

# 7 FUTURE-PROOF STRATEGIES TO EMPOWER YOUR PROFESSIONAL SERVICES FIRM INTO GROWTH & INNOVATION

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A White Paper by Pelorus Consulting



## Foreword

**Your Professional Services Firm (PSF)** is a vital component of the UK economy – both from an employment perspective and contribution to GDP.

PSFs are any organisation or profession that offers customized, knowledge-based services to clients. They include lawyers, advertising professionals, architects, accountants, financial advisers, surveyors, engineers, and consultants, among others.

*“What type of organisation sells no products, and yet charges some of the highest prices anywhere? Where can the ‘items’ a company sells simply walk out the door? And what kind of company finds it almost impossible to achieve economies of scale on the ‘cost of goods sold’? The answer is Professional Services Firms.” [www.mindtools.com](http://www.mindtools.com)*

But whatever the specialism, or degree of specialism, and whether partnership, LLP or corporate ownership model, your PSF shares an imperative.

In today’s fast-changing business environment, you need to be capable of fast adaptation to reignite growth, combat disruptions or access new markets.

An ‘eyes wide shut’ approach will no longer cut it. However long established your professional practice; however niche your market; change is here.

It is arriving in the shape of rapid digital technology, differing client demand, new employee expectations, commoditisation of services, and external competition.

“  
The  
difficulty  
lies, not in  
the new  
ideas, but in  
escaping  
from the old  
ones.”

John Maynard Keynes



No industry sector will be left untouched. Look at traditional banking and the impact of challenger banks such as Monzo, Starling and Revolut on the dominance of legacy players.

Disruptive times call for clear and informed thinking so that leaders can steer their organisations out of the 'fog' of uncertainty.

In order to see more clearly, as a leader of a PSF, you need to understand the dynamics of your sector and become more agile, opportunity-aware and collaborative.

A revamp of business models and in-house working processes is now integral to:

- Meeting today's client and employee expectations
- Preparing for disruptive competition
- Adapting and benefitting from digital technologies
- Creating a network of relationships, interfaces and specialists

This White Paper focuses on seven Organisational Development (OD) areas to help your firm consider how you can concentrate your resources and energies to bring about successful transformation and competitive differentiation. These are:

1. Aligning client *and* employee needs to create the most powerful business model
2. Harnessing the power of purpose as your organisation's 'North Star'
3. Embracing big picture digital transformation to add value and fresh solutions
4. Creating a digital fit culture to empower the digital agenda
5. Moving from analogue management to leading digital for innovation-readiness
6. Deepening brand values to drive your firm forward together
7. Empowering talent to boost workforce agility and nurture future leaders

*Jack Broadley*

Director, Pelorus Consulting

“  
*Transformational factors are shifting the centre of gravity away from traditional delivery models, legacy infrastructures and the old workplace culture.*”

Pelorus Consulting



# Introduction

**Innovation is a term now bandied about** so ubiquitously that the meaning has become watered down.

But innovation, used here in the sense of digital evolution and its corresponding organisational change, is critical for the PSF sector. Such innovation entails challenges but offers opportunities for both reinvention and the harnessing of the benefits of technology.

Many middle-market PSFs have evolved or been forced to shift gears since the 2008 downturn. They have sought to reduce inefficient practices, undergone mergers or cost cutting, or redirected focus towards higher-value work. For many, this business shift has been a negative and morale-sapping exercise.

To succeed today, many PSFs now need to do more to move beyond a short-term mind-set towards a more purpose-led transformation.

The impetus for what is causing PSFs to change faster than at any time in the last 100 years are large transformative processes. Digital is the main wave maker but social change is a driver too.

These are megatrends with far-reaching and interrelated consequences for society. Combined, they are causing transformational shifts for the world of business. Their impact will not just be new ways of organising and delivering professional services and consulting. It will be a challenge to the very expertise that professionals deliver.

For many PSFs, adaptation will entail reshaping:

- **Business models and goals**
- **Structure, processes and leadership**
- **Way they deliver value to clients**

Many larger global PSFs are already addressing these challenges. But research shows that large numbers of mid-tier firms remain reluctant to embrace changes much beyond the back office.

“The strategic plans of many professional bodies and firms anticipate little more than some streamlining of 20th-century working practices,” states EY.

