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SPOTLIGHT ON WHERE STRATEGY STUMBLES

When Senior Managers Won't Collaborate

Lessons from professional services firms
by Heidi K. Gardner

SPOTLIGHT

ARTWORK Yayoi Kusama, *The Obliteration Room*

2002, furniture, white paint, dot stickers

Dimensions variable





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When Senior Managers Won't Collaborate

Lessons from professional services firms by Heidi K. Gardner

Today's professional services firms face a conundrum. As clients have globalized and confronted more-sophisticated technological, regulatory, economic, and environmental demands, they've sought help on increasingly complex problems. To keep up, most top-tier firms have created or acquired narrowly defined practice areas and encouraged partners to specialize. As a result, their collective expertise has been distributed across more and more people, places, and practice groups. The only way to address clients' most complex issues, then, is for specialists to work together across the boundaries of their expertise.

When they do, my research shows, their firms earn higher margins, inspire greater client loyalty, and gain a competitive edge. But for the professionals involved, the financial benefits of collaboration accrue slowly, and other advantages are hard to



quantify. That makes it difficult to decide whether the investment in learning to collaborate will pay off. Even if they value the camaraderie of collaborative work, many partners are hard-pressed to spend time and energy on cross-specialty ventures when they could be building their own practices instead.

And no wonder. This kind of collaboration is difficult. It's different from mere assembly (in which experts make individual contributions and someone pulls them all together) and from sequential, interdependent projects (in which a professional adds to a piece of work and then hands it over to the next person to work on). It's much harder than simply delegating to junior staffers. It's also not the same as cross-selling, when partner A introduces partner B to her own client so that B can provide additional services. True multidisciplinary collaboration requires people to combine their perspectives and expertise and tailor them to the client's needs so that the outcome is more than the sum of the participating individuals' knowledge.

If professionals better understood the trade-offs, and if firms lowered the organizational barriers to collaboration, then not only clients but also the

professionals themselves and their firms would benefit handsomely. My research examines these trade-offs through quantitative analyses of a decade's worth of detailed financial and time-sheet records at three global law firms and one accounting firm, case studies of professional services incumbents and new entrants, and surveys and interviews with hundreds of professionals in a range of sectors, including consulting, law, accounting, engineering, real estate brokerage, architecture, and executive search. (For more details, see the sidebar "About the Research.") My findings show how the benefits of collaboration play out. They paint a realistic picture of the barriers that often prevent professionals from working together. And they suggest changes that both individuals and firms can make to reap more of the advantages and avoid more of the drawbacks.

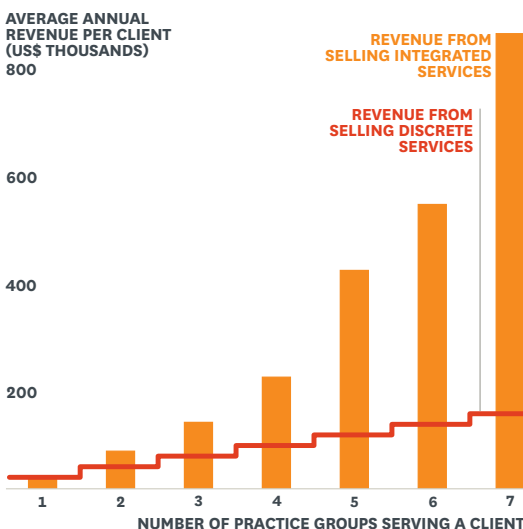
The Benefits to the Firm

For a firm, the financial benefits of multidisciplinary collaboration are unambiguous. Simply put, the more disciplines that are involved in a client engagement, the greater the annual average revenue the client generates, my research shows. That's in part because cross-specialty work is likely to be less subject to price-based competition. Whereas clients view an engagement involving single-specialty expertise (about a basic tax issue, for instance) as a commodity that can be awarded to the lowest bidder, they know that cross-specialty work is complex and harder. As additional practice groups serve a client, the firm can bill a higher amount, and each group earns more, on average. This suggests that the practice groups are collaborating to create additional value, not merely cross-selling discrete services. My research at one global law firm showed rising revenue per client even as five, six, and seven disciplines became involved. (See the exhibit "More Collaborators, More Revenue.")

