

BUILDING CLIENT MANAGEMENT CAPABILITIES IN PROFESSIONAL SERVICE FIRMS



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Q&A WITH HBS PROFESSORS DAS NARAYANDAS AND ROBERT G. ECCLES

Challenged by faster commoditization, greater consolidation, and higher client expectations, smart professional service firms are rethinking their approach to business development. In this interview, Harvard Business School (HBS) Professors Robert Eccles and Das Narayandas examine why the traditional producer-manager model doesn't always yield anticipated results—and why cultivating client relationships is the key to sustaining competitive advantage. As the coauthors of **Building Client Management Capabilities in Professional Service Firms**, they offer insights into how this new Executive Education program builds on the *Leading Professional Service Firms* experience—and provides fresh strategies for navigating a rebounding economy.

What new challenges are professional service firms facing in the current landscape?

Narayandas: Customer consolidation in domestic markets and greater expectations around service delivery have resulted in more demanding, more sophisticated clients who want more value for less money. When it comes to managing clients today, professional service firms must work smarter.

Eccles: There continues to be a rapid commoditization of services, causing greater pressure on rates. In fact, the disintermediation of rate models is giving rise to alternative business models. Some firms, for example, are codifying knowledge and expertise into software or analytical tools and then bundling them into their service offerings.

Narayandas: As firms try to maintain their client base, traditional industry structures are breaking down. Very large, deep-pocketed competitors are making strategic moves into territories that have generally been the domain of private partnerships. For instance, we're seeing larger firms discounting their way into strategy consulting as a means of garnering lucrative IT implementation projects. Public companies are now competing against private companies, which affects capital structures. And the quality of work that is outsourced to places like India is continuing to rise—not just in call centers, but also in areas like tax accounting and medical services.

Eccles: In some professions, keeping talented people is an ongoing challenge. Employees today are rethinking the traditional model in which you work long hours and travel extensively in hopes of one day becoming a partner. This is particularly true in the law profession, which is seeing a decrease in satisfaction rates among law school graduates. Instead, these talented people are considering alternative career paths in nonprofits, nongovernmental organizations, and social enterprises.

Why should firms focus more on building and managing client relationships?

Eccles: Professional service leaders need to understand their clients' needs, match their capabilities to those needs, and leverage their expertise to build new capabilities. The traditional producer-manager role is not for everyone. Nurturing and developing people who can manage major client relationships is difficult. It's very different from being an expert lawyer, consultant, or accountant—you need to build skills in those areas. At professional service firms, people come on board as technicians and gain client-facing responsibilities. Some people do well, but others can't make the transition.

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Narayandas: In Leading Professional Service Firms (LPSF), the program concentrates on talent and organizational management. While this is a critical area of focus for professional service firms, greater attention must also be paid to the interface between firms and clients—or managing client relationships. Professional service leaders realize that sustainable success is not predicated on effective management alone. Building and managing client relationships are equally as important—but these concepts are often difficult to teach and, for many, even harder to learn. That is why we decided to develop a new program that addresses this challenge—Building Client Management Capabilities in Professional Service Firms.

How do successful companies develop and manage client relationships?

Eccles: Successful firms understand when to say “no.” They adhere to their criteria for selecting clients and projects—and know when it makes sense to wind down or end a client relationship.

Instead of focusing solely on profitability, they take a portfolio perspective and balance their strategic objectives with diverse clients. These firms recognize the need for different types of clients—those that produce healthy margins, those that allow your professionals to stretch their skills and innovate, and those that offer potential down the line.

Narayandas: It is important to understand that clients don’t come to you as relationships—they bring specific projects to you. That’s why professional service leaders must know which projects to select and which to turn down. Saying “no” isn’t always easy, particularly in a recession when you have idle capacity. But the decisions you make today can weigh you down as the economy rebounds. In the end, you don’t want to commit precious resources to projects that don’t yield good returns.

Being an effective client manager begins with knowing which clients you want to serve. Some clients are best managed on a transactional basis—you typically complete a project for them once every few years. In these instances, you’re not their everyday partner—you’re their go-to firm for that one project. If you always do a great job, they will never think of going anywhere else. Other clients may want you to work with them to proactively identify areas for improvement—these relationships require deep connections. And for some clients, you are merely being paid for doing routine project work.

Once you know the types of clients you want to serve, you must determine how to serve them—not all clients can be served in the same way. Successful firms understand how to map their management strategies to different types of clients.

Finally, you must have the metrics to gauge how well you’re doing. In client management, there are two key measures: Is the client happy with our work? How profitable is the work? If you have the appropriate metrics in place, you’ll know when to walk away from a client relationship.

Eccles: The strategy-setting process in professional service firms differs from that in other types of companies. But when it comes to client management, the return on making smart decisions is huge.

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How will past participants of *Leading Professional Service Firms (LPSF)* benefit from attending *Building Client Management Capabilities in Professional Service Firms*?

Narayandas: Over the years, we have received numerous requests from LPSF past participants, asking us for a follow-up program on strategic client management. Adding to that, recent economic conditions have intensified the need for a program of this type.

In response, we put together a structured leadership development program that is specifically designed to improve client management capabilities. We have found that many professional service firms are challenged by the client management process, and want to enhance their ability to develop and manage strategic client relationships. Too often, they do not systematize the client management process, which results in inefficiencies and inconsistencies.

Eccles: Put simply, this program provides past LPSF participants with best practices for embedding the client management process within the entire firm structure. By participating, professional service leaders will return to their firms with well-developed strategies for building a client relationship program that leverages organizational capabilities and strengths, and drives growth.



Das Narayandas is the James J. Hill Professor of Business Administration at HBS, the faculty chair of the Program for Leadership Development, and the cochair of Building Client Management Capabilities in Professional Service Firms. For more than six years, he managed the sales and marketing operations of various multinational firms involved in field sales and salesforce management, new product development, alliance formation, and marketing communications.



Robert G. Eccles is a Senior Lecturer of Business Administration at HBS and the cochair of Building Client Management Capabilities in Professional Service Firms. His research focuses on the client-facing aspects of professional service firms, and he has developed a number of new cases on that topic. Professor Eccles and Professor Narayandas are collaborating on a book with the working title, *Building Capabilities: Ensuring Long-Term Success in a Professional Service Firm*.

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