

## INTRODUCTION

*Everything has been thought before, but the problem is to think of it again.*

—Johann Wolfgang von Goethe

In the comedy *Raising Arizona*, Holly Hunter and Nicholas Cage play a couple that cannot conceive a child and so decide to steal one. They read in the newspaper of a woman who has just given birth to quintuplets, so they drive to their house, where Cage's character climbs a ladder to the second-story bedroom window and takes one of the babies. On his way out, he spots a copy of Dr. Spock's best-selling book on child-rearing and places it in his back pocket. As he hands over the baby to his wife, Holly Hunter, who is waiting behind the wheel of the getaway car, he remembers he has the book and gives that to her, too, saying, "Oh, yeah, here are the instructions."

**RON** We can no more provide you with the "instructions" for the firm of the future than Dr. Spock could provide one for the raising of a child. Both are perilous—and wondrous—adventures, fraught with risk and uncertainty, and subject to the roll of the genetic dice. Instead, we have decided to provide a *qualitative*, as opposed to a *quantitative*, book. The former deals with *what* to do and *what* to think about, while the latter covers *how* to do. We want to have you think *with* us, not *like* us, regarding the future of your profession. We have no solutions; rather, we offer values that hopefully will lead to solutions. We will attempt to mark the difference between what is and what could be.

The thirteenth-century Spanish king, Alfonso X, said with no apparent modesty: "Had I been present at the creation, I would have given some useful hints for the better ordering of the universe." Likewise, Paul and I were not present at the creation of the professions. I entered the CPA profession in 1984 as a young, eager, and determined

“staff” person in the ranks of one of the then Big Eight, and believed my destiny was to become partner. I was taught from day one what approximately two generations of accountants had been taught before me: “You sell your time.” I had no reason to believe this conventional wisdom was not true. After all, I now had an hourly rate, which defined my status and rank in the pecking order of the firm. I completed a time-sheet every two weeks, in increments of a quarter-hour, or my paycheck was dutifully withheld. It seemed quite logical and rational that all I had to provide the customers of the firm was my time.

When I launched my own firm, I was the epitome of what statisticians call *path-dependent*—that is, the older I became, the greater the chance that what I would be in the future would be influenced by what I was in the past. It was not until I had been out on my own for a few years that I started to wrestle seriously against the conventional wisdom of my chosen profession.

As they say, the results of a life are uncalculable and unpredictable, as we make our journey toward the future. The years teach so much of what the days never knew. If I had known then what I know now, like Alfonso X, I certainly would have offered a better ordering of the professional service firm and a deeper understanding of the value that knowledge workers provide to their customers. This book is a result of the education of those intervening years.

In the 1960s, Princeton economist Fritz Machlup and management consultant Peter Drucker simultaneously and independently coined the terms *knowledge society* and *knowledge worker*, the latter in his book *The Age of Discontinuity*. When I entered the profession, I never thought of myself as a knowledge worker—one who works with his head and not his hands; instead, I thought of myself as a *service worker*, a term coined around 1920. But this is far too simplistic a term to describe a knowledge worker’s functions; and, today, approximately 40 percent of the workforce labor in knowledge industries. It is also the fastest-growing segment of the labor force. In the past, corporate executives and leaders were chosen because they were doers, not thinkers. They did not spend their time working on theories, but rather on the practical challenges of, say, building a Pepsi plant in Leningrad or an auto factory in Brazil. Ideology and abstract theories were reserved for political elections, not the day-to-day operations of a business.

Today, lawyers and accountants are among the ultimate knowledge workers, creating wealth for the customers they are privileged to serve from the ideas and *intellectual capital* they generate. Yet, too many of us still believe we are service workers, not knowledge workers, and there is an enormous difference. We are operating under a theory of the firm that is increasingly irrelevant to the critical success factors that determine our—and our customer’s—destiny. We are still mired in the notion that the way to create wealth in the firm is to leverage people and hours. This is somewhat understandable. After all, this thinking created success in the past, building the large firms of yesteryear and providing professionals from all sectors with a decent standard of living.

