



Professional Services Insights Report.

Adapting to change and preparing for the future

March 2019



About CommBank Business Insights Report

The findings in this edition of the Business Insights Report for Professional Services are based on a wide-ranging quantitative survey of 414 business owners, decision-makers and managers and 208 employees conducted on behalf of the Commonwealth Bank by ACA Research between September and October 2018. Participants were drawn from Professional Services firms across Australia with an annual turnover of more than \$500,000 and has at least two employees. The sub-sectors covered are Management Consulting, Architect/Engineering Services, Accounting Services, IT Services, Legal Services, Scientific Research and “Other” firms offering professional services.

The survey was designed to benchmark activity against the previous two waves, explore the forces driving change within Australian businesses, assess the impact of technology on firms and examine current and planned trends in skill training and development. The results represented throughout the report also seek to compare the perspectives of business owners, decision-makers and managers with that of employees across the Australian business landscape.

All references in the text, tables and charts to Australian firms and employees refer to those surveyed. Likewise, all data points and percentages refer to the results of the quantitative survey.

The OECD innovation framework

To determine which business initiatives were truly innovative, and assess innovation activity, CommBank adopted the framework set out in the Organisation for Economic Co-operation and Development (OECD) Oslo Manual. Used by organisations around the world, including the Australian Federal Government and the Australian Bureau of Statistics, the manual is constructed around four key innovation areas: products, processes, marketing and organisational.

References to ‘innovation-active’ are based on an assessment of innovation using the Oslo Manual definition - a new or significant improvement in one or more of the following areas: product, process, marketing and organisational.

We used the Oslo Manual criteria to test each innovation mentioned by the survey respondents, allowing us to determine whether their business improvements met the definition of innovation and the number of areas they were innovating in. We used this approach because we did not use the word ‘innovation’ in this part of the survey so the results would be robust.



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Key insights

Welcome to the third edition of our Professional Services Insights Report. It tracks how adept Australian firms have become at implementing new and significant changes amid a dynamic business environment and evolving client expectations.

According to our research, the most innovative firms tend to be responding to technology, people and operating factors to drive greater efficiencies and productivity and deliver better client experiences.

Firms are reaping the rewards of their early efforts to cut costs and to streamline and automate their business. Revenue prospects for Professional Services firms in the coming year are higher than the national average. Prospects are even brighter among innovation-active Professional Services firms as defined by the OECD's Oslo Manual.

The sector believes technology is important to gain a competitive advantage. Again, this is particularly marked among decision-makers and employees at innovation-active firms. Hence 84% of firms have invested in emerging technologies.

However, while there is a clear desire to develop effective technology skills, decision-makers at Professional Services firms rate soft skills such as adaptability and flexibility and critical thinking and problem-solving very highly. Both decision-makers and employees understand the need to develop new skills to continue to respond and adapt to change.

In addition to the industry-wide results contained within this report, two separate reports examine in detail the skills that Accounting and Legal firms seek to secure and how those compare with the existing strengths of employees. A further two companion reports look at the culture and strategies of Accounting and Legal firms around accessing the workforce skills they want and the effectiveness of the training programs they offer.

Including employees in the underlying survey for the first time uncovered a number of opportunities for all firms, regardless of their innovation status. For example, employees are confident they have the soft skills that are most valued but not all feel they are being effectively utilised.

The reports also draw out what differentiates the most innovative firms, practically and philosophically. Combined, these two sets of insights should help firms get a better return from their training and development budgets. The research ultimately finds that effective workplace learning is a valuable tool in the battle for talent.

Marc Totaro

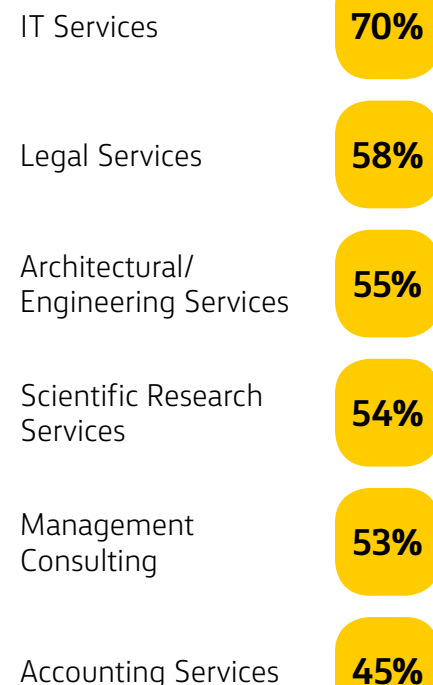
National Manager, Professional Services
Commonwealth Bank of Australia



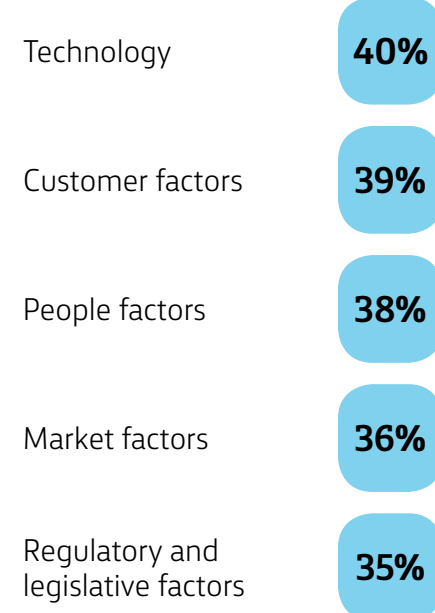
State of innovation for Professional Services firms
(% innovation-active organisations)