I also found that client projects involving offices in several countries are significantly more lucrative than single-office engagements. (See the exhibit "More Countries, More Revenue.") That's because cross-border work is often especially complex and demanding—think, for example, of issues that arise when multinational companies merge or of the multiple jurisdictions that can be involved in litigation resulting from an oil spill. Delivering seamless service across national boundaries can be an important differentiator for firms.

MORE COLLABORATORS, MORE REVENUE

As more practice groups collaborate to serve a client, the average annual revenue from the client increases, over and above what each practice would have earned from selling discrete services.



SOURCE HEIDI K. GARDNER, DATA FROM A GLOBAL LAW FIRM

Idea in Brief

THE PROBLEM

Professional services firms can gain a powerful competitive edge if they do complex work for clients that involves partners from multiple specialties. But collaboration's downsides are immediate, while the benefits accrue slowly, making individuals reluctant to engage in it.

THE RESEARCH

Research shows that as more practice groups work together on a client engagement, the average annual revenue from the client increases. And as professionals engage in more cross-specialty projects, the more work they will subsequently get and the more they'll be able to charge for it.

THE IMPLICATIONS

Both individuals and leaders can lower the barriers to collaboration—and land high-value work—by de-emphasizing inputs like billable hours and focusing more on outcomes such as greater revenue per client.

Moreover, moving beyond siloed services to complex, interdependent engagements allows a professional services firm to work for more-senior executives in a client's organization, who have a greater span of responsibility and greater authority and budget to hire external advisers. In the long term, engaging these executives through multidisciplinary projects builds loyalty by creating switching barriers. As the general counsel of a *Fortune* 100 company explained, "I could find a decent tax lawyer in most firms. But when a tax lawyer successfully teamed up with an intellectual property lawyer, a regulatory lawyer, and ultimately a litigator to handle my thorniest patent issues, I knew I could never replace that whole team in another firm."

From an organizational perspective, the more partners who serve a given client, the more likely that client is to become "institutionalized"—owned, as it were, by the firm rather than controlled by one partner—reducing the risk that a departing professional will take that client with her. What's more, partners' ability to see their colleagues' work lowers the risk of illicit rogue behavior (something that is admittedly rare but can be fatal).

How Individuals Benefit

The benefits of collaboration to individuals are equally quantifiable, if less intuitive. My research clearly shows that professionals who contribute to colleagues' client work sell more services to their own clients. Why? When you team up with colleagues, they better understand what you have to offer, and that knowledge makes them more likely to refer work to you down the road. Because referrals are a more-efficient way to generate work than prospecting on your own, they make it easier to reach revenue targets. In one law firm I studied, a single work referral typically generated

about \$50,000 of extra revenue for the partner who received it.

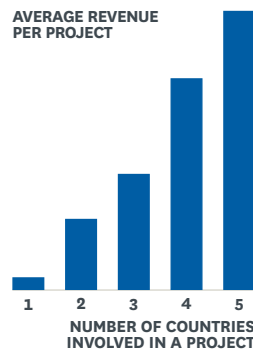
Of course, not all colleagues who come to appreciate your capabilities will send you work immediately; they must wait until their clients require your expertise. On average, partners in my study got a new client referral within a year from one in every six colleagues they teamed up with.

But even when teammates don't send work themselves, they are likely to spread word of your expertise to colleagues who need it. At the law firm, it took working with just two extra teammates to generate a referral from someone who had never sent work to that individual before. That might not seem like much, but the compounded effect of word of mouth is powerful: As colleagues recommend your work to others in the firm, your reputation is likely to grow significantly over time.

