What keeps the CEO awake at night?

Peer group trends for professional firm leaders
May 2012

This report contains confidential insights, collected from firm leaders, and then validated and summarised by MPF, working in conjunction with the UK Government's Professional and Business Services Group

Data originates from the quarterly CEO Priorities Monitor from July 2011 to April 2012

No list is published of participating firms

Introducing MPF

- The Managing Partners' Forum (www.mpfglobal.com) is management's trusty companion; an independent professional body that brings together and represents the management team at professional firms worldwide
- MPF specialises in collecting, validating and summarising highly confidential data from firms and clients so as to provide our members with difficult-to-obtain knowledge to help them take better informed business decisions
- MPF organises two quarterly Priorities Monitors. The CEO Monitor focuses on business trends; the C-Suite Monitor on collaboration across the management matrix. Participation is free.
- For further information, please contact MPF Executive Director, Paul Lemon, on 020 7786 9786 or email him at paul@pmint.co.uk

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Executive summary

- The good news from the latest CEO Priorities Monitor is that Q1 trading performance, investment and headcount growth were ahead of expectations, fee rates are rising, there is increased certainty that annual revenues will be higher than last year, and the big decline in CEO optimism seen in October has nearly reversed
- The less good news is that activity levels remain below normal and are still shrinking, there is little growth in competitiveness, and firm CEOs are not spending more time with client CEOs
- Differentiating the brand remains the CEO's top priority, and marketing - with its focus on client relationships and brand building - is still the C Suite role that is most expected to increase in priority/importance
- Management teams are expected to give the greatest priority to: client relationships (CMO); delivering the firm's strategy (COO); process improvement (CIO); motivation & reward (HRD); system & processes (CKO); and profitability (FD)
- A coherent plan for economic growth remains the top priority for government, with top tax rates and a reduction in regulation switching in priority

Method

- Indices are calculated from responses in respect of questions on: optimism; priorities; and movements in sales & profits, investments and headcounts since the last quarter and over the next quarter
- A score is applied to each response and an average score calculated
- Using this method, a score of '100' would indicate that all survey respondents were either much more optimistic about future prospects or anticipated increases of more than 10% in the item, while '0' would indicate that all survey respondents were either much less optimistic about future prospects or anticipated decreases of more than 10% in the item
- A score of 50' is the level that (roughly) denotes the difference between expansion and contraction, technically referred to as an inflection point
- A score around '60' augurs well for continued expansion, with scores below '40' indicating major contraction

Now for the findings ...

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The good news...

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Q1 trading performance is well ahead of expectations, with a continuation into Q2 ...

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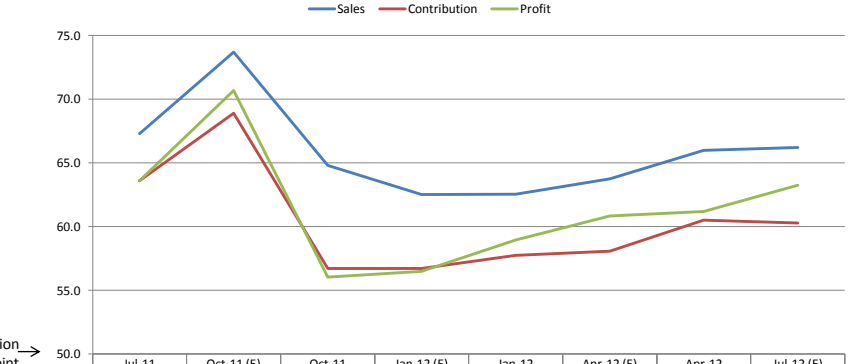

Inflection point →

	Jul-11 94 firms	Oct-11 (E) 94 firms	Oct-11 72 firms	Jan-12 (E) 72 firms	Jan-12 97 firms	Apr-12 (E) 97 firms	Apr-12 73 firms	Jul-12 (E) 73 firms
Sales	67.3	73.7	64.8	62.5	62.5	63.8	66.0	66.2
Contribution	63.6	68.9	56.7	56.7	57.7	58.1	60.5	60.3
Profit	63.6	70.7	56.0	56.5	58.9	60.8	61.2	63.3

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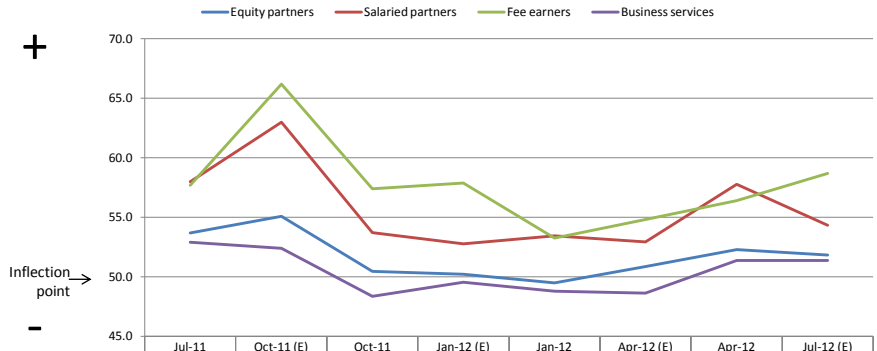
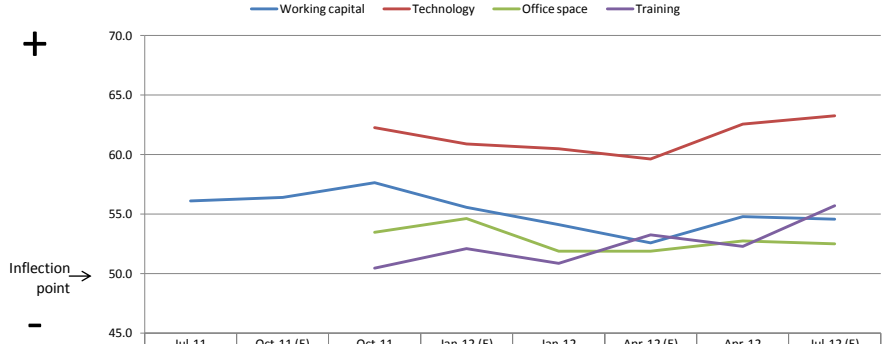
… Q1 headcount growth is showing a similar pattern …