State of innovation for Professional Services sub-industries firms (FY19)
(% innovation-active organisations)



Top opportunities and threats
(Ranked by decision-makers as high-impact)



Training and development programs

Training organisations most likely to offer

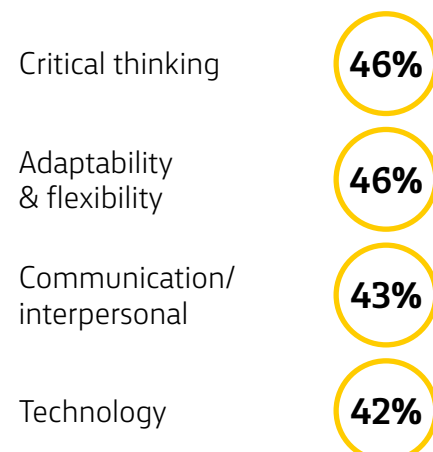


Most beneficial for employees

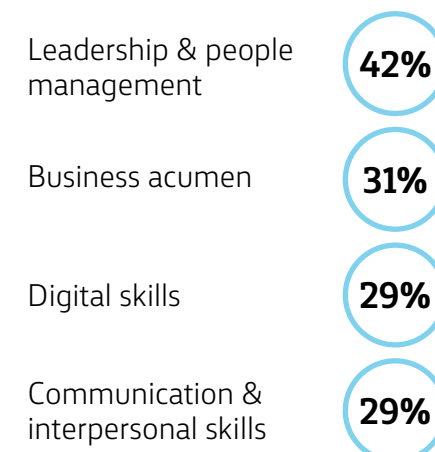


In-demand skills and development outlook

Skills organisations need



Skills employees want to develop



Impact of technology on the workforce





Building future-fit firms

Firms are leveraging technology to adapt to client-led change, and as people are redeployed into value-add roles, firms seek to strike a balance between acquiring soft and knowledge-based skills.

Innovation activity remains steady

Innovation activity among Professional Services firms has plateaued after a significant uplift in recent years. The research shows that most firms are implementing new or significant change in one of the four areas of marketing, organisation, processes and products and services – the definition of innovation according to the Oslo Manual. That is because there are so many dynamics to respond to and implementing change is increasingly commonplace.

It is worth noting that innovation activity across the four areas remains well above FY17's levels. Significant changes to the organisation and product and services offering are the focus of most sub-sectors. This indicates they are examining the way they run their business and what they offer customers.

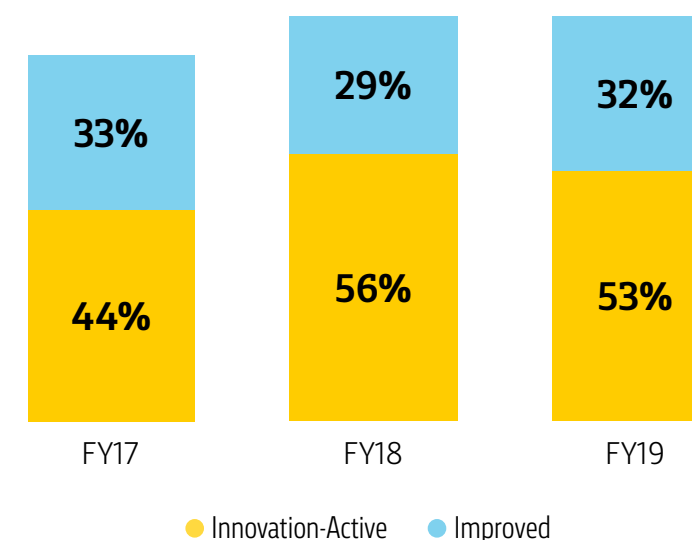
At a sector level, there is good alignment between decision-makers and employees about the level of innovation activity within their firm. But that isn't the case for all sub-sectors, particularly in the Legal sector where far few employees consider the organisation to be innovative compared to actual innovation activity – the opposite for the accounting sector.

“Innovation activity has moderated slightly following a sharp uplift in FY18, but in the face of increasing change across the industry, it's encouraging that innovation has a strong foothold.”

Marc Totaro

National Manager, Professional Services
Commonwealth Bank of Australia

Innovation activity across the Professional Services industry



Revenue outlook brightest for innovative firms

The research suggests that there is a link between innovation and financial performance. Professional Services firms were relatively early innovators when compared to all industries. Our [Accounting Market Pulse](#) and [Legal Market Pulse](#) reports found firms had already acted to cut costs and to automate and streamline their business as clients demand lower prices.

This, coupled with ongoing client demand, means revenue expectations for the coming year are higher among Professional Services firms than the national average. Across all industries, 47% of decision-makers expect revenue growth this year of at least 6%. However, 56% of professional services firms expect growth of that magnitude.

