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OLLSCOIL NA hEIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS, 2004/05

M.B.S. in CORPORATE STRATEGY and PEOPLE MANAGEMENT DEGREE EXAMINATION

APPLIED HR AND STRATEGIC MANAGEMENT (MG608)

Professor J. Winterton
Professor R. Green
Mr. M. Moroney
Dr. T. Dundon

Time allowed: **THREE** hours
Candidates are required to answer **all** questions
Answer each question on a **separate** answer book

KPMG: Strategic change in the 1990s

Guidance Questions:

1. Discuss the impetus for, and barriers to, strategic change at KPMG. *(30%)*

2. Assess the approaches to strategic change employed in the change programme at KPMG. *(30%)*

3. To what extent do you think that the management of HR generally contributed to strategic change in the KPMG case? Make particular reference to the barriers encountered in introducing a new reward system. *(40%)*

Note: In your answers, it is permissible to make assumptions and add context details provided that the essence of the case study is neither changed nor undermined in any way.

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KPMG
Strategic change in the 1990s

KPMG is one of the major accounting firms worldwide. In the 1990s it underwent significant strategic change. The case is primarily concerned with the management of strategic change processes in this firm during this period and includes verbatim explanations of the challenges they faced and how they were handled. The case provides a context in which to consider the extent to which these change programmes succeeded in effecting strategic change.

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By 2001 KPMG was one of the largest professional services firms in the world. Its fee income for the fiscal year to September 2000 was US$13.5bn, of which Europe, Middle East and Africa accounted for US$5.7bn and the Americas $6.6bn. The UK accounted for $1.8 bn (or 13 per cent of world fee income). Within the UK, KPMG employed 11,130 staff.

KPMG was, undeniably, a success story; yet this was a business facing an increasingly competitive environment on a global basis. KPMG had experienced a decade of change: and knew that it faced more in the future.

THE PARTNERSHIP HERITAGE

KPMG was a partnership. Over the years the firm had grown, prospered and amalgamated with others to become the huge enterprise it was. From 1993 to 1997 Colin Sharman was the UK senior partner of KPMG and had been responsible for the review of strategy and the programme of change that had taken place in the UK in the 1990s.

In common with many partnerships, KPMG's legacy was an emphasis on powerful, influential individual partners, skilled in their areas of professional expertise and with strong personal relations at senior level with clients. At the beginning of the 1990s a partner would typically have been a chartered accountant who had spent 10 to 15 years in the firm working his or her way up to a senior client management position in a specialist area such as audit or

tax. Given a successful record in developing business with clients and providing first-class professional services, the appointment to partner might take place, provided existing partners were in agreement. Thereafter the new partner would seek to further a reputation for winning new clients, building relationships with existing clients and ensuring excellence of service, by cultivating a network of trusted managers and other partners with whom he or she would co-operate.

Attempts to formalise strategic planning in such a context were difficult. In KPMG in the past, committees had been set up to do it; or partners given special responsibility for it; but whilst planning procedures or plans themselves might appear, they did little to change the way in which the firm developed. The successful growth in the 1970s and 80s had come about on the basis of excellence of professional advice given to clients and through long-standing relationships built by experienced partners. The strategic direction emerged from this. Where there were problems or disagreements these were resolved between the partners themselves.

Colin Sharman believed that the situation had changed by the mid-1990s.

> In practice, of course, we have moved a long way from the Victorian notion of partnership and we run ourselves increasingly on corporate lines. I am the senior partner, the managing director, and I have a management team who make many of the operational decisions of an executive board. But the partners have to be consulted and have to agree – or at least not disagree – with any change.
>
> But it is not just about partnership. Over 70 per cent of our total workforce are graduates, a highly intelligent group of people who, quite rightly, need to be convinced we are following the right strategy. This is not just an issue of drawing up some sort of plan and communicating it well through the organisation, but also of winning hearts and minds.

