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MANAGING A CONSULTING PRACTICE

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- o Pitfalls and benefits in managing a consulting practice
- o Factors that lead to a successful business
- o Use of management consultants

MR. FREDERICK J. THOMPSON: First, the questions we wanted to discuss. There seems to be two distinct schools of thought on how a firm should be managed. Is it best to have the firm managed by a professional manager or is it necessary to have a practicing member of the profession as a manager? Perhaps Darryl could start commenting on this.

MR. DARRYL E. LEACH: It has always struck me as odd that when professional firms, consulting actuarial firms in particular, decide who should be the manager, they tend to say, well, we should probably take our best consultants or our biggest billers and make them managers. Quite often the result is that we reduce the effectiveness of the consultant and get a bad manager. I tend to refer to this as the "consulting firm disease." It is pretty widespread, everybody has it and there doesn't seem to be a cure. Just by way of comparison for sports fans, if the Toronto Blue Jays were a consulting firm, George Bell would certainly be the manager right now. The solution we are trying to implement in our firm, and we have got the disease as well (we haven't solved it yet), is to try to divide up the management functions into two groups. Those activities where there is nothing that is particularly specific to being a consulting actuary would be delegated to what I'll refer to as a "professional manager." He will find the pencils and paper, plan for space needs and do a number of other nonbusiness specific tasks. Then there would be those management functions that are vital to the business and are particular to the actuarial consulting, business recruiting and training of staff, for example.

The answer to the whole question of managing by a professional manager or by one of the actuaries seems to be to give rewards that drive people into management because there may be more money in management than there is on the consulting side. When I say professional manager, I mean an MBA trained or an accountant type running a lot of the nonprofessional aspects of the business. If it is agreed that that approach of using a professional manager is acceptable, then one of the issues that we must wrestle with is at what size is that appropriate. Do we do it when we have 30 employees, 60, 90, 120, 150 or whatever? One of the reasons we looked at this is that we have taken a look at our cost of the professional time spent on management functions, time that could be spent by someone who is not charging \$250 to \$300 per hour. It would seem that the firm might end up with better overall management if management were divided between

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one of the professional staff and a professional manager. Having said that, I'll let the other two gentlemen make their comments and I'll come back and say some more afterwards.

MR. DANIEL L. MCCAWE: I'd agree with just about everything Darryl said. It has been my experience, to add one thing to what he said, that in some offices when the manager of the office is one of the senior consulting professionals, he probably takes onto himself a whole lot of things that could be delegated to the office administrator that Darryl is referring to. I'm not talking about responsibility for recruiting or professional development or performance appraisal of the senior staff and that sort of thing. I'm talking about things like space planning, hiring of secretarial staff, the purchasing function and those sorts of things. In many cases I have seen offices where that function has fallen to the office manager, that is the senior consulting professional, because he hasn't bothered, or thought it was too expensive or whatever, to go out and hire somebody into that function. He is getting some of it done, on a part-time basis, perhaps by his secretary. I think this is a foolish waste of his time. I think it can be demonstrated very easily that spending a reasonable amount of money on an office administrator will free up the office manager to get on with the more important aspects of recruiting, new business and day-to-day consulting. The value of this freed up time will be some multiple of what it costs for the administrator.

MR. WILLIAM H. LEWIS, JR.: In our firm, to help with the amount of time that is otherwise required by a single manager, we split the responsibility among several people rather than a manager who has total responsibility for that particular office or that particular function, and thereby, it frees up those people to spend more time as consulting actuaries.

MR. JEFFREY D. MILLER: Mr. Leach, this professional manager you are talking about, would this be somebody that might be an office administrator type or somebody that could be a partner in your firm at that level. What kind of person are you talking about?

MR. LEACH: Probably not at the partner level, because the functions we want to be done, are things that wouldn't justify a partner at \$250 to \$300 per hour taking on those functions. One of the problems we have is if we get someone who would be very good in the role, after doing it for a while, he or she may decide that they would rather be one of the consulting staff, one of the professional staff who want to move out of the function. So we thought that it might not be such a bad idea to get a recently qualified CPA, a young lawyer or someone with some business training, and let them do it for a period of a year. If they wanted to develop into other aspects of the business that would be fine. But we didn't.

What we've called the professional manager would either be a career administrator or someone who would do it for a period of time and then move on to other things. There might even be some turnover in the function. That's another issue we haven't as yet resolved. You can get some of the attributes of what Dan calls the "office manager type," but this person may be at a somewhat lower level and we can't do as much. We'd like to have someone with some accounting background so that they can handle the financial statements, fiddle around with the accounts payable and receivable; the more they can do the better. There is the problem that if they can do more, they may not be happy in that role in the long run.

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MR. THOMPSON: So I guess the answer to that is no, they would not be senior enough to be a partner. To be a partner you would have to be billing time for the firm.

