

Grant Thornton Professional Services Insights 2007:
Build to last.

Grant Thornton 



“In order to build an organization that can weather the storms of economic and environmental change, a firm’s leadership must make a realistic assessment of their core competencies and aggressively examine the lifecycle of the practice. Confronting inherent strengths and weaknesses, recognizing challenges, identifying the essential ‘vital few’ opportunities and distilling these opportunities into workable, flexible solutions will further strengthen the foundation they need for growth and sustainability.”

Alex MacBeath
Executive Partner & CEO
Grant Thornton LLP

Build to last: strengthening business foundations to withstand the test of time

Canada's rapidly changing economic environment is presenting professional services firms with a unique set of challenges. Age-old infrastructures are under siege from a host of new business ideas, client expectations and market demands: an aging workforce is being replaced by a younger generation with a new work ethic, different motivations and revised expectations; an increasingly demanding client base is resulting in escalating risks and liabilities; and firms without succession plans are losing key senior partners. The structures that have traditionally supported the industry are in the process of simultaneously breaking down and being rebuilt. At the same time, firms are looking to their own infrastructures to assess how well they will hold up.

Professional services firms stand at a strategic crossroads as they consider diversifying and/or specializing in order to capitalize on emerging opportunities. At the same time, recruitment of young talent and retention of experienced practitioners are serious problems impacting both firm strategy and capacity. In the face of these pressures, professional services firms are taking action. To meet client expectations and cope with market demands, for example, they are adopting team-based approaches to billable work, assuring relationship continuity and minimizing the loss of client revenue that can accompany talent migration. Firms are also beginning to incentivize strategic non-billable activities in order to retain high-quality associates and properly fill professional and project pipelines.

The *2007 Grant Thornton Survey of Professional Services Firms*¹ has revealed an encouraging picture of the industry. But are professional services firms moving fast enough? Are they taking the actions that are strategically right for their firm's unique needs? Are they seeing all corners of the big picture? They must take the next step. They must critically and diligently assess their fundamental business model across the board. They must find the cracks in their foundation, develop a firm-wide strategic blueprint, and rebuild. They must develop new management systems, delivery processes and firm cultures that will fill in the gaps and strengthen the whole.

There is no "model business" to copy, no prototypical design for the new economy. Each firm is unique and requires a strategic plan that addresses its specific needs across a range of volatile industry issues. The one imperative, however, is to build for the future, to build an infrastructure that will withstand the test of time, to build to last.



Doug Moore
Partner
Professional Services National Leader
Grant Thornton LLP, Vancouver

¹ Hereafter referred to as the *2007 Grant Thornton Survey*

Assessing the industry: understand where thought can drive action

Canada's mid-sized professional services industry—like the loonie and the oil barrel—continues to appreciate in economic value and importance. In contrast to the seismic shocks of the current commodities boom and rising exchange rate, however, growth in Canadian professional services reflects a gradual but steady shift toward a globally competitive, knowledge-based economy.

Leading economic indicators support this contention. Growth in professional, technical, and scientific services² has outpaced—not only goods-producing industries—but service-producing industries as a whole, posting a 3.5% gain in contribution to GDP from April 2006 to April 2007 (vs. 3% in the prior year)³ (Statistics Canada, June 2007). This gap widens when it comes to employment: 44,200 new jobs were created in professional, technical, and scientific services from June 2006 to June 2007, signifying a 4.1% increase versus 2.7% for service-producing industries overall (Statistics Canada, July 2007). There are also signs that mid-sized firms are the ones with the most to gain: mid-sized engineering firms exceeded the revenue growth rate of small firms 22% to 9% in 2005, while large firms grew at the same rate as the overall industry (13.6%) (Statistics Canada, Mar. 2007).

The *2007 Grant Thornton Survey* reveals an industry highly sensitized to competitive threats and fundamental weaknesses, but unprepared to fully mitigate these challenges or transform strengths into opportunities. This report will focus on the significant discrepancies between thought and action in the areas most critical to the success of mid-sized professional service firms: growth drivers, client focus, talent management and re-assessment of the partnership model.

² "Professional, technical, and scientific services" comprises five sub-segments: architectural, engineering and related services; computer systems design and related services; advertising and related services; legal, accounting, tax preparation and bookkeeping services; other professional, scientific and technical services (Statistics Canada, April 2007).