KPMG IN THE EARLY 1990s

The review of KPMG's strategy began in 1992, when Colin Sharman took over responsibility for KPMG's largest UK region (the South East) with 300 of the UK partners at that time. He described what he inherited:

> In many respects the way we did things had its benefits. It was based on a network of very bright people, professionally trained and dedicated to providing quality advice to their clients. But there were problems, especially if we remember that our primary purpose was to provide services to our clients which may not always coincide with the skills, experience and interests of the partner who dealt with that client historically.
>
> We had a matrix structure. We had a delivery structure for services along discipline lines; different practice units for audit, for tax, for management consultants and for corporate recovery. Separately we focused on our market sectors through firm-wide multi-disciplinary groups focusing on banking, insurance, manufacturing and so on. But the dominant axis remained the discipline-based practice units, and that was the primary interface to the market.
>
> Our mission involved providing the highest quality of services to our individual clients but our practice units were discipline based. The only way that we focused across disciplines was through our market sector groups, but they merely

co-ordinated and did not run the business. Hence there was a conflict between our stated goals and our structure.

KPMG would have been characterised as professional, highly conservative and sometimes complacent. There was also an attitude that our partners can, and will, 'do anything' – different from a 'do well' culture. And also a belief from right across the firm that being a generalist, rather than a specialist, was the most desirable state.

Partners believed they should have a say in decision making. There was a widespread network of committees – the answer for most things in the organisation was to set up a committee, a retreat into collectivism at the drop of a hat. Alongside that, the responsibilities of individuals within the organisation were so ill-defined that it made achieving change very difficult. Our control systems were full of paradoxes. At lower levels our staff saw controls as bureaucratic, taking time away from the real business of being a professional services firm; but at the higher levels there was a belief that we had poor controls and poor management information to run the business. Both of those were probably right – we spent a lot of time collecting and controlling the things that didn't help us to run the business. Alongside that, we had too much poor discipline – a lack of rigour and not caring about doing it right the first time; not surprising if we were asking people to spend a lot of their time on data that were never used to manage the business. But poor discipline, endemic through an organisation, was a major barrier to new ways of working. For example, there was too little value placed on managing carefully to timescales. It was regarded as much better to whirl around in frenzied activity at the last minute. That applied whether we were serving clients or trying to do something that contributed towards managing the business. You would hear people bragging about the extremely long hours that they worked, doubtless to reinforce the air of crisis that they were managing (though never creating!).

The 'mystique of partnership' didn't always help. Promotion to partner was seen as the summit of a KPMG person's career with virtually no second prizes for those who did not make it – we had a culture of 'up or out'. Partners, once created, were quite distinct and elevated people within the organisation. There were also problems with the discipline structure of audit, tax, consultancy and so on being dominant; problems illustrated, for example, by the tales people told about how awful one of the other disciplines was. Nor was the 'cult of the individual' always helpful. The kinds of people who were lionised were mavericks – people out of the mould; people who had broken the mould; people who didn't conform – there were lots of stories about individuals. You can imagine the way some of this expressed itself; especially when it came to 'them and us' – partners and the rest or, at lower levels, senior managers and the rest. For example, in our London office we had three levels of dining room and partners got their tea brought to their desks in china pots and silver trays.

THE COMPETITIVE POSITION IN THE EARLY 1990s

Colin Sharman explained the competitive position of the firm in the early 1990s:

The accountancy profession had been in a period of turbulence and change for some time. It was threatened by litigation, subject to 'low-balling', increasingly governed by rules and regulations and lacking a recognised market leader. The market was dominated by six large firms. In the 1980s the leading firms underwent a series of international mergers and diversified into a range of professional services – corporate finance, consulting, investigations and forensic accounting. There were

the workshops, discussed the main directions of the firm and tried to surface any real concerns. Those proved a very useful way of building the consensus that we needed and also reinforcing the fact the change was definitely coming. I also used the senior management conference, which was an annual ritual for our senior managers to complain about the firm, as a way of getting them into strategic issues. The managers worked through much the same process as the partners had done on the workshops. At the end of that, the senior managers produced a serious analysis of the issues facing the firm and the kind of actions that were needed.