The next question, with the theory that a firm must grow or stagnate, how would the firm develop new business? Would it be through client referrals, industry referrals, the efforts of individuals within the firm, or the efforts of a full-time salesman?

MR. LEWIS: In our firm, we don't employ, and at the present time don't have any plans to employ, salespeople. Our growth is largely through the development of relationships by the professionals in the firm with other people in and outside of their particular field so that referrals are our source of business.

In the life and health side of the business, that's from people that we have done work for who do pass the word along as to the kind and type of work and timeliness with which it is done. On the life and health side referrals also come from reinsurance companies. Another source of referrals on the pension side are referrals from CPAs, attorneys, people who are dealing with pension and profit sharing and other employee benefit plans. You develop a business relationship with them as a result of dealing with common clients. This is the greatest source of development of new business. We do not choose to take the full-time salesperson route, as I mentioned earlier, and don't plan on changing our policy of not hiring professional salesmen or consultants who are nonactuaries.

MR. MCCAW: I agree with Bill. The use of professional salespeople who do not have a consulting capability in their own right (other than the very considerable capability of opening doors) hasn't been particularly successful, in my experience, in the professional consulting environment. I believe that your own personal reputation and the quality of the work that you do for your clients is the best thing that one can do as far as new business is concerned. In the marketplace the word does get around as to who the individuals are or the firms are that are doing good work. One thing in Fred's question that I'd like to extrapolate on just a little bit -- it wasn't referred to directly -- is that we are talking here about new business. One of the issues we haven't directly addressed is selling or marketing new services to existing clients. Some of us are in a multi-disciplined consulting practice where the firm offers several consulting services to clients. Once you are doing one thing for a client, and doing it very well, it is always easier to sell to that client than it is to a totally cold prospect. I think all too often people are far more interested (perhaps it is more exciting) in dealing with the absolutely new prospects, somebody you have never done work for before. There is probably much more fertile ground much closer to home in some of the clients that you are only doing a limited amount of work for.

MR. LEACH: I have a couple comments to add to what has been said. I agree with both Dan and Bill that a full-time salesman does not work in a professional consulting firm, but I would qualify that. Since all people have different skill levels there are some consulting actuaries who are better at business development, and that term is sometimes better to use than the term "selling" because selling has the connotation of the white shoes and the plaid sports jacket selling used cars. If a member of the professional staff is a better business developer than some others, then I don't think it's inappropriate to have that individual spending a larger portion of his time on business development activities. Perhaps doing them in conjunction with individuals who are not quite as well

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qualified on the business development side but are equally well qualified professionally so that once the client is acquired both individuals can work on the account. The individual with the greater business development skills may spend less time on it, and over a period of time, that account could even be transferred to the individual who was not the main person involved in acquiring it. Another thing on that same point -- there is a tendency in consulting firms that not everyone in the firm views business development as something they should be involved in. They will say, "I'm not good at it, Mr. So and So is -- we'll leave it to him." We are trying to generate the attitude in our firm that everybody should be involved with business development and that could be simply pointing out leads, contacts and helping out with the process of new business development. You don't have to be the individual who goes out to see the client to make the presentation and try to get the assignment. Just as a final point, some firms occasionally make the mistake of thinking that new business is more important than retaining their clients. It takes a lot more effort to get one new to replace one that we have lost because of a mistake. Getting back on the point that Dan made, the best way to get business is having a reputation for excellent client service. If ever you have lost a client, that will do you damage that cannot be repaired by running around picking up five or six new ones, but also losing two or three and having a net gain of three.

MS. SHERRIE B. DESMOND: Using your approach of using your good business professional attitudes as your source of your business, what is the rate of growth that you are each experiencing and how are you measuring that?

MR. LEWIS: We'd measure rate of growth by our billings as compared to number of clients. I don't make a regular practice of calculating that, but I would say that it is in the neighborhood of 20% per year.

MR. MCCAWE: That sounds about right. Again, I think that the most common measure that is used is the rate of revenue growth as opposed to any kind of rate of client acquisition in terms of numbers of clients.

MR. LEACH: Our firm was just starting in 1986 and our 1987 revenues were about 50% higher than in 1986. Now, 1988 looks like it will be about 33% more than 1987.

MR. THOMPSON: This leads nicely into my next comment. In order for a firm to survive it is necessary that you retain your clients. This client retention is something that is developed in many ways as a result of several different things which leads to some other questions. Should a firm have established training procedures, or rely on professionals to keep abreast and nonprofessionals to learn by osmosis?