But all things human, given enough time, go badly. Nothing fails like success, and it always creates new realities and challenges. Knowledge work is a practice in search

of an accurate theory, and what is wrong with the old practice is not theory per se, but *bad* theory. All theories are subject to falsification, and we will do our best to falsify the old theory of the firm once and for all. We then will attempt the more difficult task of proffering a new theory of the firm; and here we are on more perilous ground. Nevertheless, a new theory is needed, and we will offer ours in the spirit and hope that somewhere, sometime, someone will falsify it and offer an even better one. This is how knowledge progresses, in a never-ending iterative process best characterized as *knowledge creep*.

This is a rather interesting phenomenon, because it implies that most new theories—and especially management fads of the month—have to be wrong or irrelevant, or else knowledge would proceed at lightening speed and advance by Newtonian or Einsteinian leaps every day. It doesn't. This makes it difficult for editors and publishers of business journals and books, since if they are honest with themselves they have to admit most of what they publish is trivial, or just plain incorrect. The French have a wonderful saying for this: *Tout nouveau, tout beau*—which freely translated means, “Fools see beauty only in new things.” We suffer the same risks—and perhaps the same fate—with this book. The difference is, we understand the phenomenon and do not assume we will have the last word on the firm of the future. We have not set out to reinvent the wheel. On the contrary, we are attempting to repair the old one.

That being said, we still find it necessary to challenge the conventional wisdom and dominant theory among the professions. *The Firm of the Future* is not about predicting the future; it is about helping to shape and create the future. No one can predict the future, and only a fool tries. But we can influence the future based upon the decisions and choices we make. The world is not controlled by the ever-swinging pendulum of history or some outside fate. We create the future by the actions we take today. The Berlin Wall did not fall because of inclement weather—it was *pushed*. Ultimately, all history is biography.

Over its 30-year history, it was not until the year 2000 that pricing became a Top Five Management of Accounting (MAP) issue, largely as a result of my first book, *Professional's Guide to Value Pricing*. This book was nothing more than applying the knowledge creep in the area of value and pricing—predominantly from economists of centuries past—to accountants and lawyers. Individuals can indeed shape the future.

Trying to shape the future is a risky business, fraught with peril, derision, ridicule, violent opposition, and periods of profound pessimism. As the great auto inventor Charles Kettering said, “If I want to stop a research program, I can always do it by getting a few experts to sit in on the subject, because they know right away that it was a fool thing to try in the first place.” Still, it is even more risky *not* to attempt to alter the future, and instead merely rely on what was successful in the past. Not only that, but in some respects, “The future has already happened, it's just unequally distributed,” as William Gibson remarked (quoted in Hamel, 2000: 128).

Nowhere is this truer than in knowledge industries, where the critical success factors are understood and leveraged appropriately. From Microsoft and Oracle to McKinsey and Accenture, more and more companies are realizing that it is knowledge and ideas that create wealth, not tangible things like real estate and oil. We live in a

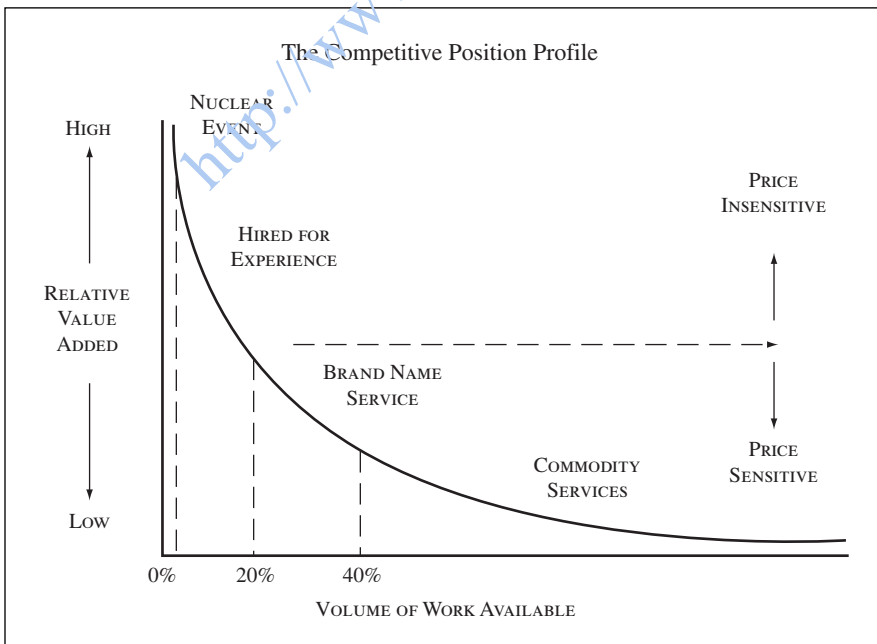
world dominated by *mind*, not *matter*. Most of these knowledge companies now have a chief knowledge officer whose job is to make sure the company knows what it knows—that is, can access the deep reservoirs of knowledge that exist within the firm in order to leverage it to create even more wealth for their customers. There is a wealth of intellectual capital waiting to be tapped into from these companies by the willing student.

