



ALIGNING THE STARS

JAY W. LORSCH ★ THOMAS J. TIERNEY

**ALIGNING
THE STARS**
**HOW TO SUCCEED WHEN
PROFESSIONALS DRIVE RESULTS**

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1 ★ Introduction

A Reader's Guide

EVERYONE knows the old adage, “those who can, do; those who can’t, teach.” But suppose a doer and a teacher got together around a shared passion. What would happen? We tried this experiment, and *Aligning the Stars* is the result.

Tom is a practitioner who brings a “what do we do Monday morning” perspective to the management and leadership of professional firms. Jay is a Harvard Business School professor who has been studying and writing about organizational behavior for almost forty years. We first met in the context of the one-week Executive Education program, Leadership in Professional Service Firms, which Jay teaches at HBS. One of the cases focused on the challenges that Bain & Company, the management-consulting firm, faced in the late 1980s. As

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Bain's chief executive, Tom spoke at the session devoted to the case. Afterward we continued to meet and talk. Soon we found ourselves engaged in a joint project designed to help us understand why some professional service firms (PSFs) succeeded through the ups and downs of business cycles, while others—seemingly similar—drifted and fell behind.

This book attempts to answer that question in a way that will be useful to professionals and their organizations. The lawyers who aggressively advocate their client's interests. The advertising agency executives who help build brands. The executive search firms who help place CEOs. The technology service providers and engineers who create and sustain information systems (and influence over 50 percent of capital expenditures in business today). The strategy consultants who help chart the future for their clients. The human resources experts who assist their clients with "change management" while managing the retirement programs for their clients' employees. The accountants who conduct audits and provide tax advice. The investment bankers who in 2000 facilitated a record \$1.7 trillion of M&A transactions. The specialists who advise on decisions ranging from public relations and product design to real estate and product distribution.

The book's title reveals our bottom line: Outstanding firms are consistently able to identify, attract, and retain star performers; to get stars committed to their firm's strategy; to manage stars across geographic distance, business lines, and generations; to govern and lead so that both the organization and its stars prosper and feel rewarded. These capabilities are what give great firms their competitive advantage. Together, they constitute the work of aligning the stars.

In the pages that follow, you will see what this requires and how it can be accomplished. For now, two definitions are in order. First is what we mean by stars.

As we use the term, *stars* are the men and women in critical jobs whose performance is crucial to their organization's success. In PSFs their ranks include younger professionals as well as seasoned executives; and their titles—such as managing director, vice president, and partner—are as various as their organizations. What stars have in common is not only a record of past accomplishments but also, and

more important, the potential to continue contributing to their firm's success. This means that they are also the individuals who have the highest future value to their organization. How much of this value is realized—or whether it is realized at all—ultimately depends on the degree of alignment between the stars and their organization.

Alignment means creating organizational practices and structures that simultaneously fit the strategic requirements of a business and the needs of its key employees. Academics and consultants have been familiar with the concept for decades, and field research (including ours) has demonstrated its contribution to organizational success many times over.¹ Moreover, it is intuitively appealing: It makes sense that the more the people in a company are motivated to perform in ways that achieve the company's goals, the greater the likelihood that the company will succeed. Yet despite alignment's familiarity and common-sense appeal, for many businesspeople the concept remains just that, a concept. However useful and important alignment may appear, it just isn't something managers talk about—let alone explicitly “do”—on Monday morning.

Yet great enduring firms *are* aligned. Their organization and strategy are mutually reinforcing; individuals work to advance the best interests of the firm. Aligned companies enjoy competitive success and financial strength; they become industry leaders. Although their managers may not discuss alignment, they do *think* alignment; the consequence of their cumulative decisions and behaviors is an aligned organization.

Alignment is much easier to conceptualize, and to describe after the fact, than it is to create. Achieving alignment involves understanding that your organization is a system in which every decision influences—and is influenced by—every other decision, and then making choices that will reinforce its strategy and values. Sometimes the connections are simple and straightforward. A decision about what criteria to use as the basis for your firm's compensation plan, for example, will clearly affect how the professionals divide their time between serving existing clients and developing new ones. In such instances it's easy to see why and how one decision relates to—and must be integrated with—another (in this case, the firm's strategy).