MR. MCCAWE: Well, first I think the most important aspect of what we do day-to-day as consultants is the quality of the service we provide to our clients. So I think we have to constantly work at upgrading the individual skills of the people in the firm. I don't think it would be a wise idea to rely on individuals to do that entirely on their own through meetings such as this. Of course it is going to depend to some degree on the size of your organization as to how much one can invest in some kind of an internal system for professional development. But I think it is important. I think firms should be spending a fairly significant portion of their revenue on such things as spot seminars and internal professional development meetings. In fact, taking it just one step further, I think it is a good idea, once one identifies the practice areas in your firm, to have some

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practice groups. That is to have a few senior professionals in each of those practices get together periodically and give some very serious thought to the kind of training and professional development that should be going on within the firm in those particular areas. A comment that Darryl made, I think on the first question, was that in many consulting firms there is a tendency for some people to feel that the road to success, whatever success is, is to get involved in management rather than staying as a consulting professional. I think if a firm does spend a lot of time on professional development, the kind of things I've just talked about, the senior consultants who are charged with that responsibility can very quickly see a professional route in the firm that is quite rewarding, whether based on how they are viewed by their peers or by compensation or whatever. Getting involved in the professional development and the training programs within the firm is just as rewarding as getting directly involved in managing an office.

MR. LEACH: One of Dan's comments about formal training sessions is that if you don't have some formalized sessions, you are always going to be too busy on client assignments and will put this off. It will never get done. Another method of training that I think is important and involves investment of time and dollars as well concerns people that are learning the consulting business. Get a number of the senior professional staff to take them along to meetings when they don't really need to be there and advise the client that they are not being charged for that individual's participation. This will give them a chance to see how the senior consulting staff actually deals with clients instead of just sitting back in the office and producing the numbers. We should not just throw them in front of a client after they have become technically competent.

MR. LEWIS: I would concur specifically with what both Dan and Darryl said. I'd say in addition in our firm for the nonactuaries, we also have incentive programs, recognition, advancement salary incentives for professional development through Life Office Management Associations (LOMA), Certified Employee Benefit Specialists (CEBS), etc., taking the examinations by the other personnel to develop their skills as support people. To endorse what Darryl said, the principal form of training for the younger actuaries is through being able to interface with the senior consultants in both the office and the client environment to learn what the practices and procedures are.

MR. THOMPSON: This leads nicely to other questions as to just how you motivate the members of the firm, whether they are partners or employees? Is money the thing that does it, professional recognition, or recognition within the firm? Are there special perks or can you simply rely on the professional pride in the case of the actuaries to motivate them to give the service that is going to help you to retain your clients?

MR. LEWIS: I found that the principal thing that motivates the professional is his or her professional development. How challenging the work is that they have, and how interesting the work is. The second most important motivating factor is a sense of achievement. In a consulting firm (our firm is not highly structured), advancement is generally in the form of the level of work and level of client contact and client responsibility that is assumed by the actuaries. Third, but not unimportant, is salary and other financial incentives. But I would place the order of importance for the three as I have given them. The professionals respond, I think very well, to opportunity. Most people that we lose are people that go because they don't see the same opportunity that we see for them in the development of those three areas.

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MR. LEACH: In terms of the way Fred phrased the question, it almost sounded like the motivation might be external, to hang out a carrot or use a stick that might get someone moving. My view is that the motivation of the top professionals comes from within, self-generated, and it may differ from one individual to the next. Getting back on the business development side, I know some individuals that get their professional satisfaction out of getting a new client. I know that they like working on that client and service it well. They get more satisfaction out of getting those clients than someone else might who just loves to complete the assignments or develop a new computer program. A second point on the money side is that a lot of people think money is a motivator. I don't agree with that. I think that the lack of it might be a demotivator, but money itself, to a certain point, isn't that big of a motivator. From all the individuals I have talked to, I think internal equity is more important than external. They will rate themselves as to whether they are being compensated, recognized and awarded properly within the compensation system at their own firm. What they perceive as inequity will be far more disturbing than if they might think they can make more dollars somewhere else or maybe gain some other benefit with another firm.

MR. MCCAWE: I don't have much to add, Fred, other than to take something that Bill said and split it a little differently. First, compensation obviously has to be competitive, but I agree with both gentlemen that it certainly isn't the prime motivator. I found that with junior people, the primary motivational force is something that Bill said, and that is career path. Having a clear path as to what they have to do to become a senior person in the firm and reach the point where they are recognized as a senior consultant is important. Among the senior people in the firm, I think it has a lot more to do with recognition, as Darryl said. I have yet to meet very many successful consultants who didn't have a fairly well developed ego, and consultants like to think they are good, and they like to think they are good relative to their peers. On a couple of occasions I have seen where we have been in a new business situation and the client has specifically said he would come with our firm if consultant X was put on his account. That individual probably didn't need a salary increase for three years thereafter. I think things like that are far more important than compensation, although it must be competitive.

MR. LEWIS: Also highly motivating in our firm, at least, is the opportunity for the junior consultants to become owners of the firm. Our firm is actuary-owned and controlled and that too, is a motivating factor for those people.

MR. GEORGE S. LING: I would like to know at the partner or principal level, what criteria you are putting the emphasis on in determining compensation for your top people?

