

Drivers of Success in Services

The professional service-sector has blossomed over the past twenty years. More and more product companies want to build or acquire services to expand profitability and deepen their customer relationships. And service companies in sectors as diverse as information technology, financial markets and health want to have more impact and influence on their clients.

But the service sector is more difficult to manage, in large part because it is harder to control strategy, results, and customer relationships when people are your product. Success can plateau or slip away if talent erodes or does not perform in line with customer expectations and strategic imperatives.

So what are the key ingredients to building service companies that endure?

A study of 18 outstanding professional service firms conducted in 2003 by Bain & Co. gives us some insight. The study included ICT services leaders such as IBM Global Services, financial service firms like Goldman Sachs, and professional service providers like accountancy PricewaterhouseCoopers, executive search firm Korn/Ferry, and advertising agency Ogilvy & Mather. The study yielded some powerful lessons.

Most important, the best services companies understand that their **people are their only products**. They realise strong performance requires getting top talent to act instinctively in ways that always promote the company's strategy. And they realise that top talent, or "stars," are people who not only are excellent and strategic at what they do, but also excellent at collaborating with others.

So they build their companies around **teams of star performers**, who collectively and individually create relationships with valuable customers. They do this by mastering three key disciplines:

- aligning star talent with strategy;
- micromanaging culture, not people; and
- creating organisations that act like partnerships.

This means their organisations are peer-driven and are structured around customer service. These lessons apply to all talent-driven enterprises, but they are not as well understood or practiced by newcomers to the service sector. Indeed, even many traditional service businesses fail to view themselves as "star-driven."

Here's how the service sector exemplars put the best leadership principles into practice, and how they ground entrepreneurial employees in strategic objectives:

1. **Align your stars**

In product-focused companies, management can control the customer experience by controlling the quality of the product and by tightly controlling the processes for value creation and delivery. In service companies, the customer's experience depends on his interaction with an individual—an experience that is much harder to control. In successful, star-driven organisations, top managers lead by ensuring consistency in how their people behave. They influence their stars' everyday behaviour in large part through mentoring, performance reviews and compensation. They perfect the art of helping stars achieve their own personal goals with customers and colleagues, while in aggregate achieving the goals of the firm.

To succeed at those goals, those firms identify, recruit, nurture, train, and promote not only stars, but also star-makers. The firms' leaders ensure that human-resource systems, such as training and performance reviews, reflect the importance of developing star players into teams of stars. Star-makers, while talented themselves, also are great at developing other talent. In the best service firms, the top leaders are the top mentors.

The criteria that executive search firm Korn/Ferry uses to evaluate partner candidates include relationships with clients, relationships within the firm, business development, and execution on assignments.

2. **Micromanage your culture**

The top service firms read like a list of survivors of a cultural odyssey. Culture, at its core, is a system of beliefs that an organisation's members share about the goals and values important to them, and how they live them. Culture is "how we do things around here." Leaders of the strongest professional service firms are explicit about where to plant cultural guideposts, and what those guideposts signify.

These firms don't restrict their employees' freedom to take action on their own initiative, and to use their own judgment; instead, by their own actions and example, they set intangible, but strong boundaries of expectation. For example, they recognise and provide real-time feedback on specific individual behaviours.

At investment bank Hambrecht & Quist, now a unit of JPMorgan, seasoned bankers routinely take associates with them to client meetings, spending time after the event to debrief. Such practices might seem

routine, but in fact not many services firms have such discipline. In the debriefs, the senior bankers may explain the following: why an approach was used with a client, why they started a meeting in the manner they did, why they reacted in certain ways to client comments, or why they withheld information. The practice isn't required by some written policy. It's not part of a formal training programme. It's done because that's the way Hambrecht & Quist teaches its junior 'stars' the art of client management. And it's done to instil **"the way we do things here"** throughout the organisation.

The best firms signal the "do's" and "don'ts" by being "culture carriers." For instance: investment firm Goldman Sachs held a seminar for a group of its partners just days after the firm had lost a significant part of its fixed-income trading activity. It was the custom to kick off these sessions with a talk from the senior partner, John Weinberg, followed by a question-and-answer session. The first question Weinberg faced was about the loss. But before he could answer, several partners expressed their concerns; implicit in their comments were criticisms of the fixed-income partners responsible for the loss. Mr Weinberg's response? If the firm was going to make as much money as it did on the upside, the partnership also had to expect some losses. Mr Weinberg was clearly telegraphing the partnership mindset—a cornerstone of Goldman Sachs' culture.

3. Build upon partnership principles

Many of the best service organisations behave as partnerships, even if they aren't. They structure themselves around peer relationships, participatory governance and accountability for customers. The partnership structure has proven useful to professional service firms because it fostered alignment between the professionals, the organisation and strategy of the firm. It created a context conducive to team success, for there is the belief, starting at the top, that "we're all in this together, no matter what."

But in a partnership of equals, who breaks the ties? Someone must be accountable. In service-driven organisations, structure should follow accountability for decisions, and customers should have the deciding vote. The first step is to identify the necessary key decisions. The second is to figure out who should be accountable, who should have input, who should make recommendations and who should get veto rights. The organisational structure should follow. To ensure the customer view is represented at each step, top service firms **organise along lines of customer interest, not functions.**

How will your company catch the growth wave in services? The answer for most companies starts with managing the quality and alignment of star talent. To make

headway, you can try adopting three approaches of the best service companies: focus on developing "stars," and aligning them with strategy; micromanage culture; and practice partnership principles. Need motivation? Remember the words of Benjamin Franklin to his fellow patriot rebels: "We must indeed all hang together, or, most assuredly, we shall all hang separately."

What can you do "on Monday morning, 8 a.m.?"

1. **Track your stars.** Consider their quality and calibre against the best in the industry, not simply against others in your organisation. Ask yourself: How can I ensure that five years from now, my stars will be as strong, if stronger, than they are today?
2. **Ensure you have the right leaders, acting the right way.** Ask yourself: Are the leaders in my organisation setting a standard of behaviour that meets the best long-term needs of the company? Are these leaders star-makers as well as stars? Ask also: Do we have in the pipeline a supply of future leaders who meet or exceed those same standards?
3. **Build feedback loops.** Ensure that confidential feedback loops exist through which customers, peers, and subordinates can evaluate the firm's leaders (including yourself!). Ask regularly if the behaviour of the top managers is meeting the needs of your younger stars and other stakeholders.
4. **Recognise what you want more of.** Do you measure and reward outstanding customer results as well as internal star-making and mentoring? Do you offer on-the-job accolades? Do you reinforce the culture you need to deliver outstanding customer value?
5. **Practice partnership principles.** Do your leaders act like peers? Do they participate in governance? Are you structured so that customers are influencing key decisions? Are your decision-making processes allowing customer interests to break logjams?