Lost in the translation

The challenge of managing New Zealand's professional service organisations

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For Dennis Symes

Table of Contents

Abstract

The world of work is changing in ways that could not have been anticipated 20 years ago, when the theory and practice of management was being developed around concepts of best practice and implementation of a winning strategy. Few of the assumptions that lay behind our understanding of organisations at that time would stand-up in today's business landscape. There are no longer any road maps. It is the responsibility of every organisation to design their own unique future around the vision that they have for that future, and the brainpower and energy of their people.

Using in depth, one-on-one interviews, the research examines to what extent this is understood by people in positions of leadership and team management in three of New Zealand's largest professional service firms. There are three broad conclusions: The nature of markets and competition cannot be relied upon to be constant and as such, firms must learn how to be adaptable and responsive; Clients have been *humanised* to the extent that they are now an integral part of the service management system and firms need to design their organisations to support this and; Societal changes are having a profound impact on the world of work and the structure of organisations. These challenges are consistent with the emerging themes and ideas found in the management literature of the 1990's, and continue on into the 21st century.

The conclusion drawn is that leaders and managers in professional services firms can only realise more from their people if they can maintain a balance between an individual's commitment to the firm, to their profession and to themselves. Achieving this will depend upon the ability of the leader or manager to build the kind of social architecture that will allow people a degree of *elasticity* in their working lives. They will also need to be consummate translators of strategic vision. Design management has a role here because it recognises the value of a new, inter-connected workplace, where people have the freedom to be themselves based on an appreciation and understanding of others.

Chapter 1 - Introduction

Acknowledgements

First and foremost, I would like to acknowledge the people whose interviews have provided the substance for this thesis. All senior people with demanding roles in high performance organisations, they gave their time generously giving great care and thought to the question at hand. I cannot mention you by name but thank you. You know who you are.

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"remain a dilettante all my life"!

There are some luminaries who have really struck a chord during the course of my study, most

especially Charles Handy, Peter Senge and Arie de Geus. My working life began in the era of

shoulder pads and when "lunch was for wimps". Thank you for showing the world that there is

a better way.

More than anything, design management gives us the mandate to go on learning for the rest of

our lives. Even when the text books are closed, the critical thinking skills will remain, affording

me the curiosity of youth for the rest of my life, whether in work or satisfying some other part of

my portfolio life, if only I choose it.

Penny Scott

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The research topic

This thesis examines the question – how do professional service firms view the future and their place in it? Its basis is an interest in three distinct areas –

- Strategic management and the application of foresight
- Professional service firms as highly evolved social systems, and
- Design management

Executed in partial fulfilment of a Masters in Design Management, it was also motivated by the desire to step out of the classroom and demonstrate, through research, how design thinking can be applied within an apparently non design-oriented business group.

Professional service firms have a number of interesting characteristics:

1. At a most basic level they sell time. Therefore productivity, which is a short term focus, assumes more importance and investment of time than things like business and people development and client relationship management, which have a long term orientation.

2. Over the last two decades professional service firms have been preoccupied with finding the right management and operating structures to remain competitive. This has proven however to be an inadequate way of responding to changes in both business and employee markets. There are indications that professional service firms are now exploring the advantages of a values-based culture, custom-designed client services and the development of commercially-savvy consultants.

3. Professional service firms are original knowledge organisation. By rights they should be leading the way in terms of how best to lead the knowledge worker. However

because they have inherited power through knowledge, they have tended towards

individualism and elitism. This is not helpful in a democratised 21st century workplace

characterised by client and worker mobility, and the "ungrateful generation" (Gen Y).

These observations suggest that professional service firms face some interesting challenges in

the coming years. Given that they serve some of the biggest and most influential organisations

in our economy, they are clearly attuned to the forces of economic, political, technological and

social change faced by their clients. Change tends to create opportunities for professional

firms but many of these changes now threaten the orthodoxies on which these firms are

founded. How will they secure the best talent when young graduates have so many choices

and people don't want to spend their whole lives in the same job? How will they sustain

productivity when people will choose to spend more time with their families and more time

putting something back into the community? What does it mean in a society where politicians

and lawyers are less well regarded than entrepreneurs and film adventurers? How do you

build stable client relationships with corporations that are run from overseas, and with young

start-up companies who are creating businesses around new technologies and in new markets?

Are they even thinking about these issues, or is it principally business as usual for the

professions?

Underpinning this topic is a personal belief that to be sustainable, organisations need a vital

quality which is, that they remain essentially *youthful*. This does not mean that they are

predominantly full of young people, but that they remain true to their founding culture and

aspirations and that they seek and value change, as we are want to do when we are young and

keen to make a difference in the world. They are enthused about what is possible and seek

ways to realise their aspirations.

There has been a school of thought in recent years as things keep "speeding up", that what is required is revolution not evolution. However this dissertation stands firmly on the side of those who evangelise for the "middle way" - the researchers, management writers and thinkers who acknowledge the importance of a core ideology in balance with vision and the courage to change. Increasingly convinced through the course of study that design management enhances one's ability to find this middle way, the hypothesis developed that there must be evidence of its principals a work in any organisation that is intent on securing its long term sustainability, no matter how long-established, how conservative and how structured that organisation might be.

The lack of literary reference points for strategic management in New Zealand professional services organisations, let alone within the context of design thinking, meant that the topic was "wide-open" and this influenced the research method. A masters-based research study was bound to raise more questions than it answered, but would at least identify where there might be opportunities for deeper inquiry. The professional services sector in New Zealand is small and those who hold management roles within it are hungry for opportunities to network and explore the challenges and issues they face so that they might better understand their organisations. The pages that follow, in addition to fulfilling an academic requirement, are a tribute to those people who choose to work alongside some of New Zealand's most highly regarded professional consultants, helping them to sustain functional, high performing organisations that uphold the well-being of our country, whether as a service provider or as a place of work.

In the pages that follow you will find:

- A chapter demonstrating that **there is a body of literature in support of the topic.** This has been organised within three key areas - – Service Organisations, Strategy and Foresight and the Nature of Work. The aim of this chapter is to show how the current thinking around what makes an organisation successful and sustainable has evolved since the 1970's and 1980's, particularly the work that emerged in the second half of the 1990's as we approached the new Millennium. This progression shows how the assumption that there must be one right organisation and structure, and one right way of managing people, is now far removed from reality and even an obstacle to progress. (Drucker, 1999, p 5)

- A chapter explaining the **how and why of the chosen research method.** Professional organisations have, along with most other businesses, traditionally perceived themselves in terms of their relative position to competitors. The traditional measure in New Zealand has been *tiers*, whereby you are a top, middle or bottom tier firm. The contraction of New Zealand's corporate market means that there are now fewer firms in the top tier, intensifying competitive pressures and forcing a more outward looking organisational perspective. World events like 9/11 and the collapse of the Enron Corporation have sharpened this focus even further. Professional service firms need leaders who are attuned to the implications of what is occurring in our economies and our societies, people who are curious about the world, good at interpreting trends, and are able to anticipate both the opportunities and the threats. Finding out how a professional service firm "thinks" is not easy because they are not culturally predisposed to commentary unless it relates to technical aspects of their work. This chapter

explains why the research needed to focus on individuals within firms who are engaged in leading the business and managing people.

- A chapter devoted to the **research findings** and presentation of as much of the raw data as possible. When one undertakes lengthy and quite personal interviews, the findings will resonate something new each time they are revisited. Listening to people talk about something as important to them as their working lives, in their own vernacular, is a completely different experience to analysing the results of a survey. Interviews offer the opportunity to extend dialogue and probe seemingly insignificant comments, an important technique within the qualitative research method. While some structure is valuable, a roving method makes it easier to discern mental models. This enriches the findings because, unlike the survey method, it provides frames of reference and context.

- The final **analysis, discussion and recommendations** draw together the various strands of thought and inquiry in order to make sense of the data in the context of the research question - how do professional service firms view the future and their place in it? This chapter aims to answer questions such as: Is there commonality across the different disciplines; do the interview findings concur with the management landscape described in the literature review; and, most importantly, does the research offer something of value to the sector? Could one speak to this topic at a firm or industry conference and reveal something new and interesting to the audience?

The case for design

Design management is still not well understood in New Zealand in relation to organisational management. It is gaining ground through the government-led *Better by Design* initiative and the endeavours of a small number of MDM (Master of Design Management) graduates. There is however increasing acknowledgement that design thinking and the design process sits comfortably with our aspiration to be a producer of high value goods and services in international markets.

It is interesting to reflect that, the integration of design and business was an issue under discussion as far back as the 1950's. The Aspen Design Conference was founded by Chicago industrialist Walter Paepcke with the specific intention of – "…bringing business and designers together, to the benefit of both" (http://en.wikipedia.org/wiki/Design_management). The first conference topic - "Design as a Function of Management" – was chosen specifically to attract people from the business community. However after several years t some point, business leaders stopped attending Aspen. The reason it seems was that the dialogue was becoming increasingly focused on the business community's failure to understand the value of design, rather than on the advantages of collaboration between business and design, as was intended.

Those early exchanges between designers and business people sound not too dissimilar to the kinds of conversation that used to dominate networking sessions for professional service marketing professionals in New Zealand in the 1990's. Somehow it always seemed to end up being a discussion along the lines of – why don't they value us?! However ten years on, networking sessions reveal that marketers are being increasingly drawn into the design of not only client services, but also client relationships. At the same time, human resources and marketing managers are recognising the strong synergies between people development (human capital) and organisational performance (client relationships). The thinking, tools,

methods and techniques of design management have much to offer this more integrated management style.

Practitioners are surprisingly sceptical of academia, even though their livelihoods are founded on it. The intention of this research was not therefore to promote design management to the professions per se. That would be unrealistic. It was more an exercise in listening and discernment to find evidence of its principles in practice already. The American experience of the 1950's suggests that it is futile to try and sell an idea before it is fully understood in the context of one's experience. The first step in a new relationship is to listen and engage in the kind of dialogue that uncovers things that are real for the people involved and consultants ignore this at their peril. As Galileo puts it: "In any success or failure, the truths exist already. Our role is simply to discover them". (http://www.quotationspage.com/quotes/Galileo_Galilei)

One of the more helpful expositions on design in its broadest application is The Design Way by Harold Nelson and Erik Stolterman, President and Vice-President of the Advanced Institute of Design, a web-based community of people dedicated to advancing new concepts and methods of practice in design (http://www.advanceddesign.org/about/organization.htm). Here is how they put the case for design -

> "We are pushed into design because of the perceived pace of change in contemporary human affairs. We are further pushed by the explosion of information we are challenged to gather, understand and utilise…Changing social structures and patterns in partnership with changing values and traditions have conspired to create an impossibly complex, diverse environment within which we must navigate professionally and personally."
>
> (Nelson, H., & Stolterman, E. www.advancedesign.org/adipaper 3html)

In recent years the New Zealand government has recognised the importance of stronger collaboration between design and business. Companies like Obo, Navman, Fisher & Paykel Healthcare and Gallagher are showing how, through superior design, world markets are prepared to pay a premium for Made in New Zealand. However this has tended only to reinforce design in the context of manufactured products, the creative industries and construction.

Defined in its broadest sense, design is the ability to imagine that-which-does-not-yet-exist and the skill to make it appear in concrete form as a new and purposeful addition to our world. According to Nelson and Stolterman –

> "Humans did not discover fire, they designed it…the habit of labelling significant human achievements as discoveries rather than designs, discloses a critical bias of our Western tradition." (Nelson H. & Stolterman E., 2004,)

The Design Way accords design equal status with art, religion and science. In fact design was, the argue, the pre-eminent school of thought until the Greek philosophers reasoned that the intellect alone was superior. At this point, design took on its manual associations and became imbedded in the technical disciplines and the world of the blue collar worker. Its re-emergence represents a significant shift in human understanding of what contributes to the advancement of man.

Business leaders can now be aspiring "Leonardo's" (Leonardo da Vinci is now recognised as much for his innovative design as his art and science). Peter Senge has said that the leader's task is to "…generate energy for change…" (Senge, 1998, p153). The Design Way advances this line of thinking by suggesting that – "The real world is much too complex to be understood comprehensively…" (Nelson H. & Stolterman, E., 2003, p 22)   A design approach,

as opposed to a rational approach, is about composition, where a variety of elements are "…pulled into a relationship with one another in order to create something different." (Nelson H. & Stolterman, E., 2003, p 22)   It is a process of evolution that results in intentional change, and this implies a strategy and a point-of-view about what is desired. This point-of-view will normally be in response to some new understanding or insight and can be in relation to any human activity - transportation, governance, economics or an education system, as examples. The composition process creates emergent qualities that only become apparent when designs are viewed as wholes. These emergent qualities can "…transcend a design's functional qualities, often serving deeper, more significant needs and desires." (Nelson & Stolterman, 2003, pp 22-23) Easy enough to grasp if one if thinking in terms of a vase, but more challenging (but exciting nonetheless) if one is thinking in terms of the purpose of a large and complex organisation full of human beings.

Chapter 2 - Methodology

Framing and scoping

The research set-out to gain an understanding of the strategic issues facing professional service firms, not as dictated by theory, but in the thoughts and words of people at the coal face at this particular point in time. It was an ethnographic study that would aim to describe a collective situation through the perceptions and beliefs of individuals.

Four key decisions directed the research method:

1. It would be desirable to have a mix of disciplines, i.e. to make the research inter-firm rather than intra-firm. This way the research findings would be representative of the sector and more likely to yield references to broader trends. Because professional service firms in New Zealand operate in an increasingly specialist and and tightly defined market, they have tended to become insular. This is further aggravated by the demand for productivity which leaves little time for "stepping out" in between the office and home. But as David Maister points out, seeing themselves as part of a larger picture could be advantageous –

    > "Many professionals may be surprised to find themselves grouped with other professions with which they feel little identity. However, while it is clear that the management problems of professional firms are sufficiently different from industrial or mass-consumer businesses to require their own management theory, it is also clear that, in spite of many differences, business within the professional service sector face very similar issues, regardless of the specific profession they are in. When I began my work, I treated these propositions as hypotheses. Ten years, many professions, and countless firms later, I take them as confirmed facts." (Maister, 1993, p 16)

At the same time, early investigations around the topic suggested that professional advisors were more likely to assess the future in relation to their clients' industries and businesses. This immersion in their clients' reality could have frustrated efforts to draw more general conclusions. In addition professionals are by practice, discreet. By presenting the question as general to the sector rather than particular to the firm, they were likely to feel more at ease and express ideas and opinions.

2. The interviewees were selected at a level just below the CEO or Chairman. This was because these people were more likely to be both a practitioner and a manager / leader and this would surface and tensions between the drive for productivity versus investing in the long term interests of the business. Also, it would be interesting to find out to what extent they do put aside their own professional status and development for the sake of the firm. What is it that turns a professional into a leader? It is unlikely to be financially motivated as income levels are potentially very rewarding either way. Clearly there is some other motivation within individuals who commit to leading their peers.

3. The interviews would be as unstructured and open-ended as possible, with only one or two set questions designed to help people into the topic. The key objective was to focus on the person's own experience, their beliefs and the way in which they chose to respond to the question. To this end there was no time-frame put around what was meant by the future and there were no leading questions to avoid any suggestion that the question had in anyway yet been answered.

This meant that is was necessary to transcribe the interviews in full for the analysis phase so that what the person said could be fully understood and accurately reported.

4. The sample size was kept relatively small to reflect the limited numbers large firms in the New Zealand market, and their relatively small executive / management teams. Had one attempted a survey it would have been difficult to get sufficient numbers of people actually engaged in firm management. While a survey of large firms across several disciplines would have been a useful way of determining consensus, both within the firm and across the sector, preliminary discussions around the topic revealed a lack of understanding around "foresight" in any formal or theoretical sense. It would be a problem if the interviewee did not feel comfortable with their understanding of the question. One-on-one interviews provided the opportunity to clarify this and what was meant by "the future".

Data gathering

The first step was to identify which firms should be included. Networking provided the opportunity to "ask around" and find out which firms are perceived to be the market leader, and where this was not clear, identify indications of any significant developments in the firm's business strategy. It was also quite important to find firms that were "a match" in that they carried equal status and *manna* in the wider business community. This would help eliminate any significant incongruence with respect to the firm's reputations and standing in the marketplace.