	Jul-11 94 firms	Oct-11 (E) 94 firms	Oct-11 72 firms	Jan-12 (E) 72 firms	Jan-12 97 firms	Apr-12 (E) 97 firms	Apr-12 73 firms	Jul-12 (E) 73 firms
Equity partners	53.7	55.1	50.5	50.2	49.5	50.9	52.3	51.8
Salaried partners	58.0	63.0	53.7	52.8	53.4	52.9	57.8	54.3
Fee earners	57.7	66.2	57.4	57.9	53.3	54.8	56.4	58.7
Business services	52.9	52.4	48.4	49.5	48.8	48.6	51.4	51.4

… and investment is picking up, with technology and training as growth priorities



	Jul-11 94 firms	Oct-11 (E) 94 firms	Oct-11 72 firms	Jan-12 (E) 72 firms	Jan-12 97 firms	Apr-12 (E) 97 firms	Apr-12 73 firms	Jul-12 (E) 73 firms
Working capital	56.1	56.4	57.6	55.6	54.1	52.6	54.8	54.6
Technology			62.3	60.9	60.5	59.6	62.6	63.3
Office space			53.5	54.6	51.9	51.9	52.7	52.5
Training			50.5	52.1	50.9	53.3	52.3	55.7

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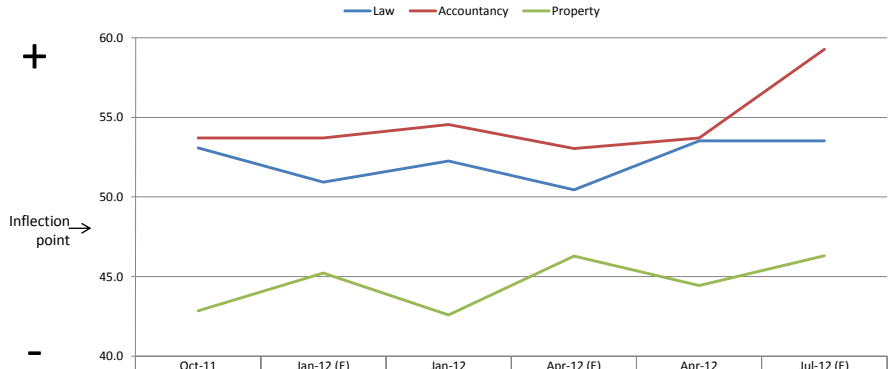
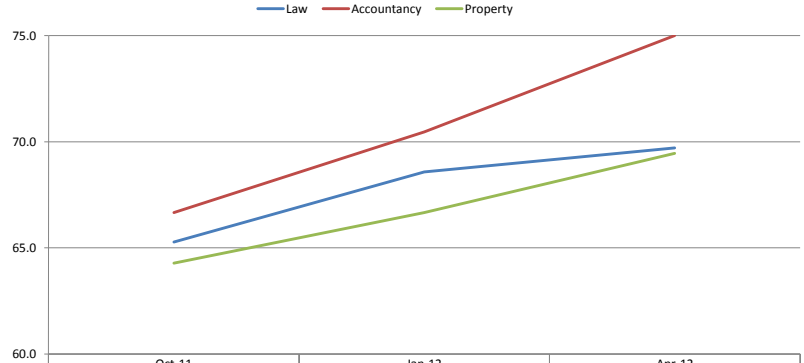
Q1 fee rates are ahead of expectations with further growth expected in Q2 …



	Oct-11 70 firms	Jan-12 (E) 70 firms	Jan-12 94 firms	Apr-12 (E) 94 firms	Apr-12 70 firms	Jul-12 (E) 70 firms
Law	53.1	50.9	52.3	50.5	53.5	53.5
Accountancy	53.7	53.7	54.6	53.0	53.7	59.3
Property	42.9	45.2	42.6	46.3	44.4	46.3

… resulting in increased certainty that annual revenues will be higher than last year



	Oct-11 70 firms	Jan-12 94 firms	Apr-12 70 firms
Law	65.3	68.6	69.7
Accountancy	66.7	70.5	75.0
Property	64.3	66.7	69.4

