

## STRATEGY AND ROLE OF PARTNERS IN PROFESSIONAL SERVICE FIRMS

NANDITA PAREKH | AMEET PATEL | VAIBHAV MANEK

Chartered Accountants

Strategy for a professional service firm is all about making informed choices. It is fundamentally also about saying “No” to projects or engagements or decisions that are not in alignment with the firm, as much as it is about asking deep questions about the practice and the way we run it.

Every professional service firm needs to think about strategy. This would mean having clarity about where is the firm headed, what is the “business plan” of the firm, how will the firm think about its clients and service areas, how will the firm embrace technology, respond to changing economic and business environment, and keep itself relevant in today’s times.

This article is an attempt to provide a road map to develop a strategic thought process in that direction.

### CRITICAL QUESTIONS THAT THE FIRM’S PARTNERS NEED TO ADDRESS ARE:

1. Have partners and leaders of professional service firms built the growth blocks (“blocks”) that are necessary to ensure sustained growth? Some of these vital blocks are:

- ◆ Firm’s vision and mission
- ◆ Strategy to grow and sustain
- ◆ Team to lead and execute
- ◆ Knowledge and expertise
- ◆ Client centricity
- ◆ Challenges to address
- ◆ Risks to mitigate
- ◆ Markets, technology and other functions

And are these blocks being reviewed on a consistent basis? Are they aligned for growth? Are they aligned to the partners’ vision? Are the partners aligned to these blocks?

2. To grow as a firm and to keep it in continuous

alignment, strategic choices made by the partners on various aspects of practice need to be given the highest priority.

Partners and professional services firms have the fundamental responsibility of producing and managing. The long-standing dichotomy of the “Producer Manager” needs to be settled in a manner that is relative to the firm’s size, stature and evolution in its growth cycle. **A small-sized firm can aspire to become a mid-sized firm and a mid-sized firm can aspire to become a large firm only if there is a high level of focus on allowing producing partners to produce and leaving the managing part to those best equipped to manage.** A producing partner over time cannot be expected to be managing the firm on all aspects, as both the functions need dedicated time and focus.

3. Specific partners will invariably have to focus on the managerial functions: client relationships, people management, marketing, and functional roles such as accounting, compliances, administration, compliance and alike. This in other words presupposes that partners will have to take out time to perform management function. But this seldom happens. As a result, output suffers and so does growth curve of the firm. For decades now, firms have been suffering from this dichotomy, popularly known as the “*Producer Manager Dilemma*”. For a mid-sized firm to grow, it is very important that partners decide on their respective functional and technical roles such that there is no overlapping of the functions and also there is high degree of harmony, synergy and efficiency in the roles performed.

4. There could be instances where there is duality in certain roles requiring more than one partner to partake in decision making.

**Example:** The firm's management may recommend two or three partners to constitute a Compensation Committee, which is entrusted with the task of deciding on remuneration/bonus to partners, firm wide cost cutting initiatives, cost of inflation factored determination of increments, HR performance evaluation and the likes.

5. Then there are times when people decisions need to be taken such as which campuses to be selected for potential young talent recruits, pre-qualifications, minimum standard for all new recruitments, written and verbal tests during hiring process, background checks and proliferation of ideas and thoughts. As one can decipher from the above, there is a high degree of correlation between strategy and partners' contribution to the firm's managerial functions.

6. Having a strategic mindset is not an option. It is critical for partners of professional service firms to think about the firm and practice areas constantly, to develop a sense of expertise and a visible perspective difference in the market place. People retain professionals for the value they seem to generate from time to time. It is this edge that makes professionals stand out from amongst their peers. This is seldom looked at as a strategic asset as it is never widely understood.

### 7. The Differentiated Firm:

A differentiated firm thinks about strategy in the following segments:

- a) Growth strategy
- b) Markets strategy
- c) People strategy
- d) Operations strategy
- e) Finance strategy
- f) Functional strategy

Let's discuss each of these and what its implications are on the growth and evolution of a firm:

#### **a. GROWTH**

Partners have a fundamental obligation to think about how should their practice lines individually grow. What is the business plan for their service line? How should they think about newer ways of improving the execution, improving efficiencies, and providing a more qualitative product and output each time. Being process driven is no longer an option; it's a basic requirement. Growth comes

to practice areas which are led by partners who make time to think about strategies to compete, strategies to develop a differentiated product, strategies to develop a sound understanding of what the client expects in terms of value, and finally a strategy to deliver that value. The end goal is that the firm should collectively grow, if that practice area grows.

Strategies to develop a differentiated product include thinking about and developing a completely new solution to "problem solve" an existing set of challenges.