I tried to capture that enthusiasm, that commitment, that sense of change by holding a series of briefing sessions for partners and senior managers together to spread some of the messages. The messages I wanted to get across were that we were serious about change; that we needed to become a much more open organisation; that we needed to involve people at all levels in the development of the organisation and that we needed to communicate very much better than we had done in the past. To make them have a real impact I had the sessions designed to reinforce the underlying message, which was that we are going to do things very differently in future. For example you might think that the visuals [see Exhibit 1] we used were pretty ordinary but my KPMG audience was accustomed to nothing more exciting than slides with a KPMG-blue background and logo. So if nothing else my pop-art images made an impact. People started talking openly about wanting to change, wanting to try new things and wanting to succeed.

The workshops had, then, helped identify the main elements of the strategy. Colin Sharman had also developed his views about the required approach to change.

The key was to get client focus into our organisation. Initially I thought that I could operate successfully by changing only the behaviour and skill sets of our people, in particular our partners. But I came to the conclusion that was not going to work. If we changed the behaviour of partners and staff to become more client focused, more market sector focused, more knowledgeable about the marketplace, that would rapidly fall apart. We would need to reinforce it by measurement systems to ensure that our people were measured by these new ways of doing things; and by a structure which aligned with what people were being asked to do. If people, accountable in one direction, were told to focus their efforts in another, it was likely that one or other would lose out; and if our measurement systems and reward systems measure something other than the new behaviour we are asking for, it is fairly clear what would happen. So I concluded that we needed what I call a virtuous circle of change consisting of three interlinking elements - structure, measurement and behaviour - all needing to operate on each other.