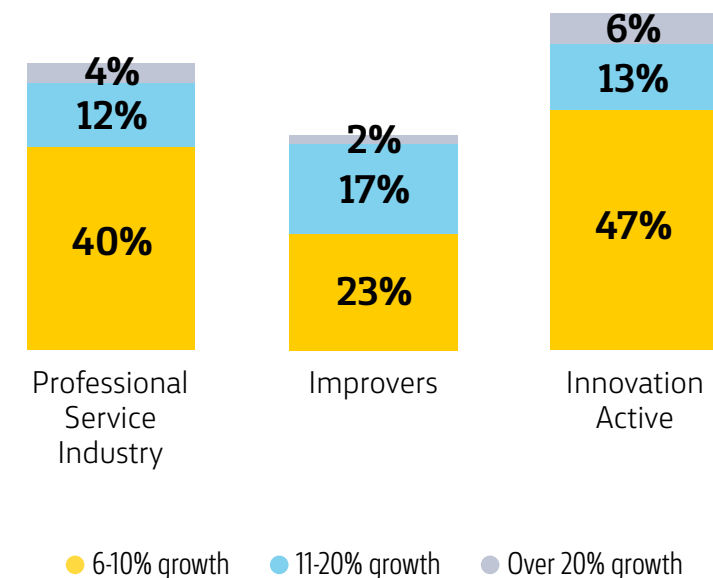
Revenue prospects are even brighter among innovation-active firms, and encouragingly, it is clear that innovation is now firmly embedded within the sector and has matured substantially.

“Innovative firms tend to have a more positive revenue outlook than their peers within the Professional Services industry, with early actions to adjust their operating models and processes to align to client demand bearing fruit.”

Marc Totaro

National Manager, Professional Services
Commonwealth Bank of Australia

Expected growth over the year ahead by innovation status



Clients, people and technology

Among the many factors that represent opportunities and threats, technology, customers and people are having the most impact, more so in Professional Services than the average across all Australian businesses and industries. Firms understand they must change because client needs are changing. They are making changes around people and technology in response to client demand.

Confirming earlier Accounting Market Pulse and Legal Market Pulse research, all firms are challenged by attracting and retaining people with the right skills. It isn't viable for firms to stay the same. They must provide the workplace and culture that will attract the right talent and they are using technology to help meet the changing needs of the client and the market.

There are marked differences in the factors driving change in the sub-sector however. Legal firms, for example, are exploring how to use data more effectively and turn it into a value-add service for clients.

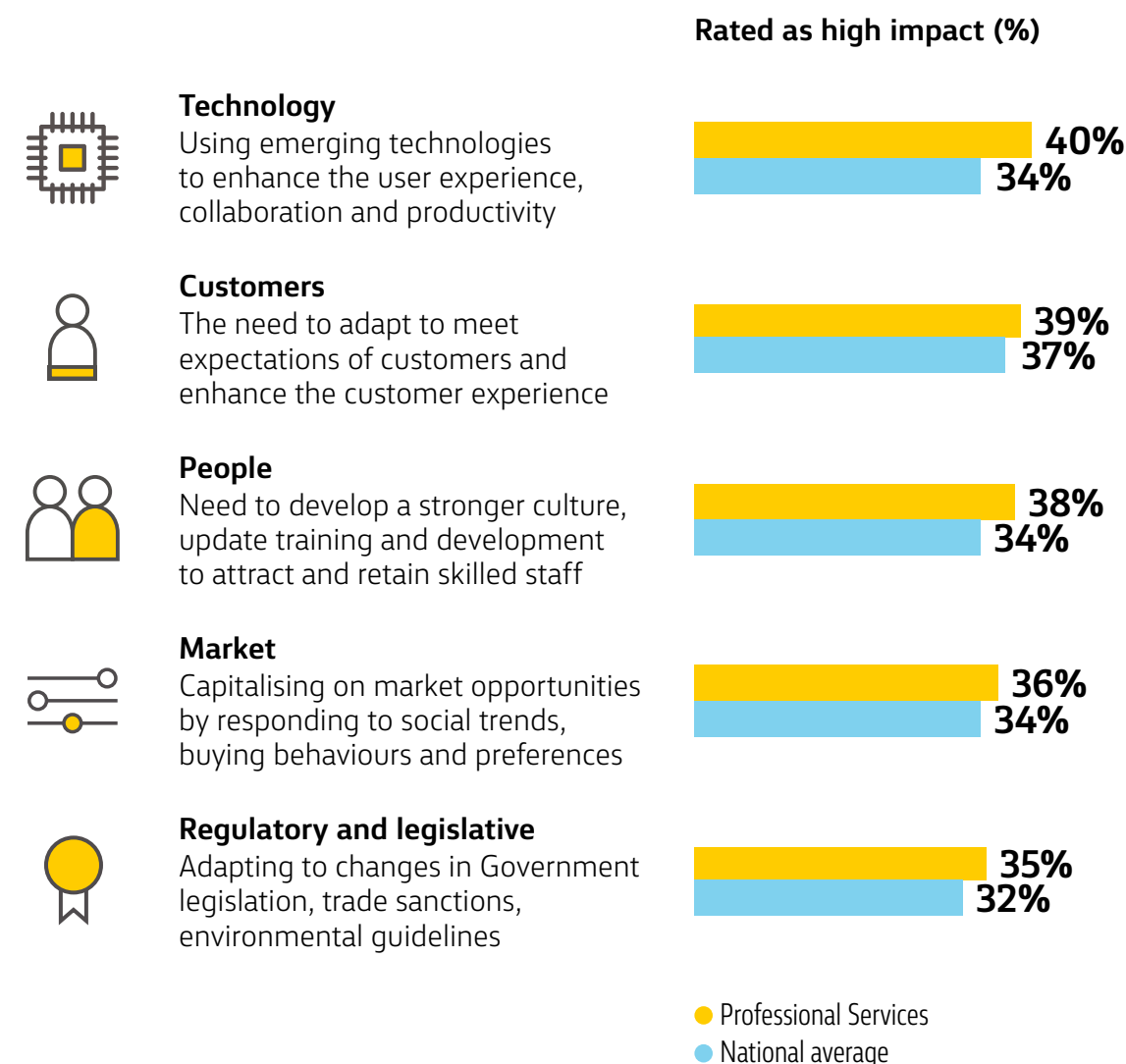
What the most innovative firms do differently

