PACE NOTES

The best way to predict the future is to create it

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It's <u>all</u> about collaboration (Part 1)

We hear about the lack of collaboration in professional services firms a lot. Pretty much every day of the week we hear stories of a 'silo mentality' or a 'protective' approach to client relationships, which keeps colleagues as far away from clients as possible and a lid on (potential) growth.

Firms talk a lot about the need to focus on broadening services to clients of a firm, and it's all well-intentioned. But in the end, the old phrase "actions speak louder than words" holds true.

There are exceptions. And the benefits those firms reap from well planned, action-based collaboration are eye-watering, both in absolute terms, but especially in relative terms when compared to firms who lack the will and/or skills to foster collaboration.

The effect of collaboration in professional services firms has been measured by a lot of clever people over many years, not least by Heidi K. Gardner, Distinguished Fellow and Lecturer at Harvard Business School. In her article 'When Senior Managers Won't Collaborate', Ms Gardner's ten years of research demonstrates rising revenue and higher hourly rates when more collaborators are involved in more complex work. Fundamentally, collaboration based revenue outstrips discrete based revenue by as much as six times depending on how many fee-earners are collaborating. Better still, there's an exponential effect too.

But it's not just about the money, there are other benefits:

- Longer-term client engagement
- Higher fees and improved margins from more complex work
- Less pressure on price
- Enhanced client loyalty
- More visibility of pipeline
- Competitive edge
- Greater differentiation
- Higher level "C-Suite" relationships
- More work from own clients
- Reduced impact from negative market cycles

All of which is good. Great in fact. And worth striving for, surely?

The blunt truth though is that fostering a collaborative environment in professional services firms is, like breaking down barriers to cross-selling*, hard to achieve. In many cases, very hard.

So, given that it's so worthwhile for so many reasons, why is collaboration so difficult?

- There's often an immediate downside
- It takes time for the upside to appear
- Collaboration doesn't feature in the appraisal / feedback / 360 loop
- There are perceived and real financial disincentives / penalties
- Individual performance is measured and rewarded over team performance
- Collaboration is often confused with "cross-selling"
- Old habits die (very) hard
- Fee-earners don't know how to collaborate**

Downside – investing precious hours in fostering relationships with other fee-earners in different practice areas and/or different offices is exactly that – an investment, and it will inevitably take time to produce a 'reward' in the shape of new or more complex work. So there's a time delay which, should a firm be focused too heavily on hours recorded and billed by a fee-earner, will highlight a barrier to collaboration: there's not an immediate return. Which means…

Investing in advance – therefore recognising the immediate downside of the investment of time and effort in collaboration, and focusing on the longer-term benefits of winning more interesting, complex work at higher margins, where there's less pressure on price. However, such investment in advance should not be to the detriment of the collaborator – if it is, collaboration is likely to wither on the vine right from the start.

Appraisals – if a firm which focuses exclusively or too heavily on hours recorded/billed and has an annual appraisal process which mirrors that, then this can be another barrier to fostering collaboration even if there is a stated "one firm" approach to developing business with clients. It is not unusual to find very little emphasis on strategic activity that is a long-term investment during an annual review of performance. And that's assuming an appraisal takes place at all. This is relatively easy to fix but can take time. It sometimes requires a review of the HR strategy as well as of the hours recorded/billed model if it blocks out, intentionally or not, all other aspects of fee-earner activity.

Financial disincentives – are partly linked to the annual appraisal. Again, if performance is based 100% or predominantly on a fee-earners' hours recorded/billed, then this can be a real barrier to collaboration. This is especially true if, by collaborating with colleagues in other offices/countries, the work generated is recorded and billed in those other offices, with no recognition of where the original impetus came from. The outcome is obvious – if it isn't worth it, it doesn't happen. Financial disincentives, which at their worst can be penalties, are often the biggest barriers to collaboration. They lurk throughout professional services firms and in the vast majority of cases have done so for decades and decades.

Measurement – as with the topics above, the measurement of individual performance can be one of the main barriers to fostering collaboration. Some professional services firms recognise this and in a few cases, have or are in the process of balancing out the emphasis on hours billed by enhancing measurement of *activities* that are investments in people/leadership, long-term business development, internal networking and collaboration across offices and countries. In so doing these firms are forging a much brighter future for themselves in their competitive landscape because they allow fee-earners to look towards the horizon - not just for themselves but even more critically, for their clients - instead of looking no further than the end of their noses, or more realistically, their pockets.

Confusion – collaboration is not the same as introducing a colleague to a client in the hope of generating a separate line of work – that's cross-selling. Collaboration is about combining brainpower and using that combined expertise to the benefit of clients and solving their more complex problems. It's about being much more of the *actual* valued adviser, rather than thinking that just introducing a colleague to a client somehow ticks the box for being a valued adviser or having done some cross-selling. It is simply not that straightforward. Similarly, collaboration is not just about a partner delegating work downwards, or sideways for that matter.

Old habits – die hard - more often than not, very hard because the "auto-pilot" effect is very, very strong. It's more often than not ingrained during the competitive 'dog eat dog', 'up or out' years that precede partnership. Consequently, it can be very difficult to break the cycle and requires a significant effort from the leadership of a professional services firm to achieve this. How? By focusing on the upside - the benefits. In addition to more profitable work, these might include long-term senior-level succession, the valuation of equity, the reputation of the firm, rankings and more interesting and intellectually stimulating work.

Conclusion

It doesn't matter if the barriers to collaboration are real or perceived - they still need to be addressed, constantly. The downside for a fee-earner is limited and, at worst, short term. The upside is significant and long-term. But for a firm as a whole, it's slightly different – there's significant downside in not fostering a collaborative environment, but massive upside. Consequently, investing the time and effort in creating and fostering an environment which is truly collaborative really is a complete "no-brainer".

Nevertheless, the barriers to true collaboration are usually real, strong and high, and therefore difficult to break down. Consequently, there's a choice – either invest the time and effort in fostering and rewarding true collaboration or don't. Which is the easier decision of course. But let's remind ourselves of the benefits:

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- Less pressure on price
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All of which means that in the end, it's all about collaboration because there's really no choice. Without collaboration, there's no growth and without growth, there's actually shrinkage (because there's no such thing as standing still) and with shrinkage, there's loss of ground to the competition. And all professional services firms know where that leads.

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