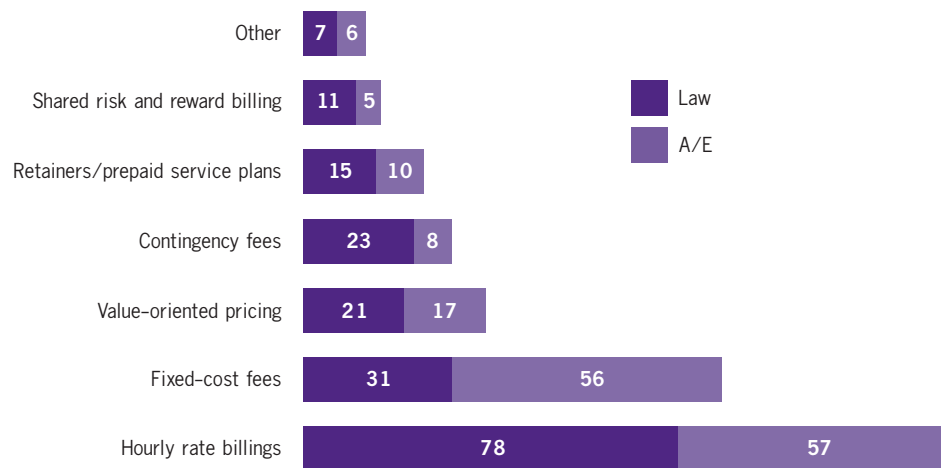
³ Refers to monthly gross domestic product at basic prices in chained (1997) dollars



Securing a platform for success: grow the practice on multiple fronts

Despite the optimism of mid-sized firms (91% of those surveyed by Grant Thornton expect stable or increased revenues in the next year), there is some cause for concern. Client consolidation initiatives, for example, may have a significant impact as major Canadian companies divide their business among a few large firms and new foreign owners direct less to local firms (Crosariol and McNish, 2006). Another impact issue is the reluctance of mid-sized firms to adopt shared risk/reward revenue models, such as value-oriented pricing, contingency fees and retainers/prepaid service plans, despite the potential of these strategies to insulate firms from business slow-downs and irregular cash flow. There is great opportunity for mid-sized firms, but with the ground shifting quickly, it appears that the pace of change may have caught many off guard.

Figure 1. Current revenue models (based on percentage of respondents selecting each option)



Law firms are particularly at risk due to several factors. When asked to select from a list of possible growth drivers, their choices reveal that they depend almost exclusively on new clients (91%) and existing clients (70%). So even though 83% of all professional services firms anticipating growth identify new clients as the single biggest contributor, followed closely by existing clients at 72%, law firms would appear to be especially vulnerable to the dynamics affecting their client base. Dependence on the legal sector's traditional mainstay, the partner's book of business, may be contributing to a false sense of security and causing mid-sized law firms to overlook other opportunities to expand and grow their practices. They are further at risk

“Individual consumers and business clients depend on competitive professional services for low costs, **quality** and variety. And...services are part of the heart of a knowledge-based economy. If we are to thrive in the flat-world economy, we must have access to the most advanced, innovative and **competitive** professional services.”

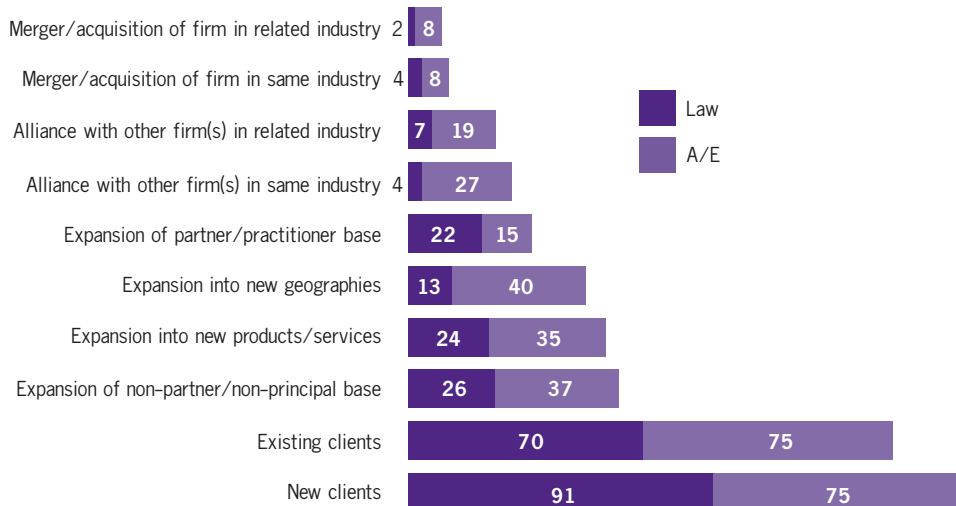
Sheridan Scott
 Canadian Commissioner of Competition
 The Competition Bureau
 Canada

in that their revenue model is also highly labour-intensive—while most mid-sized firms derive the majority of their revenue from hourly-rate billing, many more law firms than architectural and engineering firms expect to increase hourly rate billings (54% vs. 37%), making them more vulnerable to the current talent shortage.