The second step was to identify who to interview. By limiting the field of inquiry to the Auckland market, it was easy to quickly find out who was who within each of the firm's management teams. Word-of-mouth proved to be by far the most effective method here

(internet sites offer no "flavour" of the role or person, and no indication of their relative standing within the firm).   Senior executives in local offices were approached directly and asked if a) the firm was willing to take part in the research study and b) to nominate the people who they felt would be able to make the best contribution. There was a risk of bias in this pre-qualified approach – i.e. would leaders choose people that they felt aligned with thereby restricting the potential for divergent thinking? - but it did result in quality interviews with minimum requirement to continue collecting interview data beyond three to four interviews. In the final analysis a total of twelve interviews were included, four each for each of the three firms.

In terms of seeking interviews, email proved to be a very effective. An email is more direct than a letter and less intrusive than a phone call. It is a good way of providing sufficient information up front without the person having to respond immediately. The approaches were all slightly different, depending upon the response of the referrer, but in terms of a "brief", there was a consistent message around the topic and purpose of the research study which went as follows –

> *The question is: In what way will the future of your business be different?*
>
> *The area of interest is not so much the answer to that question, but the context in which you approach it. The discussion will be reasonably open-ended, focussing on your personal point-of-view about the future, how this aligns with your organisation, and the challenges and opportunities it presents for your business. There will be some discussion around you as a person, what you read, who inspires you and where your key influences come from.*

As an employee within the sector myself, I was known to some of the people. This helped greatly with building trust and reassurance around the integrity of the academic programme and issues of confidentiality. A research outline and consent form drafted to UNITEC ethics guidelines was provided to further reinforce this.

The interviews were completed over a relatively short period of time (around six months in total) so that the market conditions could be assumed to be consistent for each firm. It was generally accepted that the interview would take place at their place of work and only one interview took place outside of the office environment. Despite concerns that this might mean that people would be distracted by work pressures, each person gave generously of their time and was prepared to talk at length (one to one and a half hours being the average).

In general the pattern of the interview was the same. The person would raise a particular issue, usually something that was preoccupying them at that time. After around thirty to forty five minutes, the interview would get more interesting as a range of observations and ideas emerged. One of the strengths of the research method was that the person being interviewed led the direction of the inquiry. If the interviews had been more structured it would have been difficult to avoid leading questions, pushing the interviewee to be expedient and make a definitive statement that did not represent what they really thought. This roving method proved to be an effective way of dispensing with what was top-of-mind and surfacing issues which tend to be more difficult or challenging, requiring deeper levels of reflection. It also provided the opportunity to probe answers and thereby uncover things of real interest and relevance from what might at first appear to be a "throw away" comment.

Qualitative interviews are testing because it is important that the person being interviewed determines what is recorded. The interviewer needs to create the social environment necessary to elicit authentic and truthful responses. This takes time, but there is always a moment in the interview when one thinks that it is "in the can". How interesting it is to go back over the interview transcripts and hear things that you didn't hear first time around.

There were times when it felt as though the interview "wasn't going anywhere". Yet in on second hearing it was rich in observations in a quite specific way.

Data conclusions

This part of the thesis brings the findings into alignment with the themes form the literature. However if the research is to be of any value to design management, then the findings also need to be understood as a whole.

There were a few structured questions to help people find a way in to the topic or bring them back if the conversation wandered too much. Questions like – Do your people trust the management team? Is the firm different now to how it was? Who is the driving the change / thinking in your organisation? What are you reading? Where do you go to find out about things? Interestingly, in just about every interview people claimed not to read management books on the basis that they are perceived to be overly long expositions on what is essentially common sense.

Data analysis

As already mentioned, the interviews were taped and then transcribed verbatim (see Chapter 4, The Interviews). In this way the dialogue could be re-examined and reorganised around emerging themes. While each interview had seemed at the time to be quite unique, in the analysis is was apparent that there were in fact only a handful of strategic issues on the agenda. What did seem significant was which side of the fence the person sat on: Whether they were principally interested in HR or business development; whether they were young or

slightly older; whether they were an executive leader or a team manager; whether they had been overseas or living in New Zealand for the best part of the last 10 years.

Comparisons were drawn between people within the same firm and between firms but in the final analysis, it made sense to present the findings firm-by-firm. However by distilling key statements and then organising them in a fairly structured way, it was also possible to establish a more general framework, within which to discuss the key issues (see Chapter 5 - Discussion). A simple visual model has been employed to reflect the fact that the primary concerns were with people issues and things like commitment, firm culture and working styles. These things are essentially quite complex in nature and better expressed in a visual form, simplistic though it is.

Chapter 3 - Literature review

Service organisations and co-production of value

With the rising economic importance of service companies in the late 1970's and throughout the 1980's, a body of work appeared around managing service organisations. Books like Jan Carlzon's Moments of Truth, while continuing in the tradition of *best practice* management theory, provided a new context. In relating his first-hand experience as Chief Executive of Scandinavian Airlines, Carlzon reveals how he himself fell into the *expert* trap, believing that as a manager, he should know everything. Experience after experience taught him that this wasn't the case and that what was needed was - "…good business sense and a broad understanding of how things fit together." (Carlzon, 1987, p 35).

Moments of Truth is an early articulation of the idea that the role of the leader is to be visionary but to focus on formulation of the vision and the strategy to achieve it, and its communication to the wider organisation. Given a clear and common understanding of the organisation's vision and strategies, people on the front line of a service organisation will have the confidence to assume responsibility for its delivery. This kind of accountability is particularly important in a complex organisation, like an airline, where there are a number of stakeholders able to influence the customer experience.

Around this time Richard Normann was also writing about strategic management of service organisations. His text - Service Management: Strategy & Leadership in Service Business – represents a significant development in the representation of service organisations in terms of their resources as opposed to their economic structure. Managing a service system demands

specialist skills and techniques on the part of managers, suggests Normann, because it is

principally about mobilising and focusing human energy. This is a systems view that takes

account of the acts and interactions involved in delivering the service. Successful service

organisation, according to Normann, become so through social innovation -

> "Inventing the appropriate roles and role constellations, diagnosing and finding
> ways to use human capacity and energy, designing ways to make people and groups
> of people learn skills quickly and to maintain the skills while keeping alive the
> enthusiasm and the thrill of personal development – all these are typical examples of
> social innovation." (Norman, 2000, p23).

Although professional service firms are not specifically addressed, they clearly fit within his

framework for a service management system -

> "We know from experience that in professional service organisations such as
> consultancy firms, advertising agencies and auditors there is very little chance of
> developing genuine excellence in the service system unless the company is able to
> work together with knowledgeable and demanding clients. The good client is as
> essential to successful development as anything else." (Normann, 2000, p 119)

Normann is highlighting an important truth in the client / professional advisor relationship.

The client is now recognised as part of the service delivery and needs to be managed as such.

Differentiation in the service sector is made more difficult by the fact that many companies /

firms offer the same core service as their competitors. Competitive advantage depends up

generating unique combinations of this core service and the complementary peripheral service

"offerings" that create value for the client -

> "We have less and less of a traditional producer-consumer relationship and more and
> more of an integrated relationship which is characterised by co-production of value."
> (Normann, p 38)

Professional service firms have been slow to comprehend that a superbly worded legal opinion or technical solution may be what the client needs but is not necessarily want they want. They are seeking instead an empathetic approach based on a long term appreciation of the relationship. Years later, in 2004, Tim Brown, Chief Executive Officer of design firm IDEO, encapsulated this cleverly with his concept of the T shaped person:

> "We focus on recruiting 'T-shaped people'. First and foremost, our people must have strong technical depth – without that, you can't do anything, and the world of design is a tangible world, where you have to be able to *do things*. But the crossbar of the 'T' is the empathy you have for what's going on around you." (Rotman Business magazine, Winter 2004)

Professional services

The first edition of "Service Management: Strategy and Leadership in service business was published in 1988. At that time David Maister, was a faculty member at the Harvard Business School lecturing on service management. He went on to specialise in professional services, publishing five books on management and leadership within this sector. Maister has consulted to some of the world's largest legal and accounting firms, and continues to develop his thinking around the strategic management of professional service firms. In his website biography (www.davidmaister\bio.com) he gives a first-hand explanation of why professional service firms are challenging to manage -

> "Most professional service firms have nothing to sell but their people. There are no machines to bail you out of trouble and keep up production. So, whether you're talking about serving customers and clients, or attracting and retaining employees, you end up having to figure out what makes people tick. Which is hard, because few of us are ever taught these things." (David Maister, 2006)

In the early 1990's Maister published "Managing the Professional Service Firm", a comprehensive blueprint for managing partners and firm management teams. Throughout the 1980's professional service firms began resourcing their organisations with professional managers, investing in their financial, human resources, IT and marketing capability. However the critical lever for growth and was *leverage*, which essentially means getting the relative mix of seniors practitioners to juniors practitioners right to optimise the ratio between fee earnings and the cost of human capital.

Financial analysis taught them that, in common with other service organisations, 80% or their business was coming from 20% of their clients. They embraced marketing, focusing principally on strategies to cross-sell services across the firm. They implemented communications programmes with their client base and mission statements reinforcing the firm's commitment to quality service appeared on the walls of their offices.

Managing the Professional Service Firm both supported and challenged this approach by introducing the idea of strategic leadership. Through his many years as a consultant he had concluded that, despite their training, intelligence and ambition, professionals often lack focus. Therefore the managing partner's principal was engaging, encouraging, focusing and channelling the energies and ambitions of the other partners, rather than simply directing and controlling the service delivery system -

> "Left to their own devices, bright energetic people will look after today. Practice leaders are needed to be the guardians of the long term." (Maister, p 213)

Maister also intuited that in a professional services context, the co-production of value process was demanding on its participants, often with high stakes on both sides. Quoting from David

Ogilvy, Maister suggests that the leader of the professional firm must be - "…a good leader of frightened people and resilient in adversity." They must become a skilled coach, helping colleagues – many of whom are peers – to maintain an even keel and operate on the principle of – "No good days, no bad days". This requires that he or she foregoes the sense of achievement that comes from practising one's own profession, concentrating instead on building up others. (Maister, 1997, p 219).   Balancing one's personal interests with the collective interest of the firm and concern for the people within one's jurisdiction sounds familiar now, but in the context of the professional service firm at that time it was fairly revolutionary.

Maister was able to draw from sources in the wider domain of leadership theory, texts such as Daniel Goleman's Emotional Intelligence and Warren Bennis' On Becoming A Leader. Throughout the 1990's there was a noticeable shift towards putting more emphasis on what were perceived to be the "soft" skills of management.   Bennis had developed his thinking during his tenure as provost at the State University of New York at Buffalo during the 1970's. Faced himself with the challenged of leading bright, energetic people he concluded that the knowledge economy would require new ways of understanding organisations.

Four years later, in 1997, Maister published True Professionalism with the emotionally charged subtitle - The Courage to Care About Your People, Your Clients and Your Career. Based on a substantive body of research in to real firm situations, Maister addresses three core components of the professional service management system - people, clients and leadership – expanding on the idea that managing partners should lead by example, balancing their own passion for the profession with a commitment to the well-being of clients and their people. Not only is this the right thing to do, he argued, it makes good commercial sense.

In 2001, Maister employed the case study method in Practice What You Preach: What Managers Must Do to Create a High Achievement Culture to reinforce the principle that the financial health of the firm depends upon how you lead your people. If you want your professional advisors to go the extra mile for clients, they must be energised and excited.

It used to be that the promise of partnership was sufficient motivation for people. Now they needed to be inspired!

Maister was also a co-author of the Trusted Advisor which published just one year prior to Practice What You Preach. Dedicated to the art of mastering client relationships, The Trusted Advisor claimed that trust, not technical excellence, is the principal foundation of client relationships. Tom Peters wrote on the cover – "In our world gone mad, trust is, paradoxically, more important than ever." One of its key messages is the tenuous way in which trust is won or lost. For example -

> "In that moment, Charlie learned two important things about building trust. First, it has to do with keeping one's self-interest in check and second, trust can be won or lost very rapidly." (Maister, Green & Galford, 2000, p 20)

In the midst of the live performance, professional advisors face *moments of truth* with many implications for not only the individual, but also for the firm. Handling this is something that can't be taught at university or through professional development. It is an art that is acquired through experience and personal growth and development. The Trusted Advisor extols many design-oriented principles -

- "Don't tell them, show them."(p 40)

- "Listen for what's different, not for what's familiar." (p 41)

- "Framing is rarely an exclusively logical or rational process. The purpose of framing is to reveal and organise the client's issues and to help the understanding of the problem (by all parties involved) coalesce into a common view so that the process can move forward with greater clarity and solidarity." (p 87)

- "By jointly envisioning, the advisor and the client imagine (in rich detail) how the end result might look, without prematurely giving in to the temptation to solve the problem." (p 88)

- "And the words *what can we do* are like a Pavlovian bell to many advisors: We feel we must respond because our self-image as technical masters is on the line. How much better it is to be to say hold on, we'll get there, but let's first spend some time talking about where it is we want to go, and what it is we're really trying to achieve." (p 120)

The process of framing and envisioning is much like the designer-client relationship described in The Design Way. This relationship, the author's suggest, should be based not on solving problems on behalf of clients, but on a *generative* process of bringing everyone involved along at the same pace –

> "Design communication therefore, does not depend on selling outcomes as much as it does on communicating progress."(Nelson & Stolterman, 2003, p 55)

The aim is to avoid putting too narrow a focus on things. One of the major impediments to being genuinely client focused is the temptation to put too much emphasis on solving the client's problem by virtue of one's technical competence. The client's primary interest is in –

"…having her or his problem understood, in all its emotional and political complexity."

(Maister, Green & Galford, 2000, p 53)

Maister's approach tends to be kaleidoscopic rather than telescopic. In 2002 he shifts the perspective yet again with First Among Equals, a handbook for leading professionals. This time he examines the difficulties of cultivating a team dynamic in an environment where there is internal competition for the best work and the best clients. When success and rewards are accorded on the basis of personal reputation and the loyalty of one's clients, there is a strong likelihood that this will at times be in conflict with what is good for the firm in the longer term. In dealing with this, leaders learn that leadership does not come by right. They must earn the mandate to lead by building consensus, dealing with prima donnas and influencing rather than coercing people towards the desired behaviours and outcomes.

One of the more interesting theories on this kind of leadership comes from Peter Koestenbaum, a septuagenarian with a background in philosophy and consulting. The basis of leadership, he suggests, is the "will to lead". It's a mental and emotional resilience that plays out in four dimensions: Vision; Reality, Ethics and Courage and this is what makes us *authentic* leaders. In Koestenbaum's model, the *leadership mind* is spacious and able to process ambiguity. It is the sum of two vectors –competence, which is the sum of our know-how, expertise, skills and experience, and authenticity, which is our character, our identity and our attitude. "When you are stuck " - says Koestenbaum - "you are not likely to make much progress by using competence as your tool." (Labarre, P. 2000, p 226).

Most leadership theory from the latter half of the 1990's onwards has stressed the value of *authentic* leadership. In The Leadership Advantage, Warren Bennis promotes fun, humour,

civility and generosity as key leadership attributes. Of course leaders must be technically competent and experienced, but their ability to communicate, identify talent, make difficult decisions and demonstrate hardiness is equally important. It's the concept of *followship*, which involves creating a sense of purpose through meaning, trust, hope, optimism and results. A bias to action also important as it is a powerful way to influence people, particularly your peers. (Bennis, 1999).

In 1998, Bennis wrote in Becoming a Leader of Leaders (Gibson, 1998) –

> What leaders must learn to do is develop a social architecture that encourages incredibly bright people, most of who have big egos, to work together successfully and to deploy their own creativity. (Gibson, 1998, p 149)

It is this individualism, he concludes, that makes the whole environment so exciting and challenging for a leader –

> "I think that the best way to describe it is with the oxymoron 'organised anarchy' because, in a way, I always felt like I was 'herding cats'." (Gibson, 1998, p140)

"Herding cats'' is now used widely by managers in professional firms. However, clever and exciting as it is, collaboration is difficult in these kinds of organisations but necessary if the firm is going to– "release the brain power of the organisation". (Gibson, 1998, p 148)

Strategy & foresight

In more recent years, the Western world has been very preoccupied with the importance of leadership in relation to strategy. In The Leadership Advantage Bennis refers to an article in

The Financial Times where journalist Richard Donkins wrote of - "…a fixation bordering on obsession [with] the qualities needed for corporate leadership."   This reflected, he said –

> "…a contagious obsession, spreading in scope and intensity throughout our society, and suggesting that Americans have lost their way." (*The Leadership Advantage*, Bennis, W., Leader to Leader, No. 12 Spring 1999)

It is likely that this sense of having "lost our way" is a sociological by-product of the unprecedented scale and rates of change we have witnessed in our political and social structures.   The disintegration of the Cold War, the end of the apartheid in South Africa and the emergence of a new European economy initially resulted in new levels of hope and optimism, and yet we approached the new Millennium with new anxieties and insecurities.

