EUROPEAN BUSINESS JOURNAL

Leadership without control

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Leading an accounting firm, an advertising agency, a consultancy, an investment bank, or a law firm is not about giving orders to employees further down the hierarchy. It's about manoeuvring a group of peers who are star performers – who constantly question, debate, and even oppose initiatives. It's like boxing with one hand tied behind your back: You lack the power to enforce decisions – even though you are in charge. This article, by two Bain partners, examines how leaders of professional service firms successfully meet that challenge. It lays out how they can become masters at brokering agreement on important decisions among the firm's elite players – a delicate balancing act that requires emotional intelligence, constant monitoring of the firm's undercurrents, careful groundwork preparation for strategic moves, and continual tweaking of organisational structures to make sure they serve the needs of both the firm and its star players.

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Being the chief executive of any company is a demanding job. It's even more difficult when leaders do not have authority that is commensurate with their responsibilities.

Not long ago, business leaders had plenty of control. Positioned at the top of a hierarchy, they were well placed to influence managers and employees below. The boss made a decision; the employees implemented it. If the decision was wise, the business prospered.

Organisations are not as orderly as they once were. Some of the hierarchies have been dismantled, and businesses' organisational and economic systems have become increasingly complex. With minimal job descriptions and blurred lines of authority, leaders face a day-to-day struggle to define and implement strategy.

Throughout, they are held accountable for matters beyond their direct control. Nowhere is that more evident than in professional service firms. Leading an accounting firm, an advertising agency, a management consultancy, an executive search firm, an investment bank, or a law firm is not about giving orders to employees further down the hierarchy. It's about manoeuvring a group of peers who are star performers. Titles reflect that: many professional service firms do not have chief executives but have 'managing partners', 'senior partners' or 'managing directors'.

Being a managing partner is a bit like boxing with one hand tied behind your back. You lack the power to enforce decisions – even though you are

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in charge. Leaders of professional service firms must become masters at managing complex power networks and building consensus. They have to know how to lead the firm from within, brokering agreement among star players on important decisions and then enlisting their help to execute those decisions. It's a skill that top executives in all organisations can learn from. Star players wield a great deal of power in most companies. If they disagree with a leader's direction, they may go down the elevator one evening and never come back.

Limits to leadership

At conventional corporations, chief executives are selected by a higher authority – the board of directors. Because corporate CEOs are acting on behalf of shareholders, employees are expected to implement leaders' decisions with a minimum of disagreement.

But at professional service firms, the selection of the top executive, the firm's strategy, and even the length of the top executive's tenure are all governed directly or indirectly by an elite group of employees with whom the top executive works on a daily basis. Leaders get their mandates from their peers – who question, debate and even oppose initiatives. If the managing partner wants to take the firm in a new strategic direction, change the compensation system, or even promote a young hire, he or she cannot make the decision alone. Often, the firm's governance process dictates that the decision be made by all partners.

> ***Leaders of professional service firms don't control; they exercise influence***

In professional service firms the leader's positional authority – the respect and deference he or she commands by virtue of holding the position of top executive – is much weaker than in traditional corporations. Leaders' ability to steer their firm, therefore, depends much more on their personal authority – the respect and clout they have earned by virtue of their abilities and the relationships they have built. Leaders of professional service firms don't control; they exercise influence. To do that, they need to inspire trust and confidence among their colleagues. Their peers must believe in the leaders' integrity and that they're focused on the best interests of the firm.

The subtle art of building consensus

Without strong leadership, the diffusion of power throughout a professional service firm can paralyse decision-making and undermine the execution of strategies. But if a firm's leadership is too forceful, partners will reject its imposition on their autonomy. Professional service firms require a delicate balance of power between their top leaders and the partners they serve.

At any point in time, the managing partner of a professional service firm is shepherding dozens of discussions and decision cycles, each with its own process, set of participants, and timing. The leader's job is to ensure that critical decisions are made thoughtfully and in a timely fashion – even if the ultimate choice differs from what he or she would do.

Marvin Bower, the managing partner who shaped McKinsey in the 1950s and 1960s, recognised the importance of consensus. Bower did not want McKinsey to change itself from a partnership to a corporation. He energetically opposed the move, until he realised that most of the partners had a different view of what would be in McKinsey's best future interest. Ultimately, the firm became a private corporation. It remains so today.

Leaders of professional service firms don't always have to give in to prevailing opinion. But if they want to effect dramatic change, they must prepare the ground carefully. At Goldman Sachs, three generations of chief executives initiated discussions about whether the firm should become a corporation and go public. The deliberations took a decade. However, when the partners finally decided to take Goldman public, a strong consensus to go forward had been built.

Reaching consensus is rarely quick or easy. Anyone who has tried to broker agreement among colleagues with diverse points of view and competing agendas will recognise that it is no simple undertaking. It requires more than rational logic backed up by persuasive rhetoric. Even small issues can draw emotion and irrationality into the process of decision-making.

