Understanding and Managing Risk In Professional Service Firms
Your firm didn’t get where it is now by ignoring risks. Today, as professional service firms look for opportunities to expand and grow, risk management is more critical than ever. Risk is a fact of life for any business, and professional service firms face additional challenges because of the nature of their work. Balancing client service with the realities of everyday business—data breaches, natural disasters, compliance concerns, and impending deadlines—can seem like a formidable challenge.

It’s impossible to eliminate risk, but firms should seize any opportunity to improve risk management. Today’s professional service firms face increased risk concerns as their businesses grow more and more complex. From client liability concerns and competitive risks to preparing for natural disasters or technology outages that may cause business interruption, firm leaders like you need to be proactive when considering all the options.

Tasked with leading their firm’s risk-management efforts, finance leaders are contending with both internal and external forces. Consider a few of the questions that professional services CFOs may be asking themselves:

• How can my firm maintain compliance as rules and regulations continue to evolve?
• With data breaches in the news, how can I be sure that my firm’s client data is secure?
• With clients relying on my firm for excellent service, how can we ensure that critical documents get where they need to be, on time and intact?

As with the other expectations of CFOs today, failure is simply not an option. If any of these balls are dropped, there can be devastating effects on client relationships and the firm’s reputation. Clients have high expectations of their professional service firms—and rightly so. They expect firms to do what they’ve promised, and when this doesn’t happen, the relationship is threatened.

Best-in-class client service is the key to a well-run professional service firm. The central tenet of client service is ensuring that your firm comes through on any and all promises. Of course, not everything is within your control, but planning for the “unexpected” means that you are prepared for anything. To ensure your firm is able to continue providing first-rate client service, risk management must be proactive and comprehensive, not reactive. This means, for example, that CFOs must make sure their firms are doing everything possible so that documents arrive on-time and intact, avoiding potential exposure of sensitive client data and maintaining compliance with relevant regulations.
Proactive Protector: The CFO’s role in managing risk

Tasked with developing and leading a comprehensive, proactive risk-management strategy, finance chiefs must consider a variety of factors—from the seriousness of consequences to the likelihood of reoccurrence to the possibility of early detection.

One of the biggest goals of this strategy is to focus on mitigating risks for firm activities that simply cannot be allowed to fail. What activities does this cover? Think of Bill Gore’s Waterline Principle: If you’re on a ship, you can patch holes above the waterline, but a hole below the waterline may cause your ship to sink. Don’t be surprised by “below-the-waterline” risks; instead, be prudent and make sure you are prepared for such risks. This means working with vendors to investigate solutions for these potential risks, evaluating and implementing firm policies with these risks in mind, and identifying additional insurance coverage if your firm could be hit below the waterline.

Insurance coverage is extremely valuable because the risks professional service firms face are often complex and extensive. As firms grow and expand, they face greater risks because their business and reputation rely on factors that may be beyond their control (e.g., counting on a cloud storage solution to keep client data secure, or relying on a vendor to deliver a contract overnight). By investing in better coverage, finance chiefs can help to protect their firm against liability and help to defray any costs stemming from potential errors.
Smarter Moves: Making changes to combat risk

To be clear, leading your firm’s risk management strategy doesn’t mean avoiding all risks. Success requires taking smart risks, and CFOs are wise to seek out opportunities that support long-term growth. That can mean investing in tools that lead to increased ROI or making changes to current practices that yield big payoffs in the future.

Consider the importance of getting a time-sensitive, high-value contract to a client. It’s critical that the document gets to your client in a timely and secure way, but some elements are simply not within your control, such as weather delays or flight cancellations. This is an opportunity to evaluate your options for avoiding delays or additional expenses. Can you trust that your current vendor will ensure that the document will get where it needs to be no matter what?

Additional insurance for valuable documents is also worth examining. The value of a contract is worth far beyond the cost of paper and an overnight shipment. If, instead of arriving at the client’s office, the contract is misplaced, damaged, or delayed, it can mean damaging a valuable client relationship and tarnishing your firm’s reputation for service. In addition to the lost time and rework effort involved, your firm runs the risk of getting the contract cancelled or losing the client’s business. With many professional service firms reporting that they have made significant reductions in administrative staff, your client-facing professionals could end up spending time tracking down, recreating, or resending documents instead of focusing on revenue-producing activities.
Taking Action: Overcoming obstacles to risk management

As a CFO, you want your firm to be prepared for anything. When everything goes wrong, top firms have developed strategies and implemented tools to ensure their client service always stays first-rate. Faced with internal and external forces, the risk of going without a proactive risk management plan is simply unacceptable.

In addition, you should be sure to evaluate the strategic goals of your firm when making changes to current risk-management practices. Look for opportunities to mitigate risks cost-effectively so that you are protecting the long-term financial health of your organization. Your firm cannot afford to lose a client or damage its reputation. Evaluating your options today can provide the protection your firm needs when dealing with unknowns in the future.

It can be difficult to initiate changes within your firm. Change can be good, but it also carries risk. To be a firm leader, you should look to assume risks with the potential for fostering long-term growth, rather than maintaining the status quo for the sake of short-term success. Are your firm’s current vendors, strategies, and technologies low-price or low-risk? The lowest cost might not be the best selection criteria for leading professional service firms. To ensure the quality and responsiveness of service, your firm may want to consider lower-risk options.

Look for partners, tools, and strategies that your firm can count on. Ask colleagues for recommendations and look for markers of reliability like excellent customer service and proactive assistance. Be a proactive risk-management leader for your firm.

Forward-Thinking: Preparation, Protection, and Peace of Mind

You’ve built a firm with a sterling reputation. Take this opportunity to ensure that you protect your reputation and your clients from events outside your control. When finance takes a proactive approach to risk management, so-called unforeseeable events are planned for and valuable relationships (and documents) are protected. Preparing for these risks—whether by working with vendors or instituting firm policies or investing in greater insurance coverage—before they arise allows your firm the peace of mind you need as you move your business forward. By understanding and contemplating the realities of risk today, CFOs can invest in smart risk-management tools and procedures that will yield big ROI in the future.