Responses from architectural and engineering firms reveal that they view firm growth from a much broader perspective. More than one-third plan to expand their non-partner/non-principal practitioner base or expand into new product or service offerings (37% and 35%). Further, significantly higher numbers of architectural and engineering firms are

considering expansion into new geographies (40% vs. 13% of law firms) and alliances with other firms in the same sector (27% vs. 4%). As they continue to look for leverage in other business areas, these firms are reducing their exposure to client consolidation and building strong and stable platforms that will last into the future. By adopting this type of multi-pronged approach to growth, mid-sized firms can rise above the competition and sustain their competitive advantage. (Figure 2)

Figure 2. Drivers of firm growth (based on percentage of respondents anticipating growth)



Framing a strategy: achieve critical mass to meet broadening market demands

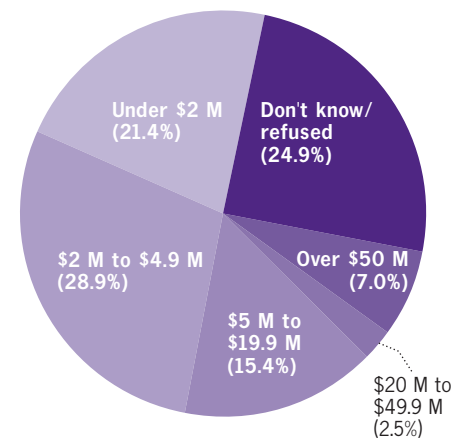
Despite healthy domestic demand, there is growing concern about the ability of the professional services industry to compete and serve the needs of the market, and about whether there is enough work nationally to support the current proliferation of smaller firms. According to Statistics Canada, there were 21,753 active engineering firms⁴ in Canada as of 2005 (a 23% increase from 2001) and 4,537 architectural firms (an 8% increase from 2001). The number of law firms rose by 11% to 18,558 between 2000 and 2005 (FLSC, 2000 and 2005).

The current reality is that the multitude of small and mid-sized firms, as an aggregate, owns a large market share in the fragmented professional services industry, while a few large firms reap the biggest rewards. For example, the top 20 architectural firms, a small percentage of all sector firms (0.5%), accounted for 19% of sector operating revenues in 2005 (Statistics Canada, Dec. 2006). This number rises to 35% for the top engineering firms (Statistics Canada, Mar. 2007), but again represents a small percentage of that sector (0.1%).

The fact that small and mid-sized firms have a large overall revenue share would seem a positive indicator of success, but the largest firms continue to hold and attract the largest, highest-paying clients. The importance of economies of scale and the increased ability to pursue larger and more complex projects ought to lead us to expect an emerging trend toward consolidation among mid-sized firms. However, just one-in-ten of the architectural and engineering firms surveyed by Grant Thornton expect to be acquired by or merge with another firm in their industry in the next five years.

A little ahead of the consolidation curve are the larger firms in Canada's legal services sector, which also comprises many mid-sized law offices and numerous small and solo practices (Industry Canada, 2001). According to the Federation of Law Societies of Canada, the overall proportion of large law firms (employing 51 or more lawyers) remained steady at 0.5% from 2000 to 2005, but mergers and alliances among these firms have resulted in significant industry restructuring. As regional players join forces to offer national service platforms, more client and transactional conflicts are created. These conflicts in turn create opportunities for nimble small and mid-sized firms to expand their practices and client bases, servicing mid-cap clients that have fallen off the radar of new national players.

Figure 3. Annual firm revenues (based on percentage of respondents selecting each range)



⁴ In Statistics Canada parlance, "firm" describes business establishments in services industries, including solo practices.

“Expanding the geographic scope of operations is often **driven** by the need or desire to service clients as they expand their operations on a **global** basis. Often, such a move starts with the creation of a **strategic** alliance with another firm in a new geography or jurisdiction, which can form the basis for a future transaction.”

Andy Langer
Financial Advisory Services
Grant Thornton LLP, Toronto

While client conflicts present some opportunities to small and mid-sized competitors, all professional services firms recognize that certain advantages come with size: firms who have sufficient bench strength and financial muscle can meet the needs of national clients with the deepest pockets. And one advantage serves another: by being able to accept complex engagements that must be fulfilled via a team-based service model, firms can attract junior and mid-level associates seeking breadth and depth of experience and exposure to senior professionals. Size also means greater opportunities for cross-selling a combination of services to existing clients and building broad-based relationships with key client personnel. In Atlantic Canada, “the drive to specialize and to achieve the critical mass needed to become eligible for the country’s biggest deals may have largely fuelled the merger wave that has overtaken the region’s largest law firms over the past 18 months” (Marlin, Nov. 2006). It’s clear that, in the Canadian legal landscape, mergers and alliances can deliver a number of paths to sustainable growth.

In the current climate, it seems that growth, by either merger or alliance, can deliver more than new business—it can be, rather, a long-term strategy for building lasting business structures, both externally and internally. Despite this, just 36% of the law firms surveyed anticipate a change in ownership in the next five years; 6% of those respondents see acquisition by another law firm as the most likely change; and another 6% expect to merge with a firm in a related industry. Not one selected a merger with another law firm as the most likely scenario. This may be a strategic misfire. While there are no hard-and-fast rules for the industry, Patti Daum, Senior Manager, Financial Advisory Services, Grant Thornton LLP, Vancouver advises, “As larger Canadian firms expand their international reach, they acquire even greater expertise, as well as access to markets not readily available otherwise. This puts pressure on mid-sized firms to grow in order to remain competitive in a Canadian business environment with an increasing number of international players.”