Innovation-active firms have already assessed the customer factors and have moved on to primarily focus on technology (56% rated as high impact), people (53%) and operating factors (40%) to drive greater efficiencies and productivity. That helps to ensure they are bringing in enough work and can maintain margins. They're also dialling up brand and strategic factors as a good brand helps to attract clients.

They are less concerned about external factors like regulatory and legislative factors. They tend to focus on the things they can control.



Top opportunities and threats driving change in the Professional Services sector



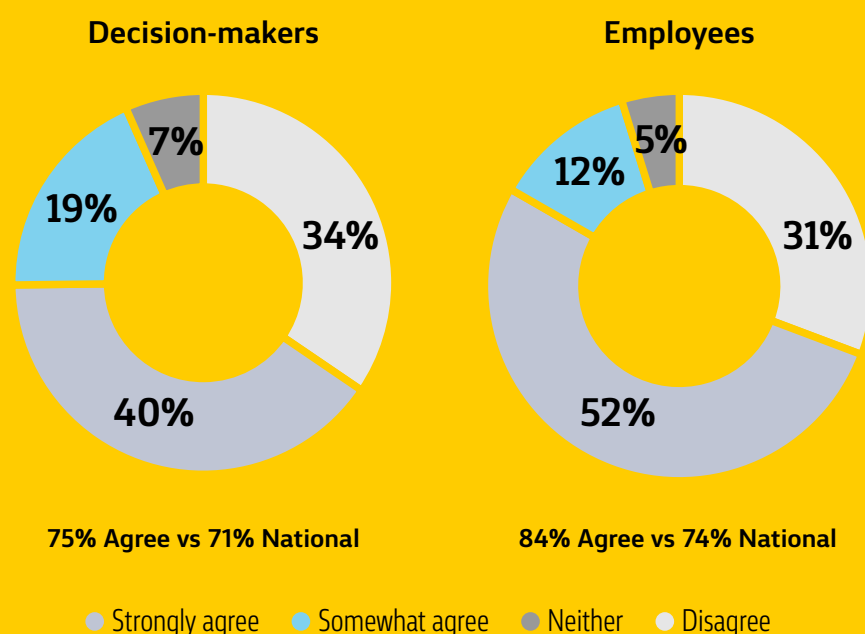
Technology is an important enabler

Compared with many other sectors, Professional Services firms place more importance on technology's role to maintain or gain a competitive advantage. The difference is particularly evident among employees. However, the high value placed on technology is most striking in innovative firms, a view shared by employees and decision-makers.