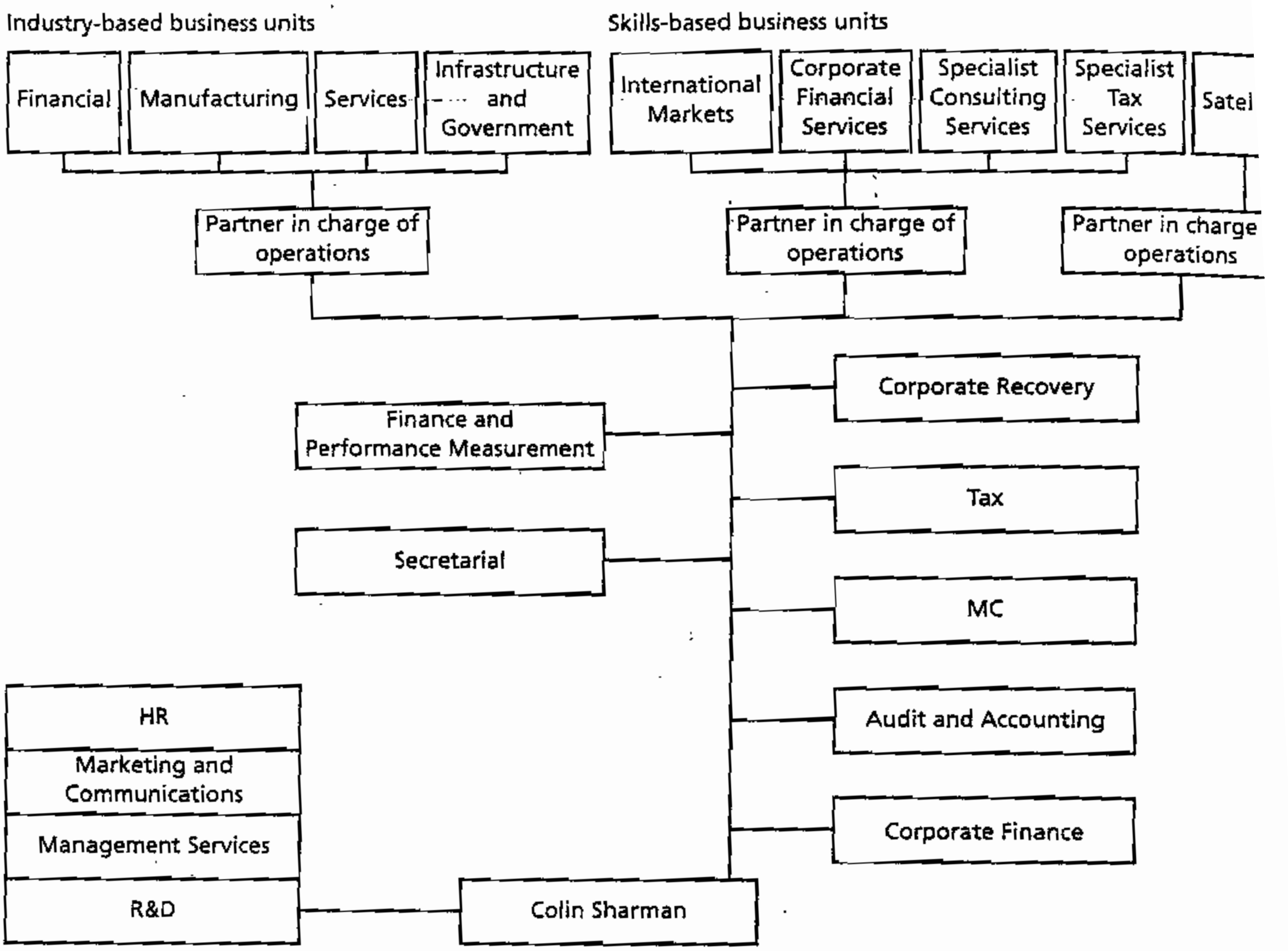
THE LAUNCH OF 20:20 VISION

Following the strategy workshops in February 1992, many partners within KPMG had become impatient for action. Colin Sharman was rather more cautious. He believed it might take three to four years to put proposed changes into effect. However, a plan which set out structural changes had been put together by the end of April 1992. This plan was central to the guiding vision of the future and became known as '20:20 Vision'.

The underlying strategic thrust of 20:20 Vision was to move to an industry-based focus for service delivery to clients; to develop teams of auditors,

Exhibit 1 Visuals for the presentation

Exhibit 2 UK structure of KPMG, 1993



consultants, tax specialists and so on, who were experts by industry sector, just by discipline. To do this a new structure for the firm was introduced m up of four industry-based business units and four skills-based business ur headed by senior partners reporting to two partners in charge of operatic one for Industry Units and one for Skills Units. These were directly accounta to Colin Sharman (see Exhibit 2).

There was a mixed response to these moves initially. Some parts of the f were enthusiastic; others were not. As Alan Reid, the partner in charge of Skills Units, explained:

> It was audit that went hell for leather into it; it was a way of getting the audit p tice managed. I don't think they recognised that 20:20 Vision was for the whole f However, on the tax side 49 out of 50 partners did not want it because they had b going through three years of change themselves, had only just come to the enc it and felt well poised to drive forward. What they thought they could do wa co-locate rather than merge. They accepted they had to work together but there a question of whether they were managed by tax people. They had come ou

> subservience to the audit practice and they thought that this was a magnificent ruse to get them back into that position. Consultancy never really debated it.
>
> In the initial stages the staff were probably the most supportive and that's perhaps worth learning from. The staff saw the reality of the vision quicker than partners. In fact, as staff became more excited the whole thing accelerated, but quite a few partners lingered behind. I think some partners thought that all this might cancel itself out in due course.

By 1993 the structure was in place and co-location had occurred. However, the extent to which the new strategy had become accepted and put into effect was mixed. In some industry units it was being pursued energetically. One of the heads of the industry-based units established a co-located multi-disciplinary team, with team briefings, tailored training in the strategic analysis of clients for all partners and managers, whether consultants, auditors or tax specialists; and was able to demonstrate the effective working of the unit in half the time initially planned. In others it was little more than co-location at that time. As one audit manager put it: 'I had moved my office but nothing else had changed. As far as I was concerned I was dealing with the same clients in the same way.'