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Often, however, the relationships are not so transparent or immediate. For example, we know of one firm, worried about employee retention, that penalized its partners financially for professional turnover. Turnover dropped to near zero—but so did the quality of the firm’s work because mediocre performers were retained and even promoted. If alignment is to be created and maintained, unintended consequences like these also need to be considered and worked through. By and large, this is not a comfortable way for the human mind to work. Most of us prefer to think and discuss things in a linear fashion, and to link cause and effect one decision at a time. The fact that real-life decisions and choices usually present themselves not as pieces of an integrated whole but on a one-off basis only reinforces this preference.

Alignment is also hard to achieve because the environment in which organizations compete and serve customers is constantly changing. New services and competitive approaches can require changes in organization. Furthermore, alignment often requires people to make changes that will advance the organization’s well-being at their own expense. For these reasons, alignment is always a work in progress, with organizations slipping out of alignment as client needs, competitive activities, and leaders change, and as individual interests prevail.

Nevertheless, alignment is essential—and never more so than in times of business turbulence like those PSFs are now experiencing. Even for the best and most long-lived professional firms, success in the decades ahead will rest on whether the majority of their accomplished professionals perform at their full potential, in a manner that meets the needs of the firm.

Our Approach

The jumping-off point for *Aligning the Stars* was the research project we began in 1997, which focused on uncovering the strategic and organizational practices of successful PSFs. First, we defined *professional service firms* as those that provide professional assistance to the business community; that is, accounting firms, advertising agencies,

management consultants, executive search firms, investment banks, information technology consulting firms, and, most numerous of all, law firms. Next we addressed the question of how to define success. Financial performance was one criterion: to qualify for inclusion in the study, PSFs had to be profitable and growing. Reputation was another criterion: we wanted to choose firms that were respected by their peers as well as those outside their profession. Finally, we sought firms that had stood the test of time in two respects: they had weathered business cycles, demonstrating the ability to survive downturns as well as ride the waves of economic expansion; and they had evolved well beyond their founding generation.

On the basis of these criteria we identified eighteen U.S.-based firms that were widely considered to be among the leaders in their field. In three cases, Price Waterhouse, Alex Brown, and Goldman Sachs, their roots went back to the nineteenth century. Several more were founded well before the Second World War: Ernst & Young, Grey Advertising, Fulbright & Jaworski, Latham & Watkins, and McKinsey. Last but not least were the “newcomers”: Ogilvy & Mather, Young & Rubicam, Korn/Ferry, Heidrick & Struggles, Hambrecht & Quist, American Management Systems, IBM Consulting, Skadden Arps, Wachtell, Lipton, and Bain. (For a list of these firms by business, see the appendix at the end of this book.) In addition to reviewing publicly available data, we spoke with senior leaders at each of these firms to understand how they thought about its strategy, organization, and culture. Unless otherwise noted in the text, all quotations in the book come from these interviews.

Even as we studied these firms, however, the pace of change in the sector was accelerating. Since we began our work in 1997, almost every firm has changed, reflecting the dynamics of the marketplace. Consider just the three “old-timers.” Price Waterhouse merged with Coopers & Lybrand to become PricewaterhouseCoopers. Alex Brown was acquired by Bankers Trust, which was acquired in turn by Deutsche Banc. Goldman Sachs, which has helped so many other companies go public, decided to go public itself.

Adding to the turmoil were the dot-com start-ups. Their business models, organizational approaches, and stunning (though short-lived)

commercial success piqued our interest. Despite the subsequent decline in their economic fortunes, we knew that there would be lessons to learn from their experiences. So we delved into the wealth of public information and also interviewed executives from half-a-dozen of the more prominent pioneers: Cysive, Diamond Cluster, Digitas, Sapient, Scient, and Viant.

To achieve success you must understand failure. Ultimately, we broadened our research agenda to include firms (old and new) that seemed to have lost their bearings. What happened to Cambridge Technology Partners? Why did CSC Index disappear? Where did Mitchell Madison, U.S. Web, and, subsequently, March First all go wrong? Why has A.D. Little, the oldest consulting firm, had so many serious problems? In total we gathered public data on another fifty firms, including high-profile debacles such as Shearson-Lehman, Saatchi & Saatchi, and Gaston & Snow.