Laying the pipeline: connect client needs to firm strengths and strategy

Immediate expansion, mergers and alliances may not be the answer for all of Canada's mid-sized professional services firms. While industry restructuring has led many to a strategic crossroads, the *2007 Grant Thornton Survey* suggests that few firms are ready to embrace growth for growth's sake. Respondents tend to be rooted in their communities; two-thirds of the firms surveyed have just one office location and a predominantly local client base. Even in cases where there is a will to grow, there may not be an obvious way for mid-sized firms to capitalize on the industrial shift from local to national markets. Given the rules and regulations that govern professional services across Canada and that there are sometimes "barriers to the movement and accreditation of service providers" (Scott, 2006), firms must make the most of the opportunities within their reach—and find ways to extend that reach.

Professional services is a domestically geared industry, with foreign markets accounting for less than 5% of the architectural service industry's total operating revenues in 2005 (Statistics Canada, Dec. 2006) and just 15% of revenues in engineering services (Statistics Canada, Mar. 2007). The *2007 Grant Thornton Survey* finds that for mid-sized law firms, 72% of revenues are derived from clients based in the same city and 16% from other cities in the same province. The numbers are 53% for clients in the same city and 24% from other cities in the same province for architectural and engineering firms.⁵ Considering the steady stream of new entrants and niche players into already crowded local markets, the risks associated with an over-reliance on a few key clients are clear. Savvy firms will critically assess their client base and take steps to ensure that they retain and grow with the right clients—those most in step with current and anticipated firm strengths, and those that can deliver access to new markets.

This level of foresight is crucial. To capitalize most effectively on their traditionally domestic focus, firms need to set course in a direction designed to achieve leadership in their chosen market(s). Mid-sized firms seem to be making those plans, with two-thirds of those surveyed forecasting a change in firm strategy in the next few years. Of those, comparable numbers expect to see increasing specialization as increasing diversification (42% vs. 40%). Many more architectural and engineering firms expect to diversify than law firms (49% vs. 31%), while the reverse is true when it comes to law firms and specialization (53% law vs. 32% architectural and engineering). This commitment to planned change and improvement is encouraging. Firms

Eighty-three percent of *2007 Grant Thornton Survey* respondents profess to have specific measures in place to ensure broadly based client/firm relationships, as opposed to a relationship focused on a specific individual in the firm.

"Whether you are a law, engineering, or architectural firm, you should first identify your target market and then take proactive steps to **differentiate** yourself as a leader in that market. If your firm is identified as a market **leader**, you will attract the highest calibre staff and the choicest clients."

Jonathan Krieger
Partner
Financial Advisory Services
Grant Thornton LLP, Toronto

⁵ These results are averages calculated from *2007 Grant Thornton Survey* data.

“Work with what you know.

Clients want you to know their industry and their business and **know them well.**

Building a team of specialized practitioners is the way to go.”

Norm Williams
Partner
Tax Services
Grant Thornton LLP, St. John's

that focus on new business models and strategies will be better positioned to offer a unique value proposition and to meet market challenges over the longer term.

Among firms anticipating a strategic shift, the most frequently mentioned catalyst for change is the growing complexity of client needs (44%). This is followed by availability of work (34%) (which may be limited by firm locale), and the firm's current roster of senior professionals and their particular skill sets (32%). Architectural and engineering firms show greater interest in bottom-line growth, with 31% citing higher profit margins in added services as a key driver of strategic change, compared to just 13% of law firms (22% overall). In all other respects, industry drivers were similar. (Table 1)

Future growth and the ability to remain competitive will rely on the abilities of professional services firm leaders to detect and respond to changes in local market conditions. Whether firms choose to broaden or deepen their footprint to sustain growth, their choices will certainly drive their recruitment and retention needs. Across the industry, expanding into new areas and acquiring the depth to serve niche markets will require new skills and strategies. It is becoming all the more important to attract and nurture professionals who can drive firm strategy, lead new market growth, and innovate ways to build and sustain client relationships.