At this time a slim compilation of essays entitled Rethinking the Future found its way onto bookshelf, it's central premise - there are no longer any road maps to the future.   Linear thinking argued the book's editor, Rowan Gibson, is useless in a non-linear world. We need to do is look ahead and explore the horizons. (Gibson, 1998, p 7).

Looking at it cynically, Rethinking the Future may have simply been a business pitch. Gibson, who is Chair of the Rethinking Group, makes a living out of helping businesses to rethink core strategy. However Gibson has assembled a collection of essays by most of the leading luminaries of contemporary management theory - Charles Handy, Steven Covey, Michael Porter, C.K. Prahalad, Gary Hamel, Michael Hammer, Eli Goldratt, Peter Senge, Warren Bennis, John Kotter, to name a few.

Rethinking the Future was major inspiration for this thesis. It is almost as the book itself marks the moment in time when the old assumptions officially gave way to the new assumptions that now inform both the study and practice of management (Drucker, 1999, p 5) This is, of course, simplistic in that most of the contributors had been formulating their thinking throughout the decade, but the book does provide a very accessible body of work on which to base an exploration of organisational foresight.

Gibson asks two questions with particular relevance to a thesis on strategic management in professional service organisations –

- What is it that truly binds an organisation together? Is it merely information technology or does it require something deeper and more meaningful?, and;
- How do we go about changing our mental models into ones that are more systemic, thereby learning to view the organisation as a whole, a labyrinth of interrelated parts and not just a series of parts needing to be fixed from time to time?

Up until this time, competition had been viewed in the context of best practice and universal strategies. One of the early proponents of this way of thinking was Tom Peters, who co-authored In Search of Excellence with Bob Waterman. Published in 1982, the book quickly became a blueprint for corporate success and a bestseller. Throughout the 1980's there was a proliferation of this kind of research-based business writing. New Zealand even had its own incarnation with Theory K: The Key to Excellence in New Zealand Management, published by David Bateman in 1986. Put together by four academics from the University of Auckland's Advanced Management Programme, it even boasted an endorsement from Tom Peters on the back cover – "I am thrilled by the Theory K book" (Inkson, K., Henshall, B., Marsh, N., Ellis, G., 1986)

Another genre of books around this same time was the personal story, people like Lee Iacocca of Chrysler fame who had turned around the fortunes of their companies. There is still an appetite for such books, but they are not part of mainstream management theory. People like Jack Welch of General Electric, Richard Branson of Virgin, and ex-mayor of New York City Rudi Giuliani, who have captured the imagination of people. The serious management student is more interested to read about the new culture of values-based leadership. Books like Maverick by Ricardo Semler and Creative Company by Andy Law. Personal stories all the same, but the context is different. In these stories, the vision is the purpose and the organisation itself is the realisation of the vision. To that end, the organisation, not the leader, is the hero.

Law's account is particularly endearing. In Creative Company he describes how he created St Luke's, an entirely unusual advertising agency. In setting up St Luke's, Law challenged nearly every assumption about how an agency should be run and the nature of client relationships. After only two years of existence, St Luke's won the prized accolade of Agency of the Year (in London). Law had been about to set up a London office for Chiat Day, one of the few experimental American agencies, but the company had been sold at the last minute. Staring a merger, and all that implies, in the face, he persuaded the other Chiat Day people to join him in a new venture. In his book The New Alchemists, Charles Handy says of Law -

> "Advertising agencies should, by definition, be creative environments, but in fact they are usually rather conventional places, devoted to wealth creation for themselves as much as to advertising creation for their clients. That can be a sort of gilded prison, as Andy discovered when he was a director at one of the most prestigious agencies. He was well on the way to becoming rich in his thirties. 'But I was just being a "businessman", he says, 'not myself'." (Handy, 1999, pp 138-139)

In recent times there has been, in New Zealand, an exodus of lawyers from several of the large law firms, reportedly disillusioned with the large firm culture. Most have clustered together to form small (three to four) partnerships. None could make claim to having formed a new creation.

However the quest for "excellence" has not gone away completely. Jim Collins and Jerry Porras' book Built to Last is a 90's take on In Search of Excellence, presenting the findings of an extensive body of research into America's biggest and most successful organisations relative to their closest competitor. It is subtly different, focusing more on the long term sustainability of the company's rather than immediate competitive advantage. In Search of Excellence is still high on the wow factor. Tom Peters said in a 2001 interview that were he to write In Search of Excellence today, he would not tamper with any of the eight themes, but he would add to them: capabilities concerning ideas, liberation and speed. Those eight themes were –

- A bias for action

- Close to the customer

- Autonomy and entrepreneurship

- Productivity through people

- Hands-on, value-driven management philosophy

- Stick to the knitting

- Simple form, lean staff

- Simultaneous loose-tight properties

(www.businessballs.com/tompetersinsearchofexcellence.htm

Collins and Porras pair what they consider to be America's most visionary companies with a not altogether unvisionary, but less distinguished competitor. The end result is that the

authors challenge some of the long held assumptions that have blind-sided business for too long. Just some of the "populist myths" they debunk are -

- Visionary companies require great and charismatic visionary leaders (already discussed!)

- The most successful companies exist first and foremost to maximise profit (discussed later in relation to The New World of Work)

- Visionary companies share a common subset of "correct" core values

- Highly successful companies make their best moves by brilliant and complex strategic planning

- Visionary companies are great places to work, for everyone

- The most successful companies focus primarily on beating the competition (discussed later in relation to the nature of competition)

The first populist myth - visionary companies require great and charismatic visionary leaders - is tackled in a chapter entitled "Clock Building, Not Time Telling". Leaders, suggest the authors, must focus on building the kind of organisation that will realise a shared vision. While a visionary company will generally hold some audacious goals, these should not be the leader's preoccupation. It sounds straightforward enough, but when one considers the federal state of many professional service organisations it is bound to be difficult in practice.

The argument that visionary companies are not necessarily great places to work for everyone is based on the observation that they often have cult-like cultures. Professional firms can suffer the same predisposition so this is of particular interest. The authors' conclude that while

it is not desirable, a cult-like culture can be important to reinforcing core ideology, which in turn helps to preserve the core, or enduring character, of the business. This raises the central premise of the book: visionary companies have strong cores balanced by a drive for progress in everything that the company does – goals, strategies, tactics, policies, processes, cultural practices, management behaviours, building layouts, pay systems, job design et al. Critical to achieving this is the concept of alignment –

> A visionary company creates a total environment that envelops employees, bombarding them with a set of signals so consistent and mutually reinforcing that it's virtually impossible to misunderstand the company's ideology and ambitions." (Collins J. & Porras J., 1994, pp 201 -202)

The importance of alignment was referred to in a June 2004 Management magazine feature – The Plight of Today's CEO. When asked how we should judge a CEO, Warren Bennis suggests a number of key performance indicators and questions you should ask, the first of which is – "Is there alignment of the organisation? In other words, is there a collectively shared definition of success that is understood and rewarded throughout the organisation?

The question for this research is, how does a professional service organisation go about achieving this alignment? The Built to Last framework is largely written in relation to manufacturing and entertainment companies, not service organisations. How are the latter addressing this strategic imperative within their firms?

The nature of competition

One of the most influential thinkers in relation to strategy is Michael Porter. A recognised expert in competitive advantage and international competitiveness his book The Competitive Advantage of Nations and their Firms was published in 1990 and addresses competition in the

context of business globalisation. While his theories on strategy were founded on economic

principles (Porter's doctoral thesis was on business economics), they have been reframed

within a 21st century context –

> "There is no strategy that can be stretched beyond the boundaries of a particular business.
> One of the great mistakes that has been made over and over again by companies is the
> attempt to apply a universal strategy. This thinking leads companies into a trap."
> (Gibson, 1998, p 50)

What Porter is suggesting is a "recalibration" which acknowledges the increasing importance

of innovation and the nullification of global ness as a competitive advantage. (Gibson, 1998, p

57). Foresight is key because new insights facilitate a learning orientation which is

advantageous in an environment where it is no longer sufficient to compete on the basis of

who can perform the service best. In the new paradigm of competitiveness, professional

service firms need to shape the nature of the competition –

> So whereas it used to be that the scale of the firm was important, now it is increasingly
> the scale of the cluster – the network, the infrastructure - that is important…Success is
> more and more a function of making choices and, having the discipline to avoid the
> incredible pressures for compromise and distraction that are present if we are going to
> compete successfully in the twenty first century." (Gibson, 1998, pp 59-60)

To this end, Porter argues – "Continuity of strategy and rapid change are not inconsistent….if

we make the very important distinction between strategic positioning and operational

effectiveness in executing this position." (Gibson, 1998, p 53).

The notion of shaping the nature of competition is comprehensively addressed in Competing

for the Future by C.K Prahalad and Gary Hamel. A blueprint for 21st century management, the

authors argue that it is no longer sufficient to simply stay ahead of the competition.

Companies wishing to maintain, or assume, a leadership position must get to the future first. Critical of the downsizing and reengineering strategies of the 1980's and 1990's, Hamel and Prahalad suggest that what is needed are regeneration strategies, where industries are reinvented. This would provide organisations with real differentiation from their competitors.

The theory is built around the concept of organisational competencies. Some of these competencies will be core to the business, that is, skills and technologies employed by the company to satisfy its customers (Hamel & Prahalad, 1996, p 219). A competency is not an asset and cannot be represented on the financial balance sheet. It is an aptitude or skill and therefore, people-based. It is core because it makes a contribution to the long-term prosperity of the organisation. The leader's goal is to focus the management team on those competencies that make the business sustainable –

> "The goal is not simply to benchmark the competitors' products and processes and imitate its methods but to develop an independent point-of-view about tomorrow's opportunities and how to exploit them. Path-breaking is a lot more rewarding than benchmarking. One doesn't get to the future first by letting someone else blaze the trail." (Hamel & Prahalad, 1996, p 24)

Hamel and Prahalad's competencies model requires a company mindset that accepts that strategic thinking does not reside only with the chief executive or strategic planners, but in the collective intelligence and imagination of managers and employees throughout the company. Everyone, they argue, needs to have an enlarged view of what it means to be strategic. Their stated goal in writing the book: to challenge people in organisations to - "imagine the future and then create it." (Hamel & Prahalad, p 26)

The word foresight is used in preference to vision because the latter is suggestive of the kind of visionary leadership attributed to people like the Sony Corporation's Akio Morita and Bill Gates. The foundations of foresight are insight and an understanding of broader trends, be they technological, demographic, regulatory, lifestyle and /or political. Combined with creativity and imagination, foresight can be - "…harnessed to write new industry rules and create new competitive spaces." (Hamel & Prahalad, 1996, p 82).

Industry foresight does not reside in any one individual but is more likely to be an amalgam of many people's vision and it needs to be cultivated– "To create a future, an entire company, not just a few isolated boffins, must possess foresight." (Hamel & Prahalad, 1996, p 87). In the case of St Luke's, Andy Law would say that the creation was not his alone – "…thirty-four brave souls came with him. But brave souls need someone to lead them." (Handy, 1999, p 138)

Strategic architecture

The principal task is then, according to Prahalad and Hamel, to actually begin the process of building the future and create a strategic architecture that links the organisation as it stands today with where it wants to be in the future. Companies, the author's suggest, have several types of architecture. A social architecture designed around behaviours and values (as described by Warren Bennis, an information architecture that determines who communicates with who and on what basis, and a financial architecture comprising balance sheets, reports and a capital budgeting programme.

Strategic architecture identifies the major capabilities that need to be built and the market

position of the organisation relative to its competitors (Hamel & Prahalad, 1996, p 119). It is not

a plan. It identifies what capabilities need to be built but not how they will be built.

> "Strategic architecture is a high-level map of interstate highways, not a detailed map of
> city streets. It is specific enough to provide a general sense of direction, but doesn't detail
> every side street along the way." (Hamel & Prahalad, 1996, p 119)

Creating a detailed plan for a ten to fifteen year competitive quest is, the authors argue,

impossible. Once you are looking beyond the next two or three years, that kind of exactitude

is unrealistic. However it is feasible to – "…create a broad agenda for functionality

deployment and competence acquisition." (Hamel & Prahalad, 1996 p 199)

There is another component to Hamel and Prahalad's new competitive model: strategic intent.

The strategic architecture sets the sign posts but strategic intent provides the all important

emotional and intellectual energy to galvanise people within the organisation for the journey.

However - "Strategic intent creates, by design, a substantial misfit between resources and

aspirations." (Hamel & Prahalad, 1996, p 142)

This notion of a *misfit* between current reality and the vision or aspirations is explored by Peter

Senge in The Fifth Discipline. Although it has negative connotations, it can be viewed as a

strength. Senge provides the visual metaphor of two hands with a rubber band stretched

between them, representing the emotional tension that exists when there is a gap between an

organisations current position and where it wants to be. It is not comfortable juxtaposition,

but one that leaders within large organisations must master if they are sincere about executing

strategy - "…we allow our goals to erode when we are unwilling to live with emotional

tension." (Senge, 1999, p 153). At any rate, emotional tension can be, according to Senge, a

source of energy and, as we have already discussed, is more than likely to characterise service

management delivery at some point in time.

Governance

One final aspect of strategy worthy of mention in relation to this topic is governance. Each of the firms agreed to take part in this research is ultimately governed by an executive board comprising partners or senior shareholders in the business. Very little has been written on this subject in relation to strategic management but in The Fish Rots From the Head, Bob Garratt tackles the role of boards in organisational leadership and design. Boards, argues Garratt, need to work in multiple dimensions, although not necessarily at the same time, including conformance, performance, direction and culture (or "emotional climate" as Garratt terms it). This is achieved by a process of *cycling* between policy-setting and operations. Strategy is the means by which these two processes are integrated.

Operations is principally concerned with achieving efficiencies in the organisation's internal environment. As such it is a management function. Policy is principally concerned with the external environment and the organisation's effectiveness. Garratt's main point is that too many Boards are weak in the area of policy setting -

> "The board has to position the company in all the political environments…and set up systems for monitoring the trends and changes in those areas." (Garratt, 1996, p 57)

These systems provide the intellectual framework within which the board can execute its purpose. Warren Bennis makes a related point in the June 2000 Management magazine feature – On the plight of today's CEO. When asked for the most important challenge facing chief executive officers today, he suggests that it is that they become first-class noticers - "To be aware of the people you are directing and have excellent sources of information so that you are aware of what's going on the world." (Dearlove, June 2004, p 39)

Bennis concludes with the observation that – "With so much going on in the world it is difficult to keep in touch with the changes that can make a difference to your life. It is a grind, but it is also exciting. Tomorrow's successful chief executives will need incredibly wide-ranging and diverse sources or information." (Dearlove, June 2004, p 39)

There is no reason why this shouldn't apply to any type of leader, be they Chairman, CEO, Managing Partner or a middle manager with jurisdiction for leading a team. It is important to the research therefore to try and ascertain where the interviewees source their information from and how this shapes their point-of-view of about the future.

In summary, boards play a vital role in cultivating foresight in large organisations. It is a pity that in general, there is a tendency for executive boards within large professional forms to focus too much on short term operational matters and pay insufficient attention to cultivating leadership within the organisation so that the strategic intent of the business might be realised through its people.

The new world of work

The discontinuities, reinventions, upside down thinking and new hierarchies described in Rethinking the Future have carved a new landscape within which we must learn to work productively.   The research wanted to find out not only how the firms were responding, but also how well each person understood the implications of this new world of work. This mean identifying some of the key trends and drivers highlighted in Rethinking the Future -

New principles

- Handy's belief that contradictions can coexist, we just need to learn to live with them. Organisations, suggest Handy, need to be centralised and decentralised at the same time; global and local; tight and loose. (Gibson, 1998, p 19)

- Accepting that many of the things that gave structure to our lives are disappearing and that we need to adopt a new approach to cultivating a secure core in our organisations and in our own working lives. (Gibson, 199, pp 19-22)

- Understanding the limitations of planning and mastering the art of going with the flow, while trying to steer things a little. (Gibson, 1998, p 22)

- Understanding that the promise of economic progress has been empty, and that organisations need a sense of purpose beyond financial return that people can relate to (Gibson, 1998, p 24).