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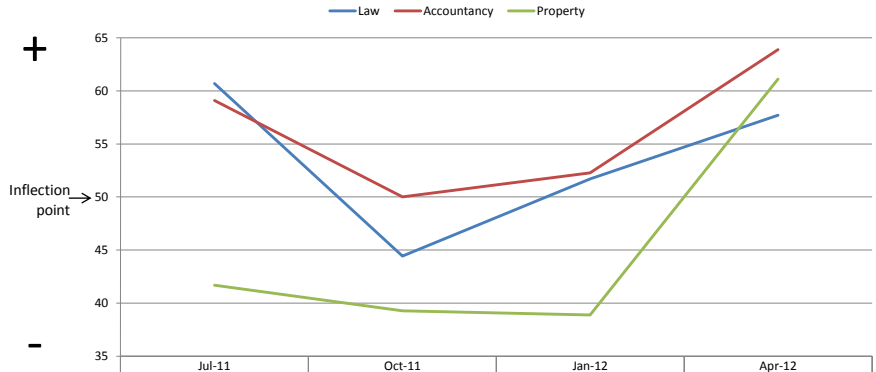
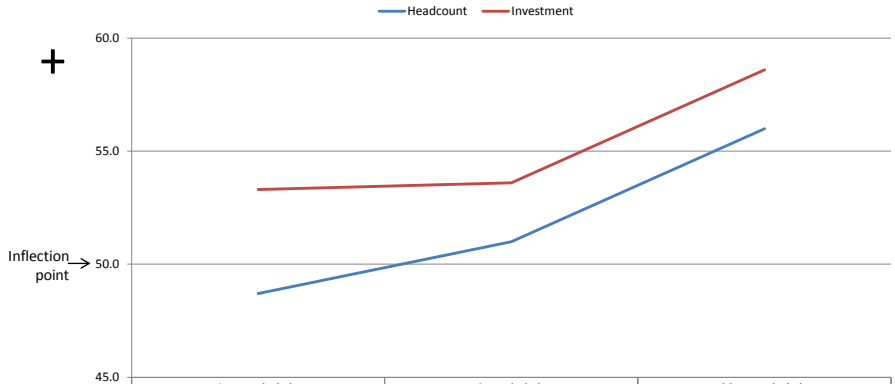
October's fall in optimism has nearly reversed.



	Jul-11 88 firms	Oct-11 70 firms	Jan-12 94 firms	Apr-12 70 firms
Law	60.7	44.4	51.7	57.7
Accountancy	59.1	50.0	52.3	63.9
Property	41.7	39.3	38.9	61.1

This matters as …

… high CEO optimism is a reliable indicator of growth …



	Less optimistic 27 firms	As optimistic 45 firms	More optimistic 25 firms
Headcount	48.7	51.0	56.0
Investment	53.3	53.6	58.6

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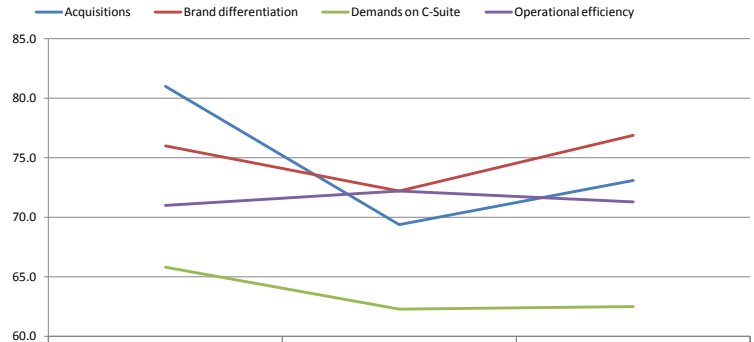
... as well as impacting corporate priorities and demands on the C-Suite



	Less optimistic 27 firms	As optimistic 45 firms	More optimistic 25 firms
Acquisitions	81.0	69.4	73.1
Brand differentiation	76.0	72.2	76.9
Demands on C-Suite	65.8	62.3	62.5
Operational efficiency	71.0	72.2	71.3

The less good news ...

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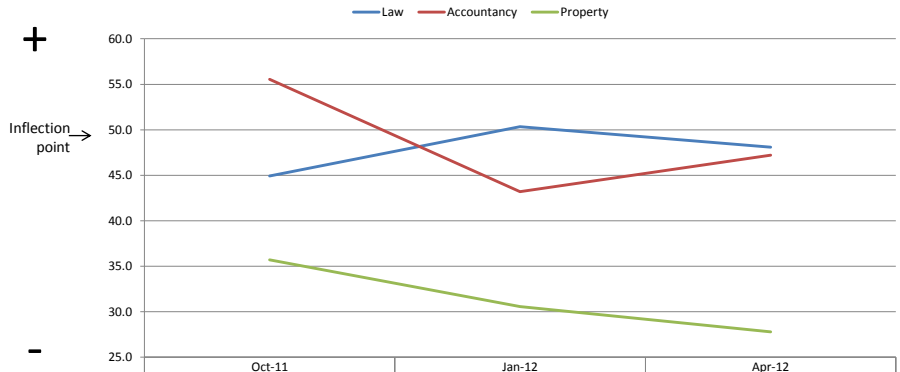
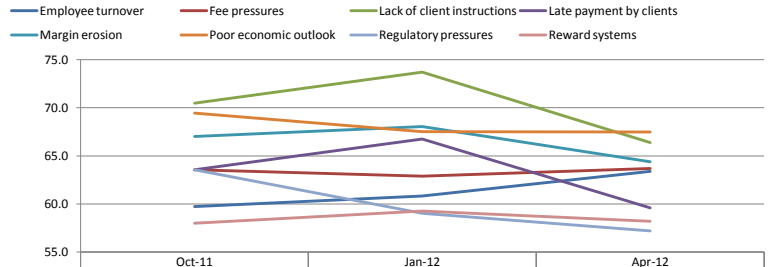
Activity levels remain below normal and are still shrinking, especially for property firms …



	Oct-11 70 firms	Jan-12 94 firms	Apr-12 70 firms
Law	44.9	50.3	48.1
Accountancy	55.6	43.2	47.2
Property	35.7	30.6	27.8

… with growth seen as being most vulnerable to the poor economic outlook and a lack of client instructions…



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Employee turnover	59.7	60.8	63.4
Fee pressures	63.5	62.9	63.7
Lack of client instructions	70.5	73.7	66.4
Late payment by clients	63.5	66.8	59.6
Margin erosion	67.0	68.0	64.4
Poor economic outlook	69.4	67.5	67.5
Regulatory pressures	63.5	59.0	57.2
Reward systems	58.0	59.3	58.2

