

# The People-Ready Business

## Whitepaper

### The Next Wave of Innovation in Professional Services

Insights from the New World of Work

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# The Next Wave of Innovation in Professional Services

## Insights from the New World of Work

### ABSTRACT

This white paper presents Microsoft® Corporation’s thinking on the critical issues facing professional services organizations in the coming 10 to 12 years, and how a technology strategy optimized around people can help firms succeed in light of the social, economic, and political changes associated with the New World of Work.

### OVERVIEW

Over the next 10 to 12 years, increasing global integration, technological innovation, and demographics will challenge professional services firms to rapidly adapt to changes in the market, changes to the workforce, and changes in the regulatory climate. Some of these challenges will require firms to adjust long-held practices or fundamental business strategies, such as the way they perform and assign value to client projects. Success will come to those companies with the foresight to recognize emerging patterns, the agility to act quickly, and the resilience to adapt.

This white paper examines the dynamics that will shape the world over the next decade through the lens of professional services organizations. It discusses some exciting technology innovations that have the potential to transform how firms will do business in the future. Changes in the models professional services firms use to operate and deliver value to their customers will be the result of new management practices, global social and economic developments, and the advent and adoption of new technology. Although technology is only a part of the total equation, a solid technology strategy can maximize a firm’s freedom of action by empowering people to do more in their roles and by empowering the business to make the changes necessary to adapt to challenges or to take advantage of new opportunities. Microsoft Corp. is committed to helping people and firms achieve their potential in this New World of Work with innovations that fit the way people work and support the objectives of the business.

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## Professional Services—Challenges and Objectives

Professional services organizations represent a diverse range of businesses, including accounting practices, architecture and engineering firms, business consultancies, IT service organizations, and law firms. Despite this diversity of specialization, these organizations have certain objectives in common. They derive value from the skills of their professional practitioners. They

need to manage limited resources to maximize revenue. And their long-term success depends on delivering a superior client experience. Today, Microsoft offers solutions centered on delivering value in these three key areas, which we designate as Service Delivery Management, Practice Performance Management, and Client Experience Management.

### Microsoft's Solution Areas for Professional Services

- **Service Delivery Management:** Enable professionals to collaborate effectively, deliver high-quality client service with greater efficiency, speed, and risk control, and drive business success.
- **Practice Performance Management:** Equip professionals with the business intelligence necessary to capitalize on the firm's human, intellectual, and client assets and to focus on strategies for sustained business growth.
- **Client Experience Management:** Empower professionals to use technology to help grow revenue, manage risk, and stand out in the marketplace.

Firms can optimize in any of these areas by improving processes and by increasing the knowledge and capabilities of people in their roles. Software can help by:

- Extending secure, pervasive access to people, information, and processes—the knowledge assets of the business.
- Automating or streamlining low-value tasks so that skilled professionals can apply their expertise.
- Simplifying complex processes so decision-makers can derive insights leading to action at the speed that clients require.
- Reducing the friction of collaboration among teams, between partners, or with customers.

Many solutions available today address these problems to a greater or lesser extent. As the future unfolds, innovations will further simplify the knowledge environment by providing a more contextual information and process experience that will allow a firm's employees to apply their talents in a more timely and informed manner. People will be able to work easily and securely anywhere, with a reduced need to master new technology and an increased ability to make sense of the data and content associated with their work. The increased ability to make better sense of content, in addition to more accessible user interfaces and contextual information—all provided in a secure environment—will prove critical as firms face a more complex, competitive, and data-driven world over the next 10 to 12 years.

## The New World of Work

In an effort to anticipate and develop solutions for the challenges our customers will face in the years ahead, Microsoft has been engaged in dialogs with customers, partners, and outside experts to identify trends and uncertainties that have the potential to shape the New World of Work. We have used this strategic insight to develop a comprehensive approach to the creation of long-range visions that take into account the uncertainties of the future. The following are some of trends we have found:

- According to a study by the Employment Policy Foundation, the number of available jobs in the United States could outnumber the number of available workers by 4.3 million as early as 2011, when the leading edge of the Baby Boom generation starts retiring. The study concludes that the gap would then widen to a staggering 35 million workers by 2031. That is *all* workers, not just the thin wedge of highly trained and educated workers who form the labor pool for professional services organizations.
- Last year, 55 percent of U.S. software companies with annual revenues of \$10 million or less sent some part of their development work overseas, according to a new survey by business strategy advisory firm Sand Hill Group.
- 12 million American's telecommute every day. Another 10 million telecommute one day a week, and 90 percent of organizations have some form of mobile or remote work.
- Advisory firm AMR Research recently reported that in 2005 alone, \$15.5 billion was spent on a wide range of compliance programs and predicted that \$80 billion will be spent over the next five years.