MR. THOMPSON: We should be able to have at least three answers to that question.

MR. MCCAWE: These guys are sitting down here busily scribbling down words that I can use. In terms of compensation of the partner at the principal level -- to a degree I suppose it is the same criteria that we have developed to ascertain whether or not an individual does become a principal in the firm. Has he achieved these things? It is on these things that he will be measured. Obviously, and some of these things are fairly subjective and some objective, there has to be a commitment on the individual in terms of his billable time. That is a commercial consideration. There has to be a commitment around what percentage

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of that billable time is being collected. Those are very measurable factors, probably the most easily measured factors and purely commercial. But we are also looking for individuals who have reached a level professionally where they are recognized by their peers as being a senior consulting professional in the particular discipline they are in. We look for individuals not necessarily to be able to consult in more than one discipline, but certainly to have a working knowledge of the other disciplines and have demonstrated that in front of a client, they can recognize when a client has a problem in another consulting discipline, one that they are not necessarily proficient in but are able to introduce others to that client. That is a start on a list, why don't you pick it up, Bill?

MR. LEWIS: I would say you expressed very well the things that we consider as well.

MR. LEACH: In addition to the comments that Dan and Bill have made, a large part of our incentive compensation at the end of the year would be predicated on client management. In terms of someone becoming a partner and what we expect of a partner, we expect the partner to be someone who can develop his own block of business, and preferably, also develop business for other individuals. At this stage in our development, we don't contemplate having someone as a partner who can simply manage accounts handed over to him. We are looking for someone who can actually develop business. We also expect our senior individuals to help out in overall development of business of the firm by professional activities, speeches, articles and things of that nature. We also have to recognize (getting back to the "consulting firm disease") that we have to do management. There are rewards in there for those individuals who do contribute in that area, but we are trying to set those up so that someone won't want to be involved in management because it is going to pay them a lot. We want them to get involved in it because they do it well and that they won't be penalized for having done so. We would also look for our senior individuals to be involved in the training and development of the junior consultants to try and groom them into a partner in the future.

MR. CHARLIE R. ALLISON: Most of the comments were directed towards professional staff. I wonder if the three gentlemen could comment on nonprofessional staff?

MR. LEACH: Do you mean comment in terms of the reward system? In our own firm, 25% of the profits are distributed to all employees in proportion to current year salary plus previous year's standard bonus. That goes right down to the receptionist. For 1987, that number was about 22% of earnings which is a very significant dollar amount for secretaries and clerical staff. We also have standard bonuses for nonpartners, which might be 10% of their earnings. That would be payable provided they achieve their target hours for the year, which are not onerous. Should they produce more billable hours, then they would get an additional bonus. They also receive a bonus if they contribute to business development activities and professional development activities. If they are studying exams, they get paid bonuses for passing exams.

MR. LEWIS: I'd say, Charlie, that you probably have an idea in our firm about what we do, but for the nonactuaries, we have both billable people and non-billable people, so we can't measure their performance strictly on the basis of billable hours. We have managers responsible for various sections of people and those managers are responsible for helping measure the kind, type, quality and

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amount of work performed by those people, particularly those that are in the nonbillable category. Motivation for those people also gets back to things I spoke of earlier and that is the LOMA exams, the CEBS exams and so forth for their own professional development. Motivation through bonuses, as you are well aware, is a function as well. Our firm differs a little, bonuses being 50% for all employees and 50% for owners.

MR. MCCAW: Well, if I could take just a slightly different cut at it because we were talking not only about what the rewards are, but how they are measured. I think that for support staff, the hours (the consulting hours, the technical hours) that are put in are very important and in terms of the quality of those hours and whether or not the senior people putting in the work being performed believe that all of that time is quality and can be collected from clients. A problem that I think many consulting firms face is that another measure of performance is the development that some of the technical people make in developing into consultants. We've found that one has to be very careful about that particular type of performance and how it is rewarded, because very often you'll find in a consulting organization, that you've got a very strong technical individual who really shouldn't be making the attempt to become a consultant. Because of the culture or climate within the office, the person feels that the only way to get ahead is to become a consultant. You go from an absolutely outstanding technician to a very unsuccessful consulting professional. So, I don't really have an answer for it, but this is certainly something that we have had to struggle with in regards to some of our better technical people who, frankly, shouldn't be making that transition. The quality of the work that they are doing is paramount, and that is going to lead them to their best rewards within the firm and their own rewards personally in terms of professional development.

MR. LEWIS: Can I add something to that, Fred? In our firm, to echo what Dan is saying, we don't limit ownership in the firm to only those people that can develop business. The technical support people are also owners. There are different amounts of ownership and different amounts of compensation associated with those things. We have achieved some degree of success in motivating the technical people to do what they do best and the people who have the "sales" skills, to do what they do best. It is a continual struggle and an imperfect science, but we work at it.

