The One-Firm Firm Revisited

By David Maister and Jack Walker

In 1985, one of us (David Maister) wrote an article for the *Sloan Management Review* called "The One-Firm Firm." It identified a strategy common to leading firms across a broad array of professions — creating institutional loyalty and team focus.

The firms named in that article were McKinsey, Goldman Sachs, Arthur Andersen, Hewitt Associates, and Latham & Watkins, where Jack Walker became managing partner three years later.

If one is prepared to accept the argument that Accenture (formerly Andersen Consulting) is the legacy firm of Arthur Andersen, and not the defunct audit-based business, then that 1985 list of one-firm firms stacks up remarkably well as a predictor of subsequent success. These are still preeminent and immensely successful firms.

The marketplace for professional services has changed in ways that were unimaginable in 1985. Clients and client relationships have become dynamic at best and fickle at worst. Shortages and mobility of talent have affected every profession. As a result, the five named firms — and their main competitors — have adapted by making dramatic and often risky changes.

For example, of those five firms, Goldman, Accenture, and Hewitt have become publicly held companies — most have acquired other firms with varying degrees of success, and all have grown, become global, and (except perhaps in the case of McKinsey) have profoundly diversified their service offerings. Yet each has maintained or improved its competitive position as one of the most admired and profitable firms in its industry or profession.

In this article, we will address the issue of whether the one-firm firm principles identified in 1985 are still relevant to the continued, sustained success of these five firms. We will focus on what has been maintained, adapted, and abandoned in their management since 1985.

As we shall see, one-firm firm *principles* do indeed continue to drive success for these firms, even as their specific practices have been adapted and modified for changing market conditions.

What Is It?

The one-firm firm approach is not simply a loose term to describe a "culture." It refers to a set of concrete management practices consciously chosen to maximize the trust and loyalty that members of the firm feel both to the institution and to each other.

In 1985, the elements of the one-firm firm approach were given as:

- Highly selective recruitment;
- A "grow your own" people strategy as opposed to heavy use of laterals, growing only as fast as people could be developed and assimilated;

- Intensive use of training as a socialization process;
- Rejection of a "star system" and related individualistic behavior;
- Avoidance of mergers, in order to sustain the collaborative culture;
- Selective choice of services and markets, so as to win through significant investments in focused areas rather than many small initiatives;
- Active outplacement and alumni management, so that those who leave remain loyal to the firm;
- Compensation based mostly on group performance, not individual performance;
- High investments in research and development; and
- Extensive intrafirm communication, with broad use of consensus-building approaches.

The one-firm firm approach is similar in many ways to the U. S. Marine Corps (in which Jack Walker served). Both are designed to achieve the highest levels of internal collaboration and mutual commitment in pursuing ambitious goals.

Loyalty in one-firm firms, and in the Marines, is based primarily on a strong culture and clear principles rather than on the personal relations or stature of individual members.

The key relationship is that of the individual member to the organization, in the form of a set of reciprocal, value-based expectations. This, in turn, informs and supports relationships among members — who often do not know each other personally.

Everyone knows the values they must live by and the code of behavior they must follow. Everyone is commonly and intensively trained in these values and protocols. Everyone also knows that if an individual is in trouble, the group will expend every effort to help him or her.

Marines have a special bond and a shared pride, built on shared values and a shared striving for excellence with integrity. Critical to the success of the organization is respect for both the past and the future. Every marine grasps the concept of stewardship — the organization, its reputation, and its very effectiveness have been inherited from previous generations and are held in trust for future generations.

The Warlord Model

A contrasting, and more common, approach to running a professional service firm is the "star-based" or "warlord" approach, which succeeds by emphasizing internal competition, individual entrepreneurialism, distinct profit centers, decentralized decision-making, and the strength that comes from stimulating many diverse initiatives driven by relatively autonomous operators.

In extreme warlord firms, the productive senior members operate as chieftains presiding over their own territories, coordinating occasionally but fundamentally without a commitment to the institution or each other.