- The call for leaders to cultivate a reflective state of mind, the first principle of design thinking (Gibson, 1998, p 45)

These principles are represented through a very different kind of language than was evident when professional service firms first embraced the business management model in the early 1980's. Tight and loose, reflective, the art of going with the flow – these are terms one would expect to find in an arts programme rather than a management text.

New competition

The notion of bigger, better, best has been superseded by a new understanding of the nature of competition -

- The need for company's to work on vision and create the strategic architecture – "the big picture necessary to get you there" (Gibson, 1998, p 6). De-risking one's position, Prahalad argues, requires that companies cultivate a point-of-view about the future.

- Porter's assertion that the nature of strategy has evolved beyond simply staying ahead of your competitors and, that universal strategies are no longer workable. The essence of strategy in today's markets is integration. Strategy is not just a function of the leader but of multi-functional teams making choices

- Gary Hamel's observation that - "If a company is interested in the future, most of what it is going to learn about the future is outside of its own industry." (Hamel, p 82). Market leadership is only possible, Hamel argues, if you reinvent the competitive space you are in, creating a fundamentally new space. This is only possible if the organisation – "Creates restlessness with the status quo." (Gibson, 1998, p 82)

New structures

Arguably the most fundamental shift is in the way organisations now must come to understand themselves not only in terms of their internal structures, but also in relation to the external structures of the new world order -

- Peter Senge's notion of the hierarchical nervous breakdown – "we are, by any technical definition, operating out of control because we do not have the structures or competencies in place to direct, manage or influence human systems at this scale." (Gibson, 1998, p 128) Clinging to our hierarchical, authoritarian institutions makes us unable to respond to accelerated rates of change and growing inter-dependencies –

> "We have to develop a sense of connectedness, a sense of working together as part of a system, where each part of the system is affecting and being affected by the others, and where the whole is greater than the sum of the parts." (Gibson, 1998, p 129)

- Michael Hammer's idea that professionals and professional service organisations are a good model for other organisations –

> "…if people are good at doing their work, then they're too valuable to put into management…The real work, the craft, the added value is in the work being performed by the teams of professionals, making advancement lateral through growth rather than hierarchical. Organisations need to be designed around the process, the team, the individuals and competencies so that they are loose, ambiguous and, most importantly, adaptable."(Gibson, 1998, p 99)

New leaders

Leadership has already been discussed, but there are two additional principals worth highlighting -

- John Kotter's belief that vision and action are vital components in transforming organisational cultures that are anchors for change into organisations with "adaptive cultures." (Gibson, 1998, p 165)

- Warren Bennis' metaphor of the balloon man, the leader of leaders, holding in his hands groups of individuals, each with their own buoyancy.   This metaphor is particularly useful in the context of a professional service firm.

This review only skims the surface of the pool of ideas in Rethinking the Future. However many are picked up at length in other publications and worthy of further mention, most particularly the work of Charles Handy and Peter Senge.

Charles Handy's The Empty Raincoat addresses the world of work from the individual's point-of-view, providing valuable insights into how this new world of work might be confronted on a personal level. Handy's great gift is optimism which exudes from his writing, even though his subject matter is complex and difficult. Part of this is the way in which he employs simple, somewhat child-like metaphors to put his thinking across: The Doughnut Principle, The Shamrock Organisation and the Road to Davy's Bar. These simple metaphors that put structure back into a seemingly chaotic situation. Handy suggests that we had better come to terms with what is inevitable and out of one's control, and find new ways of understanding organisations and new structures to create purpose and direction in our lives.

The issue of work-life balance is reframed by Handy so that it is no longer simply about the division between home and work, but more about the point at which we say to ourselves that we are more than cogs in a machine. We have, Handy believes, the obligation to balance our need for money with the need to do something purposeful. Our jobs may continue to be the principal way that we earn our living, but they do not define our lives and besides, organisations no longer offer any guarantees. To create a life, we need a portfolio of activities accepting that our survival depends on our ability to change before there is a crisis in our lives (second curve thinking) or before our successes go into decline and it is too late to do anything about it. "What is true of organisations is as true of individuals and their relationships" (Handy, 1995, p 53). The things we have taken so long for granted – our marriage partner, our jobs, our social structures - can no longer be counted on to see us through this extended natural lifespan that we have strived so hard for –

> "We stand today at the crossroads, asking the way to our future. Words like hierarchy, loyalty and duty, no longer carry the weight they once did. Other words like freedom, choice and rights turn out to be more complicated than they seemed. What was once obvious, like the necessity of economic growth, is now hedged around with qualifications. We thought we knew how to run organisations, but the organisations of

today bear no resemblance to the ones we knew, and so we have to think again, to find the second curve of management before it is too late. Meanwhile we have to keep the first curve going. As long as we can do that, we will keep the balance between the present and the future; we can manage to live with paradox because we understand what is happening." (Handy, 1995, p 54)

In The Fifth Discipline, Peter Senge takes a systemic view. In an environment of rapid change, only organisations that are flexible, adaptive and productive will excel. This is a learning orientation, but many of the structures that we have created within our organisations are not conducive to the levels of reflection and engagement necessary for learning to occur. It is the work of leaders therefore to create the preconditions for generative learning and to do this they need to master five component technologies: systems thinking; personal mastery; mental models; building shared vision; team learning and systems thinking. The latter, according to Senge, makes all the others possible.

Professional advisors undertake a lot of learning by assimilation before they enter the world of work. They are equipped to function within the firm management structure but there is still much to learn before they are of real value to clients, particularly as the client is adapting to new competitive and operating pressures. The firm must invest substantially in generative learning if they are sincere about enhancing people's capacity to create good outcomes.

Senge's organisational ideal is one where people have mastered the art of seeing the forest **and** the trees but this is not going to be easy in a professional service firm where people are used to seeing themselves as masters of their own destiny.

According to Senge, building organisational competencies, particularly new ones that ask people to extend themselves beyond the bounds of conventional learning, is more easily

achieved in an organisation where there is decentralised leadership. However this means that there needs to be a clearly articulated vision for the business that is shared and supported throughout the organisation.

To foster intangible competencies like shared purpose, learning and alignment, Senge identifies three kinds of organisational leadership: designers, stewards and teachers. Which leadership orientation is adopted will depend on the particular situation. These leadership styles are, he suggests, an effective response to the challenge of knitting those intangibles together in a way that will bind people together and allow the organisation to move towards the vision. Implicit within each is the notion of moving towards an outcome or a creation that will result in an improvement of some kind. Central to this is the leader's ability to size up the players and needs in each situation – "crafting strategies suitable to the time and setting." (Senge, 1998, p 345). It also means focusing on helping others to learn rather than, as Carlzon discovered, on decision-making and problem-solving. We have for too long, Senge believes, suffered from an either/or mentality of "doers" versus "thinkers". Twenty-first century leaders need to connect the two so that they are mutually supportive and ultimately advance learning.

Because vision is an abstraction, the leader's work will be made easier if there is a story and sense of purpose around it. Leaders need to become skilled at relating a story, not just telling it. These "purpose stories" as Senge terms them, make it easier to transcend the difficulties and problems that arise from the tension between current reality and the vision. Purpose stories illuminate vision. They can be used to create a sense of urgency that leads to action and they help people to align themselves with the vision.

Senge followed The Fifth Discipline with a handbook entitled The Dance of Change where he describes the growth and limiting processes that determine the success of a given strategy. Underlying this "growth-limit" process is the premise that the organisation is a biological system -

> "The organisation is a human community. It is a living system, like the plant or the teenager. There is no one driving it. But there are many tending the garden." (Senge, 1999, p 21)

Leaders in this kind of environment have no role as problem-solvers because there are no problems, just challenges. Western thinking is now trained to view challenges as overcoming hurdles (Senge, 1999, p 29). However in a natural system explains Senge –

> "Challenges are simply the conditions of the environment that regulate growth…in that spirit, challenges are opportunities to improve by exercising our attention, understanding and ultimate creativity." (Senge, 1999, p 29)

Effective leadership is about problem *dissolving,* rather than solving. Problems don't go away, rather they become part of the solution and so they end up enhancing the overall system.

The idea that an organisation is a biological system is also explored by Arie de Geus in The Living Company. Along with Peter Schwartz and Kees van der Heijden, De Geus worked with Pierre Wack, the man – "who had anticipated the oil price crisis, when apparently nobody else had." (Schwartz, 1996, p 10) Colleagues in the Group Planning team at Royal Dutch / Shell in the early 1980's, the Shell "futurists" subscribed to Senge's view that organisations must have a learning orientation and developed the tool now known as scenario planning. This was a thinking process designed help executives become more perceptive and recognise events for what they were, part of a pattern, and then realise the implications of this . (van der

Heijden, 1991, p 19) Wack believed that if you wanted to see the future, you could not go to conventional sources of information. You had to seek out truly unusual people who had their finger on the pulse of change, who could see significant but surprising forces for change (Schwartz, 1996, p 10). The early part of the 1980's was, as we have already discussed, the heyday of Michael Porter's "positioning school of strategy". However Wack, inspired by Richard Normann's work in the 1970's, leaned more to the view that competitive advantage lay with the ability to mobilise and energise resources to their fullest extent. (van der Heijden, 1991, p xi) Strategic Vision was– "the counterpart of scenarios…a complexity reducer, a common frame of reference within which information can be organised. It enables executives to know what signals to look for, against the "noisy" background or the business environment." (van der Heijden, 1991, p xi)

Most organisations prefer still to see manage their futures in a responsive, event-by-event manner, although it is likely that forms of scenario planning are taking place in pockets throughout some of the larger organisations. The whole purpose of institutionalising the planning process and utilising a tool such as scenario planning is to make it easy for executives to respond quickly to events in away that would not have been possible without the mental preparation of the scenario analysis. (van der Heijden, 1991, p 19) De Geus describes this as developing – "memories of the future… reacting by foresight rather than catch-up." (De Geus, 1999, p 34) The aim of scenario planning is to – "…oblige managers to question their assumptions and reorganise their inner mental maps of reality." (de Geus, 1999, p 68)

The importance of this is that in recognising the importance of mental models and assumptions, there is acceptance that there are no right answers. One cannot know what is the right thing to do, based on one's own assumptions about the world.

The knowledge worker

No review of management literature would be complete without mention of Peter Drucker. Published in 1999 his book Management Challenges for the 21st Century outlines those things he believed would be "tomorrow's hot issues." (Drucker, 1999, p ix) Drucker sets out to challenge some of the long held assumptions about management that are now holding managers back, pressing home the point that management is a social discipline that deals with behaviour in institutions that are distinctly human. "The social universe…" explains Drucker "…has no natural laws…"and because this is so, it is subject to continuous change. (Drucker, 199, p 4) The organisation is a dynamic system that continually challenges established theory, both in relation to the discipline and practice of management.

Drucker identifies knowledge-worker productivity as the biggest of the 21st century management challenges. "In the developed countries it is…" he suggests "…their first survival requirement. The ability to attract and hold the best of the knowledge workers will be the first and most fundamental precondition of survival. The central dilemma is however, that knowledge workers can neither be bought nor sold. They don't come with a merger or acquisition and they nave no market value, so they cannot be termed as asset in any sense of the term. (Drucker, 1999, pp 157 – 159) This resonates with Hamel and Prahalad's theory around people-based core competencies. As they said, a competency is not an asset and cannot be represented on the financial balance sheet but it is core because it makes the business sustainable.

Peter Drucker was promoting foresight long before Management Challenge for the 21st Century. An Harvard Business Review (HBR) book On the Profession of Management edited by Nan Stone presents a comprehensive body of work by Drucker as published in the HBR from 1950 through to 1995. In the 1964 article *The Big Power of Little Ideas*, Drucker addresses the issue of long range planning (LRP). "Does LRP mean predicting what the future will hold and adapting company actions to the anticipated trends?" he asks. (Drucker, 1964,) His conclusion:

> "It is not absolutely necessary for every business to search for the idea that will make the future, and to start work on its realisation. Indeed, a good many managements do not even make their present business effective – and yet their company somehow survives for a while. Big businesses, in particular, seem able to coast a long time on the courage, work and vision of earlier executives before they erode and run down.
>
> But the future always does come, sooner or later. And it is always different. Even the mightiest company will be in trouble if it does not work towards the future. It will lose distinction and leadership." (Drucker, P., 2003, pp 51-52)

Chapter 4 - The Interviews

Background

It wasn't difficult to secure the support of these firms for this research. The last five years have been good to professional service firms with a strong economy, government surpluses and sustained levels of business confidence providing steady growth in the market. The people interviewed were generous with their time and willing to talk at some length about their organisations and the conclusion one might draw if that comfort has bought the luxury of reflection. The favourable movements of change at work in the market have afforded them the opportunity to look within, not just at their structures but also at the social dynamics at work within the organisation. The obligatory mission statements and positioning statements have disappeared and older and more conservative managing partners are making or have made way for new, younger talent who are better equipped to face the challenges of the future. What was most apparent was a genuine concern for the sustainability of the firm, both in terms of its performance and reputation, and a commitment to upholding the values and culture that underpin its current standing in the market.

Each of the three firms studied is a self-professed New Zealand market leader in its respective discipline. Two of the oldest professions, law and accounting, are represented along with a multi-disciplinary consultancy encompassing all engineering disciplines and related management service disciplines. Each firm originated in New Zealand and two still bear the names of founding partners. However, although a local and autonomous partnership, the accounting firm is part of a global network and is to some extent answerable to headquarters offshore.

The platform of success for each of these firms has been sound orthodoxies, commitment to quality, opportunism as New Zealand has developed and grown as country, strong networks, enduring client relationships, and good judgement on the part of partners and managers over many years.

Going back over the interview transcripts, two things were clear:

- There was a degree of uncertainty about what shape the future business environment might take; but -

- There was confidence and a drive to be prepared, all the same.

Each of the firms studied was, to some extent, engaged in conversations around the organisation's purpose, values, and long term direction. They have, in the words of one interviewee –

> "…given up tinkering with structure and that sort of internal navel gazing, and are now thinking more about the people that they are bringing in."

Most spoke of difficulties in securing loyalty and commitment, particularly from younger people. Some spoke with pride of the diversity and individualism within the organisation, while at the same time acknowledging the importance of unity and shared understanding. Commercial management structures have rationalised some aspects of the partnership structure, but only deliver so much. There is still a real need to build consensus around what's important and where the firm is going. In order to achieve this, organisations are developing people-focused strategies like, being flexible around the way services are delivered to clients; being flexible around individual work practices; creating an environment where leadership is dispersed (and recognised) throughout the organisation; and identifying behaviours that align with the strategic intent of the firm.

In so doing, it quickly became apparent that Hamel and Prahalad were right - "foresight does not reside in any one individual, but is an amalgam of many people's vision." Generally, it would seem, people find it difficult to articulate a personal point-of-view about how things might be different in the future. Managers and leaders (thankfully!) are not prone to be predictive. They are more inclined to have a clear idea of where they've come from and a preoccupation with the current realities of the annual budget, hiring and firing, and managing client relationships. The future is seen in terms of how it manifests itself today.

Organisation A

A 1500 strong employee-owned consultancy, the core competencies of Organisation A are engineering design, planning, project management, valuations and asset management. The company operates in five key market sectors including transportation, buildings, environmental and resource management and management services.

Navigating through the website, there is a strong emphasis on the firm's history which is related to key events in New Zealand history. Organisation A has weathered many political, technological, economic and social changes in over eighty years of operation and has demonstrated the "pioneering spirit" that New Zealand is well known for in the way that it has sought markets and opportunities offshore. The firm now has offices throughout Asia-Pacific and in London, the USA and South America. You also learn that the organisation places strong importance on community involvement, both locally and overseas.

With a client base that spans central and local government, public bodies, commercial and industrial companies and private individuals, the business is substantially more diverse than the other firms and substantially larger in terms of numbers. This diversity means that at times, it finds itself in competition with the accounting firm in this study. However there is no conflict as the nature of that competition has no relevance to the topic under inquiry.

This organisation is unique in that it is the only surviving New Zealand-owned company in its discipline. This is seen as a key strength in the local market where it has market dominance. However it presents many challenges offshore where the company is a small player in large markets and there is no brand presence. One of the central figures in terms of the firm's reputation and legacy has just retired aged 70 from the Group board. He still has a presence in the Auckland office but his influence is diminishing. Generally, the senior executive could be described as "aging" and there are likely to be significant changes in the company's governance and management within the next five years.

The business is increasingly organising itself around key market sectors, as opposed to technical disciplines, offering multi-disciplinary teams to clients within growth sectors such as environmental management, airports and transportation. The longer term strategy is to continue to grow internationally, becoming less dependent on the cyclical nature of the New Zealand economy and to offset the lack of growth opportunities in a saturated market. This means either leveraging off the talent base in New Zealand and the existing business offshore or making an acquisition. Time will tell.