These indicators, and thousands of others like them, point to the dynamics that are shaping the world of the early 21st Century for organizations of all sizes in all industries. Even though the dynamics of the future are far from certain, our New World of Work research has identified four major themes that will be critical to any business, no matter the details of how the future unfolds. These four themes are:

- **One World of Business:** The impact of globalization; increased competition; global markets for products, services, and labor; the challenges around consolidation, scale, and decentralization facing organizations; and the tensions that threaten globalization.
- **Always on, Always Connected:** The effects of pervasive networks, mobility, and connectivity on people and organizations, in addition to the implications for the way we organize when employees can make a choice for where and when they work.
- **Transparent Organizations:** How organizations build trust, improve operations, and meet compliance requirements by balancing the demands of customers, governments, employees, markets, and partners for greater visibility with the concerns over security, privacy, and protection of intellectual property (IP), in addition to how organizations build trust by proactively sharing information with their customers, stakeholders, and constituencies.
- **Workforce Evolution:** How demographic trends such as the aging of the Baby Boomers, the rise of the Millennials, and the role of social, ethnic, and educational factors are creating a workforce of unprecedented diversity.

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We have used this strategic insight to develop long-range visions.

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Uncertainties around the availability of talent, the shape of organizations, and the accessibility of information dramatically raise the stakes.

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### Professional Services Organizations in the New World of Work

Professional services organizations are in business to create and dispense knowledge. More than many other industries, these firms are highly dependent on human expertise, collaboration, and the transfer and retention of information to create differentiated value and deliver outstanding client experiences. Uncertainties around the availability of talent, the shape of organizations, and the accessibility of information dramatically raise the stakes of the bets that professional services organizations are placing today on people and technology. This white paper discusses strategies that firms can adopt to cover the widest range of possible outcomes in each of the following four areas of focus:

- **One World of Professional Services**—The global market for services is a reality. Some firms have adapted by scaling up through mergers and acquisitions. Others leverage networks of local providers and global partnerships. In both cases, the goal is to preserve the differentiated value of the firm's services and expertise in the face of unprecedented competition and pricing pressure.
- **Intellectual Capital in a Connected World**—Intellectual capital is a bigger and more durable source of value than fee-based services. How can firms better stimulate the creation, reuse, and effective management of intellectual capital in an environment of pervasive connectivity while protecting their proprietary assets and sensitive account data?
- **Transparent Value**—Increased competition and changing expectations are challenging the venerable system of hourly billing—the core of the professional services business model.

Whether firms choose to stick with the rate card and timesheet or move to customized systems of value-based or project-based pricing, transparency is essential to meet rising expectations of clients, partners, and governments for visibility into the billing, management, and value creation processes.

- **Managing Talent in a Changing Workforce**—Experienced workers are set to retire and newer workers bring different values to the workplace. How does a people-dependent enterprise retain its advantages in a more dynamic and competitive labor environment? And how can organizations reconcile the different attitudes and expectations that people from diverse backgrounds bring to the workplace so as to maximize their investments in both people and systems?<sup>1</sup>

### The Role of Software

In all of these areas, people need the right tools to recognize opportunity and to adapt to rapid change. Microsoft's goal is to provide firms with a flexible, reusable platform that the business can use as the foundation for unique solutions that fit the specific requirements and strategies of their industry, their market, and their internal culture. Some of the technologies discussed in this white paper are only starting to emerge from the lab and may not be available in mainstream applications for many years. However, the thinking behind the technology—whether in-market or on the horizon—represents Microsoft's distinct commitment to creating tools for the way people really work. In all cases, the goal is to optimize the systems and software around people, rather than forcing people to conform to the constraints of a particular process or solution.