Many prosperous firms are close to the warlord end of the spectrum. Such firms succeed by forgoing the energy that comes from institutional commitment and extremes of collaboration but achieve a powerful substitute through extreme levels of entrepreneurial energy exhibited by individual warlords.

Warlord firms succeed when management keeps the “big hitters” happy and productive. The past and the future are not high agenda items. Consequently, the performance of extreme warlord firms often swings through peaks and valleys over time. The environment at these firms tends to be politically charged, and a great deal of management energy is expended in modulating that charge.

Personal taste can play an important role in determining which path a firm takes. Some of the most effective professionals cannot abide by the one-firm firm model and thrive in the warlord model (and vice versa).

We hasten to note that the great majority of firms are neither pure one-firm firms nor pure warlord firms. What the one-firm firm and warlord models have in common is high levels of energy. Firms in the middle may pay a price if they fail to fully engage either method of eliciting energy (high levels of internal collaboration or high levels of entrepreneurial individualism).

Capturing the benefits of high institutional energy is not easy. The one-firm system (like that of the Marine Corps) depends upon a mutually reinforcing set of concrete policies and practices, and many firms may not be able to “get from here to there” in a short period of time. Indeed, part of our argument is that “true” one-firm firms were, are, and will likely remain statistical anomalies in each of their industries, albeit successful ones.

Twenty-One Years On

Looking at the range of their services and locations, the five one-firm firms are now almost unrecognizable compared to what they were in 1985. Goldman now emphasizes proprietary trading — a change from its predominantly advisory roots; Hewitt and Accenture have moved into business process outsourcing; and both McKinsey and Latham have expanded their service offerings and global coverage. As mentioned, Accenture, Hewitt, and Goldman have become public companies.

According to most press reports, McKinsey experimented with some significant changes as the impact of technology on consulting was felt. An early countercultural attempt to acquire and integrate an IT firm was generally considered to be a failure.

In the late 1990s, the technology bubble led the firm to expand at a faster pace, rapidly increasing the rate of hiring new juniors. It opened offices in many more locations around the world and reportedly cut back on training. As did other professional firms in that era, McKinsey stretched its compensation system to pay more to stars in order to keep them.

Then, when the bubble burst, the relative economics dropped and the firm had to let a lot of people go. A “capital call” on the partners was issued. According to most reports, the new managing partner who took over in 2003 has reoriented the firm on a more values-driven, one-firm firm approach.

Goldman Sachs has also been through significant policy and cultural changes, particularly during the late 1990s, leading up to the decision to go public. As with much of Wall Street, the traditional reliance on long-term relationships to build the firm has been significantly influenced by a move toward a "transactional" approach, pursuing fast-moving market opportunities.

Most observers would concede that Goldman is still, by far, the most collaborative, team-based banking firm. But this may now be a relative rather than an absolute description.

Latham has also stretched the boundaries of the one-firm firm approach. As we discuss below, it has relied, like most of the one-firm firms, on an increasing use of laterals. It has also introduced a greater individual component into its reward scheme. And it has acquired some sizable groups over the course of its expansion. (For example, it added a firm of more than 90 lawyers in France in 2001.)

Hewitt has also experienced dramatic changes. A few years ago it acquired a large firm which it had some difficulty integrating. It has gone public and has shifted from mainly an advisory firm to primarily a human resources business processing outsourcer.

Hewitt often acquires the client's HR department in order to do this, which is contrary to the one-firm firm approach of stringent, selective recruiting from the bottom.

Accenture has also migrated to the profoundly different business of outsourcing, along with the concomitant less stringent hiring practices.

In spite of all these changes, something essential remains in most (if not all) of these firms. They are still, observably, institutions designed much more committed than most of their competitors to emphasizing teamwork and collaboration rather than individual entrepreneurialism.

This is most clearly revealed in their special human resource practices, designed to enforce high standards of *both* teamwork and dynamism.