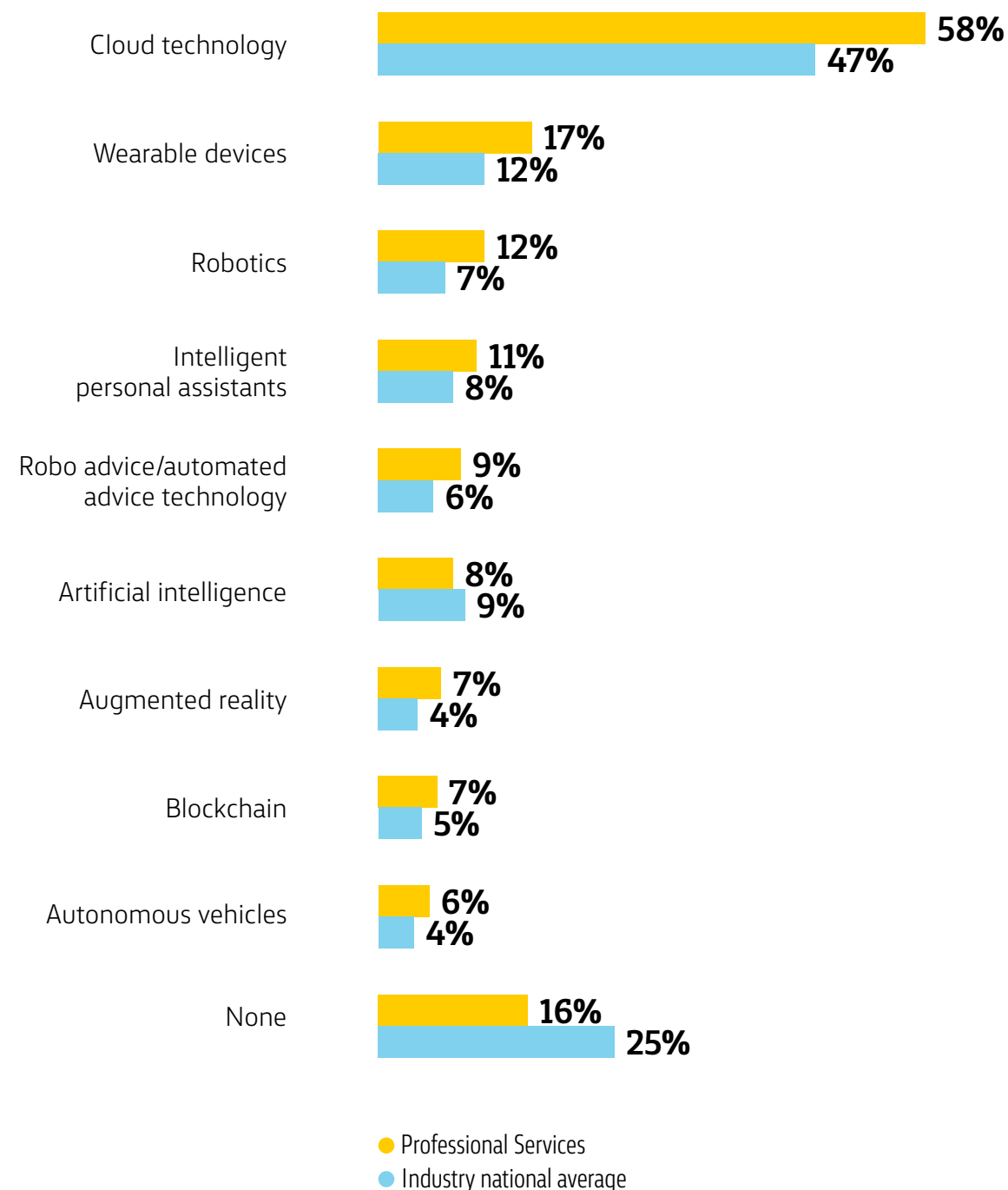
The sector's emphasis on technology, particularly among innovation-active firms, is understandable given the need to drive efficiencies and the fact that clients expect firms to use the latest technology to augment their service offering. Furthermore, employees are looking for it.

Firms must therefore provide market-leading technology to attract and retain talent. Accordingly, 84% of firms are investing in one or more emerging technologies, significantly higher than the national average of 75%. That said, adoption of many emerging technologies still remains the domain of only a fraction of firms.

Technology and digital transformation are playing an important role in delivering a competitive advantage for your firm



Investment in emerging technologies – Professional Services vs National



Impact of technology on the workforce