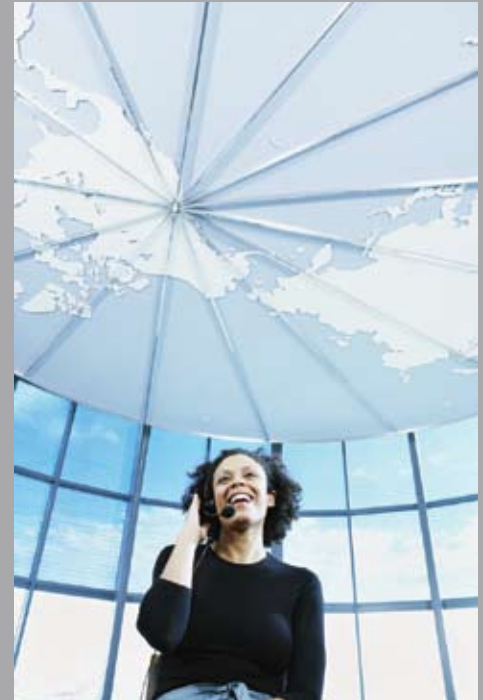
## Professional Services in 2017—A Vision

Jackie Valdez is a project manager for a global architecture firm specializing in hotel landscape design. At age 28, she has been with the firm since she graduated from school, attracted not just by the salary and the opportunity but by the firm's commitment to professional development and mentoring. For her first year, she was teamed with Maggie Foster, one of the firm's senior partners, who taught her the fundamentals of the business, helped establish her in relationships with important clients, and initiated her into the firm's culture before transitioning into semi-retirement the next year. Jackie not only feels personally vested in the firm's success, but she maintains contact with her mentor via her personal social networking site to keep her abreast of new developments and new technology. The site gives them both a strong sense of connection to one another and to their extended social and professional networks. It enables these colleagues to exchange information; communicate through text, voice, and video; collaborate in the same project workspace; and connect to project and workflow tasks anywhere, anytime, and on any device—with the same consistent experience.

The social network site is just one instance of the integrated information environment where Jackie does most of her work. The environment is customized to her role as project manager, automatically gathering the documents, meeting notes, workflow items, and contacts associated with each project into workspaces that reposition and reconfigure as she goes from task to task. Routine activities like project notifications, schedule updates, document version control, and in-box management all happen in the background, through automated software agents that have learned Jackie's workstyle and priorities. This helps her focus on the more creative challenges of her job, such as working with clients and designers, negotiating with suppliers for unique items, participating in her professional peer group community wiki and blog, and maintaining her extended network of connections by finding and connecting with colleagues who have common interests.

Jackie travels frequently to job sites around the world. Her firm's services are in high demand, because of the proprietary techniques it developed that combine GIS and satellite data, CAD designs, and algorithms that model plant growth patterns under different climate conditions to help clients visualize how their spaces will look in 5, 10, or 20 years' time. Jackie can share these interactive plans with clients freely. Rights management technology protects the confidential portions of the documents, so they can be distributed freely while only allowing authorized people to view the proprietary elements.

Although she spends plenty of time on the job, Jackie is measured and compensated on results rather than hours. Project management systems integrated with Client Experience Management technologies provide the firm's senior partners with a wide range of qualitative performance metrics on every professional in the firm. With real-time insight into the status of every project and relationship, the firm can manage its human and knowledge assets more effectively, build teams with the right balance of skills and temperament for particular assignments, reward top performers, and get underperforming associates the support they need to increase their value contributions.



This vision represents just one possibility for people and firms as we move toward a more connected future. The following sections of this white paper expand

on these themes and connect the business challenges to the emerging set of technologies that will empower people in the years to come.

## One World of Professional Services

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As global markets open, so too does potential competition for professional services.

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The solution to the cost crunch is a matter of value rather than price.

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For many professional services organizations and professionals operating in developed economies, the capital costs of doing business (education, infrastructure, well-managed client experience) are only recoverable through relatively high-margin pricing structures. In the past, the scarcity of expertise provided professional services organizations and professionals with pricing power in the market. Globalization is changing that equation.

The diffusion of knowledge and expertise from developed to emerging markets is one of the defining features of globalization. And as global markets open, so too does potential competition for professional services. Some areas, such as IT services, were early entrants, with customers enjoying the benefit of lower cost services. With established firms experiencing new competitive pressure, however, the result has often been mergers, acquisitions, or downsizing. Other companies are using outsourcing and offshoring as a way to drive down the price of non-core services such as transcription and records management, thus lowering the overall cost basis of service delivery. For example, global professional services firms Deloitte and Accenture are offshoring tasks like tax return preparation, technology development, and research to locations such as India. Genpact, the former GE subsidiary, also has carefully crafted a multilocation model. It provides GE and other clients with finance and accounting services from five countries: China, Hungary, India, Mexico, and Romania.<sup>ii</sup>

But there is a floor to the cost savings achievable by professional services

organizations that are heavily dependent on human talent—rather than raw materials or manufacturing processes—to generate value. Historically, despite the best efforts of management and the steady introduction of new practices and new technology, productivity in the professional services industry caps out at around 70 percent.<sup>iii</sup> That puts a ceiling on top-line growth, because increasing the volume of business beyond a certain point requires incurring additional costs and other intangible risks (morale problems as a result of heavy workloads or hard-to-manage clients at the margins).