Table 1. Firm strategy drivers (based on percentage of respondents anticipating increased specialization or diversification)

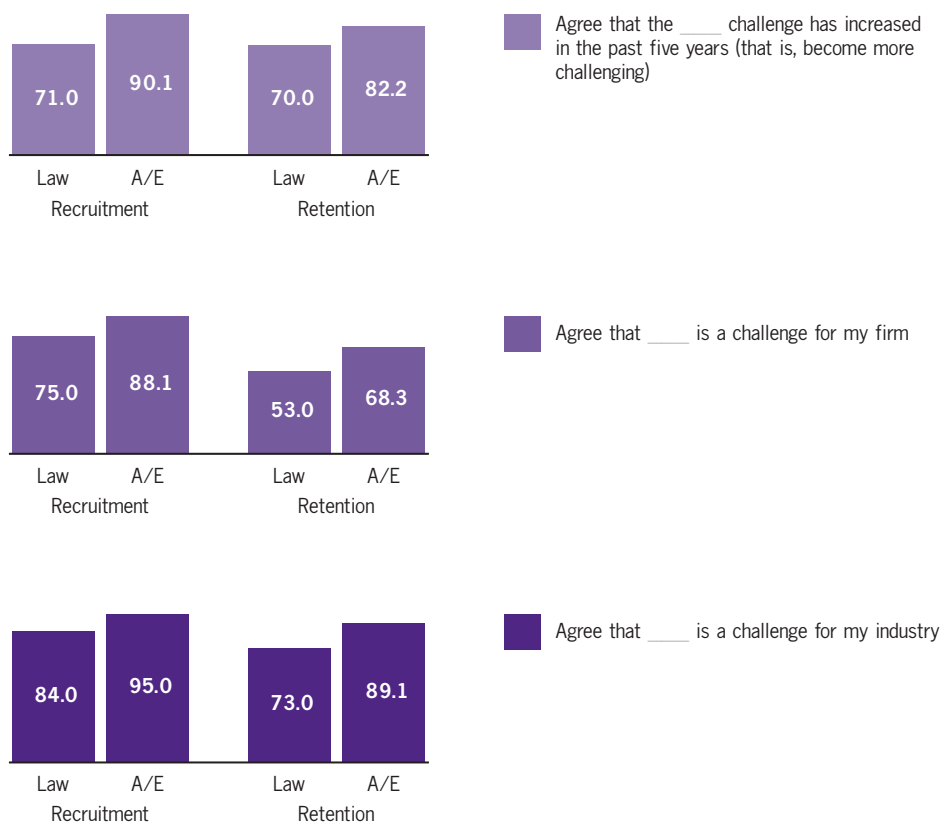
	Specialize (n = 80)	Diversify (n = 131)
Greater complexity of client needs	53.8	43.5
Availability of work	41.3	33.6
Current roster of senior professionals and their particular skill sets	30.0	31.3
Higher profit margins in added services	26.3	22.1
Clients outsourcing (legal/design/build) functions	21.3	14.5
Regulatory changes (e.g., conflict of interest)	11.3	8.4
Market position/demand/place	11.3	9.9
Client requests/demands	5.0	6.9

Building a team: find and keep high-performing professionals

Talk of a talent shortage is everywhere, and the rhetoric surrounding it is powerful, applying terms (the “war for talent”) that make the stakes clear. And awareness of this threat is high among stakeholders in the professional services industry. Respondents at 90% of the firms surveyed agree that recruitment is a challenge for their industry while 82% indicate that it is a challenge for their firm in particular. When it comes to retention, overall concern is not as high, but there is a perception that individual firms are better off than the industry at large: 81% agree that retention is a challenge for their industry, while just 61% perceive it as a challenge for their firm.

By any measure, the problems are pervasive and immediate. Recruitment and retention solutions must be found, and must be in step with the firm’s strategic priorities in order to have the desired effect of maintaining the workforce and retooling the firm’s engine for sustainable growth.

Figure 4. Extent of recruitment and retention challenges (based on percentage of respondents indicating agree ‘strongly’ or ‘somewhat’)



“In the past, people were seen as replaceable, and **retention** was not considered a serious issue. If you had a good job, you worked to hang on to it. And if you left, there was always another body to replace you. But now those factors that used to **motivate** people such as money and prestige are no longer as powerful. The younger generation doesn’t necessarily want the same things, and firms need to take a better look at how they are going to retain and **manage** people—or face the consequences.”

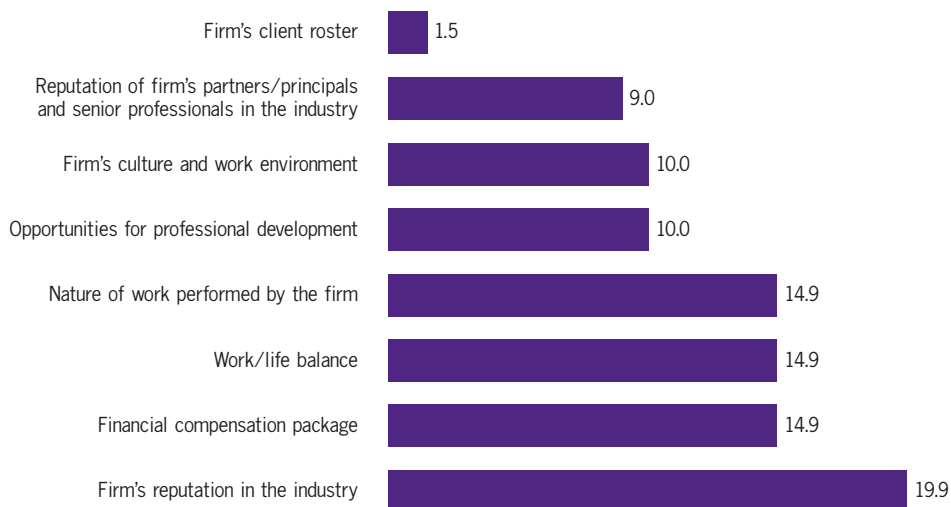
Cathy MacDonald
 Regional Human Resources Manager
 Atlantic Canada
 Grant Thornton LLP, Halifax

Half of law firm respondents (53%) agree that poaching of professional staff is a serious issue in their industry. This figure rises to 75% for architectural and engineering firms.