Education is not simply a matter of someone pouring knowledge into another's head. The root of educate, *educere*, means to “draw out,” not to stuff in, and the ultimate responsibility rests with the willing student, not the educator. While books may be absent educators, you, the reader, will have the last word. We have followed the Law of the Lesson: *The truth to be taught must be learned through truth already known*. By studying the best minds we could find in the area of intellectual capital and business philosophy, we hope to change the way you think about the future of your firm and profession.

## THE BELOVED VALUE CURVE

One of our favorite theories of the firm was posited in the 1980s by William Cobb, a consultant to the legal and accounting professions. The Cobb Value Curve posits what we believe is the best graphical representation of the professions we have ever seen, it being rooted deeply in economic theory. Cobb was kind enough to let us reproduce what we have come to call, affectionately, the “beloved Value Curve” (see Exhibit 1.1).

EXHIBIT 1.1 The Cobb Value Curve



The curve shows the relative value added by the professional has an inverse relationship to the price sensitivity of the customer; and while we do not prefer the term *commodity* in any way—as we point out in Chapter 9—the lessons embedded in this curve are many. For now, it is important to understand your firm is all over this curve for any one given customer, at any one point in time. The major mistake professionals make is in treating all customers equally by pricing their services with one hourly rate method, no matter where they are on the curve. The old practice theory has no mechanism for capturing—with innovative pricing policies—varying levels of value provided by the firm.

One of the main objectives of this book is to help you understand where, exactly, you are on this curve, and attempt to propel you to the top. But that is not enough. The most fertile minds in business—Thomas Edison, Henry Ford, J.W. Marriott, Stanley Marcus, Ray Kroc, Thomas Watson, Bill Hewlett, Dave Packard, Bill Gates, Fred Smith, Larry Ellison, Richard Branson, among others—did not just climb the curve. They left it. To the extent we can stimulate that type of behavior and have the professions constantly strive to raise the bar by offering new and innovative services to their customers—thereby creating more wealth for each of them in the process—this book will exceed even our modest expectations.

In order to achieve behavioral change in the future, we must affect your present thinking. This book will cover a lot of territory, often in very great depth, and no doubt it will challenge the conventional wisdom of the ages. But we have always tried to keep Milton Friedman's most terrifying seminar questions in the back of our mind as we make our various positions and beliefs known: "How do you know?" and "So what?" All research and new knowledge needs to constantly answer those questions, and I am sure we, despite our best efforts to do so, will fail at times in your mind. To the extent you may disagree with us—and we hope you will—we challenge you to ask those two questions of your beliefs and opinions as well.

Traveling around the world and meeting with professionals is an exhilarating educational opportunity. We always learn more knowledge than we ever impart. By doing so, we have learned that professionals in all countries—despite the varied cultural and nuanced deviation in their skills and practices—have more in common with one another than differences. One of those commonalities is a steady erosion in the morale of the professions. When the majority of professionals say they would *not* enter the profession if they had to do it all over again, something is wrong.