The April 29, 2006 issue of *The Economist* magazine contains an article profiling Goldman Sachs, with rich details about its intensive and selective hiring process, tough promotion process, and enforcement of high standards even among the firm's most senior people. The article says, "Often enough, someone important is asked to leave. This is one of Paulson's most critical roles." (Then-CEO Hank Paulson is now US Treasury secretary.)

Paulson is quoted as saying: "Goldman is a hard place to be hired, a hard place to be promoted and a hard place to stay." One of *The Economist*'s writers observes that, "if you want an explanation of how Goldman endures, that, perhaps, is the best explanation of all."

What these firms teach us is that the essence of the one-firm firm strategy (and what gives it its economic power) is *not* a superior ability to select markets and services, but a greater ability to achieve high standards through the consistent application and enforcement of espoused operating rules, philosophies, values and ideologies.

The Role of Leadership

A key component in a successful one-firm firm is the governance structure. Members of the firm must feel that they have approved the leaders and that the leaders are accountable to them. This is normally accomplished by having the members (or most of them) elect the head of the firm, who would then serve for a term, typically renewable by election.

In most cases, the leader is supported by a small, elected term-limited management committee made up representatively of practicing professionals. This accountability is usually balanced by a structure that insulates the leadership from the wrath of colleagues, following tough decisions that may involve short-term unpleasantness for long-term gain.

In one-firm firms, driven as they are by a commonly held ideology, once all viewpoints are aired and management makes its decision, the partners generally line up behind the decision. Partners or senior officers are willing to delegate managerial powers upward because they trust that those appointed to leadership will operate in accordance with the principles and values of the firm's ideology. The existence of shared values underpins sustained management effectiveness.

To maintain this environment takes active management effort and (usually) careful thought in the appointment of group leaders. Running on autopilot is not an option.

In a previous article (Maister, *Managing the Multidimensional Organization*) Peter Friedes, the former CEO of Hewitt Associates, was quoted as saying: "I had 15 or so managers reporting to me. So I needed them to not be pulling the firm in different directions. One practice I had was to remind all those who reported to me that part of their role was to have my CEO perspective in managing their group. They were not to just be an advocate for their group or their people. They had to have a 'whole entity' view."

The payoff from this consensus, values-based management practice can be huge. It permits the firm to excel at getting things done as a firm. In warlord firms, partners typically continue to undermine decisions they dislike, since they feel that they have not delegated the power to management to make those decisions.

This doesn't mean that one-firm firm partners are shy about expressing themselves or opposing management as issues arise. They do, and indeed more safely and effectively than in warlord firms, where political risk and retribution are real issues.

Size and Growth

The good news, we believe, is that many (if not most) powerful professionals yearn to be part of a cohesive team (often in spite of their chest-thumping behavior). This yearning is something that can be leveraged.

However, it is very difficult to sustain the one-firm firm, consensus-based governance system as the firm grows beyond the point where all members know each other.

As clients and competitors change and as firms grow and expand, management must work harder to hold the firm together by, among other things, engendering a sense of reciprocal obligation both between the firm and individual members and among the members.

While twenty years ago a firm could engage in broad consultation and give people a real sense of participation, today's mega-one-firm firms cannot feasibly do this without great effort and creativity.

Inevitably, the top person becomes more CEO-like. This has happened at each of the named firms. This inevitable transition from consensus-building to "consult then decide" can be successfully accomplished only where a strong philosophical base of shared values has been laid down over many years.

In a sense, the trust given to the firm-wide (often global) CEO is a residual habit left over from times when the individual could be known to all and could interact with all. Perhaps paradoxically, choosing a CEO (or managing partner) based on character, values, and principles becomes even more important if the CEO is to enjoy the same latitude to manage as in the past. And, of course, he or she must continue to deliver. Shared values go only so far.

The Role of Selective Recruiting

A core characteristic of the one-firm firm, in 1985 as well as 2006, is the careful hiring, training, and indoctrination of new talent. The one-firm firms described in Maister's 1985 article relied almost exclusively on hiring "from the bottom." They resisted lateral hiring as unnecessary and risky to the firm's "fabric." But, as mentioned, things have changed dramatically.