**Example:** Data analytics tool: Can the auditor provide a data analytics service to a client by using technology? If you can tell an eCommerce company promoter that he is losing repeat customers because of, say, quality of finishing of product, sub-optimal service experience or delivery issues, the company will consider this as a priceless piece of input. And they will be willing to pay for it. That's where the audit world may need to focus some of its energies on, going forward.

So what are the ways to think about strategy? One of the best ways to do so is to ask specific questions related to the service line and then the firm needs to develop its responses by way of partners coming together, providing their inputs and working for a common purpose.

Some of these questions are:

- ◆ What is the market for the service line in terms of total revenues?
- ◆ What is our current market share?
- ◆ What can we reasonably aim at achieving, if the firm were to provide all the underlying infrastructure, people, tools and technology?
- ◆ To achieve the budgeted revenues, do we have an adequate team?
- ◆ Do we provide adequate resources and infrastructure to our teams to perform?
- ◆ Are our teams armed with the tools they need to perform their professional obligations – example: do they have access to online research libraries, databases, books, periodicals, journals, knowledge networks, knowledge

sharing societies/groups/clubs? Do we measure them on such access and their proficiency?

- ◆ What is the firm's policy with respect to using the existing clientele base for cross-selling the firm's other service offerings? How is the value proposition made known to clients? Are these included in KPIs of the firm's partners and senior managers?

- ◆ How is respective service line growth evaluated? For instance, it may not be appropriate to conclude that a 40% YoY growth in advisory services is a greater success than a 25% YoY growth in audit services. What are the contours of this growth – recurring vs. non-recurring, quality of the deliverable, the relationship being developed etc.

- ◆ Has the firm developed a framework for evaluating which service lines (*either existing or completely new*) will shape the firm's growth trajectory? Does this framework consider the firm's existing capabilities as well as the capabilities capable of being developed inorganically? What is the periodicity of such an evaluation?

- ◆ How does the firm identify trigger-events which can have long-term implications on a firm's growth trajectory?

- ◆ How often is 'growth' discussed in partner meetings? Responses to the above questions will lead to a strategy to grow the practice. The form and shape of such a strategy is not as relevant as its substance and the process used to arrive at the conclusions. Thereafter, what is left is periodic monitoring and course correction.

## **b. MARKETS**

The questions below have to be thought through within the contours of code of ethics of the regulating body of the profession, the ICAI. The idea here was to merely bring out that marketing of professional services is more about projecting the capabilities to the right audiences, while following the code of ethics and code of conduct prescribed by ICAI in form and spirit. With this context, here are some questions to think through:

- ◆ Does the firm have a 'curated profile' which summarises its offerings?

- ◆ What is the firm best at? Why should a client work with you?

- ◆ What is the firm's unique differentiator? Be it in product, quality, service, reliability, timeliness/responsiveness or similar.

- ◆ Does the firm have a focused 'meeting/events calendar' which portrays the networking events the partners can participate in? How are the partners nominated to attend such events, in a way that costs are within budget and the best possible impact is envisaged?

- ◆ How are the follow-ups conducted post networking sessions? Are the leads profiled? Are meetings sought and held?

- ◆ Does the firm publish thought-leadership articles? Do the partners participate as speakers in relevant events? How is the firm's expertise depicted outside the four walls of the firm?

- ◆ How does the firm sustain, manage and improve client relationships? Is there a documented process which is adhered to in this regard?

- ◆ Has the firm evaluated the need for a CRM software to better cater to its needs?

- ◆ How are the efforts and the outcome measured?

- ◆ Does the firm have an internal process in place which ensures that the firm does not violate the applicable regulations, ethical guidelines or the relevant pronouncements of the regulatory bodies, in its marketing endeavours?

Marketing professional services is not an easy thing to do. It needs conviction, confidence and a strategy. The questions above should get you started. Firms should keep refining their marketing strategy based on the outcome and the measurement of the efforts.

## **c. PEOPLE**

To attract the best people and thereafter to retain them to ensure that they grow is yet another fundamental responsibility of the partners. And strategy to provide a career roadmap is again a critical aspect that partners need to align themselves to, such that the key performers are retained.

- ◆ How involved are the partners in the recruitment drives?