For many professional services firms, the solution to the cost crunch is a matter of value rather than price. They recognize that outstanding service delivery and attention to maintaining and deepening client relationships are the best hedges against encroaching competition. Smart professional services organizations recognize that their clients' needs are evolving in response to economic, social, and technological dynamics, and they are expanding their practices into new geographies or new competencies to stay ahead of demand. For example, graphic design agency TimeZoneOne has client relationship managers in London and Chicago, but its creative team is based in New Zealand. The company claims that cost and time-zone differences allow them to deliver work "at twice the speed and half the cost."<sup>iv</sup>

Others are targeting specialized services or niche markets, establishing preeminence and deep expertise in a limited field even at the expense of pruning away peripheral opportunities. Still others are looking for

opportunities to expand through partnership or acquisition to increase visibility, broaden their expertise, and leverage economies of scale.

Pursuing these strategies requires that firms and professionals develop the skills and knowledge to:

- Address individual customer needs and specific local market conditions, creating high barriers to entry for outside firms that lack local reputations and relationships.
- Identify and capitalize on up-sell/cross-sell opportunities to maximize the value of existing relationships—a lower cost strategy than new client acquisition or replacement.
- Constantly reshape the portfolio of offerings based on personnel competencies, increasing knowledge, and evolving market conditions to remain relevant to evolving client concerns.
- Build rich networks of partners to increase coverage and reduce risk.
- Become a “trust broker” by facilitating global relationships for clients.

### Technology Supporting Global Client Relationships

New and emerging technology can support firms in their efforts to build and manage new value channels and differentiate from global competition.

- **Identify opportunities and anticipate client needs.** As professional services organizations gather more data about their clients, new software will enable them to build complex models that can help predict future needs, promising new points of engagement

and effective service-delivery strategies that are perfectly aligned to the client's business, culture, and objectives.

- **Enrich client relationships with collaborative project spaces.** Personalized channels of rich two-way communication with clients, such as customized portals and shared workspaces, can make relationships more collaborative and responsive while allowing firms to manage multiple points of touch in a global relationship. Secure client workspaces are accessible via the Web, and they integrate content and collaborative capabilities such as RSS feeds, sidebar gadgets, and digital dashboards to provide rich facilities for real-time productivity.
- **Increase visibility into client relationships across the entire firm.** Smart, context-aware (role/task-based) Client Experience Management technology that is accessible to everyone in the firm puts customer issues at the center of all business processes and enables people to identify opportunities or problems in an account more quickly.
- **Operate seamlessly across borders and languages.** Real-time translation and localization capabilities built in to the information work environment enable people and firms to do business across the barriers of language and geography without extensive investment in multilingual staff or services.
- **Simplify the creation of client-facing materials.** Proprietary documents and processes such as proposals and billing will contain links to dynamic content and systems to

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The value of a single good idea has the potential to greatly exceed the annual billings of a roomful of lawyers, accountants, or architects.

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enable rapid, automated construction of custom content for specific jobs and clients. When an associate puts a bid together for a particular job, the system brings together the firm's most current assets and process metrics, along with customer-specific information, into a single document and automatically creates footnotes, references, and contact information. This improves the speed and accuracy of client-facing processes.

- **Improve the flow of information within the firm for more agile response.** A single environment for collaboration, information management, and communication between client services, operations, management, marketing, and other disciplines within the firm can increase agility by keeping everyone on the same page and allowing people

to transition into new roles within the firm without having to learn specialized systems in each department.

- **Reduce the time and resources spent on systems integration between partners or merged/acquired firms.** Smart content management systems, cross-domain identity management, and self-configuring interoperability built in to platforms can streamline IT integration issues between merging or partnering organizations.
- **Leverage communities of practice and social networks for business value.** Smart social networking tools will allow people to visualize and filter connections to find people, communities, resources, and knowledge to solve problems, capitalize on opportunities, and increase personal and organizational capacity.