Organisation B

A large national law firm, Organisation B's principal office was for many years in Wellington where it secured large amounts of government work. An office was opened in Auckland in the early 1980's, where two firms had carved up most of the key clients decades earlier. Realising that it would have to be quite aggressive if it was to establish itself in the Auckland market, the firm set about securing the brightest and more talented lawyers it could by cherry-picking from other firms and shifting key lawyers up from Wellington. Almost half of the Auckland partnership has been a partner in another firm and the combined result is a relatively individualistic bunch of lawyers.

The firm now has 500 partners and staff and remains a clear leader in the Wellington market where they are anecdotally known as the "lawyers, lawyers". This reputation is founded in part on the ground-breaking legislation they have created on behalf of the Crown, particularly with respect to Treaty of Waitangi settlements. Auckland has been a good move strategically, providing rich pickings in terms of the corporate sector, which has taken flight from Wellington, and as an important gateway to Australia.

One of the founding partners is still active in the firm today. Aged over 70 and he provides a legacy for the firm's business development culture: every year you must do better work for better clients with better people. If you get those things right then the revenue and profits will follow.

The client base is now both local and international, with the latter growing substantially in the last five to ten years. International clients tend to be in-house legal counsel for large law firms

or corporations as growing numbers of New Zealand corporates move their head offices offshore or sell-out to international companies. Strong relationships have been forged with Australian law firms, both to discourage them from expanding into the New Zealand market and to take advantage of joint working relationships on behalf of international clients. There is a belief however that New Zealand companies will continue to acquire and merge, ensuring a steady stream of high value legal work.

Navigating through the website one is quickly introduced to the firm's values which are described in terms of – effective outcomes, intellectual rigour, client relationships, a scrupulous approach, leadership and quality management. They claim to have the "best people" and clients enjoy access to online services, a library and research capability, and Master Classes which provide insights into aspects of law and New Zealand legislation. It was made clear in the interviews that while this emphasis on elitism is not about to be abandoned, the values and brand essence of the firm are currently under review. However the change management programme that ensues will be internally focused and there will be very little outward expression until the management team believes that the internal culture is sufficiently aligned with the value system and strategies for the firm's growth are in place. Watch this space.

<u>Organisation C</u>

The only global brand in the study, Organisation C has 850 people in offices throughout the main cities of New Zealand. Internationally there are 122,000 people working in 144 countries.

The firm has three service streams: Assurance, which concerns itself with financial controls, regulatory reporting, stakeholder value and technology issues; Tax; and Advisory services

which encompasses corporate finance, business recovery, actuarial, investigations and forensics and performance improvement.

The firm's position is one of dedication to – "solving the complex problems businesses are facing in today's changing marketplace". The integrated global network is seen as a key strength in maintaining a leadership position, but is balanced by autonomy at local level: local knowledge, global experience. There is a strong industry focus and the firm offers cross-discipline expertise to meet the needs of particular industry sectors including financial services, energy and mining, industrial products, telecommunications, information, communications, media and entertainment, services and the services industry. Emerging businesses are considered a prime target and there is a substantial amount of publishing on the website aimed at that market.

With a global shortage of accountants, the firm is competing in an international recruitment market, continually losing – along with the other two firms in this study - its young, home-grown talent to the big OE and becoming increasingly reliant on lateral hires to sustain a full service offering.

This firm exhibited less restlessness than the others, possibly because of the quality, financial and marketing resources it has access to.   However the challenges that they are currently facing and anticipate going forward, are much the same as the other firms. Global support can help streamline service delivery but is no insulation from challenges, whether these are generated by events offshore or unique to the local market.

Summary of findings

The interviews presented three broad areas of interest:

- New challenges with respect to meeting the needs of clients
- New challenges bought about by the changing nature of markets and competition
- New challenges as a result of changes in our societies and the impact this is having on our working lives

Although there were contradictions, both between firms and within firms, there was a considerable degree of consensus around the most significant challenges.

New challenges with respect to meeting the needs of clients

> "Clients don't know what they want; they don't know what to do. Simply put, all the knowledge is in the consulting firms. They are putting up their hands and saying – what do we do?"

It has to be said at the outset, that all three of the interviewees within Organisation A made very little reference to clients. The reason for this is not clear, except that the individuals were all running quite large businesses in their own right and as such, have perhaps become a little distanced from the day-to-day realities of managing client relationships. However there were some general statements made around how clients becoming more powerful and more inclined to push risk back to the consultant; how clients have increasing choice over whether they engage a firm or work instead with a group of individual consultants brought together to deliver a project; and how clients are finding it increasingly difficult to get their projects implemented and look to their consultant for direction and leadership.

Throughout the last twenty years increasing attention has been paid to understanding clients and better determining what they need and want from their professional advisors. This initially manifested itself in adopting a more commercial approach to the way in which advice was given. More latterly the discussion has been more around gaining trust and providing services in a way that is dictated by the client.

In very recent years, risk management has become a major issue for clients of professional service firms. Clients are increasingly anxious and unsure about the assumptions underlying their businesses and so educating clients so that they can better manage change and uncertain has become a key part of the service offering. Client seminars around legislative changes and have been a key feature of client and law firm marketing plans for several years, although the topics have become more general and far-reaching. Firms are now talking to clients about things like employment law in the event of a bird-flu pandemic, the implications of climate-change for businesses, and the social and environmental impact of projects. Global media and communications brings a multitude of issues to the forefront of our thinking and today's business leaders cannot afford to ignore them.

Increased risk to directors of severe penalties for non-compliance or negligence as witnessed by the Enron-Arthur Andersen collapse means that some firms are grappling with the issue of what can and can't be done on behalf of a client. Whereas in the past a key marketing strategy would be to maximum opportunities with clients, there are now "no go" areas and firms are looking for alternative ways to grow the business.

Another aspect of increasingly low propensity for risk is that the small firms are being cut out of the equation because they are unable to fund sufficient professional indemnity insurance cover. Large companies with who can afford the cover have an immediate advantage.

Another aspect of meeting client needs is best described as the increasing "humanisation" of clients. Large firms are realising that they need to know more about clients and connect with them at a deeper level -

> "Clients want someone who will be commercial, who will relate to their business and who will relate to them as an individual. If they're going to pay a reasonably solid hourly rate by any measure, then I think most clients want to enjoy the experience."

The *human* client is time poor. It is no longer feasible to invite them in just for a drink because they have families and other social responsibilities to attend to. Every interaction needs to put value at the forefront of the relationship. New Zealand company directors are a good example. Driven, highly diarised and generally quite regimented, accessing and stimulating these people is difficult. In providing structured forums, such as breakfasts where directors can come and hear a speaker who offers insight into the complex political, economic or social issues that they are facing, one of the organisations in the study has found a way of engaging both young and senior consultants with this highly influential and important group of the business community. Speakers and broad-reaching topics provide a platform for conversation and engagement.

The "human" client has different criteria when assessing a firm. The conversations are more probing. One of the people in Organisation B described a meeting with an international organisation over a registration of interest –

> "The client said – your technical expertise will be a given but we really want to partner with someone whose values we respect and can relate to. I talked about integrity which is something that this firm has always had. We will sail right up to the line but we won't sail over it for a client and she said – that's excellent."

Ethics was raised as a key issue by all firms. Several of the interviewees spoke of the importance of "no comprises" in ethics or standards in upholding the client relationship. Organisations B and C spoke explicitly about keeping a balance between "standing up" to clients on ethical issues, while at the same time bending to client feedback on what and who they want servicing their business.

The impact of international ownership has also presented new challenges with respect to clients. It is hard to get "close" to decision-makers when organisations are taking their instructions from offshore. Management teams within New Zealand corporates are becoming increasingly disenfranchised from strategic decision-making and this makes it hard to give advice. Global firms have the advantage here because they can develop client relationships in multiple locations.

At the same time, today's clients are generally viewed as increasingly "savvy" consumers. One interviewee from Organisation B has anecdotally determined that 70% of his firm's clients are now either in-house corporate legal counsel or offshore lawyers needing local input. The upshot of this is that when they choose to engage a law firm, they do so on the basis of reputation and expertise, not on brand. Their main concern is to locate the best lawyer in a particular sector that they can, and to achieve this they run panels of lawyers.

Savvy clients are also demanding clients –

"Clients come to us and we say – how high do you want us to jump?"

This puts pressure on more junior staff, who are expected to very quickly get up to speed with the commercial drivers of their client's business. Most of these young people have spent very little time outside of the education system and their professional networks, which puts the onus on the firm to mould this young talent into someone the client can respect.

Emerging businesses are a particular challenge for a large firm. While they represent the corporations and successful businesses of the future, they are often reticent about engaging a large, national firm that they perceive they cannot afford. This is often right at a time when they need the best advice available. For Organisation C, reaching this group means investing in innovative marketing strategies and new fee structures, where some advice is given away in order to secure the longer-term relationship.

New challenges bought about by the changing nature of markets and competition

> "Management's concern and management's responsibility are everything that affects the performance and its results whether inside or outside, whether under the institution's control or totally beyond it." (Drucker, 1999, p40)

There was a surprising lack of foresight around new competitive challenges. This may in part be due to the fact that each of these firms is a market leader and has had for many years a relatively small and easily defined group of competitors. Organisation A was more outwardly paranoid in terms of the threats to the business, which may have something to do with its more complex organisational structure and multi-disciplinary service offering. Given this situation it is easier to consider the preoccupations of each individual firm vis-à-vis the market and the competition, in turn.

Organisation A

> "The future will involve designers living offshore rather than here in New Zealand, in developing nations and newly developed nations…although there will always be a place for innovative design."

This organisation faces very real threats to its business from the falling price of commodity engineering and the long term potential for detailed design work to be done in countries like The Philippines, Indonesia, Myanmar, India and eventually China. The firm is already remotely resourcing CAD (computer aided design) services and is exploring opportunities to work with Chinese design institutes.

What this means is that firms in counties like New Zealand must increasingly position themselves at the high-value end of the consultancy market -

> "If you were really entrepreneurial you could set yourself up with a little front-end international shop with a shop door that says – glitzy high cost design facility – but behind the door you would have a Chinese grunt machine. You could make a fortune."

Another aspect of international competition is the influx of international designers chasing, and winning, projects in New Zealand. This has been particularly apparent with some recent commercial office buildings where Australian interior designers have been appointed to work alongside local architects on office fit-outs. Finding it difficult to compete, local consultants "partner-up" with these competitors to gain a slice of the pie. It then becomes more difficult to pinpoint who your competition is. Organisation A may lose a project to an international competitor in New Zealand, but end up working with that competitor on project in Asia or the Middle East. The world is becoming a very small place and the mobility of New Zealanders also means that networks and contacts can really work in your favour.

Another new kind of competitor for Organisation A is the virtual firm – a conglomeration of independent consultants who come together to deliver a project and then disband and move on to something else once the job is done. At this stage is seems that there are still large numbers of clients who prefer to contract a single company and this service model - which is rather like the production model employed by the film industry - is not proving to be a major threat at this stage.

Organisation A articulated some clear strategies for maintaining their leadership position in the local market, including more selectivity, more emphasis on expertise and a different way of defining their core purpose:

> "We are being a lot more selective. We are focusing on the kind of work we know won't stop when the economy comes off the boil."

> "We need to climb the ladder a bit and get more experts in selected areas. We've already started making noises about strategic alliances in the IT field."

> "What we are finding, going forward, is that people who can get things implemented in the social and ecological environment that we live in, those are the people who are pushing the industry forward; making progress."

However there were some interesting contradictions within this organisation. One of the interviewees for example felt that international competition was not really an issue:

> "I keep hearing about how we've got new competition in the market and it's all international. Well New Zealand is founded on that, so I personally don't see that as a big change."

For this person, the competitive challenge is in maintaining the pioneering spirit that has been such an important part of the company's heritage. One of the greatest threats to the business is its maturity and dominance in the market –

> It's been an exciting week with these Chileans here. They're very much like us 15, maybe 10 years ago. Reasonably youngish, prepared to try things. They back themselves in terms of their intellectual capability and their design capability…the challenge for us is to continue to give things a go and not bog ourselves down…"

The firm had become too reticent about promoting its innovation and expertise, particularly given that it is one of New Zealand's success stories. The risk is that by focusing too much attention on internationalisation of systems and processes in support of offshore expansion, the

firm could lose the core ideology that has made the firm a leader in its market. The way to counteract this is to be receptive to the young talent base within the firm and - "…take a few risks with them."

Another of the interviewees described how being competitive meant taking a leadership role in sectors where clients face complex and challenging social and environmental systems -

> "None of the problems of Auckland's transport, or the solutions, are held back by engineering. Not one of them. And you could argue that it's not held back by cost. It's held back by the ability to integrate with the political, social and environmental agendas that we have to consider."

The other firms in this study would be no strangers to these "unspoken" agendas. Maori, heritage and cultural issues fell into this category about 15 – 20 years ago and lawyers in particular developed new competencies around Treaty of Waitangi and resource management issues. The new rules are now around sustainability and these are pretty much "unknown" and causing clients some difficulty in terms of planning and execution of projects. The professional consultant who is able to develop the competencies around sustainability will be a market leader -

> "If someone asks what we do, you'd probably say we're consulting engineers. But I don't think that anymore…we are almost planners and environmental designers. I've just hired someone with a history and literature degree and he's got a post graduate masters in strategic policy. He's not much good with numbers but he is a key hire for us."

For this person international competition is a major threat because large, international companies are coming into New Zealand with these competencies already in place. Growing one's own represents a major investment. However the alternative - partnering with the large

chartered accounting firms that offer high level strategic consulting in these areas, is not easy.

For one thing, there is a cultural mismatch which makes collaboration difficult. It is also likely

that at times, these firms will be a competitor. As one interviewee put it when citing

Organisation C as a competitor in some markets - "They're not as technically expert in the

field, but they screw us on brand."

The "coercive nature" of current legislation, unspoken agendas and client uncertainty, are

creating both difficulties and opportunities for Organisation A. To be successful in this kind of

environment a firm needs to cultivate resolve, a long term point-of-view and resilience. Getting

paid for this level of advice is also key – "We keep trying to raise our charge rate in the market

and there is a lot of difficulty in doing that when you are part of a large firm where half the

firm is competing on commodity services."

In terms of strategic planning, all of the people interviewed felt that - in the face of all these

uncertainties - the five-year plan was an increasingly irrelevant and ineffective management

tool. Comments were made like –

> "I have an org chart that goes out three years with all the spaces I want to fill, and that's
> my three year plan."
>
> "I'm taking all the seniors away for the weekend and we're just going to focus on strategy
> for the next three years and I've said to them that I don't want a 10-page business plan. I
> just want to focus on the key challenges that we've got."
>
> "My only task is to stuff as many good people into the Auckland groups that I have, train
> them up so that in due course we can release them to wherever we need them."

Dominance in the New Zealand market may be relatively easy to maintain in the short term,

but for Organisation A taking the business offshore is vital to long term growth and a way of

insulating the business against the cyclical nature of the local economy. However the pressures

of breaking into new markets where brand presence is low to non-existent, may require a level

of investment and attention that could ultimately undermine the firm's reputation and

standing overall.. In addition, finding people who are willing and able to go and lead business

development offshore has been difficult when conditions at home are so comfortable –

> "In some ways the best thing that can happen for the growth of our firm is for the New
> Zealand economy to collapse. How about that? That's a shocking thing to say."

Organisation C

> "Just what we are allowed to do in particular marketplaces is really pretty much the key
> challenge in our industry. To-date it's probably worked in our favour. Going forward,
> who knows?

Organisation C also grapples with "coercive legislation". In fact, the competitive environment

of recent years has been very much defined by legislative change and new regulations. In order

to meet their obligations under international regulations like IFRS (International Financial

Reporting Standards) and Sarbanes-Oxley, New Zealand corporates are seeking ongoing advice

from their audit and tax advisors. Of course the pressure to comply with regulations also

impacts upon the chartered accounting firms themselves and the way in which they provide

services to clients. In recent years there has needed to a strong focus on what growth strategies

for the business are permissible and where there is conflict of interest. Post-Enron the key

requirement has been maintaining independence and in so doing, the integrity of the firm.