Here, we put forward our suggested approaches for Managing Partners and Boards of Professional Services Firms to provide a balance of challenge and inspiration to make the substantive changes necessary to navigate the social, political, and technological seas ahead.



## 1 Aligning client and employee needs

**Key takeaway: PSFs that position the needs of their clients and their employees at the centre of their business models will be better placed to meet the new expectations of both clients *and* employees.**

**Traditionally, and more so since the 2008 crisis,** PSFs have built their strategic plans around three broad tenets:

- **Competition:** a focus on beating near rivals via service quality
- **Consolidation:** growth by acquisition or alliance and network-forming
- **Differentiation:** via industry knowledge, niche expertise or intellectual property (IP).

In today's competitive landscape, however, more PSFs are recognising that their offering is often pretty identical to the rest and the need to break away. They're also realising their operating models are not fit for purpose. The application of a working system that depends on growth and financial metrics (ie. headcount, hourly billing, utilisation, work in progress) assumes that:

- Clients remain content with a system skewed against them in pricing, charging methods and current value of services
- Employees, suppliers and partners are primarily motivated by growth, profit and financial reward

Firms focusing solely on these metrics are failing to fully engage their clients, boost efficiency, motivate employees or attract new talent. In fact, they are impeding these goals. For many PSFs, the endeavour to achieve growth has resulted in degrees of:

- Under-resourcing and overstretch
- Poor recruitment decisions
- Low retention of key people
- Reduced quality and service levels
- Formation of 'toxic' cultures





"Money may lure people into jobs, but purpose, meaning, and the prospect of interesting and valuable work determines both their tenure and how hard they will work while they are on the job." Harvard Business Review

## Dysfunctional cultures

High levels of attrition, presenteeism and burn out amongst the PSF family of associates, directors, and partners are often the result of the above. None are positive indicators for retention or sustained high performance.

As Professor Richard Susskind, a specialist in the law sector, points out: "Although our professions are failing in significant ways, they are not being incentivised to work differently."

By 2020, at least 50% of employees within firms will be Gen Ys and Zs. For this demographic, financial metrics, growth targets and monetary rewards are no longer the motivators they were for the current generation of professionals and partners.

**"When profits trump clients, when the incentives and reward systems of professional businesses favour cash over culture, and when ethics entails minimum compliance by box ticking, then the grand bargain looks outmoded."**

### **Professor Richard Susskind**

In other words, those firms that recruit talented and motivated people, only to then micro-manage, performance measure, and seek to inspire them via stick and carrot methods are not achieving the best results from their human capital.

Social, political and demographic changes are impacting how clients, employees and suppliers perceive their relationship with PSFs. A recent Thomson's Reuters report involving senior law decision-makers in UK leading firms concluded: "77% agreed that the traditional law firm model and culture does not meet the needs of legal services buyers." While this was specific to the law sector, the same dynamics are at play within any other PSF consulting field.

Clients today want greater transparency and more:

- Outcome- rather than input-related costs
- Measurable added value
- Greater flexibility and responsiveness
- Collaborative working
- Sharing of risk



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## The power of purpose

**Key takeaway: With greater agile and project-based working, PSFs are set to become more dispersed, digital entities. There is greater need to focus people's efforts around a defining guiding purpose.**

**While vision, values and objectives** are common phrases used within Professional Services Firms, 'purpose' rarely is.

Yet purpose is now well recognised as a key business performance driver and a means of achieving consistent employee engagement. Communicated right, it serves as a governing mechanism and the compass to guide strategic decisions.

It's about forging and maintaining powerful connections between personal and organisational values. By identifying your firm's overall purpose or 'North Star', your team will be happier, more cohesive and political resistance will be less – even when things get tricky.

Rather than solely focusing on financial growth and profit, purpose helps people understand what's expected of them. It also holds the key to succeeding in the uncertain global climate.

EY is the most globally managed of the Big Four firms. Ranked as one of the Top 25 Best Big Companies to Work for in the UK, its purpose is well defined. In its own words: "Success for EY is about more than just financial revenues. It's about the careers we create for our people; the work we do for our clients; the role we play in society; and how we live our purpose of building a better working world."