## Intellectual Capital in a Connected World

It is a simple equation: Professionals bill by the hour. Intellectual capital generates revenue while you sleep. The value of a single good idea has the potential to greatly exceed the annual billings of a roomful of lawyers, accountants, or architects.

Professional services organizations are great storehouses of knowledge and creative talent, but that talent usually is engaged in the brokering of specialized information or the delivery of project task-work on hourly rates. Developing proprietary intellectual capital—patentable ideas, proprietary methodologies or modes of analysis, a recognizable look or brand, or licensable technology—can provide firms with both revenue and competitive advantage.

Paul Dunn and Ron Baker discuss the applicability of the intellectual capital model to professional services organizations in their 2002 book titled *The Firm of the Future*:

When the discovery of new, valuable knowledge and technical know-how combine, you have the leverage necessary to generate new wealth for your [clients]... Specific knowledge may be scarce, but within your firm, there resides all sorts of specific, applicable knowledge. The goal is to leverage this knowledge and use it to create new knowledge that can be validated in the marketplace by your [clients]. In turn, this becomes

your firm's [Intellectual Capital], composed of human capital, structural capital, and social capital. This is the ultimate fulcrum for the future of the firm.<sup>v</sup>

However, the skills, practices, and culture necessary to create, recognize, and reuse innovative intellectual capital must be consciously cultivated within a firm. Some of this adaptation is cultural. Knowledge reuse practices (for example, documenting successful engagements in a knowledge base) take time away from billable project work. Issues of ownership and compensation become more complex when jobs require the creation of reusable knowledge rather than a simple application of expertise. Knowledge creation sometimes requires open collaboration with outsiders in ways that are unfamiliar to firms accustomed to relying on their own expertise.

In short, innovation is a discipline that requires professional services organizations to think more like manufacturers or research and development labs. It may be helpful to have established processes (design, development, testing, review, auditing, and compliance) around innovation, analogous to the product development workflows present in other industries. Current and emerging technologies can help professional services organizations that see value in the intellectual capital creation model make a graceful transition from project-based service providers to knowledge factories offering their unique blend of approaches to the market.

### Technology Supporting Innovation

- **One knowledge environment to support innovation.** As innovation becomes a strategic requirement for professional services firms, a single,

dynamic knowledge environment will consolidate capabilities such as search, task-specific collaboration, business intelligence, document and workflow management, project management, and unified communications into a single service-oriented architecture that can be represented to each worker through a custom workspace that is securely accessible over any network or on any device.

- **Smart content provides visibility and manageability.** Metadata tags attached to digital documents, records, e-mail, and physical objects (through RFID) will make the creation and use of knowledge more transparent throughout the organization, so people will have a better understanding of the value and utility of intellectual capital assets as they are created, reused, and refined.
- **Secure content with precision.** Next-generation information rights management (IRM) technology will provide secure and compliant access to content even if it resides outside of the firewall perimeter. New IRM tools will allow individuals or managers to protect specific content within a document (cells in a spreadsheet, words or lines of a memo, slides in a presentation) and limit access according to roles, policies, or specific permissions. Users without the appropriate rights would see the public content of the document but not the protected portions, allowing organizations to share and manage proprietary content on public networks without violating privacy or compromising trade secrets.

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## Transparent Value

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On days when the Seattle Mariners baseball team plays the Kansas City Royals, you could drive a double-wide trailer through entire sections of the stands and not inconvenience a single fan. On days when the New York Yankees are in town, the tickets are sold out weeks or months ahead of time. And yet, the club charges the same price for all tickets, regardless of the opponent. Although there is some value to consistent pricing, the team is clearly not using information very well to maximize its potential revenue or to fill seats in its stadium.

In fairness, baseball teams are constrained in their pricing policies by league rules and labor contracts. But professional services organizations have far less excuse. Everyone understands implicitly how the value of services varies—not just by the expertise and experience of the service provider but by market conditions, the urgency or complexity of the job at hand, or the amount of effort the professional needs to expend to achieve good results. Yet for many firms, an hour is an hour, even though the time it takes to do the job is often a poor measure of the value of the service to the client.

In an increasingly competitive global environment, processes that are not optimized around client value can put the firm at risk. Elsewhere in the economy, the delivery of goods and services is becoming more personalized, and pricing structures are becoming more transparent and flexible. Consumer Web sites like eBay have used technology to build entire

market ecosystems around the most responsive pricing structure of all—the auction. B2B sites have followed suit. Expectations are rising that providers of all sorts—including professional services organizations—will adopt information-based and value-based pricing models that accurately reflect supply and demand conditions rather than arbitrary rates and metrics.