As a knowledge-based industry, professional services depends on the availability of highly qualified, high-contributing professionals. The talent shortage is constraining growth and client responsiveness at a critical moment in this maturing market. The billable hours approach to compensation, with its emphasis on individual work, links labour to the basic unit of firm profitability, while at the same time, new heights of client complexity and booming business volumes have given rise to significant challenges in recruiting and retaining professionals to bill those crucial hours. More sophisticated human resources tactics than simply increasing headcount are required. (Figure 5)

For most firms, the recruitment problem doesn't originate at the top, but in the middle of the organizational chart. "While partners with a book of business are always welcome, the most sought-after candidates are mid-level associates, those in the third to fifth year of their careers who do much of the heavy lifting for partners" (Middlemiss, 2006). Larger competitors are employing increasingly aggressive recruitment strategies to lure talent from mid-sized firms. For a number of reasons, it's often easiest to persuade mid-level professionals to make the jump.

Figure 5. Leading recruitment tactics (based on percentage of respondents selecting each item as the single factor most likely to contribute to the successful recruitment of a desirable candidate)



Once acquired, those professionals with the greatest potential to impact firm growth must be identified, nurtured and protected. This proves difficult across the board. Retention of mid- and entry-level professionals is described as a serious challenge by more respondents than any other segment (18% and 24% respectively). Senior-level professionals and partners/principals pose a lesser challenge (12% and 10%), with the lowest number of firms citing students/interns as a serious challenge (7%). The number of firms affected by these challenges is similar across sectors for all but the leading segment of mid-level professionals, where higher numbers of architectural and engineering firms face a serious challenge (26% of respondents compared to just 11% of law firms). One-in-five architectural and engineering firms indicate that retaining mid-level professionals poses no challenge at all. (Figure 6)

A multitude of tactics are employed by firms trying to hang on to talent. From the outset, it is crucial to build a strong employer brand from the unique advantages mid-sized firms can offer: more personal attention from partners and senior-level professionals; sufficient depth, breadth and variety of work; exposure to clients; and greater work-life flexibility. Among firms that acknowledge facing retention challenges, the percentages employing specific strategies are

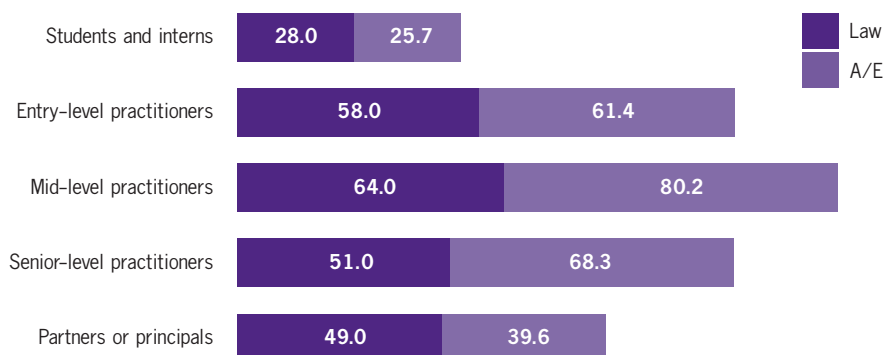
- 65% – non-salary financial incentives (such as bonuses or car allowances),
- 55% – higher-than-average salaries,
- 44% – deferred bonuses, and
- 40% – more frequent salary reviews.

What these firms fail to realize is that financial compensation is both the least effective loyalty builder and no longer the

motivating factor it once was, especially among next-generation professionals. Perhaps because their circumstances are more urgent, architectural and engineering firms generally have done and indicate they will do more than law firms to attract and keep qualified professionals. Tellingly, 79% of the former group have established incentives among senior staff for mentoring and leadership development of mid- and entry-level staff, compared to just 53% of law firms. However, the latter appear to have a slight edge when it comes to linking retention tactics to firm growth strategies: 61% of law firms offer training in sales, leadership and other “soft skills,” compared to 54% of their architectural and engineering counterparts.

For all mid-sized firms, the talent crunch is an accepted fact, and new and innovative recruitment and retention tactics are slowly being adopted. Turning a tactical checklist into a full-scale strategy that accounts for market demands, firm growth initiatives and the changing demands of young professionals is the next challenge.

