

In the past, said Laura, one answer would have been to create more university places. However, given the very negative response of students to the Coalition Government's planned rise in tuition fees, it seems unlikely that this would work as a means of increasing diversity in the professions. What could firms do to increase access and diversity in their workforces?

"In addition to graduate entry, it used to be possible to work your way up accountancy firms through being an articled clerk," said Neil Sherlock. "Many great accountants did not go to university." He believed that firms should actively be seeking new and powerful routes into the professions, perhaps starting at an earlier age. "There is a very interesting marketplace out there that we should be tapping. Don't assume that a very narrow group of people from a narrow elite will be able to relate to everyone – clients are diverse too."

He outlined KPMG's school leavers' scheme, which aimed to attract trainees just after completing their A-levels. Similar schemes in other firms had often not seemed as successful because they had been "tacked onto graduate recruitment." He believed that it was important to put as much energy and creativity into attracting school leavers as graduates.



While agreeing with the sentiment, Stefan Stern (pictured) questioned whether it could be widely applied, even in the accountancy profession, which has to recruit many more people than the legal profession. "KPMG has the resources to do this – but do other, smaller firms?" he asked. He was also sceptical that this progressive point of view would be shared in other sectors. "The elite accountancy firms are serving a much broader range of clients than elite law firms."

"But," countered Neil, "when you have a narrow funnel of 'elite' people, everyone thinks the same and feels the same. It might have been helpful over the past decade if people had asked some slightly different questions. Having people who are finding new things and injecting new thoughts could be quite a benefit in professional service firms."

Ageing and exit

Laura Empson introduced the "conundrum" that legal careers are shrinking while working lives are growing. "There isn't much life after your mid-50s in a major magic circle firm and it's hard to get another job after your mid-50s if you're a lawyer. But we're all supposed to be working

longer." She asked Janet Gaymer playfully, "What happens to a man at 51 which suddenly makes him a rubbish lawyer?"

Janet felt that it was more about their position on the lock-step. At this stage someone has probably earned enough money to retire and will be generally expected or tacitly encouraged to do so. But they may not actually want to stop work, and will look for something else to do. "It is then that they discover that they're not very employable, which is something of a shock." She said that among the older partners that she had spoken to during the course of her research, there was a real worry about what they would do after retirement from the firm.

This is where the 'ears' of her revised partnership model come in. "Where people want to carry on working, but not necessarily in a law firm, they need to start thinking earlier about what they want to do," she said. "If you have worked all your life for one law firm, you might not be able to do anything else, and nobody wants you. You have to start doing things outside the law firm, and gain other types of experience."

Neil Sherlock agreed with Laura's suggestion that it's much easier for accountants to find work after they retire from an accounting firm but that, conversely, the accounting firms seem happier to hold on to their older partners. "I think that, after some mistakes, accountancy firms have realised that experience is worth retaining. They have become less draconian about retirement ages, and are thinking imaginatively about working patterns," he said.

Flexibility

Many of the options discussed during the event were about developing more flexible work patterns.

Janet Gaymer had referred to "the so-called 'women problem'", and the very real problem for women that they "lose valuable learning time when having children". For law firms, women "arrive at the bottom in droves" – 60 per cent of law firm trainees are now women – but then they leave, or they do reach the top of the pyramid and decide that they don't like it.



Neil Sherlock highlighted "the emerging dad point", as men are increasingly aware of their responsibilities at home, and explained that 15 per cent of flexible working requests come from men. He emphasised that at KPMG they would always listen to someone who "makes a serious case to change their working pattern in a way that fits in with what they're doing with us and with what they're doing at home."

But, Laura asked, how practical, really, are these flexible working patterns, and what will bring about a lasting change in work patterns in the professional services sector?

Stefan Stern mused that the question with flexibility is "whose flexibility?" As he pointed out, the flexibility of being able to talk to his bank at midnight was great for him, but less so for the person stuck in the call centre at the other end. "Whose flexibility are you answering to? Are you bending one way or the other?"

And flexibility is not just about day-to-day flexibility in working patterns, such as part-time working or time-banking, but career-long flexibility. As a member of the audience noted during the plenary discussion: "It tends to be binary – you're either in or out. Many firms make it difficult to ease into retirement, for example, and adopt part time or advisory roles. It needs to be easier at times to say 'why don't you try working slightly differently?' The pyramid is too rigid."

Conclusion

So the evidence is mounting that something will have to change in the bargain struck between professionals and their firms. And certainly at the event there was a lot of positive and progressive talk. But how easy will it be for this talk to be turned into action?

Inevitably, perhaps, the panel believed it came down to recognition of a 'shared sense of urgency' – and leadership.

"If people who lead professional service firms see these issues and don't do anything about it, we're heading for trouble," said Neil Sherlock. "We can only hope that there's a generation of innovators who come to the helm and actually make some changes." He felt it would be easier to take such risks if you were surrounded on Boards by people who had taken similar risks in different contexts, which was a good argument for introducing non-executive directors to law firms.

But even if this sounds like a step too far, perhaps there is yet room for hope. At the beginning of the discussion, Laura Empson had challenged a senior partner from a magic circle firm in the audience to consider the question of the pay gap and motivation of partners in professional service firms. By the end of the event he had his answer: "Many partners are motivated not by money but by success. They relish being part of something on the cutting edge."

Maybe a revision of the professional work bargain is the next challenge to be relished?