Changes to established control procedures were also slow. For example, it was unclear who would be allocated fee income for an assignment between business units and skills-based units where joint teams were operating. This lack of clarity was exacerbated by the concentration of some of the partners on the traditional monitoring of chargeable hours on client business. The new structure was also sometimes unclear, especially in sorting out 'turf disputes' which arose, for example, between industry-based and skills-based units.

THE LEADERSHIP PROJECT

In 1993 Colin Sharman was appointed to UK Senior Partner. At that time there were other developments taking place. At an international level in KPMG there were the beginnings of an international strategy to position KPMG as the leading 'advisory firm' rather than an audit firm. This took shape in the UK in what became known as the 'Leadership Project'.

In his address to the UK partners' meeting in October 1994, Colin Sharman announced KPMG's aim 'to become the leading accountancy firm in the UK'.

> Our research shows that clients are saying: 'know me, know my business. Give me advice, help me to compete. I want frequent contact, robust and independent opinions, proactive advice and fast reactions to changes in my business. I want value for money.' . . . They want a trusted and valued relationship. If KPMG can succeed in genuinely making the transition from audit firm to business adviser, it can pull ahead of its competitors rather than being just one among the leaders . . . I want us to be indispensable to our clients because we give robust opinions, offer advice and provide business solutions that they simply could not get for themselves. I want us to attract the best people and to be the best firm to work for. The best firm because we have the most interesting clients, and the most attractive careers, the most demanding assignments. I want us to employ people who will make a real difference to their clients' business. I want us to be the firm that other leading advisers want to work with. We want the merchant banks, the lawyers, the specialist consultants to be alongside us. I want us to be the leading firm in the new markets – business

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transformation, forensic accounting - right at the cutting edge. I want us to foster a culture that sees opportunities and not problems, strengths not weaknesses, team work and not just individuals.

He explained how this would be put into effect:

The concept of having a leader on a client account - the lead partner - is not new. However, in KPMG, the role historically adopted has been that of a senior audit partner with the key relationship at the finance director level. It is now much more than this. The role is defined as an account management role that carries the ultimate responsibility for management of the client relationship, particularly at the chairman /chief executive level. The aim is to allow a single individual to be the integrator of all the firm's services to a client and of the people supplying those services. There is also a leadership aspect to the role as it includes responsibility for effective teamwork and managing internal relationships. This is not the role that all the partners should aspire to since specialist partners and engagement partners are essential to ensuring that the service delivery and advice are first class and this is the 'must have' of any professional service firm. It would not be commercially sensible to use the time of leading-edge specialists in what is essentially a generalist role.

Each project or piece of work performed for the client will be led by an engagement partner whose role is to deliver that specific piece of work. Take an audit for example; the audit engagement partner retains responsibility for the independent opinion. However, all services and relationships are co-ordinated through the lead partner.

HUMAN RESOURCE STRATEGY

The Leadership Project also provided a vehicle to roll out some of the changes already made in the South East to the rest of the UK and to develop human resource practices and policies in line with the changing strategy. Important here was a focus on behaviour. A competence framework was established and developed in 1993. David Westcott then (HR Partner) explained that:

The starting point for this framework was the question - what are the characteristics we need in our future partners? External consultants conducted a whole series of interviews which asked clients, partners in key positions together with younger partners what they thought the behavioural characteristics should be for the future success of the company.

From this, six categories of competence emerged (see Exhibit 3).

Reward systems were also revised. David Westcott:

Pay had been largely a matter of how long anyone had been in a particular grade. . . . We set out to introduce a pay structure and review system which sought to reward improvement and achievement rather than time in grade.

Colin Sharman explained the basis of the system:

We changed all our systems to move everybody into just five bands so that instead of having everybody promoted every year, which was the old system, we had a situation where promotion meant something. . . . Promotion would only be between the bands, on the basis of performance in terms of the competences. Eventually, we completely restructured the reward system for partners, right the way across the UK.