For some firms, value-based pricing is a way out of the natural revenue limits of rates and hours imposed by the firm's capacity for hiring growth and the maximum output of even the hardest working professional. A recent survey by the American Bar Association found that lawyers on average spend three hours at work for every two hours billed. To bill 2,000 hours per year, the average lawyer will therefore need to spend 2,667 hours working. That is seven-and-a-half hours per day, including weekends and holidays.<sup>vi</sup>

Such levels of productivity may be even less sustainable today than they were in the past. As workforce demographics change, the cohort of Baby Boomers, whose “live to work” attitude defined the workplace culture for the past 30 years, is giving way to younger generations, who desire a stronger balance between work and life. In a recent article in *The Wall Street Journal*, Cesar Alvarez, president of the law firm Greenber Traurig, observed that “People in my generation [Baby Boomers] do not need to work 2,500 hours [a year] anymore, and at the same time, the new generation is concerned with its lifestyle. It is creating a downward trend at firms.”<sup>vii</sup>

The notion of billable hours has occupied the center of the professional services business model for so long that it can be difficult to picture life without it. How would professionals be compensated, if not by an hourly rate? How would the productivity of associates be evaluated, if not by how well they fill up their timesheets? How would jobs be sold to clients if the rates could not be estimated in advance, at a known cost? How would the firm as a whole measure its overall performance?

One place to start is by identifying activities that contribute to value creation independent of hours spent. Managing client relationships is one example. Professional knowledge firms derive anywhere from 80 percent to 95 percent of their revenue from existing customers, and it costs an average of 4 to 11 times more to acquire a customer than to retain one.<sup>viii</sup> Yet Frederick Reichheld, in his work with global consulting firm Bain & Company, estimates that fewer than 20 percent of corporate leaders rigorously track customer retention.<sup>ix</sup> In a recent survey by marketing, management, and strategy firm Bay Street Group, respondents rated “client service and attentiveness” as the most important criteria in selecting a CPA firm—ahead of “quality and accuracy of work” and “understanding of the client’s industry or business.”<sup>x</sup>

Because the value of this sort of work is qualitative rather than quantitative, it is less straightforward to measure using traditional techniques. The activities that produce great client service probably take longer on the clock than the ones that produce mediocre results—but then again, they may not. Outside of year-end bonuses, which necessarily look backward

at the previous year’s work rather than at the present moment, it can be difficult for firms to identify and reward service excellence in real time or make an example of good practices beyond simply working harder and longer. Hourly billing may even create disincentives for qualitative value creation—not just in service but in professional development and knowledge sharing, as discussed later in this paper.

Fortunately, technology innovations are beginning to shine light onto the anatomy of complex, qualitative processes. For example, observing patterns of e-mail, instant messaging, and other communications within a group can reveal hidden patterns of influence and productivity not reflected in the timesheet or the organizational chart. Statistics on the utilization of documents stored in a repository can tell more about the quality of work than a simple measure of the hours it took to produce the documents. Feedback surveys, fine-grained tracking of Web site and Intranet metrics, collaboration and document metadata, and strategic performance indicators can provide firms with the information and transparency they need to transition to alternative pricing models if they choose to do so.

#### Technology Supporting Transparent Value

- **Visualization tools provide insight into complex, dynamic processes.** Mashups enable people to create rich, customized views of dynamic processes by aggregating content from internal and external sources. This allows managers to visualize complex processes at a glance, to make better, faster decisions based on live data. Professional services managers will

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be able to create mashup views that overlay revenue opportunities and to project performance metrics and expertise with maps, location services, and presence data to find the right people in the right place to take advantage of opportunities in real time. Mashup data can also be incorporated into documents that update themselves when the underlying data sources change or into workflows that start or resume automatically when new conditions arise.

- **Qualitative measuring systems provide a better picture of firm performance.** Management tools can closely monitor small transactions within the firm (volumes of e-mail sent, numbers of documents associated with projects, time spent on relevant research, and so on) to give managers insight into the productivity of hard-to-measure processes like collaboration and teamwork, informal workflows, and information utilization. Assessed correctly, these metrics can provide deep information about real value creation without requiring workers

to explicitly report on their activities through timesheets and logs.

