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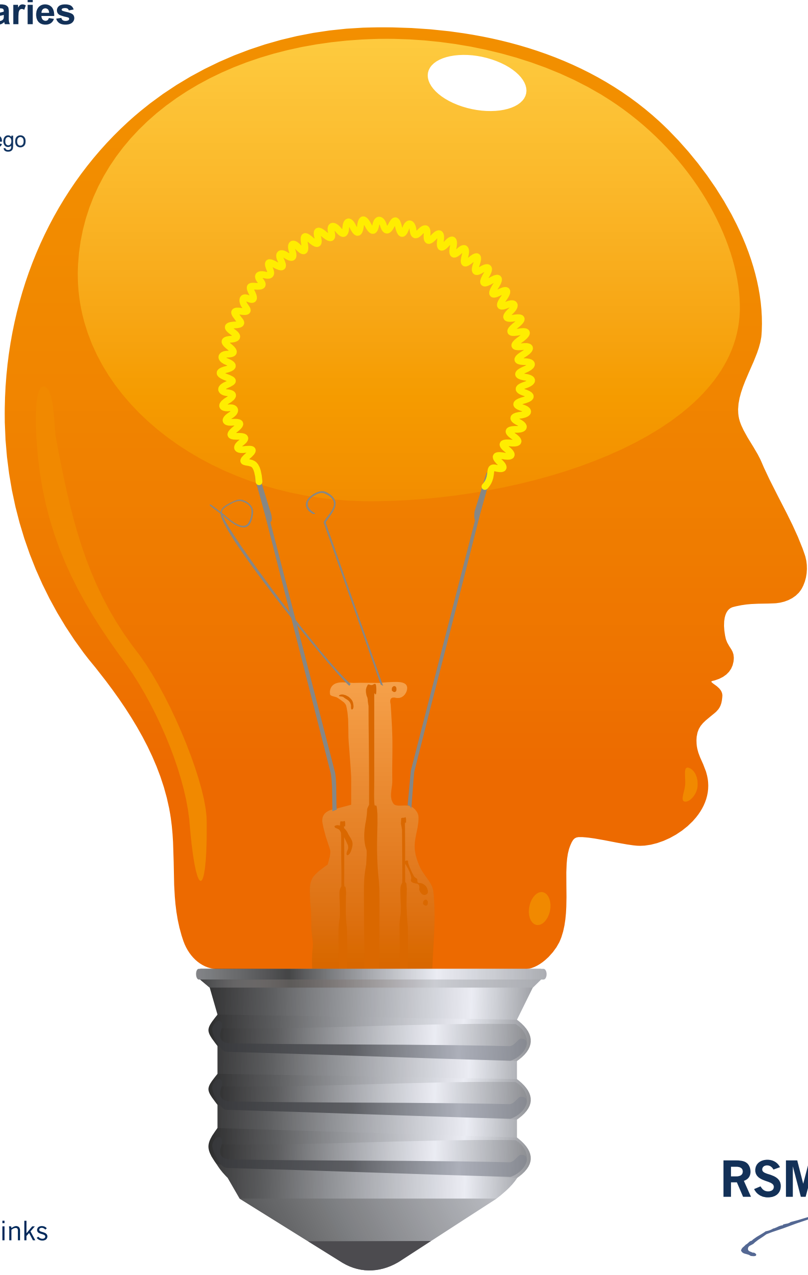

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The perils of pursuing profit

by Michel Lander

A heightened focus on profit at traditional professional service firms will almost inevitably lead to deterioration in individual and collective professional behaviour at the larger of those firms. There are valuable lessons to be learned here that could be applied in other industry sectors.

Professional service firms (PSFs) form an integral part of the contemporary knowledge-based economy. They are among the most affluent business enterprises, can be considered knowledge engines and have a public professional objective: serving vulnerable client and third party interests.

PSFs such as accountants and lawyers are organisations that are distinct from the rest of the corporate world. Like any commercial organisation, they need to make a profit, but they need to so while fulfilling a fiduciary duty to the public at large. When these ideals of service and pubic welfare are subordinated in favour of commercial gain and self-interest this could be quite detrimental for professional behaviour.

Changes in economic and social trends, government policies, and client preferences have led to the spread of a commercial ethos in the professions, which challenges traditional professional practices (for which the term P2 is used as convenient shorthand).

The deregulation of these industries is affecting the pillars upon which they have been built, increasing the focus on competition and coping with the concomitant pressures on price. There is an inherent trade-off that they need to make between professionalism and profit, and I am not sure that they see the need for that trade-off. The principal emphasis has shifted away from displaying professionalism and putting the client's needs first and towards generating profit.

"Large firms are sacrificing professionalism and client care in their pursuit of profit, creating the conditions in which events such as the Enron collapse can occur."

Many PSFs are now adopting face-changing strategies and practices, and are moving in the direction of a new organisational template coined the Managed Professional Business (MPB). The reality is that professional service firms face a choice between focusing on generating profit or delivering high quality client-driven service. Striking a balance between the two is difficult.

The findings outlined in my PhD thesis *Profits or Professionalism: On Designing Professional Service Firms*, call into question whether the entire accounting profession has changed from the trustee to the commercial logic. Although mid-tier firms are similarly confronted with conflicting demands of trustee and commercial logic, the structures and procedures resulting from this clash are different as compared to those documented with the big four global firms. Mid-tier firms pick and choose between components of strategic and structural organisational responses.

These differences are due to the continued influence of the professional logic, which makes both partner and non-partnered accountants unwilling

to compromise their professional norms. Resistance to change within these firms thus results in differing organisational responses.

Traditional professional service firms are distinguished by their preference for informal supervision, collegiate decision-making and an emphasis on service quality and standards.

My findings further suggest that the type of long-established informal practices that feature predominantly in PSFs of the P2–type are better attuned to the specific governance challenges of PSFs than the more formal practices characterizing MPB-like PSFs. Presumably, this is because these informal practices are better suited to deal with hard to observe and difficult to monitor professional behaviours than more formal organisational practices.

The impact of deciding to pursue greater profit can be immense. It leads to the introduction of formal supervision instead of informal supervision, and directed decision-making instead of collegiate decision-making.

Large professional service firms which focus on formal governance and corporate strategy will increase their performance. But they will also increase the propensity towards misbehaviour. In some cases this can manifest itself in charging for hours not worked, or charging for senior fees rather than junior fees. Evidence of client dissatisfaction arising from such practices is available in the form of complaints submitted to disciplinary courts.

In this environment, collegial supervision and the time to fulfil professional duties diligently will be a thing of the past; partners will find that while they nominally still have a voice, that voice will in practice be quieter and less listened to than was historically the case.

My research leads me, then, to issue an important warning to readers. Once a company passes a certain threshold in terms of scale, collegiate decision-making ceases to be the norm. Formal and informal governance cannot co-exist where firms are chasing profit. Collegiate decision-making takes too long, thus reducing the hours that can be worked for, and charged to, clients. Informal governance becomes costly and is often replaced by formal governance.

In conclusion, my research shows that mid-sized accounting firms and law firms are significantly more focused on service than on profit. Large firms are sacrificing professionalism and client care in their pursuit of profit, creating the conditions in which events such as the Enron collapse can occur.

This leads me to end by making three suggestions which legal and accounting firms might find time to consider when reviewing their future development. It is possible that the price of chasing profit is just too high for the broader good. It is possible that the firms concerned have forgotten that theirs is a professional industry benefitting from special privileges, from which clients expect the servicing of complex transactions. Finally, and perhaps most poignantly, their civic duty seems to have been relegated irrevocably in importance in the pursuit of profit. ■

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