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Professional-service firms

Home torts from abroad

At last, an international strategy that works

Like the drummers, messengers and concubines that accompanied ancient armies on the march, professional-service firms followed their industrial clients as they expanded around the world in the 1980s and 1990s. Wherever western multinationals went to set up or buy a new business, there too went their accountants, bankers, **consultants** and lawyers. From Moscow to Buenos Aires, the slick professional-service firms were ready at the drop of a flip chart to advise on what deals to do, how to finance them, how to compute their consequences and how to tie up all the messy loose ends.

It was heady stuff, and it led some of the firms to decide that they should follow their clients' example and go global as well. Ignoring the fact that it cost them far more to keep a man in Tashkent than it did in Paris, they nevertheless dispatched their ambassadors around the world and waited for them to attract the new business that would justify their cost. Most of them are still waiting.

The accounting firms, which were among the more aggressive globalisers, thought they could be drummer, messenger and concubine all at once. They took over consultancy businesses, finance companies and law firms, setting themselves up as global chains of one-stop shops. While

you're in for an audit why not buy a bit of litigation too? And by the way, today we have a special offer on process re-engineering.

This was a strategy which created enormous managerial problems, in addition to introducing a cascade of potential conflicts of interest among firms' proliferating regulatory and professional duties. For some, such as Arthur Andersen, these problems and conflicts have already ended in disaster. For others, such conflicts are still being unravelled, a process which is being hastened by legislation. America's Sarbanes-Oxley act bans accounting firms from carrying out certain consulting and legal services for their audit clients, and there are growing restrictions on the provision of tax services as well. KPMG has become the first big accounting firm to abandon the legal business altogether. It is unlikely to be the last.

The "do everything everywhere" strategy has also been flawed for professional-service firms because no matter how multinational their clients, those clients buy very few of their professional services centrally. Purchases are, by and large, the responsibility of local managers. And what they are looking for is not the biggest global brand name in their neighbourhood directory, nor the firm with the broadest range of services on offer. **They want the best service for each individual task, and the nature of professional services is such that "the best" invariably involves a combination of superior local knowledge and close customer-client relationships.**

Besides, the managers of multinationals' far-flung operations are less and less likely to be expatriates these days. Russian subsidiaries now tend to be run by Russians, who prefer to buy services from fellow nationals with detailed knowledge of local conditions and rules. When those ancient armies had fought their battles and finally won, they left behind locals to run their hard-earned

territories. The drummers, messengers and concubines returned home with the troops.

Yet there is a need for professional-service firms to be international, to a limited extent. Firms in the European Union increasingly need to take a transnational view of things. And someone has to co-ordinate the multinationals' local service-providers, be they auditors or patent lawyers.

A charmed existence

A small group of firms is showing how this should be done. The so-called "Charmed Circle" of blue-chip New York law firms has an enviable record of profitability combined with modest international expansion (see pages 79-82). None of them has more than a quarter of its partners outside the United States. The two biggest law firms in the world, Baker & McKenzie and Clifford Chance, have made the most effort to be international. And yet they also come way down the profitability league. Clifford Chance, which merged four years ago with a German and an American firm, has found it particularly difficult to combine traditionally autonomous units in a way that makes the whole greater than the sum of its parts.

By contrast, most of the firms in the Charmed Circle have chosen to join an informal network of top-rank firms around the world whose aim is to provide its members with horses for particular legal courses, wherever they may be. The network's firms exchange lawyers and run joint training programmes. Things get done among such groups of individuals more by face-to-face persuasion than by the sort of top-down ripples of command used by their clients. Until someone proves there is a better approach, this seems the way forward for most other professional-service firms as well. ■

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