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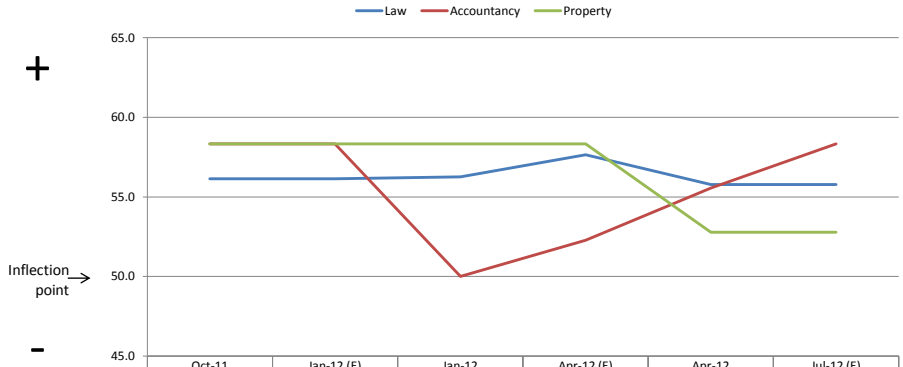
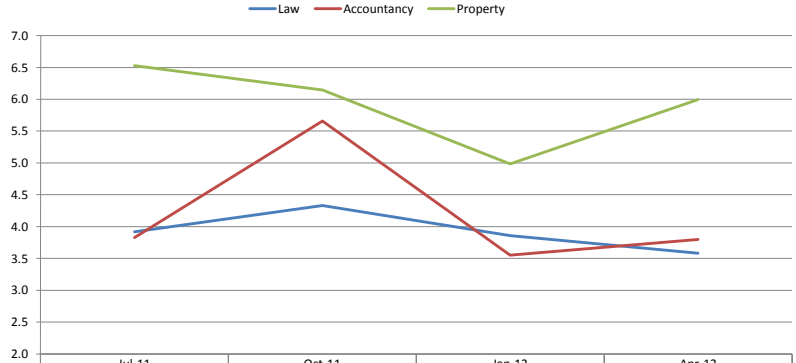
… and with little growth in competitiveness



	Oct-11 70 firms	Jan-12 (E) 70 firms	Jan-12 94 firms	Apr-12 (E) 94 firms	Apr-12 70 firms	Jul-12 (E) 70 firms
Law	56.1	56.1	56.3	57.6	55.8	55.8
Accountancy	58.3	58.3	50.0	52.3	55.6	58.3
Property	58.3	58.3	58.3	58.3	52.8	52.8

There is also little change in the average hours that firm leaders are spending weekly with client CEOs ...



	Jul-11 88 firms	Oct-11 70 firms	Jan-12 94 firms	Apr-12 70 firms
Law	3.9	4.3	3.9	3.6
Accountancy	3.8	5.7	3.6	3.8
Property	6.5	6.1	5.0	6.0

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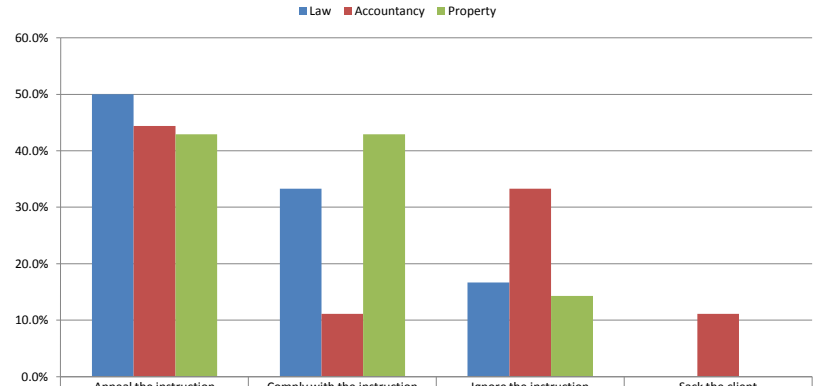
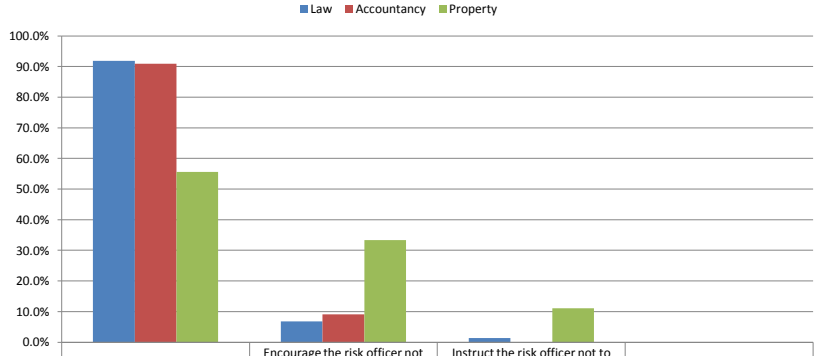
... with gatekeepers often a problem



	Appeal the instruction	Comply with the instruction	Ignore the instruction	Sack the client
Law	50.0%	33.3%	16.7%	0.0%
Accountancy	44.4%	11.1%	33.3%	11.1%
Property	42.9%	42.9%	14.3%	0.0%

Q. The procurement officer at one of your key accounts has instructed that the client CEO should not be approached without specific clearance from the procurement officer. What will you do in this situation?

... and regulators becoming more intrusive



	Support the risk officer	Encourage the risk officer not to report the matter to the regulator	Instruct the risk officer not to report the matter to the regulator	Sack the risk officer
Law	91.9%	6.8%	1.4%	0.0%
Accountancy	90.9%	9.1%	0.0%	0.0%
Property	55.6%	33.3%	11.1%	0.0%

Q The risk officer at your firm has determined that one of your leading rain makers is in breach of a regulatory requirement and should therefore be reported to the relevant regulator, even though both you and the rain maker consider it to be a technical breach with no significant client or financial consequences . Do you...