MR. MILLER: On the subject of compensation systems for senior people, I might be able to share some experiences that we've had during the process of merging Tillinghast with TPF&C. Tillinghast had a compensation system, and still has a compensation system, that is very numerically oriented on the surface, but extremely objective. It is also extremely complicated to administer. There are all kinds of debits and credits and all kinds of stuff that goes on in the system. The TPF&C system as we came into it was much more subjective in nature and worked on the basis of pre-agreed objectives and performance relative to those objectives and that sort of thing. The subjective TPF&C system often had to be adjusted for the objective reality of the firm's financial circumstances and the objective Tillinghast system had to be adjusted for the subjective reality of managing people. I believe that all of these systems eventually end up in the same place. You have talented people and you have to compensate them well. We're in the process now of merging our systems to be effective in 1989. We are coming up with a system that looks very much like an average of the two, but it has been interesting to see the two systems operate and the impressions that they communicate to the senior people.

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MR. THOMPSON: This comes to the next thing. Are there any ideas besides well trained and highly motivated people that should be used to help retain clients? I guess we could put under that things like entertainment, newsletters, and this sort of thing.

MR. LEACH: On the client retention side of it, I have jotted down about three points that are very important. Timely services are obviously very important. Now, you notice I said timely service, I didn't necessarily say fast service. I know some consulting actuaries that have almost instant turnaround time with their clients, and the client expects that at all times. When I say timely service, it is fast when the client desperately needs it, but more important, doesn't miss deadlines. Know when the client needs something fast. When it is necessary to rearrange your schedule for an emergency, you do it. You don't always do it the very next day, even if you have the facility to do it.

The second point that I think is very important with clients is continuity of consultants on the account. When clients leave a consulting firm, it is more often because of the frequent turnover of the actuarial consultant on their case than for other reasons. They don't like to go back and reeducate a new actuary as to what has gone on for the last three or five years.

My third point would be as a consultant to get and stay close to your client. If you know your client, what his expectations are, and if you can get to know him as an individual, not simply in the corporate setting, if you aren't performing well, you are more likely to find out about it in advance and correct any problems that are there.

MR. LEWIS: All I have to do is echo exactly what Darryl has said. It may be different points of emphasis, but the same points. First and foremost with us is service, the timeliness and the quality of that service. Cost is a factor. Continuity and the personal relationships are very important in retention of clients, but I'd say in our firm, first and foremost is the timeliness and the quality of the service. The key is the retention of clients.

MR. MCCAWE: What I'd like to do, and I'd like to hear from some people on the floor on this, is make a somewhat different suggestion. I don't disagree with anything that has been said. But looking at Fred's question here in terms of things that can be done on client retention, something that has always struck me as fairly interesting is that in many cases the client has a fairly strong relationship with the senior consultant, senior actuary and the consulting firm. If that relationship has gone on for some time, I'd suggest that there may be several instances where the client is not necessarily 100% happy with the quality of the service that is being offered by the firm and is a little bit reluctant to tell old Charlie about it because Charlie has been dealing with him for five years and so on and so on. I think that most consulting firms have not done a particularly good job of opening other channels for that client. Something like having a general discussion with the client about what is going on with the consulting relationship and whether or not the client feels he is being well served. I think the kind of input that the consulting firm gets from that kind of a discussion might be quite different from the kind of input that goes on between Charlie and his client who he sees every couple of weeks. I'd just like to throw that idea out and see if anybody on the floor or other panelists would like to comment on that.

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MR. LEACH: I don't disagree with what you are saying Dan. The concern I would have is how is the consultant going to react. It would have to be a fairly senior individual doing the check. It almost sounds like a check-up or a policing effort. I could get a fair bit of negative response from the consulting professionals, unless you can find some other way to do it.

Carrying out the interview makes a lot of sense, but you do it once a year by making an appointment to go and see him. I'm sure that will work.

MR. LEWIS: We don't do what you suggested Dan, but I certainly don't see a problem with doing it. One of the things we try to do on an ongoing basis is have all of the people in the firm who are responsible for client relationships (they are all egotists) remain egoless when it comes to conflicts developing between the client and themselves. We generally strive to have in each client situation, both one senior and one junior consultant involved. They visit together and both get feedback about problems, things that are mentioned to one and might not be mentioned to another. We will change consultants on an account where necessary to maintain that client relationship. We have had a number of situations where we did change and successfully retained the client where we would not have retained the client if we did not change the consultant.

MR. LEACH: I have one more comment. I have seen situations, and I am sure that Dan is familiar with them, where the client review process is done more on an internal basis without necessarily the client being involved. We get a couple of other senior individuals to take a look at the type and level of services that are being done for the client, the number of employees and the type of business. You can often identify that there is not as much being done for that client as there is for the average similar client like that within the firm. Then you can make suggestions to the individual consultant. You may then want to get another consultant involved on a co-consultant basis or you can ask some questions and make some suggestions. Maybe that client might not be that happy with the way things are going.