**“**  
*Companies guided by a purpose beyond making money returned six times more to shareholders than those who were not.*  
**”**

Collins and Porras,  
Built to Last,  
Successful Habits of  
Visionary Companies



### Key takeaway

With greater agile and project-based working, PSFs are set to become more dispersed, digital entities. There is greater need to focus people's efforts around a defining guiding purpose.

Research from the Hay Group finds that highly engaged employees are, on average, 50% more likely to exceed expectations than the least-engaged workers. Companies with engaged people outperform firms with the most disengaged people – by 54% in employee retention, by 89% in customer satisfaction, and by 4x in revenue growth.

Arup, the multinational Professional Services Firm headquartered in London, is perhaps the world's most creative engineering and design company. It was voted Company of the Year in the NCE Awards 2018. "96% of staff taking part in the NCE100 survey agreed that Arup was 'great' and that they had no desire to work anywhere else."

Arup is 100% clear on its 'purpose'. "We choose work where we can make a real difference in the world, stretch the boundaries of what is possible, delight our clients and achieve socially valuable outcomes."

Sir Ova Arup, the Founding Partner of Arup, expands on this: "The trouble with money is that it is a dividing force, not a uniting force, as is the quest for quality or a humanitarian outlook. If we let it divide us, we are sunk as an organisation – at least as a force for good."

### How can your firm win with a broader sense of purpose?

Achieving this goal while embracing the complexities, speed of response and need for continued commercial success is a challenge. It requires fully aligning the Professional Services Firm's strategy, values and behaviours.

But, it is worth it. Research from EY Beacon Institute global shows the real advantages companies gain when going on an authentic purpose journey.

It states: "The data also busts the myth of purpose versus profit. 75% of purposeful companies involved in our survey tell us that the integration of purpose creates value in the short-term, as well as over the long run.

"They also report that being purposeful gives them greater agility to innovate in the face of disruption and uncertainty. But you have to walk the talk in your strategy, products and services, and customer and employee experiences."

**Purpose, used strategically, in other words, pays off.**





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## Embracing big picture digital transformation

**Key takeaway: PSFs that make a strategic decision to embrace new digital business models and services will thrive. Those that don't can anticipate reducing revenue streams as they become less competitive.**

**More digital data** has been generated in the past three years than in the entire history of IT. The impact on the knowledge-intensive PSF sector will be considerable. The onus now on forward-thinking Managing Partners and their Boards is to think carefully about its impact. As tech capabilities advance, they risk whole areas of their professional work becoming hollowed out, automated or commoditised.

"With a goal of 'making every divorce amicable,' Wevorce provides couples a self-guided online divorce solution for a fraction of the cost. Couples can define 'optimal outcomes' and the AI-powered machine walks them through five modules and all critical decisions that need to be made for their particular circumstances. There are also legal experts available to step in to provide guidance when needed." **Forbes 2018**

The road to digital transformation entails more than an IT challenge. It means viewing technology not just as a route to efficiency but as a way to re-imagine how future professional services can be delivered.

Those Professional Services Firms that are successfully beginning to use their data to their advantage are doing so by cultivating 'integrative thinkers'. They have Management Boards who can 'see horizontally' across their whole organisation and connect the dots. This requires 'whole-brain' thinkers who can be both creative and rational.

“  
114,000 jobs in the legal sector are likely to become automated in the next 20 years.  
Technology has already contributed to a reduction of 31,000 jobs in the sector including roles such as legal secretaries.”  
Forbes, 2018

## Key takeaway

PSFs that make a strategic decision to embrace new digital business models and services will thrive. Those that don't can anticipate reducing revenue streams as they become less competitive.

“Drivers such as Blockchain, Making Tax Digital, and Open Banking are changing work for accountants, and they need to get ahead of the game. Accountants should stand back and think carefully about their objectives around technology. Move quickly, get with this change, and stay agile. This revolution cannot be ignored.”  
**Accountancy Age**

The main barrier to PSFs achieving this transformation is the urge to protect core business and a reluctance to overhaul legacy architectures and risk-averse cultures. This is understandable. The change requires a major shift in strategy and a fresh perspective from leadership teams.