Collaboration raises a partner's profile not only with colleagues but also in the wider market. Professional services are notoriously opaque: It's hard for clients to judge their value, even after the fact. At least in the near term, it's nearly impossible to answer with any certainty questions like "Did the consultant's recommendation lead to our bankruptcy?" "Did the executive search firm place the absolute best candidate in the role?" or "What risks would we have faced without the vast legal expenditure?" That uncertainty means that clients rely heavily on a professional's reputation, gleaned from word-of-mouth recommendations, when making hiring decisions. Those recommendations carry a lot of weight; they lead not only to more work but also to more-sophisticated and more-lucrative work. At the law firm, the more cross-discipline projects partners worked on, and the more complex each one was, the more partners could charge for their work in subsequent years.

MORE COUNTRIES, MORE REVENUE

As the number of countries involved in a client project increases, so does revenue.



SOURCE HEIDI K. GARDNER, DATA FROM A GLOBAL LAW FIRM

(See the exhibit “More-Complex Projects Lead to Higher Hourly Rates.”)

Working on multidisciplinary projects also helps professionals learn how to sell more-sophisticated work to their own clients. Take Laurie, a consultant specializing in operations efficiency for automotive clients. Two years ago she was drawn onto a postmerger integration project for a pharmaceutical company because many of her colleagues in the operations practice had conflicts of interest. Laurie was introduced to the frameworks and approaches used by her colleagues in finance, regulation, and branding, and she began to understand how those disciplines informed one another. With these new lenses, she could spot a broader array of issues for her own clients. Laurie stayed in touch with several of the experts from other specialty areas, and their informal talks bolstered her ability to strike up conversations with her clients about issues beyond operations. Some 18 months later one of her automotive clients engaged Laurie’s firm for a wholesale restructuring of a division, and Laurie is now leading the cross-practice team.

Complex projects give individuals access to those high-level executives in the client organization who have more responsibility and larger budgets. One chief executive I spoke with recalled a consultant he had worked with earlier in his career. This consultant, a marketing specialist, tended to focus exclusively on brand-related issues in her clients’ product portfolios, and so her influence never extended beyond the marketing department. The CEO contrasted her with one of his current consultants, who drew on cross-specialty experience to recognize that the company’s product portfolio affected its offshoring operations and in turn its tax regime. This savvy consultant identified a complex project involving not only marketing but also operations, strategy, and finance experts. The project commanded higher fees, and the consultant established a reputation as a go-to person for sophisticated issues.

Cross-disciplinary collaboration also helps insulate professionals from economic downturns. I found that professionals who were even moderately connected to others in their firm—that is, they had worked each year with just 10 other partners in the three years prior to the 2008 recession—preserved their revenue during the downturn, whereas the revenue of those who were more isolated dropped significantly. And collaborating partners’ revenue

MORE-COMPLEX PROJECTS LEAD TO HIGHER HOURLY RATES

The more cross-practice projects a lawyer worked on in a given year, the more his or her hourly rate increased relative to that of peers who worked only on single-practice projects. Involving more collaborators per project increased the lawyer’s hourly rate even more. And involving more practice areas per project pushed the rate still higher.

AVERAGE ANNUAL HOURLY RATE INCREASE, 2004–2013

5.5%

SINGLE-PRACTICE PROJECTS

8%

CROSS-PRACTICE PROJECTS

9%

MORE COLLABORATORS PER PROJECT

11.75%

MORE PRACTICE AREAS PER PROJECT

SOURCE HEIDI K. GARDNER, DATA FROM A GLOBAL LAW FIRM

climbed much more quickly when the economy recovered. Some of this benefit derives from the social cohesion that stems from collaboration: Those who had teamed up before the downturn were more likely to continue spreading their client work even when the total amount dwindled. In addition, by working on multipractice projects in flush times, professionals learned to handle a broader set of topics, diluting the risk that their own specialty would get hammered during hard times.

What Gets in the Way

As compelling as this evidence is, it’s no secret that the organizational structure, compensation systems, and cultures in many, if not most, professional services firms favor individual contributors rather than team players. Up-or-out promotion systems encourage rivalry among junior associates, and the competitive values become so ingrained that the winners find it counterintuitive to collaborate when they become partners.