Figure 6. Retention challenge by workforce segment (based on percentage of respondents selecting ‘serious challenge’ or ‘somewhat of a challenge’)



Inspecting the foundation: renew the partnership model

“Some law firms have developed a holistic approach, with an income-sharing process that focuses on leverage and **teamwork** as opposed to an ‘eat what you kill’ model. Instead of one person trying to serve all the client’s needs—so he/she can retain all the revenues—work is **shared** among the people best able to do the task. As a result, fees are shared as well. Firms that develop a broad base of firm/client relationships as opposed to a discrete series of partner/client relationships will be better positioned to **grow** with their clients.”

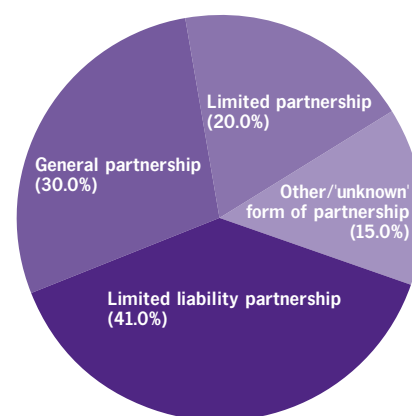
Dave Blom
Partner
Tax Services
Grant Thornton LLP, Calgary

Partnerships are often seen as synonymous with professional services. There is some truth to this. Half of the firms participating in the *2007 Grant Thornton Survey* are structured as partnerships: almost three-quarters (73%) of law firms are partnerships versus 33% of architectural and engineering firms. Of these partnerships, 41% are limited liability partnerships, followed by general partnerships (30%), and limited partnerships (20%). Collectively these are traditional institutions, their success and longevity speaking to the effectiveness of the partnership model. As this report has shown, however, things are changing—quickly. With firm loyalty both at a premium and on the wane, some of the time-honoured ways that have upheld the partnership paradigm may have to be adapted to the demands of modern institution building.

Partnerships have traditionally been built upon billable hours and, as survey responses reveal, this revenue-generation model is not likely to change in the near future; in fact, 54% of law firms expect an increase in hourly rate billing as a source of revenue. Typically, human resources and compensation strategies are optimized to quantify and reward individual effort over time—a risky proposition in a tight talent market. They endorse a “me-first” attitude and a sharp-elbowed, competitive culture that are ill-suited to the team-based approach required (and desired) to address growing client complexity and attract young talent whose values are changing. Partnerships looking to the future are taking steps to engender a “firm-first” attitude.

It’s clear that firms—and young professionals—understand the need to modify the partnership model. Half of the respondents surveyed by Grant Thornton agree with the statement, “I think the traditional partnership culture is becoming somewhat outmoded and unappealing for the current generation of professionals joining the ranks.” It becomes more complex from there: while partners, predictably, are more likely than non-partner respondents to espouse a personal preference for partnership over other business environments (67% vs. 48%), they are equally likely to assess the partnership model as outmoded and unappealing for the next generation of professionals.

Figure 7. Partnership structures (based on number of respondents selecting type of partnership)



Surprisingly, young professionals are more likely to reject the notion that the partnership model is outmoded (47% of respondents who are 24-44 years of age disagree with the statement vs. 34% of those 45 and up). This does not mean, however, that the next generation is not ready for change. While they aren't ready to give up on partnerships, they are pressing those traditional structures to adapt to their present-day needs, including such incentives as reduced wait times for advancement opportunities and other rewards.

Partnerships are under tremendous pressure to shorten career paths and offer early rewards that will attract and keep scarce mid- and entry-level professionals. They must restock this critical workforce segment—responsible for much of the firm's heavy lifting—and will need compensation strategies and retooled partnership agreements to accomplish this.

This burgeoning business model is not all upside, as flexible, flattened organizational structures provide fewer opportunities to test and train future firm leaders. While it's true that baby boomers are remaining in the workforce longer, affording some relief to firms struggling with a leadership gap, one-in-five mid-sized law firms and one-in-ten architectural and engineering firms expect to lose at least one partner/principal or senior-level professional to retirement in the coming year. It becomes clear that firms must not

only fill their needs at mid- and entry-level, they must find ways to ensure that the partner pipeline remains productive.

Faced with the now-familiar trend of the greying workforce, two-thirds of professional services firms agree strongly that succession planning for partners/principals plays a critical role in future success. A wide gap exists, however, between what they know is important and what they have actually implemented in their firms: just 31% of respondents agree strongly that their firm has all of the specific staff in place to meet the requirements of succession planning. "This figure reflects a lack of priority as well as changing demographics. Staffing is certainly an issue in terms of attracting and retaining leadership candidates. At the ownership level, it can get fairly complicated in terms of senior partners exiting and new partners coming on board. It's important to line up the financial side from a structuring perspective, and to ensure that retiring individuals are comfortable with their future prospects," explains Shelagh Rinald, Partner, Succession and Estate Planning National Leader, Grant Thornton LLP, Victoria.