One key feature still common to most one-firm firms is that the core (if no longer exclusive) strategy is to "grow its own" young talent. Professionals hired directly from school invariably have the strongest emotional ties to each other and to the firm, and they are the ones who find it hardest to abandon ship. Focusing on young hires has the added virtue of creating a nimble, energetic army of people who are generally more willing to embrace the core teamwork culture and core values than are older lateral hires.

Many warlord firms have reduced or eliminated entry-level recruiting, purportedly because of the (short-term) cost of hiring and training such people. They prefer to hire laterally from other firms, to avoid the costs of investing in junior people.

We believe these firms are sending two uncongenial messages: the people we hire are fungible, and there is nothing special about us. As a result, they are not developing sufficient loyalty and glue to survive the coming down periods, much less to take them to the upper reaches of their respective industry or profession.

Alumni Management

One of the keys to the one-firm firm model has been the vigorous enforcement of high standards for progression within the firm. This means that a relatively small percentage of those hired are actually promoted through the ranks. For that reason, one-firm firms may not have different nominal turnover rates than other firms. However, one of the hallmarks of the model is that people who leave one-firm firms do so with great pride and loyalty, often becoming a source of business referrals for the firm.

Turnover among junior (and even senior) people has become a fact of life in all professions. In the 1980s, Latham learned that it made all the difference in the world whether people left feeling, on the one hand, neglected or badly treated or, on the other hand, as proud advocates of the firm.

Up to that point in time, Latham had ferociously concentrated on hiring, training, indoctrinating, and holding on to talent. In that environment, when a lawyer left the firm to do something else, it was regarded as a failure rather than an opportunity. The pejorative term "attrition" was applied to these sad events. As a result, the firm often treated the departing lawyer neglectfully or even badly, as if he or she was a defector. This is an example of a one-firm firm principle run wild.

In retrospect, the firm lost millions of dollars in potential business because it mismanaged relationships with those who left. As Latham matured as an organization, it changed its practices to honor people who leave the firm and to cultivate their friendship.

In the mid-1990s, Latham made a calculation about how much of then current business came directly or indirectly from alums. The figure was approaching 50 percent. And it was great business — name-brand clients, often premium rates, quicker bill collection, pleasant dealings, and so on. Moreover, the clients benefited because the alums had a special feel for the firm, including knowledge of strengths and weaknesses. In some cases, alternative risk/reward billing arrangements could be worked out because of the built-in trust factor.

At all of the one-firm firms, the loyalty of alumni is a key competitive weapon. A one-firm firm leader told us, "One of the managing partners of a competing firm once told me, 'The thing that strikes fear in our hearts is when one of your alums ends up at one of our clients — the loyalty is beyond our understanding and usually means it's just a matter of time before you guys have your nose under the tent.'"

The Role of Lateral Hiring

Prior to the 1980s, firms entered new markets cautiously by redeploying existing talent. But affairs and clients began to move quickly and markets have shifted much more rapidly in the years since then. Accordingly, most of the one-firm firms have expanded their use of lateral (experienced senior) hires. To wait for inside talent to develop was to risk missing the boat.

In addition, firms in every profession started to open offices in new geographic markets. Early attempts to staff new offices solely with partners from existing offices were unsuccessful. As a result, expanding firms began to cherry-pick talented experienced people from outside the firm.

Most firms moved cautiously, bringing in only individuals and small groups and avoiding large-scale mergers. The key has been to make sure that when new laterals join the firm, they know what they are buying into. The lateral must understand that he or she is joining a firm with an established ideology. "If you don't like this ideology," the clear message is sent, "don't think of joining us."

Surprisingly to many outsiders, one-firm firms have found that many laterals come to the firm to benefit from good management; that is, to be managed. They know about the firm's reputation for effective management and team-based approaches, and they often come from poorly-run firms. Often — not always — they are the most fervent supporters of teamwork, management, and cohesive action in their new organization.