Moreover, as one partner quipped, many firms value “rock stars, not the whole band.” The rainmakers are often the most celebrated people in a firm. They’re frequently rewarded with something akin to a commission—a percentage of their gross sales. In some firms the higher your revenue, the higher the percentage. The simplicity of these compensation models can be an advantage—people know exactly what they need to do and how much they’ll make in return. But they discourage collaboration, because professionals who bring in a colleague to close a deal will need to split the commission.

The effects of the compensation system bleed into the culture, which disparages “service partners,” who contribute primarily by delivering work on others’ projects. As one COO explained, partners often believe that “some people are rainmakers, but others just get wet.” In this environment, partners who try their hand at collaborating can be hit hard. Consider a firm that celebrates individual sales performance by inducting qualifiers into the “Million Dollar Club” at its annual banquet. A partner described applauding his colleagues through gritted teeth one year when he had missed the million-dollar target because he’d shared most of his client origination credits with junior colleagues who were struggling to build their own client rosters. “I thought I’d done exactly what the CEO wanted by mentoring those rookies and splitting the credit with them,” he said.

“But it was the only year I wasn’t called up on stage at our annual meeting, and I’ll never do it again.”

And to be honest, some of the advantages firms gain from collaboration may come at the expense of individuals. The increased transparency, for instance, can feel from the professionals’ point of view like heightened scrutiny over their client dealings and an infringement on their autonomy. What’s more, many professional services firms ask applicants to assess the number of and associated fees from clients they anticipate would follow them. Once a professional can no longer claim that clients would necessarily come along if he left for a competitor, he loses his bargaining power not only in the firm but also in the marketplace.

External reward systems also play a role in encouraging professionals to develop a reputation for specialized expertise. For example, in public “star ranking” systems *Chambers USA* designates the nation’s premier lawyers, and *Institutional Investor* recognizes the best equity analysts. These ratings influence a professional’s income, attractiveness in the labor market, and career advancement, and some professionals worry that working on cross-discipline projects will cut their chances of gaining recognition.

As if these financial concerns weren’t enough, learning to collaborate effectively is difficult. Few professionals truly work alone, but coordinating with peers across departments is significantly harder than delegating to junior staffers in your own department whose skills are similar (but inferior) to your own, and whose advancement depends on pleasing you. To acquire more-sophisticated work, professionals must learn how to determine what a client needs beyond what they can offer; find people who can serve those needs; learn to work with high-powered peers over whom they have no

authority; and trust them to be competent at something they’re not in a position to judge and not to steal the client away. Work that spans multiple countries raises cross-cultural issues, which pose further challenges.

Getting to the Benefits Sooner

Even in organizations in which these factors are at play, some people are working effectively across disciplines. What these people have figured out is that perseverance pays off. Once they gain some experience with collaboration and develop a cadre of experts whose competence and character they can rely on, the risks decrease, as do the coordination costs. As they learn the jargon, technical approaches, and assumptions of other disciplines and figure out how to share revenue and less tangible rewards (like credit for the outcome or airtime for a subsequent client pitch), they build trust and can work with peers more quickly and with less tension.

Certain strategies can help professionals reap the benefits of collaboration sooner. First, it matters whom you collaborate with. In my research I found that establishing your credentials with a rainmaker or other well-connected colleague who has influence in the firm is simply the most powerful way to enhance your own reputation. And the financial benefits from such a relationship, which come from referrals, build up significantly over the years.

But how can you get yourself onto a project with high-status colleagues? Chris, a partner in the New York office of a global law firm, uses the following tactic: From discussions with colleagues or articles in the legal press, she gleans ideas for how her expertise in data privacy might be useful to various kinds of corporate clients. She then researches companies that her firm already serves and writes a one-page memo to a client relationship partner outlining how her expertise could help that particular client solve a particular problem. Chris admits that the effort takes a lot of time, and not all her colleagues are receptive to what they see as self-promotion. But enough of them have welcomed the offer that she has participated in multiple joint pitches for new work and has established a couple of ongoing relationships with other partners.

