

# Harvard Business School

## Leading Research

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### Star Guide

Research by Jay W. Lorsch

*From advertising and law firms to consultancies and investment banks, managing professional service firms (PSF) presents a unique set of circumstances. After all, they're comprised of very smart, independent-minded professionals who wear three hats at once: They're producers who also serve as leaders and owners. In short, they are the firm's most vital assets, and none are more important than the "stars"-those individuals with the highest future value to the organization.*

Managing such an operation, where "the people you pay are more important than the people who pay you," is a considerable challenge-something that might be compared to herding cats or, even more to the point, taming tigers.

With more than a trillion dollars in annual revenues, PSFs are a major factor in the global economy and in the operations of myriad companies around the world that seek their help. But what makes these firms themselves work effectively has been largely unexplored. *Aligning the Stars: How to Succeed When Professionals Drive Results* (Harvard Business School Press, 2002), by HBS professor Jay W. Lorsch and Thomas J. Tierney, former CEO of Bain & Company, puts an end to that problem. In their book, the result of five years of research that examined eighteen PSFs in eight areas of expertise, including accounting, advertising, executive search, investment banking, law, and management consulting, the professor and the practitioner identify the forces that drive the success or failure of firms responsible for providing a wide array of services and counsel to other companies.

"We wanted to study firms," says Lorsch, "that clearly were successful, had enduring track records, and had survived more than one generation of leadership." The heart of their investigation, which began in 1997, was an extensive series of interviews with each firm's senior managers. To help frame their findings, the researchers also identified and studied trends that had occurred within the sector during the two preceding decades.

### Shining Stars

"One reason why the sector was relatively unexplored," notes Tierney, "is that many of its companies were privately held, making information difficult to obtain. It is also highly fragmented with a multitude of firms that range from solo practitioners to global practices that employ thousands of professionals."

The PSF business model differs significantly from that of a corporation. With rare exceptions, a firm's only means of revenue generation is the talent and expertise of its professional staff. Consequently, how it manages those people-how it aligns their individual goals with those of the firm-directly affects its ability to survive and prosper. "Outstanding firms are consistently able to identify, attract, and retain star performers," write Lorsch and Tierney, "to get stars committed to their firm's strategy; to manage stars across geographic distance, business lines, and generations; to govern and lead so that both the organization and the stars prosper and feel rewarded. These capabilities," they continue, "are what give great firms their competitive advantage. Together, they constitute the work of aligning the stars."

"Achieving all this is very difficult to do," says Lorsch. "Two factors complicate matters. First, the environment is in a state of continual and rapid flux as companies evolve, regulations come and go, and market boundaries and barriers change. Second, stars by nature are highly independent. They are keenly aware of the market demand for their talent-and are generally free to take another job at any time. That they sometimes do means that staff retention is usually a vital concern for the PSF leader."

### Important Lessons

To help with this and other matters of importance to the top management of these firms, Lorsch and Tierney offer numerous lessons regarding strategy, structure, culture, and leadership.

Lorsch explains that traditionally a company's strategy defines its structure. Retail strategies, for example, must include strong buying, distribution, and marketing capabilities. In a PSF, however, the reverse is true. Organization necessarily determines strategy because the staff's expertise defines the strategy the firm can pursue. To alter its strategy, a PSF must fundamentally change its organization. "This is far more difficult than changing the design of a product or distribution system," according to Tierney. "In this case, you're talking about changing people-people who often hold an interest in the firm as its partners."

In 1997, for example, NationsBank of Charlotte, North Carolina, eager to enter the investment banking field, acquired Montgomery Securities in San Francisco. Misunderstandings and disagreements between employees at both organizations began almost immediately. When many of Montgomery's senior staff resigned and several clients followed, NationsBank was soon deprived of the very strategic capabilities for which it had paid \$1.2 billion. A word to the wise: When the stars are the strategy, the risk of failure increases dramatically.

Culture-"the way we do things around here"-plays an especially important role in the success of a PSF, where professionals enjoy considerable personal discretion and autonomy in the way they go about their business. "Culture is a stronger force for unity and coherence than any formal document could ever be because the stars of a firm with a strong culture have an emotional commitment to their beliefs," write Lorsch and Tierney. World-class organizations "have been able to maintain consistent strategic and organizational approaches due to the strength of their cultures. Wherever these firms operateŠtheir professionals share a culture that binds them into common practices, sustains their alignment, and gives them an advantage in attracting clients."

With regard to leadership, a single message emerged from Lorsch and Tierney's research. Unlike corporate CEOs, who sit at the apex of a well-defined pyramid, the heads of PSFs function more as firsts among equals and so must be able to convince rather than command their colleagues. Drawing from his years of experience at Bain & Company, Tierney points out that "leading a PSF is all about span-of-influence, not span-of-control. Building consensus and facilitating decisions-combined with character, judgment, and intuition-are essential elements in the managing partner's tool kit."

While their findings provide important new insights for those who lead, work in, or retain professional service firms, Lorsch and Tierney believe that they also have considerable relevance for other types of talent-intensive organizations. Achieving and maintaining positive alignment between strategy, stars, and clients is a formidable task, the authors discovered. Yet, they say, "when something is difficult to do, and you do it well, you have the competitive edge."

*by Peter K. Jacobs*

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