Lateral hiring, now a competitive necessity, remains a double-edged sword for a one-firm firm. On the one hand, careful lateral hiring provides rich work opportunities for the "home-growns." Also, laterals can help the firm challenge its settled view of itself. Done well, laterals can bring a new air of dynamism and creativity to a firm.

On the other hand, lateral hiring is management-intensive. The bottom line is that a disciplined lateral program, anathema not very long ago, can strengthen a one-firm firm. A poorly managed program will tend to pull the firm apart.

The Role of Compensation Schemes

The one-firm firms have largely avoided the stampede toward individual-based (or profit-center-based) reward schemes. However, since 1985 most one-firm firms have gradually expanded the individual component of their reward scheme (in fact if not in rhetoric) and have increased the total compensation ratio between the highest-paid members and the lowest-paid members.

At Latham, until 1993 the long-term compensation element (known as units) was essentially lockstep, with seniority as the main driver. Under cover of the early 1990s recession, this system was changed. Management's considered view was that the firm could not operate successfully in the emerging marketplace without providing more incentive for short- and long-term individual performance, particularly on the business development front.

Walker reports that this was the hardest decision he had to make during his tenure because of the obvious risk to the firm's "fabric." But because the change was sold and accepted as fundamentally respectful of the firm's ideology and shared values — not as a scuttling of them — it turned out to be a successful move. Since that change, the percentage of Latham partners hustling and producing business of substance has dramatically grown.

Most one-firm firms run judgment-based compensation schemes (with a studied avoidance of formulas). As always, the key to successful functioning of the system is agreement on values and ideology. This is because a successful compensation system requires trust: the members must believe that the compensation decisions are made by colleagues who have the firm's best interest as their *only* agenda.

Review: The Importance of Trust and Loyalty

There are many reasons why institutional trust and loyalty are important in a professional business, but three are worth stressing immediately.

First, clients of a one-firm firms have, as a practical matter, access to all the resources of the firm. Individual members, rewarded through the overall success of the enterprise, are more comfortable bringing in other parts of the firm to both win and serve clients with complex multidisciplinary or multi-jurisdictional matters.

Clients are generally better served than they would be by a firm of solos or silos. Clients respond positively when individual members support (and, especially, do not undermine) their colleagues. One-firm firms are good at relationships, internally and externally.

In firms that emphasize the use of credit and compensation systems to motivate (and placate) individual members, client service across disciplines and geography will often suffer. Sophisticated clients may cherry-pick great individual professionals or small practice teams from such firms but will rarely depend on them for complex work across boundaries. Warlord firms tend to excel at transactions, not relationships across boundaries.

Second, as we have seen, the stewardship approach that one-firm firms take toward their recruits (selectivity, training, high standards), when done well, can lead to great alumni loyalty. One-firm firms do not necessarily have lower levels of turnover, but former employees often leave as loyal advocates of the firm, based on the way they were treated when they were there. Employees of warlord firms do not always feel this way. This can have a significant impact on future revenues.

Third, trust and loyalty give a professional service firm a better chance of surviving market downturns. The test of a firm is not how it does in good times, but rather how it responds to roadblocks, stumbles, and problems, minor and major.

On such (inevitable) occasions, members of a loyalty-based firm will pull together, and they will take pride and pleasure in doing so.

In professional businesses with a free-agent climate, seemingly successful firms can disintegrate (and have disintegrated) almost overnight. At the first sign of weakness, the strongest members often feel that the sensible personal strategy is to build and cling to a client base and a personal reputation.

At the very time when leadership is most needed, it is difficult to get the best people to work for the good of the firm. As firms grow weaker, the key members clutch ever more tightly to their client work and the firm flounders. Those who can, run for the door. It is not easy to reverse this spiral.

In our view, many professional service firms are currently engaging in activities that undermine loyalty and create fault lines, including:

- Growing for growth's sake, by incoherently adding laterals and merging;
- Expanding into unconnected practice areas and markets;
- Hiring primarily semi-experienced lateral associates rather than hiring and training entry-level applicants;
- Eliminating social and partner/officer meetings as a cost-cutting measure;
- "Pulling up the ladder" to partner or owner status and establishing complex membership hierarchies, including nonequity levels, not to serve clients but rather to relieve inside pain; and
- Obsessing about the short-term bottom line: treating financial success as the goal rather than as a byproduct of a well-run firm.