Another way to work with influential colleagues is to invite them onto your own client projects. Matthias, a veteran consulting partner, transferred from a boutique telecommunications firm to a

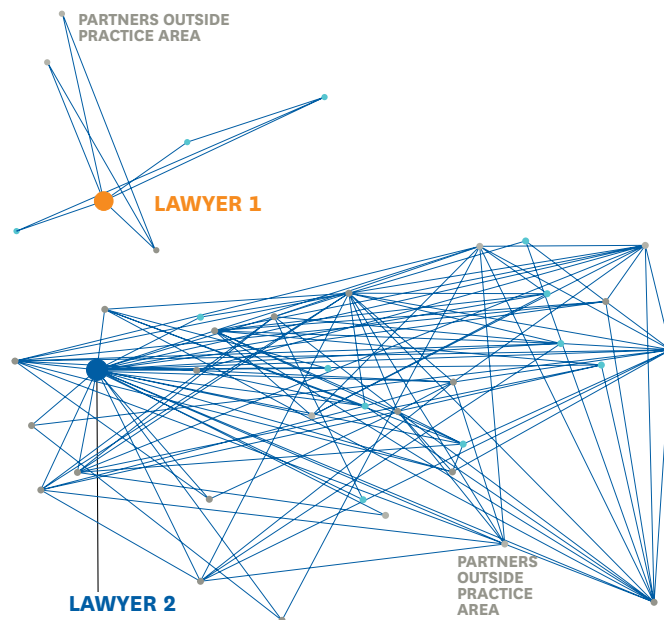
In one law firm, a single work referral typically generated about \$50,000 of extra revenue for the partner who received it.

generalist firm so he could apply his operations expertise to a wider array of clients. Soon after joining the new firm, he identified three partners who were seen as prime players in other practice groups and invited each to lunch. He then spent hours conducting due diligence—reading their public white papers and the documents they had contributed to the firm’s knowledge management system, reading up on their clients, and talking to partners in his own practice who’d worked with them. Within his first year, Matthias found openings to hold joint meetings at his client with each of those partners; one meeting led to a small but promising stream of work. The three partners grew to appreciate Matthias’s deep expertise, his client-handling skills, and his intention to stay at the firm and build a thriving business there. Over time, those partners began telling others of their impressions of him, creating opportunities for him on client work across a range of industries. The initial trick, Matthias explained, was to learn enough of the domain expertise of other partners to be able to identify opportunities for them with his own clients and then to start discussions about those opportunities.

You might get high-status partners to work with you on the basis of your knowledge and expertise, but getting them to keep working with you hinges on their experience of you as a team player. None of this is rocket science, but about half the complaints I heard in my interviews would have been eliminated if professionals had followed these rules:

Don’t squeeze your team members. If your firm is one in which partners negotiate fees or rates, bend over backwards to be fair to the partners you invite onto your team. Even if your client is more important to the firm than theirs, don’t expect them to drop everything to handle your engagement or to throw in their work uncompensated. Credit is another important type of currency, and people are keenly aware of how fairly (or not) it gets divided in teams. Some of the strongest complaints arise about partners who entice others onto a project but then fail to give them any face time with clients, pigeonhole them into areas where they won’t shine, fail to acknowledge their contribution—or, worse, take credit for it themselves. Don’t waste your colleagues’ time by repeatedly changing deadlines. Don’t create fire drills by getting people to work all night and then ignoring their input for days. Most partners know better than to treat their peers like

HOW RAINMAKERS PROFIT FROM COLLABORATION



To illustrate how collaboration enhances a professional’s ability to generate business, let’s compare two nearly identical lawyers. Both graduated from law school the same year and are in the same practice area at the same firm. They billed nearly the same number of hours in a given year, but it’s clear from the diagram that they spent those hours in very different ways. Lawyer 1 brought six other partners into his own client work, half of whom were not from his own practice area (as shown by the gray dots). Lawyer 2 involved more than 30 other partners in work that he generated, two-thirds of them from outside his practice. Lawyer 2’s multidisciplinary approach paid off: Total revenue that year from his clients was more than four times higher than revenue from Lawyer 1’s.