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C-Suite trends

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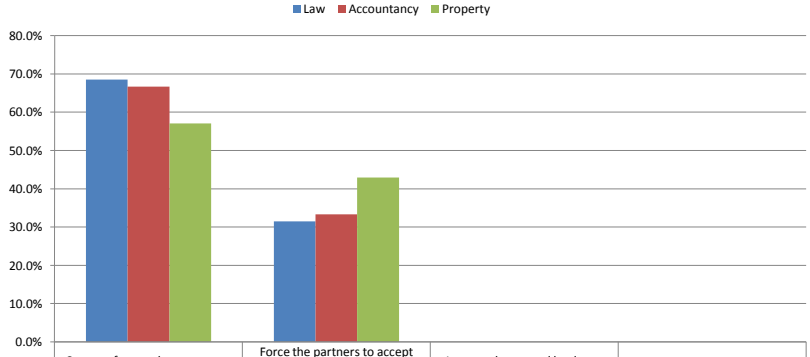
Managers are increasingly expected to act as leaders ...



	Create a fast track programme for natural leaders	Force the partners to accept that all firms need natural leaders	Instruct the natural leader to hide their feelings	Stop recruiting natural leaders
Law	68.5%	31.5%	0.0%	0.0%
Accountancy	66.7%	33.3%	0.0%	0.0%
Property	57.1%	42.9%	0.0%	0.0%

Q One of your junior fee earners is a natural leader who is visibly frustrated. Several partners are indicating privately that they are unlikely to recommend the junior fee earner for a promotion - with predictable results. Do you...

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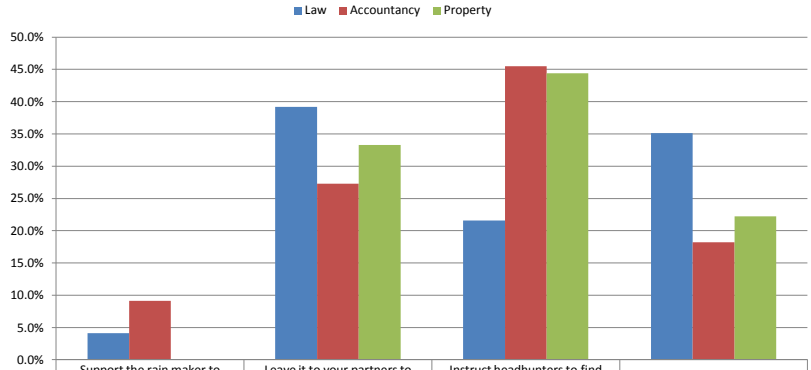
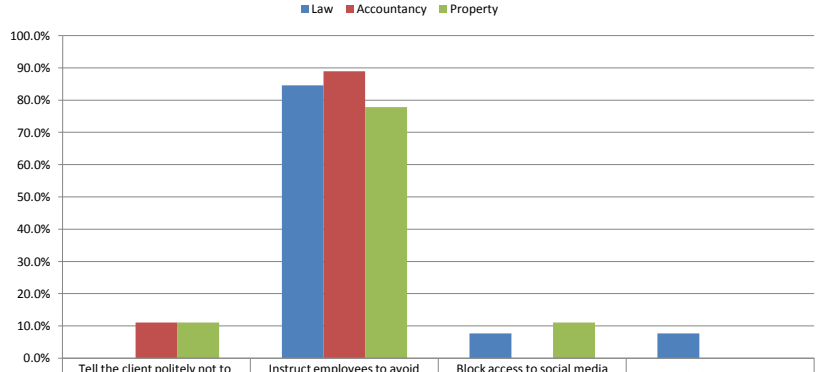
... but leadership is not for everyone ...



	Support the rain maker to become MP	Leave it to your partners to decide	Instruct headhunters to find another rain make	Agree to serve another term
Law	4.1%	39.2%	21.6%	35.1%
Accountancy	9.1%	27.3%	45.5%	18.2%
Property	0.0%	33.3%	44.4%	22.2%

Q Your term as MP is coming to an end and you intend to return to fee earning at your firm. One of the firm's most critical rain makers is determined to be your successor, even though there is general consensus amongst the partners that their management skills are totally inadequate. The rain maker has threatened to leave the firm if they are denied the chalice. Do you...

... and Canute definitely rules the waves when it comes to social media



	Tell the client politely not to make a storm in a teacup	Instruct employees to avoid such behaviour	Block access to social media sites during working hours	Sack the employee
Law	0.0%	84.6%	7.7%	7.7%
Accountancy	11.1%	88.9%	0.0%	0.0%
Property	11.1%	77.8%	11.1%	0.0%

Q One of your employees has been extremely negative about a venue that, unknown to them, is owned by one of your firm's key clients. The comment has gone viral. The original tweet was sent during normal office hours. Your firm does not have formal policies over employees' use of social media. The client has formally complained to the firm. Do you...