Firms' views on technology's impact on the workforce in coming years have shifted markedly since the last report. Far more firms now expect technology will increase the need for specialist staff. That is already apparent in the Legal and Accounting sub-sectors where graduate intakes are shifting to recruit a much broader range of skills. Increasingly, technology is also expected to enable staff to take on more management responsibilities.

So while the largest change over the past year is the rise in firms that expect technology to reduce the need for staff, more and more firms envisage technology will enable staff to be redeployed to value-add activities, with the number one being to better service clients. That view is most strongly held among innovative-active firms. They recognise that technology will enable them to use their staff more effectively to deliver a better client experience.

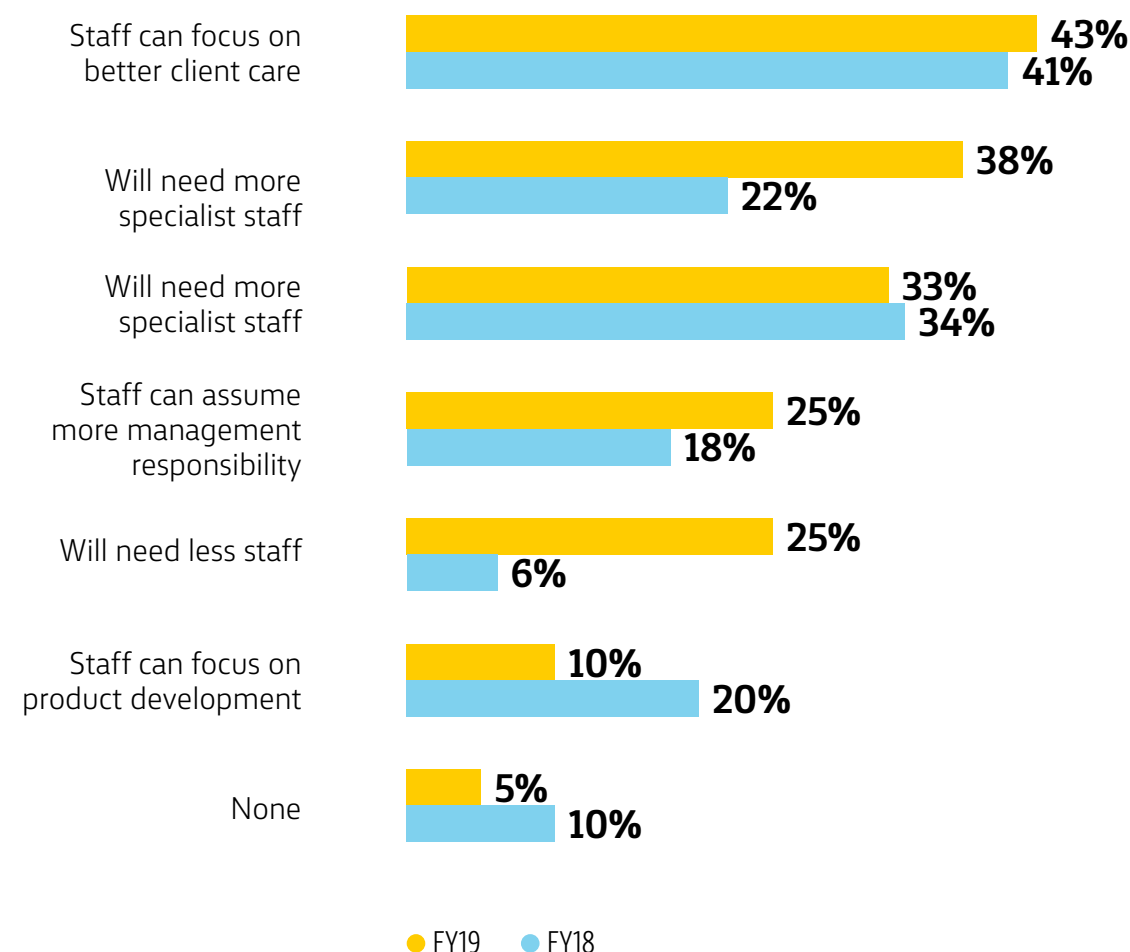
Employees don't necessarily see it that way. Nearly half (46%) worry that technology will render their knowledge and skills obsolete.