MR. MCCAWE: If I could just add to that, I agree with Darryl. We have done the sort of thing that Darryl is talking about -- the internal review without having the client there. Going to the client is a very difficult thing to do. Darryl used the word policing, and that is the actual reaction a lot of people have. If you sit down with a couple of your senior colleagues and go through your clients and they ask you a whole lot of pertinent questions about what level your contact is in the client firm and do you know the president and have you met so-and-so, what services do you provide, and do you know who the consulting firms are that provide the other services, then you can pretty quickly get a picture as to whether or not the relationship is what it should be. Perhaps there is the potential for trouble, depending on how well the consultant seems to know his client and the services that are being offered. I would suggest that kind of review is generally very well received by the consultant and that you end up being a reviewer and a reviewee through the process. I think that everybody learns something from it.

MR. JAMES M. JACKSON: We have had, in some cases as part of the actuarial review process, individuals calling up clients. The consultants are told ahead of time that it is going to be part of getting some input into their actual review, and they are the person who suggests who on the client side will be contacted. My experience has been that clients have appreciated that very much, and we've gotten good comments back from them. The consultants have taken that in a

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positive way and in the same manner as something internal you've done. So, at least the one situation has worked.

MR. THOMPSON: These are obviously good ideas, but you have to manage them properly. You don't just impose it and make everybody angry. Another comment?

MR. MARK WILLIAM CAMPBELL: I think it would be better in the situation Dan described if you could actually get the feedback directly from the client. Everyone would be more comfortable with that. In the situations where I have been able to engineer it, I have had a session with the client where we have simultaneously exchanged views on things that we could each do better. Some clients are very appreciative if you give them feedback on management practices and things that you have seen that aren't working. Sometimes you can advise an executive that, for example, a subordinate is not supportive of the executive's decisions. Not in the tattletale way, but that they're afraid of standing up and have things to say that they're not saying in meetings. When you can get the client viewing you as an agent and assist them in more than just technical and actuarial matters, then they'll also give you feedback in the kinds of things that you can be doing better as well.

MR. THOMPSON: The next question we want to consider is just what is the optimum size of a professional consulting firm? This is one Dan is going to start.

MR. MCCAWE: I don't think there is an optimum size in terms of the size of the firm, but I think there may be an optimum size in terms of the local office that is servicing clients out of a particular area. Even that answer varies quite considerably by the number of services that you are providing to that client. You need a critical mass, I believe, in any service you are providing. If all you were providing was, say, pension consulting, you could certainly work very effectively with 30 or 40 employees and eight or ten actuaries or whatever your ratios are. You'd have a critical mass. You'd have a number of senior professionals and you'd have other people you could bounce things off of. You could have enough support staff that I don't think you'd have a timing problem in terms of moving the work around to deliver on your client deadline. However, I think as the number of services you provide goes up and you're into a number of other consulting disciplines the optimum size for the consulting office probably goes up as well. Again, I don't know what the magic number is but I'm hard pressed from my experience to be very comfortable with an individual consulting office that gets much beyond or perhaps even to 100 people. You start to lose that sort of feeling that everybody knows each other and what they do. With apologies to the people in the life insurance industry who might be here today, you start to get the feeling of being a bit of an insurance company where you don't know each other, and I don't think that is a particularly healthy thing. One other comment on that is that in our experience in a couple of Canadian cities where our consulting practice has gone to a size where we've had more than 100 people and in one case several hundred people in one city, we've gone to multiple offices. Again, I'm not saying that is the perfect solution, but we didn't want the offices to be getting too large. We simply broke them into separate units and each operates as an independent office. One hopes, and it has been our experience at any rate, that it works a lot better than just letting the size continue to grow in one particular location.

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MR. LEACH: We sat down in January of this year to do some long range planning on just that point. What size do we want to be eventually? We are about 30 employees now and about eight professionals. We agreed, as Dan said, that we need a critical mass in certain areas. We are not in the property casualty consulting business at the moment, but we would want to be in that business eventually. We want to have at least two, maybe three, casualty actuaries in that case. I'm not going to give you all the details on what we are planning, but we came to the conclusion that somewhere between 75 and 90 employees is right. This would include somewhere between 12 to 14, maybe 15, partners and an office of 75 to 90 people with enough people in any individual practice area to have that critical mass. That is what we thought would be a nice size. People would still know each other. We don't have plans to have offices coast to coast nor to have two in Toronto at the moment.

MR. LEWIS: A solution in our firm has really been not of trying to determine optimum size of an office but one of decentralization. We are not highly structured, our professionals are given a great deal of latitude and not much minute to minute supervision. With that latitude we find that the need for downsizing or splitting into more than one unit in a given city or location has not been necessary. However, I will say that I can understand if, as in Dan's case, you reach a state where you have several hundred employees in one office, in one city, that might be a different consideration. But we have not had that problem as yet, and the decentralization has worked well for us.

