



Building high performing practices in challenging times

Practice management, how to spot an underperforming practice and how to turn things around are perennial challenges for professional and financial services firms. These problems which were exacerbated during the pandemic have been brought into sharp relief with recession looming, with practice leaders, firm managements and Boards in crisis mode, with little time to focus on the day-to-day practice management.

Building High Performing Practices explores the nature of practice group underperformance and its causes. The report examines three key areas of focus that leaders have used to turn underperformance around and put practices onto a growth trajectory. To inform this report, we've interviewed 40 leaders across the professional services industry to capture the wisdom from their experiences in leading these changes.



FOREWORD



HENRY MARSDEN
MANAGING PARTNER, PSFI

We have seen that the ability to rapidly build and expand successful practices differentiates successful firms from those who have stagnated, lost ground or ceased to trade. Successful firms have the ability to identify new clients or new services that clients need that fit their strategic direction. They then work hard to rapidly build capability (or walk away from “red herrings”) and then to scale the practice across the firm’s footprint to differentiate. For the partners involved, this is stimulating, exciting, positive and satisfying – many are humble but with a little prompting will be delighted to share these success stories.

But then we noticed that many leaders were asking us about the “xx practice” in the firm and what they should do about it. They use phrases such as “lost its buzz” or being “unable to turn around financial contributions” indicating problems that are way beyond the temporary blips that all practices experience from time to time. They would equally notice that affected partners were beginning to fall out or were forming resistance groups to what they knew was not working and that attracting or retaining talent was becoming an issue.

“Turning around performance starts with connecting as a human – I have a picture of every person. I know their birthday, their children, their wedding, when born, parents still alive. Every interaction is recorded.”

PARTNER, BCG

Conversations during the pandemic shone a light on these issues and the threat of recession brings them into sharp relief. It was clear that what had been known by many, for some time, would have to be addressed by someone if the underperformance is to be addressed. We took this opportunity to talk to over 40 leaders in different PSF industries (law, accounting, consulting) to gather their insights and experiences in turning around firms or practice groups when confronting these issues.

We distilled their generous contribution and were struck by the metaphor of the three bladed propellor that can drive a firm to future success or throw it into reverse. No blade can be detached and the aim for firm is to get the blades aligned, to act in unison to drive organisations to perform at the highest level.

The three blades are:

- The practice leader(s) – the partner(s) who hold the critical leadership roles in the practice
- The firm’s Executive team – their willingness to address the issues, bring resources to the challenge or to take more radical steps
- The firm’s Board – who play a far more critical role relative to corporate organisations given that they are representing the partners as owners and so have a different duty to those who may be considered as underperforming

Given the breadth of this topic Mike, Ori and myself have written three papers examining each propellor blade for you to draw on. That said we want to make it clear that dealing with only one blade in isolation will not be sufficient to turn things around. There are many situations where a brave practice leader ready to address the issue is thwarted by an unsupportive Executive or Board. Similarly, a bold Managing Partner looking to address the issues can be casting around to find the right person to fulfil what is needed as a practice leader.

We hope that these papers provide an invaluable resource to those who are confronted with the question of “How do we turn around and rebuild an underperforming practice in challenging times?”.

Practice turnaround and the role of the Board: an enabler or a brake?

HENRY MARSDEN
MANAGING PARTNER, PSFI

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Practice turnaround and the role of the Board: an enabler or a brake?



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“It needs a holistic view, the work, the people, the structure, the partners – the right leader.”

**JULIAN HOWARD, SENIOR ADVISOR AND
FORMER MANAGING PARTNER, MACFARLANES**

Boards have risen to the challenges of COVID-19, but as professional services firms begin to move beyond the pandemic they are now faced with extended times of turbulence and economic crisis. Boards have to engage even more actively with the challenges of practice management and underperformance and support their management teams to ensure that they act as enablers of change, rather than becoming a hindrance.

We look at how Boards can act as a brake to turning around performance and what they should do instead to enable change and growth.

“Beware of false starts – there is a need to get a grip from the beginning of the crisis. We could have gone earlier – we lost a year in getting up to speed and running hard.”

**JULIAN HOWARD, SENIOR ADVISOR AND
FORMER MANAGING PARTNER, MACFARLANES**

Barriers to turning around a practice

Our research highlighted five major ways in which Boards can become a hindrance to change:

1. Fear of change

Often Boards fear tackling an underperforming practice, particularly where it has been historically important or it was a once innovative practice that has run out of steam due to changes in the market.

Considerations of cutting or changing a practice can raise tricky existential questions for the Board as to whether its actions will change the DNA of the firm beyond recognition. When considering radical change for a practice, Boards often worry about potentially losing the backing of the partners or even key clients if they make unpopular choices. This often drives a Board to undertaking extensive and time-consuming consultations.

Fears regarding how partners and clients will react are valid and important, but this nervousness can lead to indecision. Boards have to be careful that an extensive consultation with affected parties and does not result in the Board becoming disempowered and stuck.

“At a previous firm everything you hear on calls would be positively messaged and a lot of back patting ‘We had another great month’. But we failed to have tough conversations. People were scared it would break the culture but you do need to break the culture if you need a different trajectory.”

PARTNER, BAIN

2. Remuneration system

Remuneration systems can be a challenge as there are so many different permutations in terms of whether it is owned by the Board on behalf of the partners, or given to the managing partner to manage. Our research found that where partner remuneration is driven by the Board, the managing partner is undermined in implementing change as they can't use remuneration to incentivise or sanction unperforming partners. Boards typically don't manage remuneration systems to drive performance given that they are elected. This often means that remuneration can't be used as an effective driver for change unless it is moved into the executive space.