“While most firms are piloting or implementing new technologies, far more are focused on leveraging this investment to focus staff resources on better client service than on reducing the size of their teams.”

Marc Totaro

National Manager, Professional Services
Commonwealth Bank of Australia

Impact of technology on the workforce over the next five years



The need to reskill

Professional Services employees and decision-makers understand the need to reskill to support business growth, keep up with market changes and to drive efficiency and productivity. And while there is a clear desire among decision-makers to develop effective technology skills in their workforce, they place equal, if not more, value on soft skills. The three skills in highest demand are soft skills. Employees must have the communication and interpersonal skills to understand client needs, be adaptable so they can respond to evolving client demands and be able to think critically to solve client problems. Effective technology skills rank fourth, followed by leadership and people management skills.

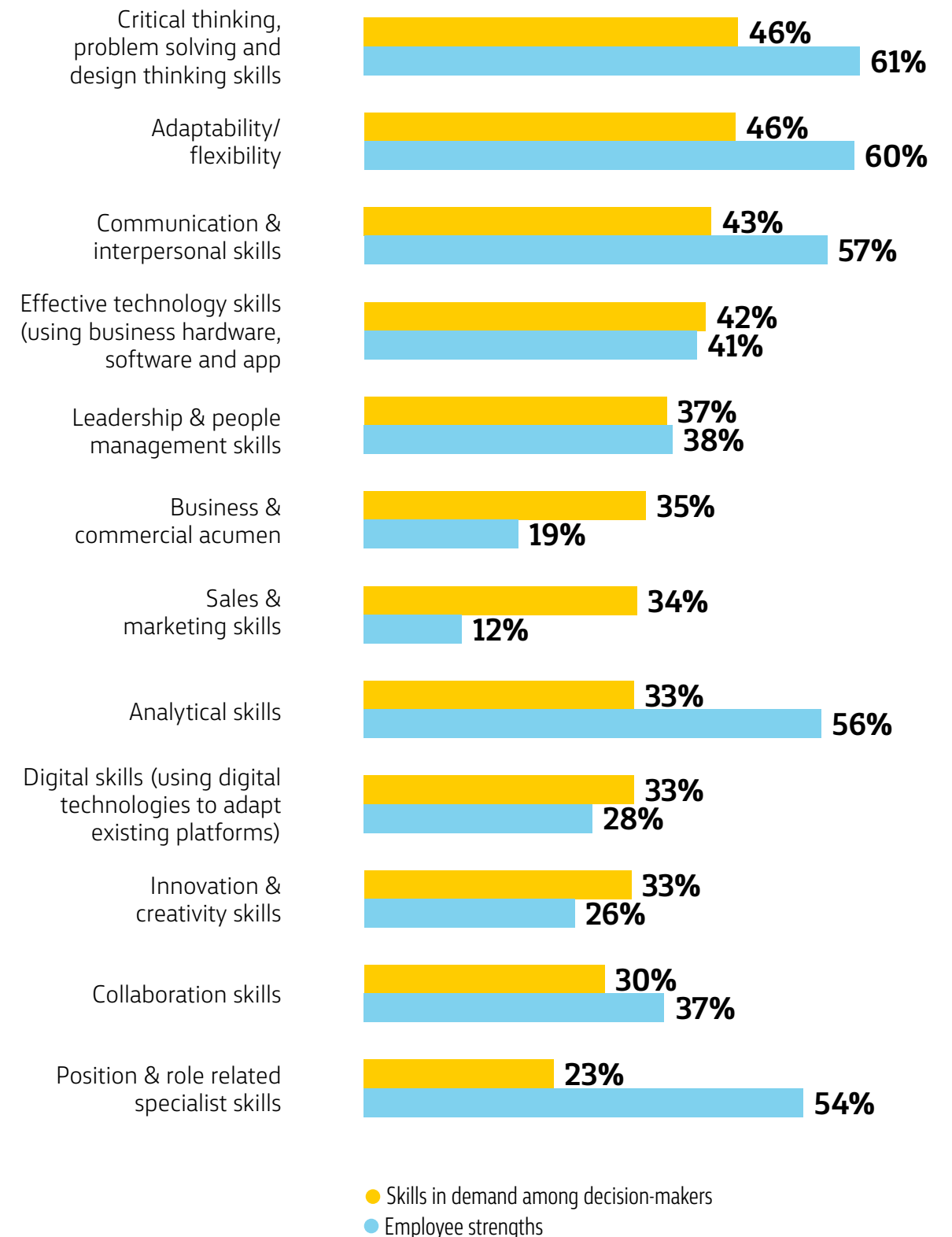
Tapping into existing skills

Encouragingly, employees in the sector are confident they have those soft skills. This means all organisations have the opportunity to better leverage the existing skills of their staff while supporting them to develop in areas they're not as proficient like sales and marketing and business and commercial acumen.

There is also a broader opportunity in that only 49% of employees believe that their firms make full use of their skills and capabilities. The percentage improves to 62% among employees who believe they work for an innovative firm.



Skills decision-makers seek vs employee strengths



Employees' view on training effectiveness

The research further identified a mismatch between the types of training programs that firms offer and the effectiveness of those programs in the eyes of employees.

Staff find internal mentors and internal face-to-face workshops led by instructors the most beneficial. External courses that lead to academic qualifications, informal on-the-job training and industry conferences also rate highly. In contrast, online learning is deemed to be less effective.

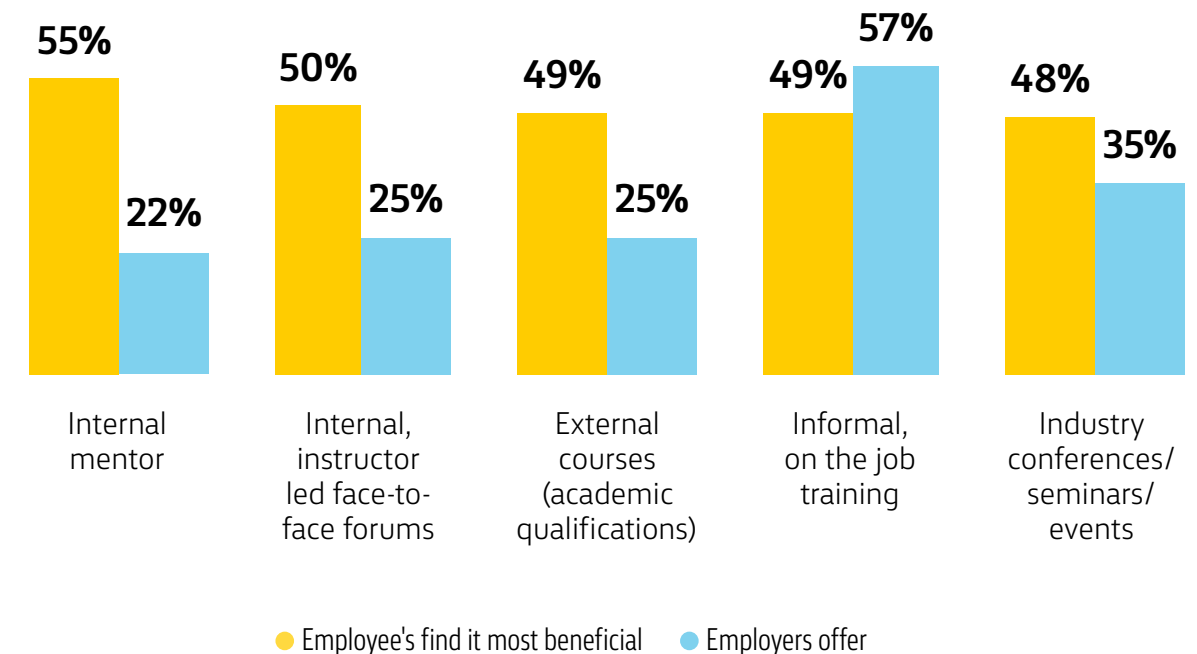
As a result, only 42% of Professional Services employees believe the training they receive is effective. Again, this percentage rises to 54% among employees working for innovative firms.