Not that long ago there were eight international accounting mega firms. By the late 1990's that

had whittled down to five. With the collapse of Arthur Andersen there are now just four, each

of whom is represented nationally in New Zealand. Organisation C is probably the largest in terms of staff numbers and market share. One reason given for recent growth is the way in which the New Zealand partnership has leveraged off its global network in terms of understanding the significance of major legislative changes and – "got the jump on everyone else". Having decided that IFRS was going to be quite big, the firm built up a team of people and made some key appointments early in the piece. Now they are ahead of the competition, simply because they got there first.

In other parts of the business, Organisation C maintains a low market profile. They are leaders in small niche markets that most people wouldn't even know they were involved in.

Size and global standing can make new business development difficult in some sectors. Unable to provide business advisory services alongside audit and tax consulting, the focus has shifted to some of the small, emerging businesses with the potential for growth in the future. Many of these emerging businesses are cash-strapped as they transition from the start-up phase, the good idea, into a commercially viable product or technology.   They feel daunted by the upmarket premises and image of firms like Organisation C and assume that the fees are prohibitive. Building relationships with these companies demands innovative marketing strategies and flexibility in the way services are delivered.

There are however some clear advantages in being part of a global network. Access to global methodologies and market intelligence databases makes it easy to respond quickly to business development opportunities and streamlines the operation -

> "It might sound like a bureaucracy but there is no massive global head office. There is a global board but they don't seek to tell us how to run our business in New Zealand. We get to run to market requirements here in New Zealand."

Having a critical mass in terms of market share means not having to compromise. Holding to a firm standard has proven to be a winning strategy -

> "Others have a reputation for being flexible every now and again. For awhile that looked a bit dangerous – for a year or so – but then because of Enron and directors being keen to do things right, it's been a real strength."

Each firm in this study made this point in one way or another during the interviews. Standards, no compromises, ethics and values are increasingly important assets for a market leader, but these things must be accepted and rigorously adhered to throughout the organisation or the credibility of the firm may be sorely tested.

Knowledge or "thought leadership" as they call it, is an important part of the business development strategy for Organisation C.   Information on world trends and developments are obtained via live news feeds and offshore databases and distributed to partners who then repackage the information for clients. Helping clients gain insight into what's happening overseas is where Organisation C believes it can add real value to the client –

> "People don't like uncertainty, do they? As their advisor you can sit there and say – this is what's coming, this is what's happening in the UK. They're wanting that knowledge and they're wanting that experience."

The firm's overseas secondment programme is a key tool in helping people broaden their perspective and gain valuable experience that they can use to lead clients in New Zealand –

> "You go to Sydney or the UK and you come back and you're actually a different person in some ways because you've got a different perspective on things."

One of the interviewees described how she makes a point of introducing colleagues to clients so that they can talk to them about areas of their business she feels unqualified to advise on. Leveraging off specialist expertise in the practice in this way enhances her standing with the client and the overall client-firm relationship, while making sure that the client gets the information they need in a "digestible" manner. The firm's strong focus on business development has been key to helping her develop this aspect of her practice -

> "I came back three years ago and when I first got back we had no business development teams as such and now we have a BD team that's responsible for looking at target clients, looking at the marketplace, helping on proposals…but really giving us a business development mindset."

It's tough call, being a professional consultant and having to develop client relationships and pin point growth markets. In-house business development teams are becoming the norm, but they function principally as facilitators and cajolers, delivering insights and market intelligence. The real job of winning the work still rests with the partners due to the highly personal and dynamic nature of the client-advisor relationship.

Marketing initiatives like newsletters and seminars, although widely discredited now, are still see as valuable by Organisation C as long as they are highly relevant to the audience. Breakfast forums are seen as valuable way to engage with clients on a particular issue at a time that is not too intrusive on their private lives -

> "We get all the directors in and update them on current topical issues. I mean if you're sitting at board level you don't often get a lot of that general discussion around what's

going on in the marketplace. I mean often a lot of the directors are semi-retired. They've got a lot of history and a lot of experience, but in terms of current developments they're probably not getting as much. To actually stimulate their thinking and make them feel like you're adding value, you need forums like that. You say – here's a speaker and here's something you haven't heard about and…afterwards, you've got something to talk about. You can stand and have a chant and talk about what's just been spoken about."

With a relatively well-resourced and sophisticated business infrastructure in place, and access to information and market intelligence around the world, Organisation C is well equipped to compete on the basis of foresight. This is possibly why they were the only ones to actually say that changes in the market create new competitive spaces. The firm simply needs to be sufficiently informed and adaptable to respond. The more significant challenge is in attracting, winning and retaining world class human capital and his particular issue is discussed at length in the next section.

Organisation B

"If the decision is based less on brand and more on relationships, and there are a limited number of competitors, it drives me to the conclusion that it's not so much our market as our staff market. It's more crucial and to be quite honest, I don't think that any other law firm is on to it, I really don't."

This firm perceives itself as having a relatively straightforward competitive situation based on the assumption that the market in New Zealand is relatively stable - "the market is the market in New Zealand. There are not a lot of levers you can pull." There was some concern that "corporate flight" would continue, but with Trans-Tasman alliances in place it was felt that it would be more a question of collaborating than competing. However the number of large firms at the high value end of the market has become fewer in New Zealand and there are now

only three firms competing for "top tier" status, whereas in the mid 1990's there were five or six.

The firms compete not just for the best work and clients, but also for the most talented law graduates. One interviewee estimated that there are only 40 graduates nationally worth competing over and they get to choose which firm they will join. This small, elite market is also highly incestuous, meeting each other on the panels of New Zealand's largest companies and sitting on opposite sides of the deals. It's a slog to win work, cement client relationships and hold market share.

However Organisation B recognises that although its market may be relatively stable, if not static, the environments in which clients are operating are far from being so and they are not insulated from this -

> "The market is restless and the market is dynamic, so we can't afford to sit around. Ours is as free market a model as you can get in a law firm. We think that this is a strength because our clients are in a free market, and why shouldn't we be subject to the same competitive tensions that they are."

Talking about these internal competitive tensions was something unique to Organisation B. It appears to have its basis in the culture of the firm which is affectionately described as "broad church". For many years the firm's recruitment strategy has deliberately shunned personality testing and focused on attracting individualistic people who are keen to stand out from the crowd -

> "It's not that anything goes, but if you have a particular specialty and you want to try something with your client, we'll back you to do it rather than you having to conform to a particular model."

Non conformance was also prized by one of the people interviewed from Organisation A although he did not feel that this was a firm-wide attitude -

> "The only thing I've been able to reconcile as a safe strategy is to have quite a few people who are here for the long haul and who are career focused…but also try and nurture some of these really innovative people who are out to lunch. I've got two who are just so dynamic, and the company is constantly trying to put them in a particular frame of box…"

Organisation B however has even aligned its remuneration and reward system so that it is very stacked towards the individual -

> "We are the only New Zealand firm we know of that has a contribution model, which is an American model. It's the way the UK firms are beginning to move and the Australian firms are grappling with is as well. It means different profit for each partner, depending on their financial and non-financial contribution in a given year. So we are now a parity partnership. We do not share the pie equally at all. Our competitors think it is destructive."

It's viewed very much as a competitive strategy and has an historical basis. Having established itself as a meritocracy in the Wellington market, Organisation B realised that it would have to do things differently if it was to secure a similar position in Auckland. By stocking the firm with a range of very bright, very creative lawyers from various places the firm's core ideology is very different from its rivals who run recruitment strategies that result in a firm of lawyers who are pretty much from the same flock. Given how well the firm has done in Auckland in particular, it is clearly an effective strategy -

> "It's (the firm) has done a whole lot of things differently and the market knows. I think that's why you possibly have the perception that things aren't standing still here, because they're not. There's a sort of perpetual dynamism about the firm because it's had to run very hard to get to where it's got to, and no one wants to take a rest."

Being individualistic poses another challenge for Organisation B. One person felt that the firm ran along similar lines as parliament, which is a collection of fiefdoms. Individual partners with lucrative practices and highly personalised client relationships gather a team around themselves with more loyalty to them than to the firm. Each of these fiefdoms sees itself as having a say in the overall direction of the firm and so committees are formed, which slows decision-making and frustrates professional management teams. As one person put it –

> "I think we've got the best raw talent but I think probably, because we haven't taken such a unified view of what the firm stands for in a reputational sense, both internally and externally, we've lost some of the power and the potential in the translation. Sometimes the sum is not greater than the parts here…and it needs to be more about bringing barriers down between groups and having a much more collective view of life internally, which we will then project externally. This is the key, I think."

Compare this to the way in which Organisation C described itself -

> "I think it's a pretty cohesive partnership. It's one where although people specialise in their areas, we have a one firm approach which means trying to get work for other partners in the office. It works well, and while obviously a partnership has connotations of everybody being involved in every decision, that clearly doesn't happen. We are very corporate in our decision-making."

The way that the firm is stocked is critical to its ongoing performance and long term potential but the inter-play between a firm and its people is quite a delicate system. Improving that alignment or introducing change into the system requires leadership, not management -

> "Actually I'm growing to understand that the term managing partner is a misnomer. You are meant to be the leading partner, in a management sense."

As the literature has indicated, leading a professional service firm requires good emotional intelligence and an understanding of people and how they function within and without the organisation. Building these personal competencies also requires that management teams in professional service firms develop a collective understanding of the changes in our society and how this is impacting on our working lives.

Educating, training and cultivating "savvy" young lawyers who can meet the needs of today's clients represents a major investment. They need to be not only superior in their profession but very aware also of what the future needs of their clients, and even their clients customers, might be. It's an investment that can be lost when these same young lawyers are snapped up by firms in the UK offering work opportunities and rewards that New Zealand firms can't match. So it is that the competition for people is an integral aspect of competing for markets.

New challenges as a result of changes in our societies

> "One does not manage people. The task is to lead people, and the goal is to make productive the specific strengths and knowledge of each individual." (Drucker, 1999, pp 21-22)

Each of the firms in this study could be said to run a conservative workplace: a central city location, an office each for partners, associates and members of the management team, meeting rooms, desks, personal wastepaper bins. There is certainly no Vodafone-thinking evident in the way professional service firms approach their office fit-outs. However the forces of social change have already begun to be felt within these firms, even if their workplace designs do not yet reflect this.

Each and every one of the people interviewed talked at length about the new generation of knowledge worker in contrast to the current executive and management profile. The new and challenging attitudes of a generation that has its own value system creates uncertainties around how the firm will hold together going forward. Most agreed that the future of the business was dependent on finding a way of making these new breed of professional loyal –

> "Those people who are made partner in a law firm, who own the firm, they have a loyalty to the firm. I think that the trick is for us to engage our other people, who clearly identify with their profession and get them to have that loyalty to the firm."

What lies behind this perceived lack of this loyalty? It seems due in part to workforce mobility. The world is suddenly a very small place and people can travel and experience other countries with ease and the assurance of work. The terrorist attacks in the USA on September 11th put a dampener on this for a time, but things have now returned to normal. With worldwide shortages in all the professions, well-educated, experienced Kiwis can still be assured of

securing work in some of the biggest and most successful professional service firms in the world and they are travelling with abandon once again.

This issue isn't specific to young people. People at all levels of the firm seek opportunities elsewhere New Zealand still holds appeal for those who are raising young families. Counteracting this mobility means more lateral hires, investment in alumni programmes to stay in touch with people while they are on their OE, finding ways to stop them from leaving in the first place (e.g. extended leave to travel) or recruiting offshore. For Organisation A offshore recruits are increasingly important and a considerable investment is made in trying to hire world class expertise from the UK and supplement "leavers" with immigrants from around Asia and other parts of Europe. Despite the challenges of managing a multi-cultural team, there are advantages -

> "I have 10 nationalities in a team of 39. This gives me 10 different perspectives which broadens the thinking, but it's hard to manage. Some of my team are Muslim and it's harder for me to get Coca Cola out of corporate services than it is to get beer!"

As for the new generation of New Zealanders entering the professions? They are generally perceived as demanding, impatient, erratic and high- maintenance but they are also recognised as the future of the business because – "they challenge us to do things differently."

For a time in the late 1980's/early 1990's, professional service firms followed the corporate model and developed mission statements and other ways of expressing their purpose and aspiration in the hope that this would rally people across the firm. However there is now a realisation that it is only possible to secure loyalty by helping people create the working life that they desire –

> "Once you've got them, do you have a really clear and transparent pathway for them so that they can see where their future lies and how they are going to get there? What are their goals and objectives? I mean let's face it, these Gen Y's are pretty clear about what the world owes them. They've got to be given challenging work opportunities".

This person was quite perceptive when they went on to say that this situation was not exclusive to Generation Y. Everybody wants those things - Generation X, Baby Boomers - they all want to be treated like individual human beings rather than *factors*. The increased bargaining power of the knowledge worker manifests itself in two ways. On the one hand there is the expectation that there will be interesting work opportunities and better than average rewards. On the other there is the expectation that the firm will sanction some flexibility and freedoms around not only working practice and styles, but also people's outside interests.

Meeting these expectations has implications for the whole organisation. Organisation B talked about the need to "refresh the partnership" and shorten partner tenure to allow young stars to come through faster. For Organisation A it means changing the mindset of some of the older executives in the firm so that bright young people don't necessarily have to prove themselves in conventional ways –

> "We tend to think that they need to do about 12 years of hard graft designing pipes or something before they have credibility and we lose some really innovative people because of that."

> "People get bored so quickly. You say them – you're project managing a $5 million fee job – so what! And if you asked someone in the organisation who was 50 plus they'd say – oh, it was my dream job."

For Organisation C it means making some of the older partners see that what is being asked of the young knowledge worker today is significantly more than how it was when they started

out. The pace of change has accelerated and expectations have risen, which is something that is not always acknowledged -

> "I don't think that I'd like to be in their role, being pulled in 10 different directions. We haven't probably responded well in recognising that. The view of the partners here is probably more I did it, so you can do it too. They're a bit like that, aren't they? A little bit old school."

Organisation B also acknowledged that although they might be demanding and a little too focused on what the world owes them, these young people are extremely valuable to the firm –

> "They're very high performers. Their experience of failure is low. And they sure as hell hate failing. It's a very competitive environment."

Bright, confident achievers who are in demand can make a firm extremely competitive but they need to be managed in a particular way. One of the tactics is to make the firm "real" for them through its stories. These young people face a different kind of world to the people who have built this firm into what it is today, but they will engage with stories of past achievements and colourful personalities far more enthusiastically than they will a firm mission statement. Social interaction at all levels of the organisation and conversations is an important part of this. One managing partner despaired of email –

> "Email threatens to destroy the art of conversation. It's a wonderful way to distribute information that you need to absorb and then delete, but it's an appalling way to have a conversation."

Attendance numbers at the firm Christmas party are still seen as a good measure of the "health" of the organisation. It seems that there is increasing evidence that professional service firms are catching on to the idea that their workplace is a multi-faceted social system and the

manager's job is to create the preconditions that will support individual performance and motivation.

Clearly this is not easy unless there is a general acceptance throughout the organisation that this is the manager's function. Firm B had recently replaced an older, more conservative partner with two younger practitioners (one in Auckland, one in Wellington – the firm accepted long ago that you could never centrally manage both offices). They were, according to one of these new managing partners, being cut a lot of slack by the partnership. There was a sense however, that this honeymoon period would end and the person sensed that one of the key challenges was going to be around influencing other people, some of whom are older and more experience practitioners than he was. It was going to call for a lot of emotional intelligence -

> "If you are obtuse when it comes to personal relationships and reading body language, and understanding how people might react to decisions, then you are never going to be able to do this job."

For Organisation A, there were some contradictions within the organisation. On the one hand the Chairman is perceived as someone who is "in touch" with this new kind of worker. But on the other there was some discomfort and disquiet around the attitudes of some of the more senior professionals in the firm -

> "My group is littered with high maintenance people, which takes a lot of time, but I find it quite exciting because you get to know them very well. They're not afraid to share their whole life and all the things that go with that. They're prepared to show their strengths and weaknesses which is, for a lot of Section Managers, a huge challenge because they don't feel comfortable with it at all."

In other parts of the business there was considerable support from directors and the senior executive for a people-focused, flexible approach. This shared understanding had been achieved through constant talk ("we're a talky, talky organisation") and greatly assisted by the decentralised management structure which empowers decision-making.

Flexibility applies to a variety of situations, including the new social phenomenon of the working mother. With a crippling shortage of good people, professional women who are prepared to return to the work are now highly valued. There was little said about the advancement of women in the firm (although it would appear from the numbers of women in senior roles and management teams that they are not advancing!) and the problem of the glass ceiling. What the organisation wants is well-trained people who can do the job with minimal training. What many of these professional women want is more flexible work practices that allow them to be there for the kids when they get home from school without giving away their practice entirely. One of the interviewees described how she had "uncovered" the fact that many of these women on part-time contracts with the firm were in fact working full-time, just not in the office. This situation had occurred largely in response to the pressures of meeting client requirements, rather than in response to firm expectations. On discovering this, she immediately put them back on full-time, flexible work hour contracts.