Exhibit 3 The Competence Framework

Client responsiveness
1. Relationship building – establishes rapport and builds long-term relationships with key decision makers.
2. Professional judgement – knows who the 'real' client is at all times and uses this knowledge to operate effectively for KPMG.

Business skills
1. Commerciality – relates all aspects of KPMG's service to client's business perspective and commercial drivers.
2. Business development – is seen by existing clients to market effectively and appropriately.

Management
1. Task management skills – controls the process of delivery to the client.
2. Team skills – encourages openness and co-operative working.
3. People development – gives staff responsibility and autonomy appropriate to their level of competence.

Personal effectiveness
1. Drive and commitment to results – goes beyond client's expressed requirements and meets their real need.
2. Resilience – recovers crisis situations; is resourceful at times of pressure and stress.

Social skills
1. Communication skills – speaks clearly and with impact.
2. Social confidence – is perceived to enjoy the company of a wide range of people.

Thinking skills
1. Analytical thinking – analyses large amounts of complex data, extracts essentials.
2. Proactive thinking – comes forward with ideas unprompted by clients.

There were problems on these changes, as David Westcott explained:

> A language problem existed because we were talking about performance, which had never really featured before. Time was no longer an issue. Disquiet around this was driven by the uncertainty many people were feeling - they knew where they were under the old system. Suddenly the whole thing was turned upside down.

Development centres were also established to which newly promoted senior managers were sent to identify personal development plans to prepare them for the role of partner. David Westcott explained their purpose:

> There had been some concern within the practice that the role of the senior manager, which is a very important one within KPMG but is largely a production and operational job, did not prepare people for partnership, which is more about relationships and social skills. So we ran a development centre as people were promoted to senior manager. It was initially seen as being to do with judgement, assessment and appraisal rather than development; but they have now been accepted and people find them very valuable.

In the past, appointment to partner was seen by many in the firm as dependent on a senior manager being seen by existing partners as 'the right sort of chap'. However, in 1994 Partner Assessment Centres were also introduced:

> Before anyone is admitted to partnership in any of the regions of the firm they have to have the approval of the UK board. The UK board had for some time expressed concern that their job had become one of a rubber stamp. Another concern was that a number of partners around the UK had been asked to leave the partnership within five years of their becoming a partner. We need something more rigorous. We needed to ensure that the competences we had defined for future partners were those in evidence or they had the potential to be. So in 1994 the board agreed to establish nationally two processes for partner admission. One was an assessment centre and the other was an interview panel which represented the board. It's much clearer now what it takes to become a senior manager and to become a partner because there is a greater openness in terms of the sort of behaviour expected of people. There are those who are upset that the patronage system has gone . . . but by and large there is a general belief that it is a better way of doing things.

Colin Sharman commented:

> It was the most unfair thing we've done really. What we were saying was the old system finishes here. Very justifiably a lot of the guys said 'until today I knew how to become a partner: you attach yourself to a powerful guy, keep your head down and you don't make mistakes; and he will see you all right'. That was the problem, there was enormous patronage in the system and at a stroke we took that away. For the first time the board was not going to accept someone bullying through his boy – and that had never happened before. Down the line people are saying 'OK the rules have changed but I know what I have to do and I can still make it even if I don't have a patron'. It is one of the key things helping us get behavioural changes.

Assessment centres were also adopted for recruitment. David Wescott:

> We asked if we were happy about the quality of the graduates that we were getting? So we introduced a new selection process, which incorporated a mini assessment centre whereas previously we, like all other firms of accountants, had relied exclusively on interviews. By introducing a new and very much more rigorous selection process for the 600 graduates that we take on we are getting a much higher acceptance rate of people we offered positions to. Our feedback from them is, (a) we seem to know what we want from a new recruit, and (b) we have made it difficult to join – and that has an attraction.

INTEGRATION INTO INDUSTRY BASED UNITS

It was Colin Sharman's belief that:

> Where we have been able to integrate things into the industry-based business units we have had unparalleled success. Consulting volumes delivered through the industry groups are growing like topsy. Where we have failed is in those bits we left in the skills groups.