This simple example can’t tell us whether collaboration led to the increased revenue or was a result of it. But my research examining outcomes over a decade shows a clear causal pattern: The more a partner shares work she’s originated, the more work she is likely to generate in subsequent years, even controlling for other factors that are likely to affect individual billings, such as one’s office, practice group, organizational tenure, and previous year’s billings. Subsequent-year revenue from a rainmaker’s *existing* clients increases the more she involves partners from both her own and other practices. For *new* clients, cross-practice collaboration is an even stronger predictor of long-term revenue growth.

this, but they fail to recognize that a reputation for abusing associates' time is also a turnoff for partners who hear about it.

Deliver what you committed to on time, without reminders. Communicate immediately if a real emergency delays you, but don't make excuses, and definitely don't blame underlings. Clarify expectations and your circumstances up front, such as travel plans that will make it hard for teammates to contact you.

Communicate openly. Ask questions. Seek advice freely and offer it tactfully when you see a need. Most people don't like to give negative feedback to their peers. But partners who join you on client work shouldn't have to guess whether their contributions are up to par. If you give people constructive, honest, and timely comments, you'll maximize their ability to learn from your project, which is one of the key benefits individuals gain from collaboration. You'll also build a team of capable, loyal people who can handle complicated projects, which will give you the confidence to pitch such work to clients.

Organizing for Higher-Value Work

Some firms foster high levels of collaboration among even their most powerful, successful professionals. To outsiders it can seem like magic, but leaders in these organizations take two broad approaches that help professionals get over the initial hurdles to effective collaboration: They act as coaches in order to lower cultural barriers, and they act as architects in order to lower structural barriers.

The leader as coach. Leaders who want to build a culture of collaboration should begin with themselves, modeling the right behavior by contributing to others' client work and sharing credit with those who participate in their own.

Top leaders can also take some simple steps to help partners build trusting relationships with one another—for instance, holding retreats that allow them to forge connections. Four months before the annual retreat of Caldwell Partners, a small executive search firm, the CEO asked all partners to name a potential client and to identify a colleague they could work with to try to win that account. At the retreat, the CEO set aside time for people to team up and flesh out their client development approaches. The best firms also pair lateral hires with a successful homegrown partner who's responsible for introducing the newcomer to both other colleagues

and clients, thus spreading the coaching function beyond the top executives.

When hiring, leaders need to resist the temptation to bring in high-performing but selfish partners, who might be a toxic influence, and instead seek candidates who have a track record of working across boundaries. To gauge that, ask applicants to give several concrete examples of how they contributed to others' client work and how they built teams to serve their own clients. Candidates who brag about their ability to transfer clients to your firm should send up a red flag. Ask yourself, if clients are so attached to these candidates individually, does that mean that no other professionals at the firm were involved in serving the clients?

Leaders also need to be careful about the signals they send when commending players for great outcomes. If a partner made a big sale but did so as a lone wolf, the leader should not only refrain from celebrating the win but talk with the partner about better ways to achieve the same outcome.

The leader as architect. It might seem commonsensical that if you want people in an organization to behave collaboratively, you should alter the compensation system to reward specific collaborative behaviors. But in both my research and my experience teaching executives, I've repeatedly heard that certain metrics, such as the number of referrals or multipractice pitches, can be gamed, and so trying to reward them is counterproductive.

It's far better to reward the outcomes of effective collaboration, such as rising levels of client satisfaction and client retention, growth in revenue and profits from existing accounts, or the acquisition of new clients in target areas. The annual compensation process at the law firm Duane Morris, for example, involves a "matter contribution analysis," which calculates profitability for individual lawyers by comparing the revenue collected (not just billed) on an attorney's cases with the attorney's costs (including salary and overhead).