Remote working does not only apply to working mothers. It is becoming part of normal working life for people who do not need traditional workplace structures -

> "I got an email from one of my guys at 2.46 am with this great piece of work and I knew that the next day he'd be a zombie and he was, but so what. If he wants to work at 2.46am then that's when he works, but you have to have a network or a structure around it to capture it because otherwise they're here, they've done it, they've gone and there's no follow-on, just debris and baggage."

Computer technology has made this situation possible, but there is a degree of ambivalence about the way in which technology is blurring the line between home and work and extending people's availability. While flexibility is highly valued, intruding on people's non-work time for the benefit of clients was seen by one person in particular as potentially destructive. He was particularly critical of partners who think that keeping the client satisfied is the most important thing -

> "Most firms have client-centred strategies but if you centre that on the people that work for you, good client relationships will follow. I really think that the firm that can crack work-life balance will be the firm that excels. "

Of course work-life balance means different things at different times of one's life. The young twenty-something may relish the opportunity to work a 50 hour week when a young mother cannot. In any case, long hours don't necessarily mean that a person is working hard. It may mean that too much time is being taken up during the day with committees or other management issues that would be better left to the management team.

Work-life balance might simply mean designing a different career path. One person in Organisation A identified discovered that "getting ahead" in his particular firm was far more likely if you had had, as Charles Handy describes it, a portfolio life. Early in his career he had researched the CVs of every person he admired in the organisation only to find that –

> "It almost seemed to be a pre-requisite to have a wide background. People had left the firm at some stage or other and done things that you might think were career-limiting. You sure don't get there from designing roads and that for thirty years."

Those professionals who return to New Zealand from their OE or from secondments generally do so for lifestyle reasons. It's certainly not for the money or the work opportunities. This means that they haven't generally come back to do the long hours they put in while working in London and elsewhere, and it makes them particularly resentful if they find that they are.

However for one of the people in Organisation A the comfortable New Zealand lifestyle was proving a major obstacle to growth –

> "We'd have a buildings business in Australia by now, if we had someone to lead it. New Zealand does have a lack of senior people who can lead…they're all very comfortable here."

Societal changes are also having an impact on the nature of clients and work, not just the workforce. The more interesting comments on this have been presented in the discussion on markets and competition. However one person did mention the need to be more sensitive around entertaining clients and their partners due to the fact that many more of these were openly gay. She also spoke about the fact that despite more flexibility in the workplace, women in large firms are still putting off having children until they have secured partnership and then they struggle with the realities of parenting young children while holding down a senior position in the firm. Despite the numbers of women choosing to combine parenting with their career and national skill shortages, neither the government nor the firms themselves offer assistance with the exorbitant cost of childcare. Working for the same firm in the UK she had received an automatic bonus of 20% of her base salary for the first year she was back at work.

Summary

Professional service firms are grappling with the challenge of our changing societies on many levels, but most particularly in the areas of skill shortages, work-life balance, and how they should respond to an increasing emphasis on sustainability.

Whether you are talking about the sustainability of our environment, our communities or our business communities, there is an increasing need to understand that all these things are interrelated and it is no longer sufficient to compartmentalise one's thinking along the lines of a particular discipline. Roading engineers need to think like sociologists. Leaders and managers within firms need to think like designers. Their role is to create a social architecture designed to bring out the best in each and every knowledge worker so that competencies are integrated across the firm.

Indications are that professional service firms, like their clients, will suffer a dynamic and transient workforce for the foreseeable future. At the same time, the integrity of the firm has never been more critical to its position as a market leader. Understanding this, and finding a ways of maintaining a healthy balance between people's commitment to themselves, to the profession and to the firm is key. The interview findings suggest that New Zealand's largest and most successful professional service firms have understood this and that there is an increasing focus on strategic management and leadership. What the literature suggests is that maintaining this balance will be difficult unless they can align individual behaviours to the core ideology and aspirations of the firm.

Chapter 5 – Discussion

The large professional service firms are getting bigger and the small firms are going to "fall out the equation." That is the view expressed by one executive director and certainly in just over a decade we have seen the big eight accounting firms contract to four. In New Zealand the top tier of law firms has gone from five to three. In terms of engineering, only one large firm remains wholly New Zealand owned. The rest are now subsidiaries of large international consultancies looking for a branch office in this part of the world.

Being a leading professional services firm in New Zealand means not only being the best within the limits of the local market, but also finding levers for growth by thinking globally. Local clients need advisors that understand global trends and global clients need advisors that can facilitate their pathway into the New Zealand market. The market is very much a two-way street and the only hope that a firm has for mastering this situation is through the brains of its people.

If there is one overwhelming common theme with the research findings it is that people are at the forefront of management thinking in a way that they have never been before. There is a certain irony in this given the opening statement. How is it that with the emergence of the mega-firm, the individual has become so critical to the performance and success of those firms? The answer has something to do with the fact that large organisations are learning that the economic advantages of size, while fundamental, is not sufficient for the sustainability of the business. Rather, the organisation needs to be viewed as a work community where the primary focus is the optimisation of people, not profit.

A living company

This line of thinking fits well with the idea put forward by Arie de Geus in The Living Company that companies are a living being, incorporating communities of people. Therefore it would follow that companies have - "a terrific internal will to survive." (de Geus, 1999, p 216)

The research findings support this way of understanding the organisation. It is clear that professional service firms need leadership and this is dependent on a certain number of professionals reaching a point of emotional maturity and "selflessness" in their own lives that they are willing to commit first and foremost to the sustainability and longevity of the firm. Only one person interviewed talked about profit, making the point that –

> "We could triple our profit if we got rid of a whole lot of people and only did 30% of our jobs. But that would reduce revenue and mean a whole lot of other things as far as the business is concerned."

A "whole lot of other things" meant that it would run counter to the culture and values of the organisation. In de Geus' experience, a company driven by profit develops specific characteristics which are not conducive to long term prosperity. He goes on to describe an organisation whereby, not unlike a professional service firm, people work for the firm on the basis of trading their time and expertise for money. There is usually a small, inner circle ("the partnership") of people who partake in the power and rewards, and the rest of the people are "attachments" who work for the organisation with their exit at some point very much in mind. Loyalty and trust become significant issues and a tight hierarchy is required to keep things under control. A tight structure makes it more difficult to mobilise the intellectual capability of the people in the firm and this makes it harder to decide who should and should not join the inner sanctum. Succession becomes a burning issue and there are problems in the transition from one management generation to another.

De Geus likens this kind of organisation to a puddle of rainwater. The pool may be deep and stable, but it is vulnerable to stagnation and drought. Better to be a "river company" where the primary focus is on people, not profit. Such a company sees itself as a community with its principal purpose being not only profitability but also longevity. In a community organisation extreme care is taken over membership and people are recruited on the basis of common values and the focus is on relationships with each other and with outsiders, who are viewed as an essential part of the community. In a relationship culture there are policies for entering and exiting the organisation gracefully and the human contract is valued and honoured. These companies behave more like a river. There is a structure to the river, but its substance is essentially turbulent and transient. Ultimately the "river company" flows into the outside world but with a succession of water flowing behind it is self-perpetuating.

If we pause here to consider some of the key themes from the literature, we find that it represents a very different picture from de Geus' first company description. Managing partners who really care about their people, suppressing their own ego needs to make other people feel successful and important. Leaders who lead by example, taking people with them through shared vision and action. The social innovations described by Richard Normann, repeated here because they are so powerful -

> "Inventing the appropriate roles and role constellations, diagnosing and finding ways to use human capacity and energy, designing ways to make people and groups of people learn skills quickly and to maintain the skills while keeping alive the enthusiasm and the thrill of personal development – all these are typical examples of social innovation." (Norman, 2000, p23).

Handy's idea that planning is about as sophisticated as going with the flow and trying to steer things a little. Warren Bennis' colourful image of the balloon man with all the colour and personality of the firm held safely, but not too firmly, in his grip. Senge's belief that an

organisation's survival depends on a sense of togetherness and connectedness which the leader cultivates through shared vision and team learning. The idea that leaders are guardians, not owners, of the long term. Understanding that trust can be earned or lost in a single moment. None of this is possible in a company with an exclusive focus on profits. It was Russell Ackoff at the Wharton School of Economics that is attributed with saying – "Profit is like oxygen. If you don't have enough, you won't be around long; but if you think that life is about breathing, you're missing something."(Senge, making a Better World)

The idea of a "river company" however aligns well with both the literature and research findings. The statement of one managing partner has resonance here -

> "I think that's why you possibly have the perception that things aren't standing still here, because they're not. There's a sort of perpetual dynamism about the firm because it's had to run very hard to get to where it's got to and no one wants to take a rest."

Underlying the research findings is a sense that the people are committed to their organisation not just for the financial rewards, but because they want it to be there for the next generation coming through. They demonstrated an intuitive sense that their organisations are indeed a community of individuals and the recognition that it is important to capture the imagination of the people coming through, for the greater good of the firm.   The question that was not answered, is how do you secure this commitment.

The commitment model

There are three levels of commitment at work in a professional service firm: commitment to the firm, commitment to the profession and commitment to oneself. Realistically one or other of these commitments will have a stronger influence, depending on the individual.

If we assume that there was at one time more inherent stability to the professional service firm – an "old order" whereby the profession and the firm provided individuals with all their needs - it might be represented by Fig 1.

Figure 1. Commitment Model – Old Order

In such an environment, a young graduate would have sought collegiality and career opportunities and they would have entered with a long-term commitment to secure partnership.

In today's Western societies, that newly trained professional has a more highly developed sense of "self". The firm still offers the best environment in terms of a peer group and work opportunities but, this increased commitment to self means that long-term commitment can no longer be taken for granted and rewards are generally expected sooner. This new order looks more like Fig 2, which is a less stable situation. This way of seeing things puts Commitment to Self at the apex so that it becomes the principal lever for managers and leaders, whose purpose is to keep these three commitments in balance. Some movement around the apex is desirable and highly likely, depending on the culture of the firm. The idea is not to neutralise any of the elements, but to maintain
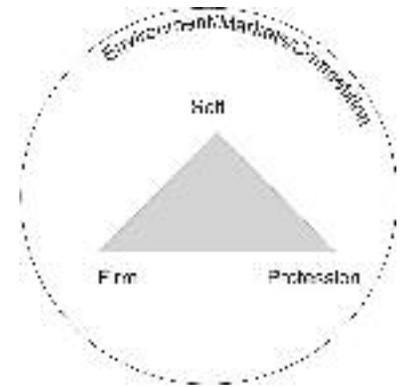

Figure 2. Commitment Model – New Order

sufficient elasticity to ensure that there is a natural pull keeping people engaged within the system. This way they are better able to contribute to the long-term interests of the organisation while at the same time satisfying their own professional and personal interests.

The first task of managers and leaders in this kind of system is to understand that is not a question of either / or (think Collins and Porras, the power of the "and, not the or") as illustrated in Fig 3. below:
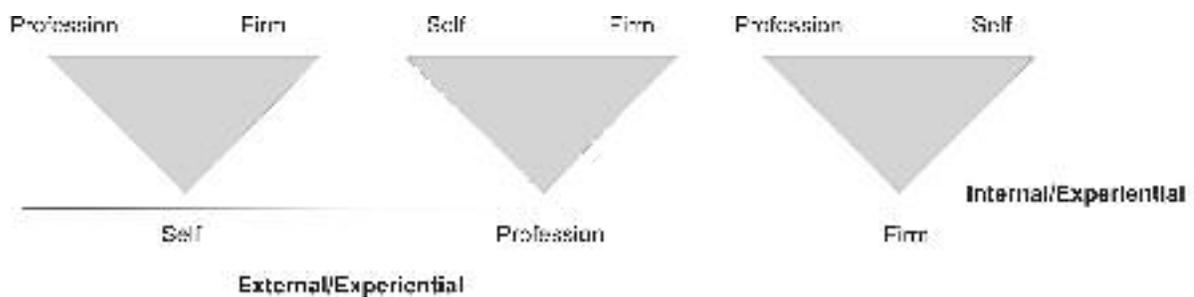

Figure 3. Three Possible Foundations for Firm Culture

No one commitment is pivotal to the success of the firm, although at times one of these needs may dominate. They will also at times be in conflict and there are, like any human system, positive and negatives which collectively can be very powerful. The trick is to understand this sufficiently to be able to be "elastic" enough to make this situation work for the general good.

Commitment to profession

Entering a profession, whatever the discipline, means accepting that one' s work will be an integral part of one's life in a way that not all other job choices are. Professional status comes with strings attached, be that the restrictions of a code of ethics, or less explicit expectations around behaviour, dress code and other professional *signals*. There are varying degrees of course, depending on the disciplines, but let us assume that in a large commercial professional service firm that is a market leader, the expectations around standards and quality are extremely high. On the positive side this accords the professional with a level of respect they

might not otherwise enjoy and gives professionals a certain resilience which Richard Farson

alludes to when he writes -

> "Exploring some of the perspectives garnered from the disciplined field of design would
> help managers develop a more professional stance, less buffeted about by fads. Other
> professionals – physicians, lawyers, professors, architects – are far less likely to be
> entranced by trends and fashion because they have a strong professional perspective that
> guides them through the challenges. Leaders and managers need to acquire that strength
> of professional perspective, and the discipline of design can help provide it."(Farson,
> 2000, p 4)

Another aspect of entering a profession is the commitment it requires to long-term study and

continuous improvement. This imbues habits that are useful to an organisation that depends

upon high levels of personal commitment and fosters a sense of collegiality. Right from the

beginning, students are taught to look to those with more knowledge and experience than they

have themselves for their professional development. This means they come to understand

themselves in relation to their peers which makes it interesting to see who emerges as a leader,

and who does not.

Collegiality can breed narrowness and elitism. Rivalry is more likely within a distinct peer

group, particularly when the stakes and rewards are high.   One CEO commented that young

New Zealand law clerks have only two to three years to position themselves in the firm and

that this can mean the difference between earning $50,000 or $500,000 for the rest of their lives.

A bit extreme perhaps, but it gives you an idea of the very significant competitive pressures

that can go with a profession. Collegiality is not much value as a basis for teamwork, either.

Professionals demonstrate over and over again that while they are willing to group together,

they find it hard to function well in a team. As one interviewee put it –

"…it's fascinating. We actually have a huge amount of groups here and they are called teams, but they're not really. Our teams are all groups."

It is clear then that professional service firms require high levels of commitment to the profession but that this brings with it personality traits and behaviours that can be at odds with the collective needs of the firm. Professional commitment is however a good regulator of self, and provides meaning and context around one's working life. Although professional status may not now be a guarantee of wider respect, it is still something to be highly prized, particularly in a knowledge economy. Design management has much to offer in helping professional advisors transition from applied knowledge to a more creative and integrated approach, but this can only realistically be achieved through effective leadership.

Commitment to the firm

The two very desirable outcomes of a strong sense of commitment to the firm are loyalty and alignment. The latter has the potential to ensure that individual behaviour aligns with what is in the collective interest of the firm. The difficulty is, that many leaders within professional service firms do not communicate sufficiently well what it is that people should be aligning themselves to.

Two things that work against loyalty and alignment are politics and bureaucracy. Large organisations are often riddled with them, and it is the responsibility of managers and leaders to use whatever levers they can to thwart this way of operating.