- **Real-time performance metrics optimize asset utilization.** Visualization of real-time market conditions and firm performance in key performance indicators (KPIs), dashboards, and other immediate, information-rich formats, provide firm managers with better tools for internal asset planning.
- **Better insights into market conditions enable better estimates on job costs.** Software that allows firms to model and simulate new pricing/value models against complex data sets can help professional services organizations identify the “right” bid to win jobs under different market conditions.
- **Systems provide clients with status data to build trust and demonstrate value.** Forums for specific and structured (workflow-based) collaboration with clients enable them to see and monitor the value-creation activities of the firm, giving them confidence that projects are proceeding as expected.

## Managing Talent in a Changing Workforce

The Baby Boom generation (born 1946–1963) produced the largest cohort of workers in American history. Not only were the raw numbers larger (over 90 million), but changes in public policy and social attitudes created opportunities for entire classes of people who had previously been excluded from the workforce. Investments in education and economic development following World War II

ensured that this large generation had the best access to the specialized training required for professional work. As a result, managerial and specialized professional jobs have grown rapidly, nearly doubling between 1983 and 2002, jumping from 23.6 million to 42.5 million. These challenging, high-paying positions have jumped from 23.4 percent of total employment to 31.1 percent.<sup>xi</sup>

But time marches on, and in 2011, the leading edge of the Baby Boom will start hitting the traditional retirement age of 65. These workers will either leave the workforce (though fewer than 1 in 10 Baby Boomers have sufficient resources to retire completely by age 65) or else continue to work into later life. No matter what, this will create cultural challenges for organizations, as they balance the expectations of older workers with the ambitions of younger people hoping for advancement.

This problem is especially acute for professional services. Older workers are often a repository of irreplaceable skills, experience, and relationship equity with high-value clients. There are also well-documented conflicts in style between Boomers and the so-called Generation X (born 1964–1980), who are now moving into their career prime and are potentially under consideration for management roles.<sup>xiii</sup> And then there are the Millennials (born 1981–2000), a cohort only slightly smaller than the Baby Boom, who are just starting to enter the workforce and bring with them a more collaborative, balanced, socially engaged, and tech-savvy approach to work and life.

Because the risks of knowledge loss and the costs of employee turnover can be especially high in organizations where expertise is the basis of value creation, professional services organizations urgently need effective ways to manage an intergenerationally diverse workplace. This means:

- Retaining the knowledge and relationship capital accrued by older workers, even if the workers themselves

choose to leave the organization. Businesses such as Intel and Monsanto, and organizations such as Your Encore and Seniors4Hire, have introduced programs that allow retirees to undertake part-time or advisory roles that enable the business to access invaluable knowledge and experience.<sup>xiii</sup>

- Inspiring loyalty and morale across the workforce, including the hope of professional development to younger workers. According to a recent study, a whopping 37 percent of associates at big law firms (those employing 500 or more lawyers) leave by the end of their third year of practice.<sup>xiv</sup> Numbers like that will become unsustainable as attrition at the older end of the workforce begins in earnest after 2011.
- Attracting the best talent from the up-and-coming generation. Bain & Company typically relies on executive visits, brochures, DVDs, and its Web site to recruit management students. This year, the global consulting firm deployed a new and unusual tool to attract students at the Indian Institute of Management: a podcast.<sup>xv</sup>
- Extending knowledge networks beyond the four walls of the firm to engage expertise anywhere, anytime around the world. For example, the accounting firm Plante and Moran, with offices in just four U.S. states, opened an office in Shanghai specifically to provide on-the-ground assistance to its clients doing business in China.<sup>xvi</sup>

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Professional services organizations urgently need effective ways to manage an intergenerationally diverse workplace.

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Thirty-seven percent of associates at big law firms leave by the end of their third year of practice.

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Knowledge management may not be the top item on the firm's IT agenda today. But should it suddenly become urgent, the business should have the tools to deploy an effective solution.

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Professional services organizations will explore their own methods for meeting these goals. Some will help professionals find a balance between work and life—the expressed desire of workers of all generations, but one that is especially important to those under 30, according to research. Some will seek to accommodate the professional workers' well-documented distaste for micro-management by moving away from the culture of the timesheet and the formal performance review. Some will adjust job roles or compensation schemes to carve out more space for professional development, reciprocal mentoring, and informal knowledge sharing. And some will stick to traditional practices of workforce retention and motivation so long as they continue to produce results.