Bringing about a meeting of the minds requires leaders to have a healthy dose of what psychologist Daniel Goleman calls 'emotional intelligence'. They must be self-aware, self-regulating, and empathetic.

Leaders need to understand their own moods and motivations, and appreciate how their own emotions may be colouring their perspective. Leaders must keep those emotions in check, as well, suspending judgement and thinking before acting, so that the discussion moves toward agreement, instead of toward increasingly angry debate. They need the capacity to put themselves in another person's shoes and to understand and respond fairly to positions that differ from their own.

Emotionally intelligent leaders keep their antennae finely tuned to the undercurrents at their firm

Building consensus and formulating a coherent and viable strategy require an intimate understanding of all that is going on beneath the surface of an organisation. Emotionally intelligent leaders keep their antennae finely tuned to the undercurrents at their firm.

Getting the full picture

Successful leaders avoid the tendency to be inwardly focused. They continually monitor their own firm's win–loss ratio across business lines and regions, for both clients and recruits. They carefully examine innovations. Wherever possible, they collect information on their firm's strategic identity, the marketplace, and their firm's position relative to it.

To deepen his understanding of his organisation, Ed Meyer, CEO of Grey Global Group, travels the globe several times a year, meeting with influential members of his firm and probing to learn what they believe the future holds and how they feel about the business. Good leaders, like Meyer, tend to listen at least twice as much as they speak. (One managing partner we know of even refers to himself as the 'chief listening officer'.) They augment informal conversations with formal feedback loops such as employee surveys, office surveys, project team debriefings, upward feedback, skip-level interviews, 360° feedback, and exit interviews. The tactics vary, but the goal is the same: to gather insights and feedback from people around the firm and develop a clear picture of its challenges and opportunities. That puts managing partners in a stronger position to anticipate what lies ahead and manoeuvre an organisation to meet it.

Leaders as aligners

At the strongest firms, organisational practices and structures fit both the strategic requirements of the business and the needs of star employees. When such alignment exists, star employees work to advance the best interests of the firm. Decisions are smoothly implemented, the firm enjoys a strong competitive position and financial health, and it often becomes an industry leader.

One of the key tasks of managing partners is to see that such alignment happens at the firm. Barring a major change in the firm's circumstances, the process is incremental, calling for continual fine-tuning rather than periodic blunt thrusts. The managing partner is always pushing here and pulling there, modifying this policy or changing that person's responsibilities. Aligning a professional service firm is much like trimming the sails of an America's Cup boat – victory is won through tiny artful adjustments to a powerfully designed vessel.

Sometimes, chief executives themselves can be the source of misalignment. In 1992 Charlotte Beers added a worldwide client service group to ad agency Ogilvy & Mather's structure. The new structure met the need to provide integrated global service to customers like IBM, but it didn't mesh with the existing compensation system. At Ogilvy & Mather, many local offices had minority owners whose compensation was contractually tied to results in their country. The consequence: confusion and frustration for Beers, until the compensation system could be redesigned to fit the new structure and strategy, and the firm could be realigned.

Good leaders ... tend to listen at least twice as much as they speak

Like master chess players, the leaders who excel at alignment anticipate cause and effect many moves ahead. They have an uncanny ability to understand all the moving parts of their business, and how those parts influence one another directly and indirectly. They recognise that there are complex links among the choices they make to shape the firm's strategy and organisation.

Managing alignment through rewards

Shaping and anticipating star behaviour is key to getting alignment right. In professional service firms, influence is more important than control. But there is more to managing alignment than personal influence alone. Leadership also endows the chief executive with the power to make key decisions, which influence star behaviour. The most important are leadership assignments, promotions, and budgets or financial controls.

Putting the right people in the right jobs is central to effective leadership. Promotions, especially to partner, provide another opportunity to influence the firm's future. The same is true of budgeting decisions and financial management.

By assigning people who endorse their agendas to pivotal management roles, leaders can also guide a firm's direction and improve its alignment

Although leaders of professional service firms cannot allocate resources nearly as freely as their corporate peers, they can use budgeting and planning processes to build consensus around the firm's priorities. They can lobby and cajole other partners to help shift resources from one area to another. By assigning people who endorse their agendas to pivotal management roles, leaders can also guide a firm's direction and improve its alignment.

All of those decisions have the power to shape stars' behaviour. However, none of them are as powerful as rewards. Stars are always competitive. Rewards, both monetary and non-monetary, have an uncanny ability to align the motivation of individual stars with the firm's overall culture and values.

Recognising that, astute chief executives distribute recognition in all forms: personal attention, public accolades, special internal assignments, extra vacation, client opportunities, speaking opportunities, media interviews, awards, gifts, offices, first-class travel, technology allowances, season tickets, and important-sounding titles – to mention a few.

Partner compensation, of course, is a major factor, and leaders need to do what they can to make sure their firms' financial incentives encourage the right behaviour. But the power of non-financial rewards cannot be overestimated.