We cannot tell all the stories on these limited pages, but we strive to convey the lessons—the “So what?”—in a manner we hope you will find useful. Our goal is to be both conceptual and practical, to focus on the handful of levers that are critical in leading a prosperous professional service firm. There is enormous similarity across the various businesses encompassed within professional services. Your organization’s challenges are not as unique as you might believe. Law firms can learn from consulting firms. Ad agencies can learn from law firms. Information technology firms can learn from executive search firms, and so on. While the businesses are different, the business models are strikingly similar. They all rely on selling high-priced time and services on a sustainable basis, and that, in turn, depends on building client relationships and delivering client value—value that cannot easily be measured and often relies heavily on clients’ perceptions.

From Ideas to Practice

While many professional service firms (and the sector overall) have never been stronger, they also have never been more challenged. Traditional business boundaries are dissolving, ushering in new competitive threats. Questions about globalization, technology,

ownership, and scale abound. Some firms have grown so large and diversified, for instance, that they are adopting corporate-like approaches, which may not suit the inherent nature of their businesses. For better and worse, PSFs are entering uncharted territory, as chapter 2 makes clear.

Because people's behavior is influenced by myriad variables, many of which also influence one another, alignment is a systems challenge. It cannot be achieved by obsessing over any single dimension of the business. Nevertheless, the temptation to do so can be enormous. Think about all the time and attention many firms devote to strategic plans that are never implemented. Or the energy expended on creating performance review systems designed to motivate certain kinds of behavior that ultimately fall flat.

In PSFs, alignment is a consequence of two separate but interdependent phenomena: the choices the firm's leadership make over time on a handful of critical dimensions and the behaviors of the professionals who implement those choices day by day. Practically speaking, this means that four aspects of the firm are central to the work of creating alignment: strategy, organization (which includes people systems as well as structure and governance), culture, and leadership.

Effective strategy hinges on serving specific clients' needs better than your competitors. In PSFs, that means making coherent and fact-based decisions about your target clients and your value proposition to those clients *vis-à-vis* competition. This incorporates decisions about geographic strategy, pricing strategy, and business-line strategy, among others. These decisions cannot be divorced from one another, and they must not be based on wishful thinking or yesterday's reality. Strategy is discussed in chapter 3.

In the realm of organization, a handful of choices matter most. People systems—which encompass recruitment, deployment, performance management, and compensation—form the firm's human resource backbone. In chapter 4 we look at how outstanding firms design their people systems to meet the challenge of turning talented newcomers into stars. Then we turn to a more complex challenge: developing and motivating accomplished stars—the partner-level professionals who are the firm's managers and owners as well as its chief revenue producers. How the firm's people systems can influence these

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independent-minded professionals to act as leaders within the firm is the subject of chapter 5.

Two other facets of the organization—structure and governance—have a huge impact on whether a firm is aligned. The organization's *structure* clarifies who does what and who reports to whom. *Governance* refers to how decisions get made and who gets to make them. These organizational dimensions, which are deeply rooted in the principle of partnership, are the topic of chapter 6.

Culture is central to shaping behavior (and thus sustaining alignment) and to attracting and retaining stars. Contrary to popular belief, we believe that culture is not a given—that it both can and must be managed. Chapter 7 discusses how.

Finally, alignment cannot exist without effective leadership. In PSFs, every partner's day-to-day behavior matters because each of them can exert personal leadership, even if they do not all have formal management responsibilities. For this reason, the importance of personal leadership weaves throughout the book. Leadership, however, is also the exclusive topic of chapter 8, which focuses on those partners who assume formal leadership positions (such as CEOs) as well as office heads, practice leaders, and functional leaders. These people are ultimately accountable for aligning the stars, yet they usually lack the power and control associated with similar positions in a typical corporate setting. They hold some of the most important and challenging leadership positions in business today.

In chapter 9, our book turns to a more personal focus. Because PSFs depend on outstanding professionals, the personal needs, motivation, and careers of individuals (young and old) are of utmost importance. This is, indeed, the essence of a people business—and the people in these businesses are confronting more challenges and choices than ever before. This chapter is especially for you, our reader: Whether you are a partner-level executive or an aspiring young associate, a professional who is immersed in serving clients or one charged with significant management responsibilities, we think you will find it thought-provoking and personally relevant.

Albert Einstein is reported to have said, "Questions are more important than answers." We agree. No book can offer its readers

customized answers to all the particular decisions they and their organizations face. But good books can prompt their readers to *pursue* the *few* questions that really matter. Ultimately, success depends on saying *no* to pressing but inconsequential questions, while concentrating your energy on those few questions that will determine your firm's destiny and your own. We hope this book will help you and your colleagues ask—and answer—those critical questions.