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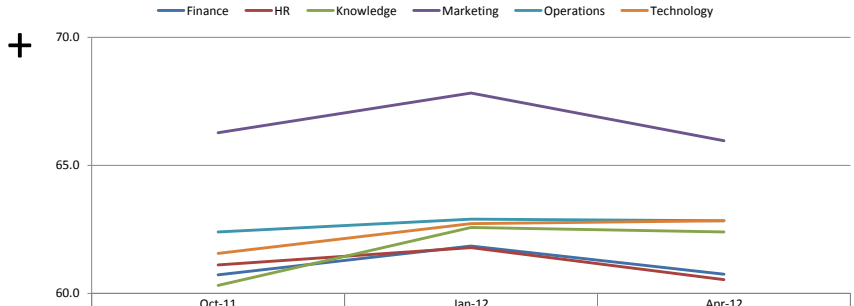
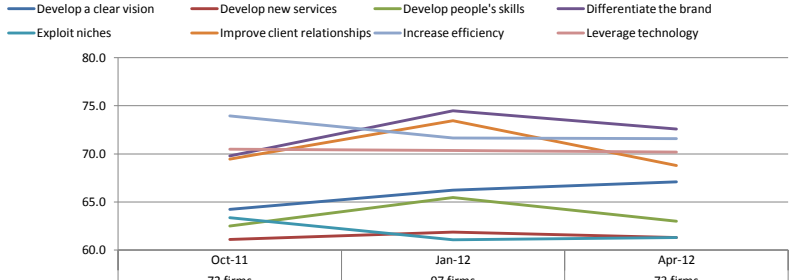
The C-Suite role that is increasing most in priority per CEOs is still marketing ...



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Finance	60.7	61.9	60.7
HR	61.1	61.8	60.5
Knowledge	60.3	62.6	62.4
Marketing	66.3	67.8	66.0
Operations	62.4	62.9	62.8
Technology	61.6	62.7	62.8

... with brand still the CEO's top priority



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Develop a clear vision	64.2	66.2	67.1
Develop new services	61.1	61.9	61.3
Develop people's skills	62.5	65.5	63.0
Differentiate the brand	69.8	74.5	72.6
Exploit niches	63.4	61.1	61.3
Improve client relationships	69.4	73.5	68.8
Increase efficiency	74.0	71.6	71.6
Leverage technology	70.5	70.4	70.2

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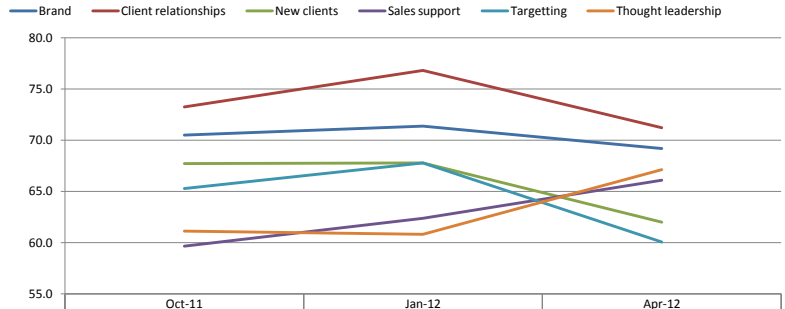
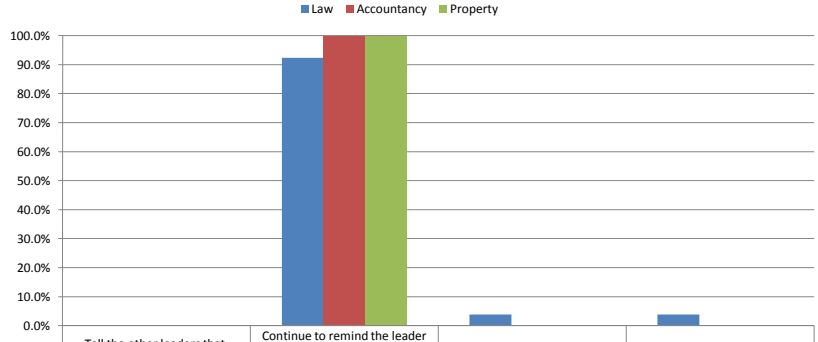
Client relationships are still seen as the CMO's top priority ...



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Brand	70.5	71.4	69.2
Client relationships	73.3	76.8	71.2
New clients	67.7	67.8	62.0
Sales support	59.6	62.4	66.1
Targetting	65.3	67.8	60.1
Thought leadership	61.1	60.8	67.1

... however, this is challenging when financially successful departmental silos are tolerated



	Tell the other leaders that financial performance is paramount	Continue to remind the leader in question that client sharing is critical for the overall growth of the firm	Move the leader in question to head another department	Encourage the leader in question to find a new firm
Law	0.0%	92.3%	3.8%	3.8%
Accountancy	0.0%	100.0%	0.0%	0.0%
Property	0.0%	100.0%	0.0%	0.0%

Q One of your departmental leaders is delivering sensational financial results but operating in a virtual silo from the rest of the firm. Other, less financially successful, leaders are complaining that the department in question is happy to receive opportunities, but reciprocity is almost non-existent. Employees in other departments are beginning to copy this silo behaviour. Do you...

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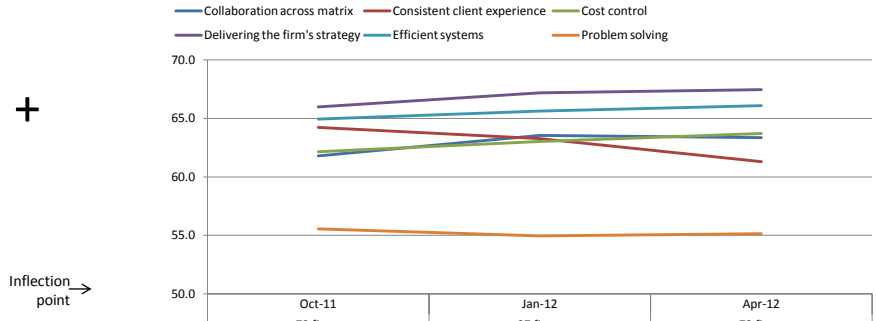
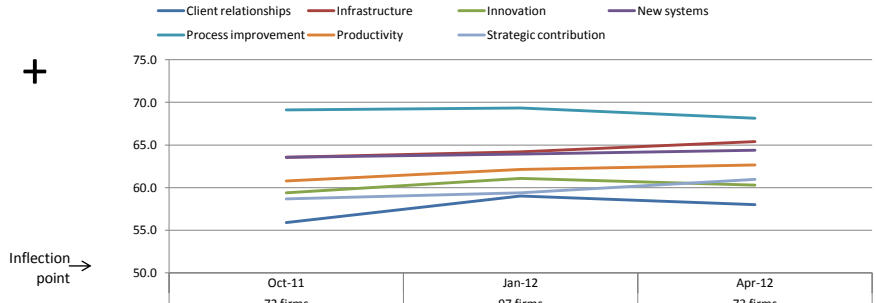
Delivering the firm's strategy is still seen as the COO's top priority