3. Lateral hiring

When transforming a practice, firms often choose to bringing in external talent, often a big name, to support a turnaround. As Boards are usually integral to the lateral approval process, managing the voting and related consultations they can often act as a barrier.

Our research found that Boards are often reluctant to nuance their firm's culture to accommodate a big name. They can get stuck thinking the lateral isn't going to fit when actually the argument becomes circular in that these lateral hires are not going to fit in an underperforming culture in any case.

Boards do need to ask themselves whether a lateral will damage the culture beyond what can be tolerated, or rather whether the lateral hire could act as a catalyst to evolve the culture into something more commercial and dynamic and be the change that is needed.

4. Complacency

Our research found that many Boards unduly tolerate an underperforming practice, accepting it as a given. Underperformance is sometimes explained away as a reality of law that certain practices are always countercyclical. But this explanation can be misapplied with some practices fundamentally underperforming relative to the rest of the firm.

5. Confusion over mandate

Boards often understand their constitutional role and voice but can be confused over mandate. They can be torn between petitioning on behalf of underperforming partners and agitating on behalf of those whose take home pay will be lower as a result of carrying and subsidising the underperforming partners.

Board can act as catalysts – they can say enough is enough or they can act as brakes on the necessarily painful plan managing partners need to execute.

“Have a holistic view of components and indicators of where it is strong and weak. Be very focused on changing a small number of things. Hold the course. Week by week, month by month governance – not changing focus all the time. Drive the two or three that have strategic impact.”

PHIL DUNMORE, FORMER MANAGING PARTNER AND HEAD OF CONSULTING, WIPRO

The enabling role a Board needs to play

Having stepped into the challenge of COVID, Boards need to keep up the momentum despite the threat of economic turbulence, keeping their feet off the brakes and act as an enabler of change, embracing the challenges of practice turnaround.

Boards need to imagine the future world and analyse the key trends shaping their business context. Together with the Executive team they need to be decisive on when to pivot the firm’s strategy to ensure a sustainable and resilient future.

A strong leader who is prepared to step into the challenge

An enabling Board needs to start with a strong leader in the senior partner who realises the need to sort out the problem of an underperforming practice and are willing to step into the challenge. There are a broad range of options for the senior partner such as to invest more in the practice, bring on the right lateral hires, have a plan to change things around and change the remuneration structure, but the crucial thing is to grasp the nettle and take action.

“First you have to get unequivocal support from very senior leadership. You have to be honest, blunt even, about your intention but at the same time paint a picture of opportunity. It takes a lot of talking and listening. You want to go fast but can’t.”

PARTNER, EY

Our research highlighted the need to decide on a clear plan and execute it well. We also found the level of trust and cooperation between the Board and the Executive team can’t be underestimated.

We’ve seen the pandemic spark better discussions and collaboration between Boards and their Executive teams and it’s vital this closer way of working continues during the choppy waters ahead.

Engaging the partnership

Once the Board has looked at available options and worked out a plan, they then have to engage the partnership to avoid a revolt, or a nervous partnership looking over their shoulders wondering when they might be next.

Done badly and the firm ends up losing the very partners that they don’t want to do.

“Moving quickly can be a good thing. While it is always tempting to ask for more information and do more analysis, delay can be costly. You need to act once the solutions are clear.”

JASON HAINES, GLOBAL CFO AND OPERATIONS DIRECTOR, A&O

To do it well, a strong narrative needs to be created with partners around the plan, the timings and how the plan will be executed aligned to the firm’s culture and values. Many of the larger changes require a vote and a mandate from the partnership in any case.

Providing air cover

The Board can also play an important role in providing air cover for the Managing Partner and Executive team. Once the Board has stepped into the challenge, and the Managing Partner has picked up the task of getting buy-in from the partners, the Board can be a helpful, supportive voice in the process, providing support and air cover for the inevitable bad press that will follow. The senior partner can step into the PR space and help build a strong supportive narrative with the press around why the changes are necessary and why they support the firm’s strategy.

“Get air cover because it takes time and rushing causes more problems than it solves.”

FORMER CEO OF A GLOBAL LAW FIRM

Henry Marsden, Managing Partner of PSFI

Henry has worked with firms in an advisory capacity over the last 20 years in the field. As an experienced consultant and advisor as well as coach, Henry designs, develops and delivers development programmes to professional services clients. His work focus is on leadership development, supporting partner conferences, leadership development programmes, succession planning and top team development.

Thank you to Mike Griffiths, Managing Director of Consulting Skill, who helped interview the leaders for this research project.

Understanding that professional and financial services firms are all different, we take an expertly nuanced view, underpinned by decades of experience to be able to work alongside leaders of professional and financial services organisations to bring transformational change.

Our clients, many of whom have been with us for more than 20 years, trust us to support them on their most complex issues around business & leadership strategies, senior people capabilities, and strategic decision-making.

We are building an independent, international, and diverse organisational development and leadership consultancy to help you access, navigate, understand and apply the most relevant leading edge thinking and research to help your business grow.

We offer evidence-based thinking combined with years of hands-on experience and tailor our work and advice to suit each client's needs.

Above all we care deeply about our clients, placing the highest possible value on our relationships with you, balancing warmth and support with curiosity, insight and challenge to get to the heart of the issue so we can help you make a real and lasting improvement to your business.

psfi.org

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