**"Many legal and accounting firms have established business models, with innovations typically incremental and slow to be adopted. Whilst AI and machine learning are only in their infancy, their potentially transformative power can be seen already in the rise of blockchain, augmented data discovery and quantum computing." Centre for Regional Economic and Enterprise Development**

Many Professional Services Firms remain focused on upgrading legacy back-office technology in areas such as time and disbursements, finance, HR and risk & compliance. They could also be exploring bigger revenue tech enablers such as CRM (customer relationship management), pricing, resource and knowledge management systems. Bolder firms that invest in and create value via digital solutions and channels, including adopting agile methodologies, will be able to:

- **Leverage innovative service solutions**
- **Differentiate added value to clients**
- **Achieve productivity and efficiency gains**
- **Strengthen their brands**
- **Become talent magnets**

“In digitally maturing organisations, technology typically is not simply an add-on to existing processes and practices. It prompts companies to rethink how they do business. These companies often tackle strategy, talent, organisational structure, culture, innovation, and technology differently to the rest of the pack,” as the MIT Sloan Management Review 2017 states.

Recent research by the American Institute of Certified Public Accountants (AICPA) highlighted the obstacles hindering big data initiatives. Firms are struggling with ‘information overload’. They do not know how to turn data into strategic insights and recommendations.

The solution for PSFs is to develop – or outsource to – more ‘bilinguals’ (as coined by David Meer of Strategy&). By ‘bilingual’, we mean data-literate staff able to speak both technical language and the wider language of business. The time to start integrating these data-literate teams and embark – on what will be a journey of continuous innovation – is now.



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## Creating a digital fit culture

**Key takeaway:** For digital-fitness and innovation-readiness, firms will have to radically overhaul their cultures and ensure clear leadership of the innovation agenda, while nurturing future leaders.

**Creating a digital fit culture** doesn't happen overnight. Many Professional Services Firms will need to radically overhaul their cultures if they are to attract and retain the digital skills and capabilities for innovation for the years ahead. Training for middle managers and employees in innovation approaches and methods will be needed.

This includes attachment to 'the way things are done around here', and is why tackling cultural resistance and fear of change is essential as in:

- **Being collaborative:** People will need to work via cross-functional, connected teams rather than the old silos.
- **Being responsive and agile:** People will create more value if they are empowered to learn quickly and adapt to changes in processes, structure, strategy and technology.
- **Being transparent and open:** Leadership should communicate its strategy clearly while staff must feel they can share ideas freely.
- **Being risk-taking and innovative:** Employees understand that calculated risks and learning from mistakes is ok and part of the innovation process.
- **Being less bureaucratic:** This means instilling a culture that enables innovation and entrepreneurial ideas to be explored and resourced and that supports the design and development of new service offerings
- **Being more entrepreneurial in approach:** This implies enabling people to spend more time on generating new ideas internally, rather than focusing their time exclusively on fee-generating activities.

“  
Innovation is difficult – it is easier for any organisation to continue 'business as usual'. And innovation is about making change. Organisations that are effective at innovation are able to embed a culture that encourages ongoing change.”

Codexx







Key takeaway

For digital-fitness and innovation-readiness, PSFs will have to radically overhaul their cultures and ensure clear leadership of the innovation agenda, while nurturing future leaders.

The dominant business structure across PSFs and especially accounting and legal firms is the Limited Liability Partnership (LLP), although some Public Limited Companies (PLC) are emerging. This business structure in itself can be a challenge to the pursuit of innovation as there is little incentive for partners to deliver innovation beyond internally agreed and industry wide growth and profitability targets.

No business can digitally transform until its people do. The starting point for culture change has to be the senior team, who, in turn, will need to identify the factors that will shape their new digital culture.

This means recognising that digital technology will augment and support professionals' roles by boosting IQ (Intelligence Quotient). But that in future, higher levels of EQ (Emotional Quotient) skills and CQ (Cultural Quotient) will be crucial.

- **EQ** involves the skills of rapport to form trusting and collaborative relationships with colleagues.
- **CQ**, put simply, is being able to deal with differences in working methods and behavior that come about through a diverse mix of people of ages, specialisms and backgrounds operating together within one organisation

These two skills will be critical to support a collaborative open culture to win the full benefits of agile working and technology use.

**New approach to working**

Generally, it is aspects related to the structure of PSFs and the prevailing culture that create the bottlenecks for innovation and technology adoption. For many PSFs, establishing and sustaining a culture for innovation goes against the grain. It entails inspiring employees to be willing to be open-minded and to look for new and better ways to perform tasks. Fear of failure and a culture of measuring only what matters can be a barrier to this.