To help ensure that these outcomes are achieved in ways consistent with building a collaborative culture, you will need to include measures that capture partners' contributions to nonbillable efforts such as mentoring, sharing knowledge, and giving advice. Management consulting firm A.T. Kearney, for example, assesses its mentor and mentee pairs by having both individuals rate each other's effectiveness using the firm's formal evaluation system.

About the Research

To understand what happens when partners from different specialties collaborate, I conducted a long-term study in six global professional services firms in the fields of law, consulting, and accounting. I analyzed more than a decade's worth of time-sheet records in four of the firms to measure the extent and nature of partners' collaboration patterns. In addition, I studied another consulting firm for more than two years as the leaders initiated a strategic change aimed at moving from highly

individualistic to more-collaborative work. Several rounds of surveys tracked hundreds of partners' reactions to the change over time, and interviews with executives, partners, board members, and clients helped me develop insights into the leadership challenges associated with such initiatives. Further, over the past two years I have conducted more than 150 in-depth interviews with professionals in more than 40 firms to examine the causes and effects of collaboration.

To uncover ways to surmount the barriers to collaboration, I have spoken to more than 2,000 partner-level professionals in the past year, including participants of the Leading Professional Service Firms and Leading Law Firms executive education courses at Harvard Business School and Harvard Law School; partners in firms that have invited me to conduct collaboration workshops; and firm leaders in small colloquia that I organize specifically to discuss my findings.

Leaders can introduce structured ways for professionals to learn enough about others' expertise to identify cross-domain opportunities, credibly discuss them with clients, find trustworthy partners to help carry out the work, and judge their competence. Monthly workshops at practice group meetings that include short presentations from experts in high-potential areas are one approach. Some firms have introduced intranet-based tools for communicating client opportunities, finding experts, and asking or answering questions. Even low-tech options like internal newsletters that feature recent collaborative success stories allow professionals to understand how others in the firm have combined expertise to solve client issues. Results speak for themselves, and so such stories are a powerful way to help professionals gain trust in one another. And a firmwide development and promotion program that links advancement to the demonstration, at a high level, of a range of critical collaboration skills can provide assurance that professionals across the organization have a level of competence that everyone can trust.

To help professionals offer a broader array of services to a client, one leader encouraged high-performing partners to create a "cross-selling SWAT team" that others could draw on for advice. Members of this team accompanied other partners on lunches with clients to help them probe for opportunities, with the understanding that the team members wouldn't fill the openings they helped to unearth.

Beyond this, some firms have introduced a secondment program, in which senior associates or recently promoted partners spend six or 12 months in an overseas office. When they return home, they continue to serve as important links between offices. One firm can typically trace at least three,

and sometimes 10 or more, new international referrals between home and host offices in the year following a secondee's return. Some of these referrals go directly to the secondee, but many go to colleagues, with the secondee playing a brokering role. Partners say that they would not have known to contact a partner in the overseas office without that recommendation.

MOST PROFESSIONAL SERVICES FIRMS are already committed to a strategy of growth by seeking out and addressing their clients' most complex problems. And many are finding that those problems can't be addressed by independent specialists—even an army of them. Firms that are landing the highest-value work are focusing more on integrating than on acquiring specialized expertise. They're developing and communicating a strategy that explicitly emphasizes collaboration so that partners understand that their investment in learning to combine forces is part of a broader initiative that the firm will support. In turn, their practice group leaders, who are involved in the development of the overall strategy, are setting clear collaboration objectives for professionals in their departments. Partners who lead client relationship initiatives are being held accountable for identifying multipractice opportunities and making sure they are successfully developed. Under such a deliberately cross-specialty collaboration strategy, time spent learning to work together is treated not as nonbillable overhead but as an investment in remaining competitive. These firms understand that if they can serve the most complex needs of their clients, they will earn their loyalty and the lion's share of the most valuable revenue streams, and leave their competitors to scramble after the increasingly lower-value, commodity work. ♡

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