Joseph Heyison of Citigroup, in a private communication, offers an interesting explanation of why such actions are common. Consider, he suggests, looking at the issue from the perspective of a powerful rainmaker in a professional service firm.

The bottom-line question is whether a rainmaker is better off supporting a warlord model and developing a strong portable practice that can be moved to another firm if the current firm suddenly gets into trouble. Heyison's special insight is that firms compete not only for clients and junior staff, but also for rainmakers, and much of what we can see in the evolution of firms can best be understood in terms of that competition.

He notes that, while many firms have gone under in downturns, few rainmakers have. This reasoning may indeed explain why some warlord firms (if staffed with truly skilled warlords) do well, at least in the short run.

The Stress of Boom Times on One-Firm Firms

Brian Sommers, a former Accenture partner, points out on his blog, in a posting called "The Lessons of Andersen," that too much individual incentive can lead firms into trouble in boom times as well as bad times. He observes:

> "Great firms don't let their partners sell inappropriate work. They have a quality control process that prevents this. They utilize partners from different geographies, industries, etc., to do these quality control checks so that no one, in a position of career determination, can influence whether the work is sold and how it is structured.
>
> "Great firms have a formalized approval process. Great firms protect their reputation as they realize that their brand is their number one asset. Great firms also pay all people in a relatively uniform way.
>
> "Lone wolf selling and delivery, to get the biggest pile of money at the end of the year, drives way too many bad deals."

Jonathan Knee, in a review of his experiences working in investment banking (*The Accidental Investment Banker*, Oxford, 2006), also points out that temptations can exist when a boom market allows firms to achieve rapid volume increases by relaxing their hiring or other quality standards. Management must be disciplined — must know how to say no — in prosperous times as well as in down times.

Our observation from watching one-firm firms over twenty years confirms that the one-firm firm principles are as fragile in prosperous times at they are in troubled times. In highly prosperous periods, productive partners grow impatient with management's reluctance, for example, to hire willy-nilly in order to staff all of their new production, or to promote their favorite — and very busy — partner candidates.

Also, in busy times there is a temptation to let investments such as training take a back seat to getting the work out the door. Only adherence to the firm's principles and values prevents opportunistic behavior that may have short-term benefits but long-term adverse consequences.

Rainmakers — always stressed but even more so in boom times — often have little patience with the one-firm firm business disciplines. They are characteristically insecure about whether it will rain tomorrow for them. This insecurity is why they are compelled to hustle for new business.

They are also likely to compare their compensation with those of the leading rainmakers in the warlord firms. When they feel that they are not at the very top of their peer group, they often find it hard to trust in the future. This is especially so with members who did not "grow up" with the firm. Loyalty and the long view require time to accrue.

It is during these times that managers of one-firm firms earn their money. It is tempting to relax the disciplines in boom times, but boom times always recede and the bad calls always bite.

Summary

As we have tried to report, the five named one-firm firms are both similar to and different from what they were in 1985. Changes have happened in these firms, but they have been managed within a (mostly) coherent ideological framework.

Some specific one-firm firm practices have changed with positive effect, and some experimental moves away from the one-firm firm system have proven to be mistakes.

While they may not seem as pure in their commitment to the ideals described in 1985, these firms are still distinguished by their deep commitment to a teamwork approach.

So it might be fair to say that Maister left out one important item when he listed the one-firm firm attributes in his 1985 article: flexibility, and the willingness to experiment and change within the firm's value system.

One-firm firms are known for their attention to what warlord firms would pejoratively characterize as "soft values."

If our experience since 1985 tells us anything, it is that this attention, balanced of course with high standards, can really pay off in terms of producing the kind of internal loyalties – and energy - necessary for long-term success.

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