A key challenge for Professional Service Firms is that fee earners have become used to only valuing time that is chargeable. Carving out real time for innovation instead of chargeable work is a major challenge

A mindset change and new performance measures will be required to encourage professionals to be innovative, take risks and brainstorm new ways of delivering value – particularly if these actions are not currently valued in the performance appraisal or bonus.

In terms of the horizons of the business and those of the partners, the LLP structure can make it difficult to differentiate between the two when the firm's strategy so closely aligned to the interests of partners.

Active support and encouragement for blue sky thinking from the top is therefore key for firms to encourage a culture that recognises and rewards new types of behaviours.



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## Moving from analogue management to leading digital

Key takeaway: Professional Service Firms need to prioritise leadership of the innovation agenda at the highest levels in the firm, while investing in future leaders with broader and different skills to those of the past.

**Leadership is the most important lever** of value creation and innovation in your Professional Services Firm.

It's not too simplistic to state that how people are led makes a direct impact on how they think, behave and perform. All leaders are only as effective as their team/s. But building trust takes time and effort and the awareness that people don't trust words but actions.

With the advent of digital change, your role as a PSF leader has never been more challenging – or important. You must now be prepared to up-skill, to challenge the status quo and to 'walk the talk'.

Also crucial is your recognition that good change management requires a people-focused approach.

Partners in PSFs who have been service specialists can expect to evolve towards becoming (or collaborating closely with) digital leaders, working with agile dispersed teams to orchestrate and deliver value to clients.

“Leaders are the stewards of organisational energy. They inspire or demoralise others, first by how effectively they manage their own energy and next by how well they manage, focus, invest and renew the collective energy of those they lead.”

Loehr and Schwartz





## Key takeaway

Professional Service Firms need to prioritise leadership of the innovation agenda at the highest levels in the firm, while investing in future leaders with broader and different skills to those of the past.

Professional Service Firms are particularly political environments and their people-oriented nature means the importance of management quality is magnified.

The development of high-performing teams, working to a proudly-and-collectively owned culture, is where success lives or dies.

The digitally-connected – more collaborative – workplace will likely mean Partners having to relinquish a degree of their independence and place greater emphasis on the ‘softer’ elements of leadership.

These include:

- **Humility and learning from others**
- **Adaptability, personal resilience and flexibility**
- **Collaborative communication skills that create meaning for people**
- **Engagement and being in tune with the business landscape, and its threats and opportunities.**

Leadership teams in Professional Services Firms and Partnerships have specific challenges. They inhabit a working environment that is complex, highly people-orientated and often, personality-driven with ambiguous authority structures.

Having the right leaders in the right places to create a high-performance culture – where challenge, support and personal growth are balanced – is now an imperative.

Getting this leadership style right, particularly at the top of PSFs, is challenging.

Dealing with insecure overachievers and the high levels of ‘ambiguous’ authority that tend to be prevalent within PSFs makes for a difficult balancing act.

The digital imperative means PSFs need to work hard to ensure that effective leadership is more broadly distributed today and embedded and accepted at all levels.

This will likely require a strong shift in perceptions, decisions and actions from those at the top of the firm.



6 Deepening brand values

**Key takeaway: Making your people an extension of your brand is the most powerful form of marketing. It's also a strategy that tallies well with the relationship-centred nature of the professional services sector.**

In the digital sphere, branding is now more than ever a key priority for your firm to win visibility and gain market share. Forrester Research reports that 66-90% of the buying process is over before a B2B buyer speaks with a potential provider. Investment in online presence and a targeted content marketing strategy is vital.

Differentiation is key. Recognition that a firm's purpose and brand are two faces of the same coin is the start point. Firms, particularly those mid market, now need to clearly articulate their differences.

PSFs can no longer present their services and billing practices as a 'black box'. A new logo, brand colours and predictable strapline will not impact today's sophisticated clients or fool discerning digital natives. It is why your firm's brand needs to be more than skin deep and to have full buy-in from every employee – from leadership right through the ranks.

When a firm mobilises with a purposeful brand strategy that informs and guides the behaviour of every person in every office, the brand will begin to stand out – for clients and talent alike.