How do you know if you're succeeding?

When evaluating a leader's accomplishments, many firms take a rear-view look at their financial performance. Sophisticated firms measure it across a number of variables: revenue growth, price realisation, utilisation, operating margins, profit per professional, and cash flow per partner. However, such backward-looking, or 'lagging', indicators are not always reliable measures of leadership success. Laying off employees, slashing recruitment, halting knowledge improvement, and cutting training budgets will boost profits in the short term but may cause damage in the future.

Another measure of managing partners' success is their popularity among other partners. Since the managing partner essentially works for his or her colleagues, popularity is significant. In some firms, it will dictate whether a leader is re-elected. But partners' perceptions of the leader may not accurately reflect reality. Their opinions may be strongly influenced by the nature of their personal relationship with the managing partner and their personal financial rewards, which may rise and fall with changes in the economy.

Instead of relying solely on 'lagging' indicators to define their leaders' success, firms should look closely at 'leading' indicators that anticipate a firm's performance down the road.

One way to do that is to measure the firm's strategic success. To what extent has it made progress against its strategic goals? How is it performing in the marketplace, against its direct competitors, in serving its target clients? What is the depth of its cumulative knowledge and experience supporting each line of business, and how has that evolved relative to competitors? What are the cost and quality of the firm's services, relative to competitors? Is there any sign of strategic obsolescence or drift? Are past strategic decisions proving to be thoughtful moves on a multidimensional chessboard, or costly – even disastrous – shortcuts?

A second way is to track the intangible assets that drive the firm's business model. Those include its client base, reputation, organisational assets and star performers.

The strength of a firm's client base can be evaluated by analysing client retention rates, client profitability, and the underlying dynamics of customer loyalty. What is the firm's share of a client's total business? Why do clients remain active, and why do they defect? When competing for business, whom does the firm lose to, and why? What is the status of client assets across geographic regions or within practice areas? What is the flow of requests for proposals, in quantity and quality? Is the overall client portfolio stronger or weaker than it was three years ago? The answers to those questions provide a good picture of the health of the firm's client assets.

Reputation is important because it shapes a firm's external strategic identity, its core brand value in the marketplace. Advertising, business development, and outreach may augment strategic identity and enhance awareness among target customers. But in a world where clients' perspectives remain heavily influenced by word of mouth, it is reputation that drives a firm's revenues – for better or worse.

The most accurate reflections of leadership performance are a firm's organisational assets and its star employees. Stars drive a firm's success. The knowledge, motivation, and loyalty of stars will determine the value of a firm's intellectual property, the dynamism with which it is applied, and the extent to which it endures. Organisational assets, meanwhile, are the means by which a firm's strategy is implemented. Organisational choices (people, systems, structure, and governance) and leadership combine with culture to reinforce (or undermine) a firm's alignment.

Aligned organisations and happy stars suggest leadership success

The most important indicator of a leader's ability in professional service firms is therefore the extent to which the organisation is aligned and stars are happy.

Happy stars and an aligned organisation suggest that the one-armed boxer in charge is successfully nudging the complex network of peers in the right direction for the future.

How do you tell that a firm is aligned properly? If decisions, once made, are followed through on, that shows good alignment. If people systems fit the firm's culture, and both reinforce its competitive differentiation; if the processes for decision-making function well; if partners are satisfied with both their level of participation and the direction of the firm – all indicate that the organisation is properly aligned.

More than anything else, the state of a firm's alignment is revealed by the answer to one question: Does the organisation function overall in a way that drives the firm toward its strategic goals? Or, far more common, is all or part of the organisation broken, producing a two-steps-forward-one-step-back (or even three-steps-back) scenario?

Stars' happiness can be gauged through their loyalty and the extent to which the firm is an employer of choice. To determine that, leaders need to ask: What is the level of turnover among the firm's stars? Are stars more or less motivated than they were a year ago? How long do they expect to remain with the firm? Is the firm attractive to star recruits? How does it perform against direct competitors when recruiting? How is the firm perceived within the markets (such as graduate schools) from which it hires talent?

Leadership without control

Professionals who do not have formal leadership responsibilities may have difficulty appreciating the daily demands confronting their leaders. Responsibility without enough control, limited hierarchy, and a complex business model combine to generate enormous stress, especially for the chief executive. And while the leader is attempting to address tomorrow's opportunities, the firm's partners demand attention to today's problems.

Unlike the CEO of a traditional company, the leader of a professional service firm is accessible to his or her many constituents, and consequently vulnerable to being inundated by points of view, demands, and distractions. Leading in that environment is difficult but not impossible. It requires something subtler than the authoritarian order-giving of hierarchical organisations. Chief executives in professional service firms must be attuned to the opinions of key individuals and subtle power networks; they must submit to the will of the majority, but direct where necessary; they must move the firm in the right direction, while taking care not to push it off course. In short, they must lead, but they can never control.