MR. THOMPSON: The next question I had was, are there any specific steps that can be taken to ensure the firm will continue under the successors of the original people? This obviously doesn't apply to a publicly traded company. They have different kinds of succession problems than smaller professionally run firms. What kind of things can be done to ensure that the smaller firm will succeed? I think part of succeeding (or going to successors) means that those who leave get out with their equity, and this equity is what they expect.

MR. LEWIS: In our case, we are a corporation and we have a buy/sell agreement, as you might expect. It may better be described as a buy/resell agreement, and it could be considered to be punitive by those that leave because they can't get their equity. They get, in fact, their proportion and share of capital and surplus and none other. This does ensure that we have younger highly motivated people anxious for those older people to retire. People in the firm don't share the big tear when someone does retire or pull out of the firm. But part of that motivational process in our firm at least has caused us to have people who will ensure that when those of us who are older leave the firm, the firm will be in good hands. They have been, through the years, very highly motivated people and have shown the skills to be able to manage and develop the firm on their own. Our system is perhaps a little unusual, but if you are to be compensated for your contribution to the firm, you will be compensated while you are there, not as you leave.

MR. LEACH: As in the case of Bill's firm, we're a corporation and we have five partners. We hope to have 12 to 15 partners eventually. We hope to have the right age mix in the 12 to 15 because we do have some payments over a ten year period for shareholders that leave. In terms of having concern about getting the right people in, we made a decision when we started the company, which was a couple of years back, that we would not be around as shareholders when we were no longer active employees. Even if you are an active employee, once you hit the age of 62 (a compromise between those of us who wanted 55 and those

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that wanted 65), we will not be shareholders after that age. We intend to hire the right people. We are a fairly open firm, and we will tell them what our ages are. They can figure out how quickly we will wear out, how many miles there are on each of us, and if we have enough money to leave -- we don't have a formal pension plan at the moment. The individuals who must depart will leave, and then the younger fellows will take over as the partners at that time.

MR. THOMPSON: We only have one microphone so Dan doesn't get to say anything. Last question, which may be interesting, is where do you think the actuarial consulting business is going to be in ten years. Anyone from the floor who wants to make a comment on this, it might be helpful if you gave us a small idea of where you are now, and hence, the platform from which you are making this kind of a projection. Dan, do you want to lead this off?

MR. MCCAWE: Maybe I don't. When this question came up of what is the future and where are we going, rather than talking about where we are, I used the approach of considering why I thought things are going to change. I guess the first reason I thought that things are going to change is because our clients are getting far more sophisticated. I think we are seeing more of them focusing on what value is added in using a consultant. As more of them, especially the larger ones, have more and more in-house expertise to do things for themselves, I think they are becoming much more sophisticated in their use of consultants. I think this is going to lead to more use of competitive bids or quotations on assignments even in those cases where they have been dealing with a particular consulting firm in a particular area for a number of years.

A second thing that I would foresee is that we might see increased competitive rivalry. I can speak to this from my own experience, and that is in one small part of the world. From what I have seen, I suggest we may see more people prepared to undertake such things as price cutting or getting involved in contingent fees to attract business. I think that is probably more the case, at least initially, in a smaller firm that is starting up.

A third thing is I believe we are going to see even more of an emergence of a global market in the way our clients do business and in the way our clients are looking for consulting services to be provided. So, I think it is going to drive all of us to provide a full range of services on a global basis and really develop our expertise in that direction.

Having said that, I guess it leads me into another comment which is sort of how I perceive the future. I expect we will have in our business big and small, but not a lot of in between. I don't want to be the prophet of doom, but I think the medium size consulting firms are going to have to be very careful over the next five to ten years. If you are small enough, you can still present yourself very easily as a boutique providing special expertise either in a consulting discipline or in a particular area geographically. If you're large enough, you will be able to provide these global services in a multi-disciplined consulting firm. I am not quite sure where that leaves the medium sized consulting firm. In fact, I think some of them have already decided where it leaves them, and I think that is probably why some of them have ended up selling themselves to some of the larger firms. We all know of those stories over the past four or five years. All of those things are to be considered when questioning where the practice is going in terms of a global view of the kinds of things that are going to be happening in the consulting world over the next few years. For all of us in consulting, I think it leaves us with the very basic question that we are all

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faced with and have talked about all afternoon. How do we recruit the best people? How do we develop those people? How do we retain those people? I don't think that basic problem has gone away, but I think in the next five to ten years we are going to be solving that problem in quite a different world than we have been dealing with in the past.