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Collaboration across matrix	61.8	63.5	63.4
Consistent client experience	64.2	63.3	61.3
Cost control	62.2	63.0	63.7
Delivering the firm's strategy	66.0	67.2	67.5
Efficient systems	64.9	65.6	66.1
Problem solving	55.6	54.9	55.1

Process improvement is still seen as the CIO's top priority



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Client relationships	55.9	59.0	58.0
Infrastructure	63.5	64.2	65.4
Innovation	59.4	61.1	60.3
New systems	63.5	63.9	64.4
Process improvement	69.1	69.3	68.2
Productivity	60.8	62.1	62.7
Strategic contribution	58.7	59.4	61.0

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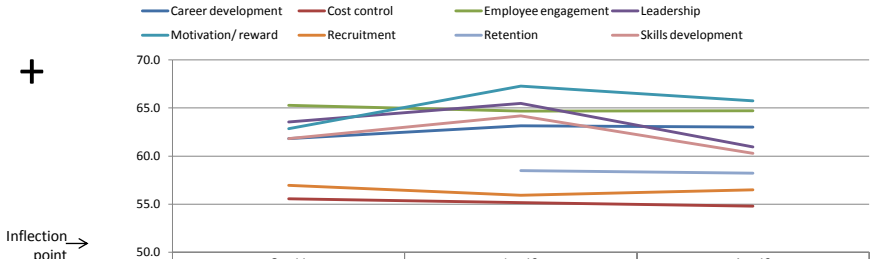
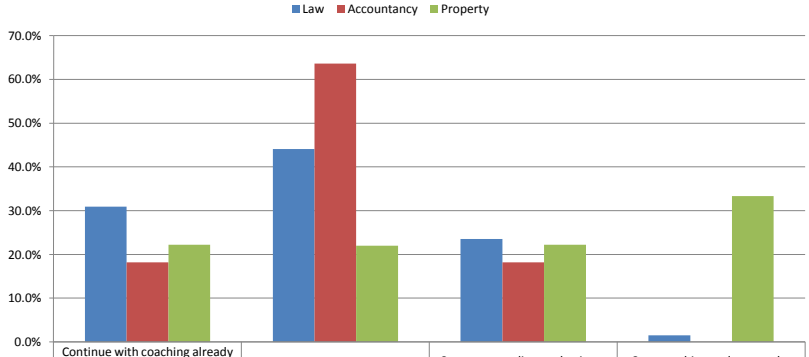
Motivation & reward is still seen as the HRD's top priority ...



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Career development	61.8	63.1	63.0
Cost control	55.6	55.2	54.8
Employee engagement	65.3	64.7	64.7
Leadership	63.5	65.5	61.0
Motivation/ reward	62.8	67.3	65.8
Recruitment	56.9	55.9	56.5
Retention		58.5	58.2
Skills development	61.8	64.2	60.3

... given people management often requires subtle interventions



	Continue with coaching already in progress for 18 months with little improvement	Show him/her the door	Create a new discrete business unit around him/her	Stop coaching and accept the situation
Law	30.9%	44.1%	23.5%	1.5%
Accountancy	18.2%	63.6%	18.2%	0.0%
Property	22.2%	22.0%	22.2%	33.3%

Q One of your firm/ organisation's key rainmakers is a difficult individual, negatively impacting almost all that work with him/her. Do you...

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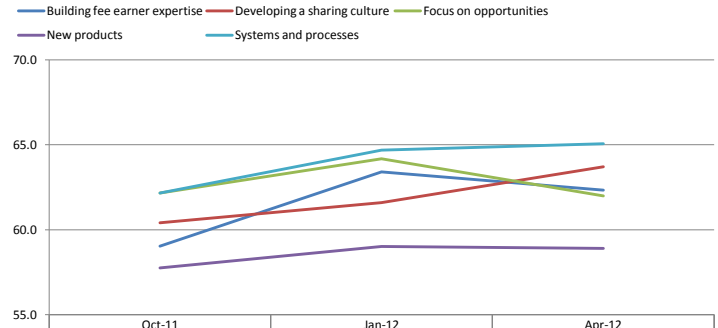
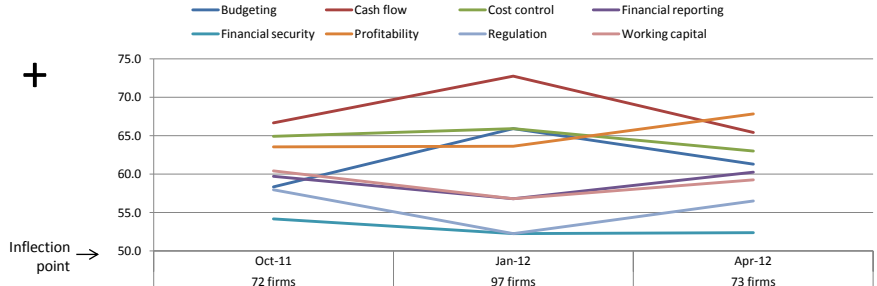
Systems and processes are still seen as the CKO's top priorities



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Building fee earner expertise	59.0	63.4	62.3
Developing a sharing culture	60.4	61.6	63.7
Focus on opportunities	62.2	64.2	62.0
New products	57.7	59.0	58.9
Systems and processes	62.2	64.7	65.1

Profitability is the FD's new top priority ...