The professions are a noble calling, providing the opportunity to serve and contribute to others and make a difference in the world beyond one life. Despite this, the passion and morale in the profession—a leading indicator of the health and vitality of any calling—has been in decline for decades. We believe this in part is caused by the component in the old theory that says the road to success is paved with ever-higher billable hours. No one enters the profession in order to bill the most hours. This theory—which is at the very core of the thinking of most professionals—is slowly eating away at the very sustenance of our calling. It is time to supplant it; and we suggest this not so you can make more money, but so that you can make more of a difference in the lives of those important to you. This book sounds a tocsin to our colleagues

around the world in the hope you will join with us to restore the quality of life in the professions.

**PAUL** When people came to the Accountant's Boot Camp that I started running in 1992, they came with great expectations and with enormous skepticism too. Here was someone from 'outside' the profession saying that there were far better ways to do things. Here was someone giving them new sets of skills—skills I knew their clients wanted them to acquire. Here was someone giving them a new zest for the profession—it need not be dull and boring any more. We worked them hard for four very long days (from eight in the morning through ten at night), giving them new concepts and skills to deal with their clients and their teams. As they left the Accountant's Boot Camp, it was quite normal for them to say, "This experience has changed my life." In a very deep way, we want this book to do that, too.

Both of us have seen what one friend of mine describes as "the good, the bad, and the ugly" of the profession. We know it can do so much good. We know there is so much that is ugly about it, too. We want to tip the balance greatly toward the side of good. And we know that can be done.

An accountant (John George) in Brisbane gave me a major insight into that. I visited John's office and saw all the wonderful things he was doing. He showed me proudly through his reception area (which looked for all the world like a reception area you'll read about in the book). He even insisted I go to the washroom to see the range of perfumes on display there!

Then we sat down in his office and talked about the staggering growth he'd achieved. He'd added over \$1 million in one year to revenue. He showed me the letters he had received from his clients praising how he had helped them turn their businesses around. He told me about the amazing new spirit in his team and how they were doing more than he ever believed possible. He told me about how he had completely repriced his services and turned them effectively into products with fixed prices rather than pricing by the hour.

And then he returned to the extra million dollars. "You know Paul," he said, "you always said it's never about the money. And you're right. It isn't."

"So what is it about for you John?" I asked. He paused, not because he didn't know how to answer but because the answer was going to take him to places we had not spoken about before. He spoke about how he now had so much more time to spend with his wife, and how much he enjoyed taking time to play with and educate his young son. I thought that's where he would stop. After all, those are laudable achievements worth aiming for and getting. But he didn't stop there.

"All my life, since I was a young boy, I've wanted a telescope to look up at the stars. They fascinate me. So not long ago, I bought the very best telescope money can buy—quite a huge thing. And just last night I was able to sit on my balcony and point that telescope up to the sky. You know, Paul, it's beautiful up there."

I love that story. Not just because it is indeed "beautiful up there," but because it gets to the point about there being more to life than grinding out accounts.

My own realization of that came when I bought the house in which I now live for part of the year in Provence, France. There's real learning in looking in wonderment

at the change of the seasons here. And the most important part of the learning is this: There is a much bigger picture than most of us see in our normal workaday lives. For example, on the Monday morning that I write this, I've been spending time in the garden wondering at the marvel of spring. How do those buds blossom? I never thought it was possible to look at buds and ponder questions like that.

For example, just outside our door is an ancient (and big) grapevine. Right now in late March it looks just like a craggy old stick. A typical Australian reaction would be to rip it out. But that would be a mistake, because in just a few months it will be replete with more grapes than I can imagine. And my newly planted plane trees are shooting buds everywhere. It truly is wonderful to look at and staggering to contemplate.

All too often we miss that wonder. We work away at whatever it is we do, absolutely oblivious to what's going on around us. It's my hope that reading this book will make you stop and take a look at things in a very, very different way. It's my hope, too, that it will, if nothing else, force you to step back and question. Indeed, you may not find answers, as such, but I'm certain you'll ask better questions as a result of your reading.

And it's precisely those questions and the answers you get that will lead to a rebirth of the professions. Not only is that desperately needed, but it's wonderful to contemplate as well.

<http://www.pbookshop.com>