**“Finding a unique brand position in a field as crowded and competitive as professional services isn't easy. It's tempting to fall back on safe ideas and tired claims. But in today's skeptical, fee-sensitive climate, there's nothing 'safe' about an undifferentiated brand.” DeSantis Breindel**

*“Clients today want to know what makes your firm tick, what drives the firm forward and what motivates your employees to get out of bed each morning. Building a strong brand often starts with defining a firm's purpose and then building a purpose-driven brand framework that communicates powerfully to the marketplace.”*

Siegel and Gal



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## Attracting and keeping talent

Main takeaway: If digital outpaces the ability of the rest of the workforce to keep up, the company will be left behind.

**Transformation isn't just about tech. It's about people.** They hold the key to overall workforce agility and the successful navigation of change and opportunity.

The ability of firms to leverage data for innovation and growth will depend on the capabilities of a diverse workforce to understand technology and its output.

According to a Gartner study, by 2020, 30% of tech jobs will be unfilled owing to digital talent shortfalls. Firms need to start taking a proactive approach to getting ahead of this change curve.

A recent BCG report identified the six digital areas of talent need. They are: digital business, digital marketing, digital development, advanced analytics, Industry 4.0, and new ways of working.

**“Companies also need to know what kinds of talent can be nurtured within the existing employee base; digital talent must come not only from the acquisition of new personnel for specific jobs but also from the development of digital skills in existing roles.” BCG**

**“**Millennial workers feel more at home in a digital workplace than any generation. They are used to adapting to new technologies and expect their employer to do the same. When weighing up the cost and benefits of new systems, employers should remember the potential that such an investment has to attract Millennial professionals.” **”**

Robert Walter Recruitment



Key takeaway

If digital outpaces the ability of the rest of the workforce to keep up, the company will be left behind.

As an organisation's digital maturity drives their digital transformation, organisations that nail down a digital strategy that includes people along with processes and technology are more successful in both attracting and retaining talent.

That means people who are digitally literate and who can adapt to evolving methods and new approaches and professionals who are not just technically competent in their specialist area, but have a broader skill set.

Firms need to be prepared to constantly update employees' skills to enable them to deliver their services differently. Learning management needs to be considered carefully so that up-skilling can be on-demand.

A digitally fit workforce is diverse and inclusive, with:

- More 'non-traditional' PSF employees such as project managers and data and technology experts
- Provision to retrain and develop the digital skills of older workers.
- Integration of working mothers with flexible work option provision
- A pool of external consultants or contractors with specific skills for project-based work

Digitally talented people are already so highly in demand that many traditional companies must expect to have to reinvent themselves to a degree to attract them.

It therefore pays to focus in on the benefits of working not just for your individual PSF but also how your position in the marketplace will provide an opportunity to be a part of technology projects that will enable them to see a real impact on the services your PSF offers or the internal processes that they run.

Studies also show that millennials want to work for digitally savvy employers. Following these steps will attract more of the right talent.

*"It really should not come as a surprise that Millennials are quick to leave the professional service industry given that companies have shown little willingness to cater to the needs and wants of Millennial talent. Senior staff who have spent their lives working their way up the industry hierarchy will exclaim that this is how it has always been: these Millennials need to toughen up. This is a losing mentality for individual companies and the industry as a whole."*

**Launchbox**





## Conclusion

**If there is one certainty for Professional Service Firms** in the next five to 10 years, it is that of change and challenge.

Businesses that remain focused inwards and that adopt the mindset of: 'We'll just plough on. It will be decades before it trickles down to our firm', will miss the woods for the trees. Making minor back-office and IT tweaks to survive the digitisation wave will not cut it for long.

Being complacent and dismissing the disruptive potential of new technologies and alternative business models will threaten the viability of your firm. This doesn't mean that every firm should pioneer innovations. But the forward-thinking ones will strive to be opportunity-aware and make informed choices beyond 'business as usual' – or risk losing market share.

Innovation also needs to be viewed as more than technology and as part of a wider change management initiative that addresses business models and new ways of working with employees and clients.

**The message is clear.  
If you don't innovate, your competitors will.**

**An organisational development (OD) approach can help to address the complex web of change management levers that transformation entails.**

**Pelorus Consulting has extensive experience of custom-designing and delivering strategic leadership programmes that align with the cultural change needs and commercial priorities of Professional Service Firms.**

[www.pelorusconsulting.com](http://www.pelorusconsulting.com)