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Managing Professional Services Firms: Individual Coursework

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The “Cravath” model, it’s application and its future.

Introduction

I found the entire course very interesting and thought provoking. However, rather than focus on a number of points or reflect on the whole course, I have chosen to comment and expand upon just one area so as to develop a much deeper insight.

I found the “Up or Out” or “Cravath” model, pioneered over a century ago by Paul Cravath, particularly intriguing. The model is very unique to Professional Services Firms (PSF). I certainly had not come across it before in my professional life in the Information Technology (I.T.) and telecoms sector.

My paper focuses on; talent in the Cravath model, application of the Cravath model to the I.T. industry, and the future of the model.

Talent in the Cravath Model

In the IT industry, specifically in software development, I’ve noticed that the most talented software developers tend to not remain at one place for too long. The least talented people, on the other hand, entrench themselves deep within the organisation, often building performing poorly, all the while ensuring their own job security and “messing up” just enough times not to get fired.

So, speaking of talent, I have been pondering the question, “how well does the Cravath model work in developing and maintaining top talent?” I suppose that it depends on what one means by “talent”. I haven’t read Cravath’s book, so I don’t know what he originally proposed. However, in modern PSF’s, specifically law firms and large consulting firms, “talent” is mostly defined as “winning the business of clients with lots of money” and “maximising the billable hours of your staff”.

Modern “up or out” firms typically have four to six basic job titles, sometimes with subdivisions. For example, at PriceWaterhouseCoopers (PwC), there are Partners, Directors, Senior Managers, Managers, Senior Associates, and Associates. The ideal assignments usually follow the “pyramid model”, for example, a Partner, one or two Directors, two to four Managers, and four to eight Associates. The numbers would be scaled up for larger assignments. In this kind of PSF, everyone below Partner level is typically on a fixed salary, but has a billable rate for clients which is roughly a multiple of their salary. For example, in such a firm an associate might be paid £50,000/year but might be billed out to clients at £100/hour (equivalent of £200,000/year, assuming 2000 hours/year in billable time).

The ideal scenario with this type of firm is to get an assignment with l*everage* — that is, one in which you could apply the pyramid model, staffing it primarily with

Managers and Associates. It is also ideal to have an assignment that would allow high *utilisation* — that is, it would keep those Associates (and hopefully the Managers) billing 30+ hours/week (80% utilisation) throughout the course of the engagement.

The “Up or Out” process itself can be quite brutal as a close friend of mine who worked as an accountant for PwC found out. After graduating from university, he attained Chartered Accountant (ACA) status whilst training with PwC before being “asked to leave”. Here’s a simplified example, again typical of such firms. Once a year, each level would do stack rankings on a fixed curve of all those on the level beneath them. So, for example, the Managers would have to *stack-rank* all the Associates — if you had 15 Associates, you would have to rate them from 1 through to 15. Then you would have to apply a fixed curve — say, 10% A, 20% B, 40% C, 20% D, and 10% F. That would mean that of those 15 Associates, only Numbers 1 & 2 could be A-rated, numbers 3-6 would be B-rated, and so on, regardless of how much or little separated them. Those not making the minimum grade (whatever that was) would be invited to leave. Even those who were above the cut but who did not score high enough for a certain number of years running would be informed that there was no promotion to Manager in their future and that they should start looking elsewhere. The Directors would repeat the same process for the Managers, and the Partners for the Directors.

Applying the Cravath model to the I.T industry

If we now consider applying the Cravath model to an in-house telecom I.T. department, there are two immediate questions that need answering. First, what do we define as “Up”? Many of the world’s largest companies don’t have a career track for IT engineers above “senior programmer”, except for perhaps a small number of “technical architect” posts and a Chief Technical Officer (CTO) position. The usual “promotion” is to move onto a management track, which a lot of IT engineers don’t really want and aren’t necessarily very good at. This is, I believe, one of the factors behind the Dead Sea effect — the talented IT engineers see a minimal number of choices ahead within the organisation that let them keep doing what they do best, so they leave; the less talented/skilled IT engineers, on the other hand, are content to remain in their current positions and not advance at all.

One possible solution to this problem is to implement a technical track that omits management. It is a lot cheaper to keep your best people on a salary than to hire them or their equivalents back as consultants at up to 6 times their original salary. One possible career route may include the following job titles. Junior/associate Engineer, Engineer, Senior Engineer, Technical Officer, Senior Technical Officer, Executive Technical Officer, Chief Technical Officer (only one of these). The ranks from Technical Officer and up would have salaries, perks, and benefits equivalent to progressing through management (VP, Senior VP, Executive VP), but without actual management/head count responsibilities. Architects, mentors, and project overseers would be drawn from these ranks. I believe that this upper-level technical track would save most organisations a lot of money in terms of failed or late I.T. projects due to staff attrition.

The second question is, how do we evaluate the IT engineers? This is a difficult question to answer since, whatever criteria is selected, that criteria will then become *the* key factors that the IT engineers will “play” to. Suppose, for an example, that you judge IT engineers on the basis of the on-time completion of subprojects and their accurate schedule prediction. You will suddenly have a group of conservative IT engineers who maximise schedule estimates and minimise completion criteria in order to ensure that they have a great track record. The problem is that you risk ending up with very long, drawn-out projects.

As for the ‘how’ question, I think that a group evaluation from two levels up might work the best; that is, have all the Senior Engineers evaluate the Junior/associate Engineers, the Senior Technical Officers evaluate the Senior Engineers, and so on. I think the extra layer of management will allow for a more objective evaluation; IT engineers are notorious for being competitive. Stack ranking may even be a good option so long as there isn’t a fixed curve.

Is the Cravath model sustainable?

By 2008, things were changing in PSF’s. Clients and professionals have become more demanding and competition is getting tougher. The rising salaries, the longer hours, the increased attrition rates, the failure of firms to retain minorities to partnership - all of these trends emerged in part because the modern PSF’s no longer insulated from the free market forces. Modern professionals are demanding family-friendly policies, increased diversity, and a greater sense of sustainability in the workplace.

The gradual demise of the Cravath model may bring to an end the many traditions that once held PSF’s together. However, just because the members of today's PSF’s are no longer bound by the same sense of professionalism does not mean that their industries are broken. Today, the two most important forces acting in that market are the corporate clients of these firms and the elite professional whom the firms hope to recruit. Each of these groups can and will continue to leverage their power to bring change to the various professions. Transparency regarding firm practices, aided by new information tools such as the Internet, allows both professional and clients to select among firms, and in so doing to apply market-based pressure for reform.