- ◆ Do the partners give sufficient freedom to the managers to interview and hire candidates? Remember, the managers have to deal with the new recruits more than the partner group, and by extension, the managers deserve a say in the decision of whom to recruit and whom not to.
- ◆ How are the interview technical tests determined? Are these tests closely in sync with the job-description?
- ◆ How does the firm ensure cross-team interaction?
- ◆ Does the firm have an in-house bulletin/intranet which ensures that the communication flow within the firm isn't hindered? Such initiatives ensure that the employees are closely knit.
- ◆ Is the process of compensation – especially, bonus and incentives, transparent and not arbitrary? Does an employee know beforehand how his bonus would be determined?
- ◆ How are the team-bonding exercises undertaken? What is the frequency of these exercises?
- ◆ Is there an anonymous grievance portal operating within the firm?
- ◆ Is the career roadmap customised for every employee?
- ◆ Do the partners follow an 'open cabin' policy?
- ◆ Do the partners have 'no-agenda' meetings with the employees?
- ◆ Are the employees encouraged to maintain a knowledge repository? Is a service line over dependent on a single employee? Does the firm conduct a scenario analysis to assess the aftermath if that particular employee resigns?
- ◆ Is there a mechanism which ensures that even the most junior employee has a medium to express his/her ideas or suggestions directly to the partners, bypassing the reporting hierarchy?
- ◆ Are exit interviews documented, archived and acted upon?

- ◆ Does the firm have a recognised alumni association of the past employees?

#### **d. OPERATIONS**

- ◆ What are the key operational metrics of the firm that are relevant?
- ◆ What is the per partner billing?
- ◆ What is the per FTE billing (FTE – full time equivalent)?
- ◆ What is the yield per billable hour (Total billing of a person divided by his billable hours) – Example: INR 1 Crore of revenues / 1,000 billable hours = billable rate of INR 10,000 per hour. If a large firm's partner bills INR 5 Crores for the same 1,000 billable hours, his billable rate is INR 50,000 per hour. Can that be aspired for? How does one get there? How does one create the visible expertise that's necessary to command higher rates? Does the firm provide the necessary tools and the environment that allows such expertise to be built and billed?
- ◆ What is the profitability per partner? What is the profitability per FTE?
- ◆ How many clients are serviced by each partner? What is the average billing per client? Does this provide good data about the type of practice/segmentation of each partner and their teams?

#### **e. FINANCE**

- ◆ What is meaningful MIS to the partners? What reports are relevant? Do we have the in-house talent group to achieve this?
- ◆ Has the firm developed a balanced scorecard framework?
- ◆ Is there a practice of maintaining, updating and circulating finance trackers and dashboards internally? Does the firm use practice management tools and softwares to automate the information flow to ensure that rich data is generated for the partner group to take decisions?
- ◆ Is there a mechanism to identify which areas/teams/ personnel can any delay be attributed to? This can help in devising better preventive and corrective strategies.

- ◆ Does the firm have a designated function of a CFO/ Controller?
- ◆ Is a cash flow budget made periodically? How are the partners' drawing limits determined? Are the drawings consistent?
- ◆ How are receivables monitored? Have all the partners concurred on a common line of thinking with respect to actions to be taken if the previous receivables aren't settled? A zero-tolerance policy for bad debts isn't necessarily a negative attribute to have, barring exceptions.

The finance function in professional services firms has to be responsible for ensuring that meaningful data is provided for the leadership group to take the right decisions.

#### **f. FUNCTIONAL**

A lot of professional service firms do not necessarily spend sufficient time on functions such as Admin, Technology, HR, Finance and Marketing. Some aspects to think about are:

- ◆ What are the various functional areas that the firm's resources needed to be expensed upon, and what are the results?
- ◆ Is every function led or overlooked by a designated partner? What say do the other partners have for a function not personally managed by them?
- ◆ How is functional efficiency adjudged? Which evaluation steps are in place to ensure zero redundancy of functional areas?
- ◆ How is cross-functional integration, interlink and interdependence evaluated?
- ◆ What are the fall-back options in case a function fails or is temporarily unavailable?
- ◆ Do each of the functions maintain a process and knowledge repository?

#### **CALL TO ACTION**

The call to action here is:

1. To achieve a working strategy document for your firm. And, for this purpose, it is for the partners to make time

to think through the above questions, and develop a discussion paper.

2. Next step will be to discuss the finer aspects of the plan and fine tune it.
3. Thereafter, roll out the plan to the larger partner group and key people in the firm (who are the identified future leaders).
4. Once the plan is rolled out, partners have to focus on execution and be the best they can be and inspire and lead their teams with energy and enthusiasm.
5. Every quarter, the strategy needs to be then reviewed for efficacy.
6. Finally, the managing partner or the leadership group within the partners should take care of periodic course corrections to keep the strategy in alignment.

Partners will do well to do this in right earnest. That's the way to develop your firm's credentials, attract and retain talent, generate and service clients and build a sustainable growing firm. ■