Seven-in-ten professional services firms anticipating a change in ownership in the next five years suggest that change will be in the form of new partners to carry on the business. This is an encouraging sign that an institution whose culture has been largely rooted in

"The career **culture** of some firms is still, 'either you become a partner in a certain period of time, or you leave the firm.' With that mindset, you are going to lose some of your best, young **talent** who are not motivated by the prospect of becoming a partner."

Doug Moore
Partner
Professional Services National Leader
Grant Thornton LLP, Vancouver

tradition is now ready for change and renewal, and successful firms are preparing to do some rebuilding. Creating a business foundation that will remain solid for the foreseeable future means adopting a truly multi-pronged approach, one that addresses a range of industry concerns. From navigating the strategic ground between growth and niche-market dominance; to aligning the client base with long-term planning initiatives; to addressing the complex and evolving issues of recruitment and retention, mid-sized professional services firms must take action on multiple fronts. They must continue to incorporate flexibility and forward thinking into their business strategies, if they truly aspire to "build to last."

Grant Thornton solutions

Change, challenge and opportunity are constants in the current Canadian economic environment. Even as the issues confronting mid-sized Canadian professional services firms test traditional values and infrastructures, the solutions available to turn those challenges into opportunities are numerous. While the full range of solutions exceeds the scope and intent of this report, there are some fundamental approaches that organizations can identify and employ in order to enhance their firm-building processes and ensure that they are preparing for success.

The foundation of an organization comprises six core components:

- creating a vision that articulates the firm's aspirations, communicates its values and principles, and enables the development and execution of a strategic blueprint or business plan
- developing a succession plan structure that addresses the firm's current and future demographic requirements, ensures leadership renewal and aligns with different partner demographics
- integrating an enterprise risk management framework with risk management policies and procedures that mitigate exposure to unlimited liability
- leveraging finance and capital to support resource and systems infrastructure, and strategic growth
- implementing flexible practice management processes within a structured governance framework while ensuring an environment that provides the latitude to manage operations effectively and efficiently
- investing in practice development that is outward-focused and attuned to market, economic and environmental changes

"The time for building strong infrastructures and foundations is now," advises David Nicholson, Principal, Assurance and Business Advisory Services, Grant Thornton LLP, Halifax. Professional services firms need to lead by architecting both a strong vision and a supporting business plan, one that integrates robust management practices and enables a culture of change. Grant Thornton is prepared for tomorrow's changing economic landscape with the tools, resources and solutions to help firms achieve growth, profitability and sustainability well into the future—we can help you "build to last."



Are you prepared?

Vision and values

- Do you have a well articulated vision for the next three years that clearly defines your organization's aspirations?
- Is there a shared set of values and principles?
- Does your entire organization have a clear understanding of your direction, focus and targets?

Practice management

- Is your organization leveraging the collective knowledge of the team in an efficient and effective manner?
- Do you have well developed business processes supported by robust technology?
- Is there an enterprise-wide talent management strategy in place?

Practice development

- How are you monitoring market changes and trends?
- What processes are in place to proactively leverage opportunities and mitigate challenges? Have you identified strategic targets and markets?
- Do you have clear client-focused strategies in place?

Enterprise risk management

- Do you have an enterprise risk management framework in place?
- Are your practice risk management policies and procedures robust?
- Are you monitoring these procedures to ensure compliance?



Paul Avender
Senior Manager
Grant Thornton Consulting, Calgary

Financial and capital leverage

- Does your current capitalization model adequately address your financial requirements for achieving growth?
- Are you investing your capital in strategic areas?
- Are you getting the best return?

Succession planning

- Do you have plans in place for continual renewal of your partner group?
- What is your strategy to transition long-term client relationships within your organization?
- Are there clear career paths and effective leadership development programs in place?

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About the *2007 Grant Thornton Survey of Professional Services Firms*

Survey interviews were conducted by telephone in the spring of 2007. Stakeholders at 201 mid-sized professional services firms responded to questions on a range of topics relating to current market pressures, as well as tactics and strategies to cope with change and stimulate growth.

Of the organizations surveyed, 100 were law firms, 35 were architectural/design firms, and 66 were engineering/design firms. Respondents were based in Western Canada (BC→MB), Ontario and Atlantic Canada.

Respondents consisted of stakeholders with authority or first-hand knowledge of firm decision-making on strategic and operational issues such as staffing and growth. Respondents included a balanced mix of partners and non-partners.

For the purposes of this survey, the criteria for mid-sized firms varied according to industrial specialization, in accordance with information provided by Statistics Canada and the Federation of Law Societies of Canada:

- Law firms could have offices in up to four provinces (regional presence but no national players), and a minimum of 10 and maximum of 100 professionals on staff.
- Engineering/design firms could have offices in up to four provinces and a minimum of ten employees, including at least two engineers who are partners/principals.
- Architectural/design firms must have a minimum of five employees, including at least two architects who are partners/principals.

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