MR. LEACH: Continuing on with what Dan said about the more sophisticated clients, I have made a couple of notes. There are now consulting actuaries who do a lot of number crunching and verifying of data. Ten years from now a large number of clients will be doing their actuarial valuations in-house on their own computer systems. They will be talking to their actuary about the selection of assumptions, gain/loss analysis and will be paying him more for his advice than his number crunching capabilities. Any actuaries who are making a lot of money on the data processing end of it are going to be in trouble in ten years time, if not sooner. A greater involvement on the asset side of the balance sheet is another change that is already taking place. Witness the last day and a half or so here with the investment session we've been having. I think there will be more property/casualty business and maybe we'll see your typical consulting actuary, at that time, not being labelled as a life and health specialist or a pension specialist or a property/casualty specialist, but will be an actuary trained in all practice areas and specializing in one of them. I think there'll be a continuing increase in flexible benefits. I know people have been saying that for the last 20 years. Part of the problem is when you talk flexible benefits, everyone thinks cafeteria. I don't think there are going to be a lot of cafeteria plans around. When I use the phrase flexible benefits, I just mean greater flexibility and greater choice for employees and perhaps more interest in modular plans than in cafeteria-style plans -- more work in the area of postretirement health benefits, from a funding viewpoint and an expensing viewpoint; and greater emphasis on employee communications with respect to explaining the complexity of legislation and the various options that may be available under flexible plans. The skills of the actuary will be different in ten years' time and the emphasis on technical expertise, while still important, will be less. Written and oral communication skills will be increasingly important. I'm not sure what Dan meant by medium size versus small, so I can't say a lot about the fragmentation of the market from that perspective, but I don't disagree with what he is saying. Currently consulting firms tend to go after wall-to-wall markets. They tend to go after the big, the medium, and the small, and I think you'll see a fragmentation and more small consulting firms will target a particular type of market, and that may not be the international company. They may be more suited to meet the needs of those organizations than the firm that is set up and geared to do the international consulting.

MR. LEWIS: I believe that both Dan and Darryl have covered some things that will change. I think that a couple of things won't change and that is that the consulting business will still be based on personal service and a personal relationship. That I don't believe will change, but I feel that the largest change that will take place is specialization. Hence, I concur very strongly with Dan's observation that the smaller firms will have a harder time meeting all those various specializations because of the limitation to the number of people. Last, but not least, I think that cost is going to be an even more important factor in the future than it has been in the past.

MR. MCCAWE: Combine the increased sophistication of our clients with the fact that they are going to be much more demanding of us in terms of what we give them for the consulting dollar. Then I would suggest (and I may be disagreeing

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with Darryl because I believe he said that actuaries will be viewed a little bit more generally). Quite the opposite is going to happen. I think many of us are going to get narrowed down into very much tighter consulting disciplines in terms of the service that we provide. We will become very specialized and very deep because that is what the client is going to be looking for. He is going to be looking less for a generalist, more for a specialist and perhaps be more prepared to deal with more than one firm. Finding those areas of expertise, he will move from one firm to the other.

The second comment on productivity that I have made is that I can foresee, and I am not sure that I like this, that all of us in the consulting profession have to become much more efficient in respect to costs, at leveraging our senior people; that is, pushing more of the day to day stuff down to junior people. In the world that we are involved in, I would suggest that might involve the substitution, or increased substitution, of systems for people. I am not quite sure what that forebodes for us in terms of the make-up of our consulting practice in the next five or ten years. We are going to have to be more efficient, we're going to have to get more out of our senior people, and we are going to have to lever what they are doing and push a lot more of the day to day things down and only have our senior people dealing with clients on very important and current issues. So those are just two additional things from what these two gentlemen said.

MR. GORDON B. LANG: I concur with the panel on every one of their comments. I feel that the biggest problem in our profession over the next period of time is going to be lack of actuaries, particularly lack of senior actuaries to perform all of the functions that are developing out there. There is a tremendous shortage of casualty actuaries right now, so anyone wishing to come into the profession today, that is a good area to get into. The area of family law litigation is also becoming extremely important. When we see the areas open for litigation, for example in the Province of Ontario in family law, it is absolutely enormous. I agree with you that more and more it is going to be important to get your senior people out in front of people whether it is consulting to corporations or to individuals or whatever. We are going to need to get a lot more done behind the scenes by other people to free the senior people up so that they can provide the services. I guess the thing that I am looking forward to over the next several years, having been involved in the actuarial business for so many years, is that we will no longer become the anonymous actuary who became one because he didn't have the personality to be an accountant. But we will be up front and will be considered, I hope, as the original futurists. People will consult us more often because of our outward exposure than has been true up until now. Having said that, the challenge to the profession and the challenge to the manager of an office or a company in the actuarial consulting business is going to be one of people -- human resources. We need more actuaries and we need more good actuaries and we have to train them. We will have to become more highly specialized because that is the way of the future. We have got to get our profession up front and center, because the legal profession on the one hand and the accounting profession on the other tend to try to squeeze into territory that is really ours. We have to expand our numbers in order to protect and enhance our territory. The challenge for the future is the need for actuaries.