There are many positive aspects to the modern day professional service firm in New Zealand. They are skilled and efficient training grounds for young professionals, which goes someway to

explaining why our young professionals are in demand overseas. The research findings

support the idea that training and development remains a very effective way to "bond"

(emotionally, not financially) young people to the firm. However there is one phenomenon

particular to the New Zealand context and that is, the big OE. Travel and overseas work

experience is an accepted *rite of passage* in Kiwi culture and we lose most of our young people in

their mid to late twenties, for a time. No amount of commitment to the firm can prevent this so

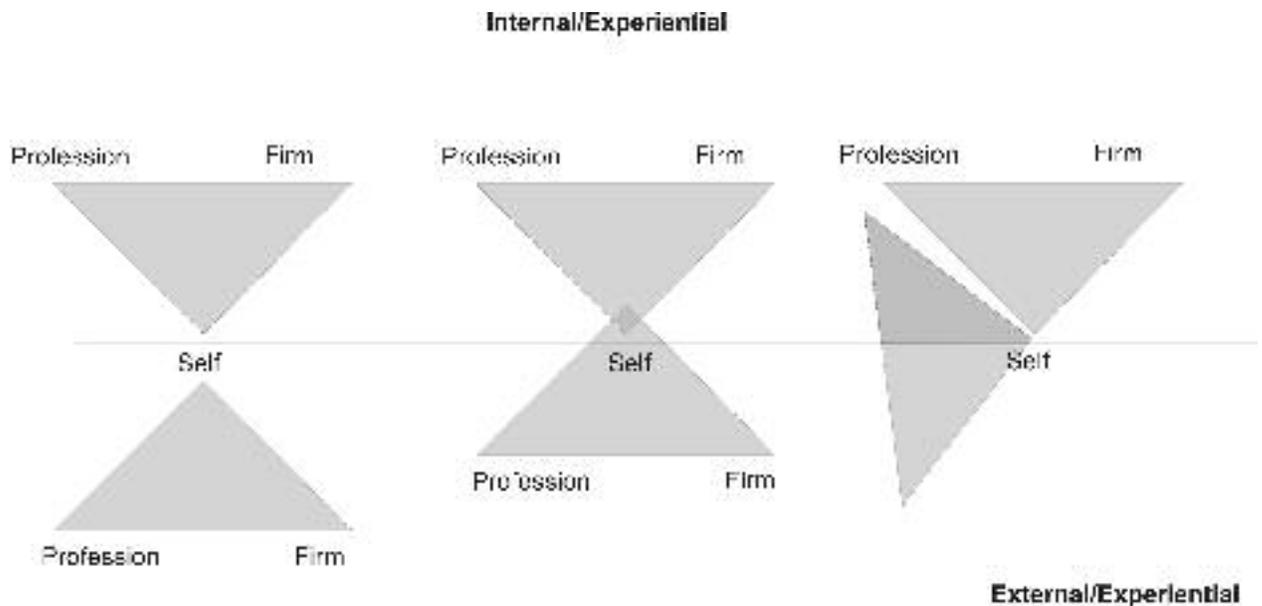instead, firms are looking for ways to manage it on a "firm to individual" basis (see Fig 4).

Figure 4. The Big OE

Another positive aspect of making a commitment to the firm, as already discussed, is the

additional assurance that the firm structure provides clients around ethics and codes of

conduct. The professionals themselves also benefit from levels of professional indemnity cover

not viable for the smaller firm or sole practitioner. Large professional service firms also now

offer professional human resources, finance and marketing teams. This means that the

professionals have at their disposal a support system that releases them from time-consuming

aspects of business development and firm management. However this transition does not

come easy to all, particularly those who have been in the firm system for a long time. Hence

the continued existence of committees and fiefdoms as described by one young partner. A new

breed of professional who understands the value of strategic management, he is less attached to the traditional professional service firm ethos. These management oriented practitioners see considerable advantages in establishing collective and inclusive goals and objectives that focus on the performance of the firm, rather than the individual and this actually helps to secure their loyalty and commitment

Whereas previously a firm might have expected to secure commitment through its professional reputation alone, there was consensus across all three firms that shared values are increasingly important. In today's competitive recruitment market, people will look for an organisation that fits their particular view of the world and shares their value system. Commitment to firm is now a human contract rather than an employment contract. This means that it is more important than ever for a professional service firm to have a clear understanding of who they are, what they stand for, and to make sure that this is communicated effectively.

Commitment to the firm can be supported if the organisation has a strong brand ethos that people buy into. Brand development represents a significant investment and not many New Zealand firms have yet been prepared to make it. However the research findings indicate that branding – particularly the employee brand is on the agenda for at least two of the firms in the study. One of course already has a strong global brand and this was seen as a real strength for the firm, both in terms of attracting clients and in securing employees.

It is a given that within a large professional service firm in New Zealand (250 – 500 people), there is going to be divergence in the levels of commitment these people have to the firm, relative to their profession or themselves. Managers find themselves engaged in the emotionally demanding process of moving people through and on, where necessary, so that there is always sufficient numbers of people who want to give back to the firm as they develop

not only in their profession, but also as people. Commitment to firm at this level generally

implies a high quotient of emotional intelligence and character. The obstacles to this are the

politics and bureaucracies that come with firm life. In a complex social system it is almost

impossible to manage all parts of the system. Many of the groups will by necessity be self-

managing, but it is still important for the manager and leaders within the firm to hold a clear

picture in his or her mind of the whole community, and what it needs to be in the future.

Design management offers not only the way in to understand this, but also a way of integrating

these self-managing groups so that they support the collective vision rather than frustrate it.

Commitment to self

The research findings clearly support the view that people's commitment to self is an

increasingly important aspect of firm management (see Fig 5). In an intensely competitive

recruitment market, young professionals enter large firms feeling very much sought after and

with a clear idea of what they think the firm – if not the world – owes them. While this is not

so often the case with older, more experienced candidates, there are similar issues. People

recruited offshore or returning home from overseas often have a clear sense of what they want

from life in New Zealand and it is usually life-style. If New Zealand cannot provide work

opportunities and salaries to equal Europe, North America and Australia, it can provide easier

and more frequent access to the outdoors and a more

relaxed family life. If this is not the case and work hours

and long, then this can cause resentment.

Commitment to self does not necessarily imply putting

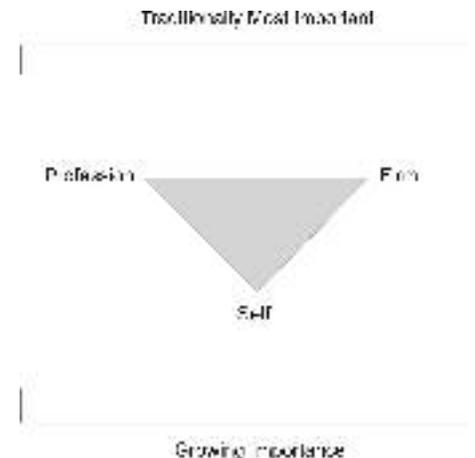oneself first. It also means the pursuit of other interests

Fig 5: The growing importance of Self

and callings in addition to a professional career - volunteer service abroad, community work, triathlons, sharing the care-giving of children – and often this will require greater flexibility around hours in the office. The firms in the research study are acquiescing to this desire for flexibility because they value the knowledge and experience and do not expect to "own" their people . However it is causing those engaged in the design of their organisation cause for thought in terms of what kind of impact this more fluid work-style will have on the collaboration an the group dynamic.

Self-managing teams of professionals don't necessarily need to engage across the firm, but it is advantageous both for the client and ultimately the firm if they do. There is clearly a tension here, arising from the fact that people enter a professional service firm principally to progress and develop in their chosen area of expertise, while clients engage a firm to provide commercially sound and appropriate solutions to specific problems. Brilliance is not necessarily what the client is seeking, although one firm sees it as central to their position in the market. What is important, is that the firm leaders and managers measure the requirements of the client and select the person with the best "fit" to the client rather than just fronting the most knowledgeable person in a given area.

One of the positive aspects of a strong commitment to self is that people "choose" to be loyal and firm-minded. This is no longer just a generational way of thinking. Bringing one's whole self to the workplace is voluntary and an act of generosity rather than an obligation. People who have a well-developed sense of self are often confident, with high personal standards, a strong focus on personal goals , a desire to be rewarded and acknowledged and a yearning to learn and progress. This profile fits well within successful organisations. People who value self are often hungry for experience, opportunities and increased responsibilities although this

does not necessarily translate into responsibility for others. You can get a lot out of them, but it may only be for a short while.

People with a strong commitment to self can often be individualistic, quirky and maverick. This is positive and negative. On the positive, these kinds of people are usually bright and energetic which makes things, as previously discussed, exciting. On the negative side of the equation, these traits can restrict the opportunities for others in the firm to add value. Innovation is generally proven to be more prevalent where there is a team dynamic. Clients will generally either love or hate this kind of person and if there is a mismatch, it can be harder to recover the situation. An individualistic approach can also deny the client access to different points-of-view and the strengths of a team approach.

Generally the people interviewed found that people with a strong commitment to self are more difficult to manage. They are much higher maintenance and can put alienate others in the firm by expecting to attend to the detail. They can demonstrate leadership qualities, particularly if there is a cause or purpose they can relate to.   But leading peers requires the ability to reach outside of oneself and this is a commitment that they will find difficult to make.

Elastic management

There are powerful forces within the context of a professional service firm, emerging from various combinations of commitment to one's profession, commitment to the firm and commitment to oneself. The skill for leaders and managers is to allow enough elasticity in the organisation for these combinations to run without destabilising the overall ecological balance and well-being of the organisation. How do they achieve this? By understanding the importance of mental models and the guiding principal that each and every person in the organisation has a mental model of the world and of work that makes perfect sense to them.

You cannot possible hope therefore to align people to a common purpose by telling them this is a good thing. This is the "walk the talk" philosophy of Peter Senge designed to enthuse people who then go on to enthuse others.

It is also necessary to develop 'T-shaped' people with deep knowledge in their field but the capacity for broad engagement and inclusive relationships.

Shared vision where there is shared understanding around where the organisation is heading. Collins and Porras argue that leaders should be clock-builders, not time-tellers. Visionary leaders are not necessarily that effective at building visionary companies. It is more a case of collective greatness than individual charisma and influence.

Learning through teamwork, and understanding one's interdependence with others in the organisation. On the basis of the interviews this is particularly difficult for a professional service firm. While stories were related of great achievements, personalities, commitment and brilliance, there was very little mention of something that happened as the result of a great team effort. Teamwork is clearly challenging in the professional service firm environment. Most professionals are strong individual contributors – forceful, articulate and ambitious. They have steadily advanced in their careers, in part because of their ability to make an impression. Progress in this area, and each of the others, is highly dependent on people understanding the fundamental principles of systems thinking. Without doing so, they will continue to apply somewhat simplistic frameworks to complex issues, seizing on the solutions that are known and close by. This takes us back to David Maister's description of the reframing process in The Trusted Advisor. If consultants can cultivate a more creative approach and choose to see the whole rather than simply focusing on the individual parts, they will be able to dissolve problems and reveal to their clients a more wholly satisfying and appropriate solution.

These component technologies, as Peter Senge calls them, are the disciplines that leaders and managers have at their disposal in order to create a learning organisation. It is an approach that accepts that trying to exert control is thankless and ultimately futile. The only way to align people to the strategic intent of the firm is to create the kind of strategic architecture promoted by Hamel and Prahalad and set to work with the dynamic of the firm. Being aware of the reinforcing and conflicting elements within the organisation – profession, firm and self – gives insight into particular situations and pinpoints areas where it is possible to make a difference in what is essentially an organised mess! Fig 6 below shows how these "spaces" might be identified. The striped area shows where there needs to be sufficient elasticity to allow the firm to be dynamic and fluid. The area outside that is where the most work needs to be done to make sure that the organisation remains stable and does not fall below the axis. In the first iteration the firm is nicely in balanced, although stability is very much dependent on individual brilliance. This representation best sums up the situation described by the people interviewed from Organisation B and implies a need to work on developing a stronger sense of firm, leveraging off the many achievements that the firm collectively has made to the profession.
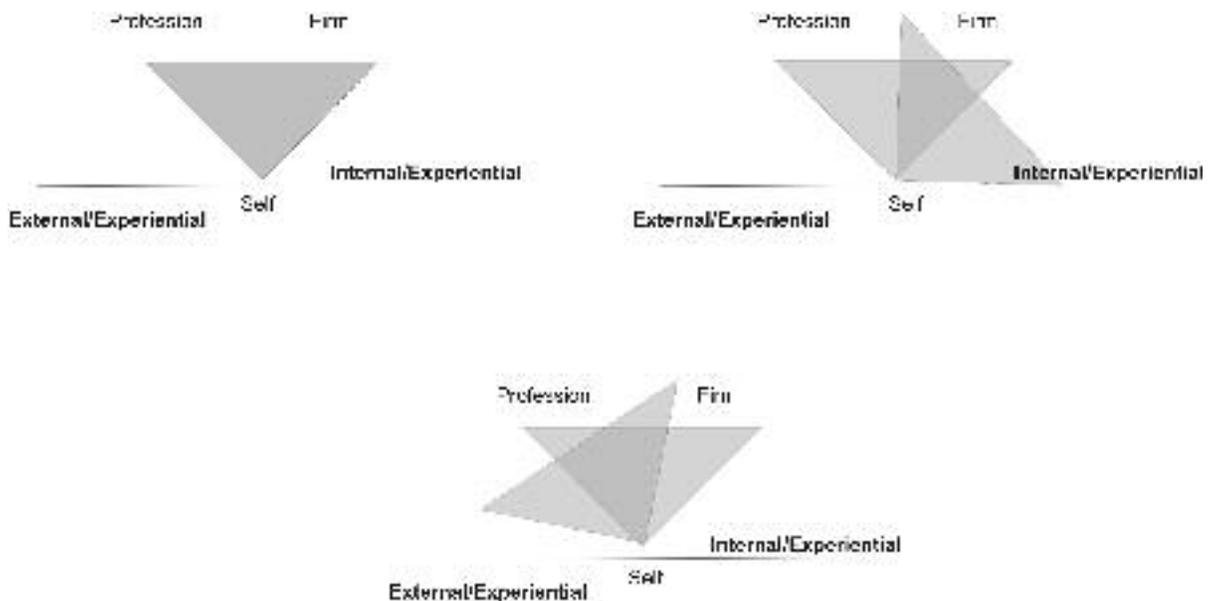

Figure 6. Elastic Management

In the second iteration, the organisation is leaning more towards the dynamic of self and firm. This implies a firm dynamic more like that described by Organisation C, which although a meritocracy, has a strong, well-established brand and is run along similar lines to a corporation. Management's focus therefore is around maintaining a strong professional ethic and clarity around what the service offering to clients is.

Organisation A is best represented by the third iteration where the firm dynamic leans more towards the dynamic of profession of self and profession. The diversity within this firm means that there is likely to be a strong focus on technical excellence and expertise. While there should be enough elasticity to allow technical excellence and expertise to flourish, care needs to be taken that this is not at the expense of the firm. Firms characterised by a strong commitment to their profession and to individualism sometimes find that while some business units may achieve greatness, it is detrimental to the collective vision of the wider organisation and has a negative impact on performance in the long term.

That each of the interviewees was prepared and interested enough to talk at length about their firms suggests that in an established business, the intelligence, hindsight, experience, commonsense and energy of people who are drawn to manage and lead eventually aligns itself to the goal of making the organisation sustainable. Keeping "this thing" going becomes important which is interesting, because when one first becomes an engineer, a lawyer or an accountant, the commitment is principally to the profession. Somewhere along the way a transformation occurs, where the balance in favour of self and profession is tipped in favour of the longevity of the firm.

The challenge then is how does one effect this transformation in others? As one managing partner responded when asked whether he thought that there was a well-developed sense of the importance of the "whole" firm -

> "Sometimes the sum is not greater than the parts here. It's bringing down barriers between groups and building a much more collective view of life internally, which we will then project externally which is the key, I think."

This is not a challenge peculiar to professional service firms, but the context is interesting. They are particularly challenging from a management point of view because they have a complex and dynamic social architecture which needs to be designed to support the strategic vision for the firm.

This research reveals that New Zealand's leading professional service firms are awake to this challenge. Design management offers a way of sharpening their understanding around what might need to happen next.

Chapter 6 – Recommendations

Further research opportunities

The figures in Chapter 5 represent pages and pages of verbal descriptions and references.
They can not hope to do it justice within the limitations of this research, which has essentially
been exploratory. There is a strong case for further verification of key issues, possibly by
looking at the topic from the opposite end of the spectrum. The question – how you view the
future or your organisation - could be asked of young professionals, people for who the firm is
a new experience. How conscious are they of the challenges presented by this new world of
work, given that they have never known anything different? Likewise, a sample could be
taken in the middle of the firm, at Associate level. How do the soon-to-be partners in waiting
see the future of their profession and what binds them to the firm, or not, as is the case?
Alternatively, other disciplines could be added to the study. A large advertising agency, a
large firm of architects. This would provide added depth to the discussion.

Another possible extension would be to dig deeper into the model, exploring each one of the
"commitments" in isolation. These further lines of inquiry bring satisfaction to what was a
challenging exercise. Professional Service Firms have much to gain through better
understanding themselves, not only in relation to clients, but also in relation to their place in
the wider world and their function as a place of work for many, many people. May the
dialogue continue.

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