It is important that technology investments support the business in whatever workforce management strategy it chooses to adopt and be flexible enough to adjust quickly if conditions or requirements change. Knowledge management may not be the top item on the firm's IT agenda today. But should it suddenly become urgent, the business should have the tools at its disposal to deploy an effective solution quickly and at low cost by reusing existing investments.

#### Technology Supporting the Workforce Evolution

- **Rich mobile access enables flexible work/life balance.** Mobile and distributed systems provide secure access to documents, systems, and personalized workspaces with the same quality of

service and consistent experience as working in the office. This means that high-value workers have more choice and flexibility in how they blend work and life commitments.

- **Human networks support business processes and information systems.** Context-aware social networks and expertise location amplify the value of human talent and bring it to bear quickly on business problems, using the relationships, tools, and workstyles familiar to younger workers.
- **Dynamic knowledge environment facilitates knowledge transfer and retention.** By providing easy access to documents, meetings, conversation threads, multimedia assets, processes, and experts in context, every work activity can seamlessly become an opportunity for teaching or learning.
- **Next-generation knowledge management works the way people work.** Support for multiple natural modes of knowledge capture (notes, voice/video, forms, blogs, communities of practice, searchable collaboration archives, real-time distributed and collocated environments) reduces the friction of traditional knowledge management solutions and makes it easier for people to contribute knowledge.
- **Smart information rights management keeps knowledge secure.** Accessible, transparent systems that respect intellectual property, compliance, and confidentiality policies enable broad-based collaboration with experts within and beyond the firm.

- **Feedback systems make knowledge visible to drive business decisions.** Systems capture and measure implicit value creation (through collaboration, innovation, participation in knowledge-sharing processes, and so on), so these can be value-weighted properly with other measures of output for better overall management.
- **Richer e-learning environments enhance employee education.** Using real-time communications, presence data, RSS feeds, podcasts, and collaborative content, e-learning environments supplement traditional interactive learning tools and provide a more engaging experience for new employees.

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In an environment of constant, rapid change, only empowered people can provide the flexibility and innovation that professional services firms need to adapt, compete, and win.

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## Microsoft: Committed to the Future of Professional Services

The next 10 years will pose unique challenges to professional services organizations. Competing effectively in a global marketplace, monetizing innovations in thinking and process, demonstrating greater value to clients, and managing a changing workforce will all require investment and adaptation.

Microsoft believes that people are the key to success in the New World of Work. Our approach is to develop technology that strengthens the capabilities and connections of people in their work roles and their lives, so that they can apply their unique insight and experience to solve problems effectively. In an environment of constant, rapid change, only empowered people can provide the flexibility and innovation that professional services firms need to adapt, compete, and win. Software amplifies the ability of people to more rapidly adapt to challenges, to take advantage of opportunities more quickly, to better understand customers based on insights derived from both data and communications, and to build

better partnerships, because they have the ability to collaborate more readily.

Microsoft is delivering on this vision through architecture and products that enable professional services organizations to deploy flexible solutions based on familiar, easy-to-use software and to connect to robust business applications and data. Our solutions offerings for professional firms focus on three critical areas of operation: Service Delivery Management, Practice Performance Management, and Client Experience Management.

Professional services organizations will benefit from these critical areas, because each will allow them to build more flexibility and visibility into the way their firms are managed simply by extending the investments they have already made. Often, end users themselves can create and modify processes without extensive IT participation, so that they can take a more active role in responding to business needs. Finally, Microsoft platforms and products enable developers and integrators with

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We support the efforts of professional services firms as they seek to succeed in a rapidly changing world.

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specialized knowledge of professional services industry requirements to build and maintain custom solutions quickly and cost effectively, without the kind of open-ended costs and requirements of proprietary systems.

Our commitment does not end with our technology offerings. The Microsoft Executive Briefing Center provides customers with the opportunity to engage in strategic dialogs on the future of their industries, from both a technology and a business perspective. Microsoft

participates in trade and industry associations to find better ways to measure and produce results in the knowledge economy, and we support the efforts of professional services firms as they seek to succeed in a rapidly changing world.

Working together with a global ecosystem of partners, developers, and IT professionals, Microsoft delivers the software applications and platforms that can help professional services organizations become people-ready businesses.

## The people ready business.

A people-ready business is one where people can apply their unique skills, insights and experience to create new products and services, work responsively with customers and partners, and drive operational excellence in every aspect of the business. People-Ready businesses support people with knowledge, practices and tools so that they can add the extra value that helps differentiate successful organizations in a competitive, fast-moving global economy.

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1007 Part No. 098-108768