	Oct-11 72 firms	Jan-12 97 firms	Apr-12 73 firms
Budgeting	58.3	65.9	61.3
Cash flow	66.7	72.7	65.4
Cost control	64.9	65.9	63.0
Financial reporting	59.7	56.8	60.3
Financial security	54.2	52.3	52.4
Profitability	63.5	63.6	67.8
Regulation	58.0	52.3	56.5
Working capital	60.4	56.8	59.2

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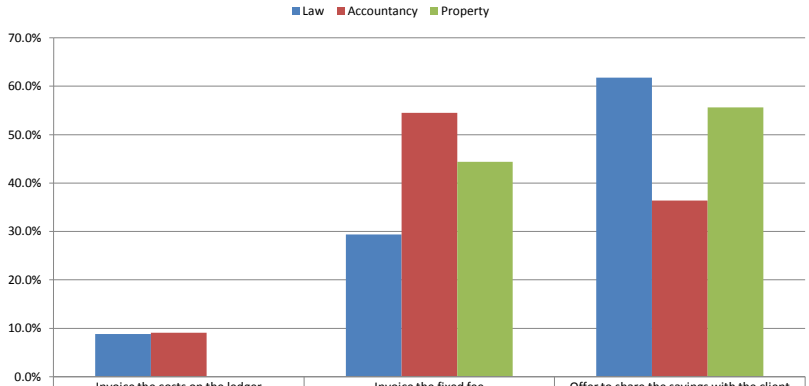
MPF
Managing Partners' Forum

... given pricing, a major contributor to profitability, involves both art and science



	Invoice the costs on the ledger	Invoice the fixed fee	Offer to share the savings with the client
Law	8.8%	29.4%	61.8%
Accountancy	9.1%	54.5%	36.4%
Property	0.0%	44.4%	55.6%

Q On a fixed fee project for a key client valued at £100k, your team formulated an innovative solution that required only £50k of time at full charge-out rates. What will you do in this situation?

Messages from firm leaders for government

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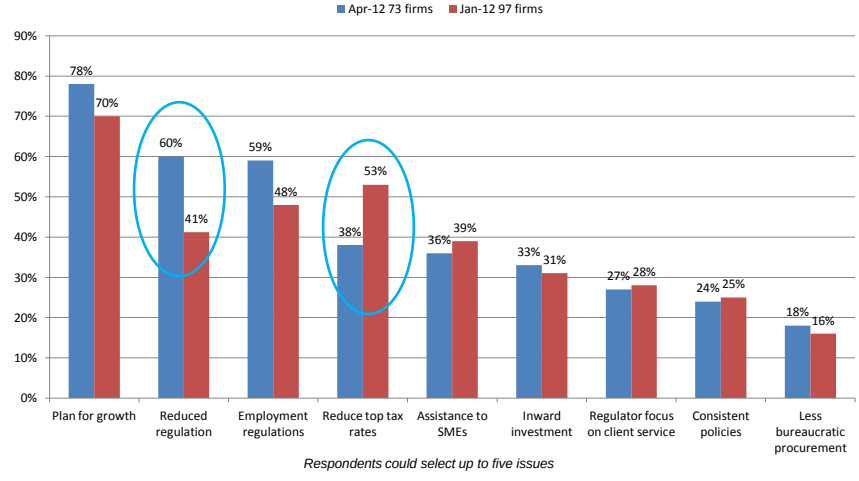
Introducing PBSG

- The Professional and Business Services Group (PBSG) is an independent group of some 20 sector leaders, chaired by Sir Michael Snyder – senior partner of accountants Kingston Smith and former leader of the City
- PBSG raises issues with government that are pertinent to the professions and business services and their competitiveness
- PBSG raises relevant issues and offers advice and input for Ministers and senior officials
- PBSG secretariat is provided by the Department of Business, Innovation and Skills and Sir Michael's office
- Mark Prisk, Minister of State for Business and Enterprise, is present at PBSG meetings, with Vince Cable and other Ministers in attendance depending on the topic
- For further information, please contact Sir Michael on 020 7566 4000 or email him at MSnyder@Kingstonsmith.co.uk

A coherent plan for growth remains the top priority for government, with tax rates and reduced regulation switching in priority ...



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Other issues raised by firm leaders

- "Put liquidity back into the banking system. Our clients can't or don't want to borrow, we can't borrow and as a result there is no growth and activity levels are shrinking. Whatever the headlines, the banks are just not lending in a way that businesses and people can afford."
- "There is a major problem with pension scheme deficits and drawdown as a result of Quantative Easing (QE)"
- "We need a coordinated plan with coherent implementation for accelerated UK infrastructure spending and public housing"
- "Move forward on the Dilnot report on funding care for the elderly"
- "Make entrepreneur relief available where shareholding in private limited companies is 2% or above (compared with current 5%+ threshold)"
- "The current laws regarding the deportation of UK citizens for trial in the US will be increasingly detrimental to UK/US trade - why would anyone now want to trade with the US?"

Our next CEO Priorities Monitor goes live in July 2012

If you are a firm leader and interested in participating at no cost, please contact MPF Founder, Richard Chaplin, at richard@pmint.co.uk

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