The rewards of effective training

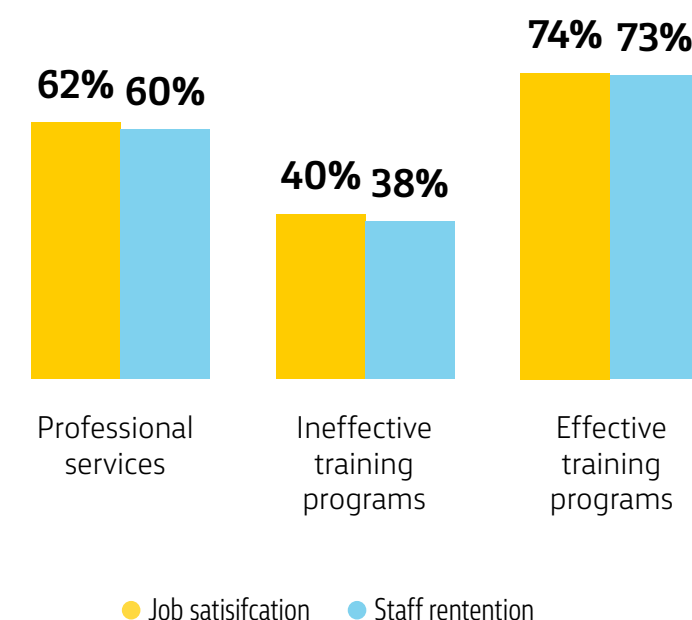
Firms that offer effective training programs are rewarded by higher job satisfaction (74% of employees versus only 40% of employees who don't receive effective training) and improved staff retention (73% of employees versus 38% of employees without beneficial training). Firms therefore have the opportunity to better align the training programs they offer with the ones that employees find most beneficial.



Training and development programs most beneficial to employees vs what employers offer



Benefits of effective training programs



Case study: Grant Thornton



Case study: Grant Thornton

Greg Keith

In the fiercely competitive accounting services sector, Grant Thornton prioritises a crucial objective - the need to keep pace with evolving client expectations. And according to Greg Keith, Grant Thornton Australia's Chief Executive Officer, the firm has invested substantially in redesigning its technology infrastructure to support better client, and staff, outcomes.

Like other Professional Services sectors, accounting faces numerous disruptive forces. "It has been an interesting journey for us and our industry over the last few years," Greg says. "We went through a cost-cutting period and then redirected profits to invest in the technology our teams need to thrive in the future. We can now focus a lot more externally."

For Greg, that means concentrating on the client experience. In Greg's view, the biggest threat to accounting firms is "not listening to, or responding to, clients' needs."

Greg says that industry research indicates that introducing world-class technology should provide significant returns for firms by transforming the way they connect with clients. His journey began more than three years ago by ramping up technology and product research and development budgets. The implementation phase is currently underway and should be complete by year-end.

It is a significant investment that represents a "complete overhaul" of the firm's approach to technology. The suite of products, spanning operations to marketing and communication, includes a new global audit platform, Salesforce, FinancialForce, iManage, UserVoice, LinkedIn Sales Navigator and Marketo.

"It will be a fantastic new world for us," says Greg. "Technology enablement across the business will allow us to focus more on the client, help identify what matters and resonates most with them, and ensures that our advice and strategy is robust, tailored and based on data and insights."

Grant Thornton has also focused on technology that upskills its teams to have better-informed and higher quality conversations with clients. "Our ability to communicate complex issues in a timely manner is critical, as is having the confidence to ask questions that we don't know the answers to," Greg says.

Greg believes their proprietary technology, the '6 Box' app, is unparalleled IP in the mid-size business sector and a strong example of the way technology is aiding client engagement. The app is based on Grant Thornton's '6 Box' global consulting model to identify strategic opportunities and threats on behalf of its clients in six key areas.

To date, the '6 Box' framework has facilitated 750 partner-led client conversations around strategy. The app collects the key outcomes of these conversations and sends them in an email to clients as they leave our office. "Six Box gives us in-depth knowledge of the client, insights and the ability, as their strategic advisor, to help them achieve their objectives. The app then helps us to immediately engage with them around the outcomes that matter most."

The Grant Thornton team is also introducing an online internal communications platform that will allow its people to crowd-source solutions to client problems and solicit ideas from their peers. "We are a cohort that likes to share and learn, and we know that our people consistently want to contribute more and have a louder voice," Greg says. "The platform will be one way to leverage the diversity of expertise across the business and provide opportunity to tap into a deeper skill set."

Indeed, diversity is part of the culture Greg is building. It is a culture that challenges and develops employees, sparks their curiosity and drives engagement with clients. He believes a firm with diversity of thought is better positioned to attract talent and clients.

To take the client experience to the next level and iterate based on direct client feedback, Greg and his team also enlist independent third-parties to speak with their clients to better understand where the firm exceeds expectations and points of frustration or anxiety right throughout the relationship – not just at the end of an engagement. According to Greg, this has been very effective with clients confirming that enhancements and ongoing service improvements are well received.



Conclusion

While this report has examined the state of innovation, impact of technology and the skills firms are seeking to develop to future-proof their organisations, the companion reports focus more specifically on the Accounting and Legal Services Sectors and relate to the fact that both employees and decision-makers recognise the need to reskill. Similar to the industry as a whole, they understand that a new mix of skills and capabilities is required to respond to the opportunities and threats in their dynamic business environment and to meet evolving client expectations.

These reports explore the skills that Accounting and Legal firms seek to develop and how these compare with the existing skills of their workforce, and how these firms are securing the workforce skills and capabilities they need, as well as the effectiveness of the training programs they offer.

Each report provides practical tips by highlighting what innovation-active firms do differently. They also identify opportunities available to all firms, no matter their innovation status.



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