There were certainly problems in integrating the consultancy practice. Alan Reid explained:

> There were very few consultants put into the industry business units originally. Two consultants headed up industry units because it was important that not all the business units were headed by auditors. But I would say maybe 70–80 consultants went into industry business units and 600 were left in the skills unit. So there was a very strong force of consultants left. I don't think that they wanted to be submerged below auditors. Our auditors are very suspicious of our consultants. If you actually assess them as separate business units, some of our most talented people are in our consultancy, but audit has performed better than consultancy. It is a lot to do with their marketplace and the nature of their work. We have to win £2 million of new work every week for our consultancy – our audit practice has a more recurring base of work. There is a lot of concern that they just don't understand each other. We had also grown consultancy by just adding on services; little cottage industries and boutiques here and there. They went in and sold the service they had to a client, worked hard in doing it, then came away again and left it instead of nurturing the relationship and trying to sell other services. They acted as 35 cottage industries.

COMMUNICATIONS AND FEEDBACK

Colin Sharman believed that one of the most significant means of change was communications:

> For example, internally we now do a report on the partners' conference. In the past it would have been a paragraph in the house magazine saying we had a partners' conference. What we now do is take a video of it, interview the partners as to what they think and then we roll that right out immediately after the partners' conference to tell everyone about it. I exercise very little editorial control over that.
>
> Then there is the UK-wide staff opinion survey. Some people say 'we shouldn't ask because they will tell us we are not very good'. Interestingly enough, the survey work I have seen shows that an awful lot of them identify with what we are trying to do, but that they think some of the partners need to change their behaviour. One of the things we are doing for this year's partners' conference is to give some feedback from the staff to the partners about partner behaviour and about what the partners are doing. The other thing that is being developed is upward appraisal. That's becoming accepted throughout the organisation.

The surveys conducted at this time showed mixed results.

In 1995, an internal KPMG attitude survey on the progress of the Leadership Project showed that staff and partners saw KPMG as above average compared with the rest of the Big Six, as a firm with a successful future and that job satisfaction was above average for a professional firm. However, KPMG was not seen as a people-oriented firm and development and career opportunities were still not clear. The Leadership Project had not yet impacted in a practical way on the way most staff worked day to day. Teamwork was not yet fully effective. And whilst relationships between partners and staff were seen as good locally, barriers still existed: there was still a sense of 'us and them'. This was borne out in a survey of the consultancy operation reported in *Accountancy Age* in February 1995:

> Over half of the 74 staff questioned said they would not recommend KPMG 'as a good place to work', nor did they 'expect to be with this organisation two years from now' . . . And well over 60 per cent said they only knew what was expected of them to a 'slight' or 'moderate' extent . . . A huge 82 per cent of staff named 'avoidance' as

a key feature, involving 'shifting responsibility, procrastinating and avoiding issues'. Power was another dominant characteristic with 'empire-building' at the fore. And while 90 per cent said that 'winning is valued and staff feel they have to outperform each other', just 20 per cent believed there was any 'value placed on constructive interpersonal relationships, friendliness and openness' within the KPMG culture. Similarly, just 16 per cent felt that any regard was given to 'coaching and developing people, being supportive and constructive'.

However, Colin Sharman argued that from a client point of view the benefits were clear:

> Clients love it. We asked them what they wanted and then we were able to sell it to them and they bought more of it. We've gone back and said, 'do you like what you're getting?' and by and large our clients are very positive about what we have done. We have put six points on our market share in the last four years.

Progress on the Leadership Project

An internal KPMG attitude survey on the progress of the overall Leadership Project showed that staff and partners saw KPMG as above average compared with the rest of the big six, as a firm with a successful future, and that job satisfaction was above average for a professional firm. However, it confirmed some concerns. KPMG was not seen as a people-orientated firm, and development and career opportunities were still not clear. The Leadership Project had not yet impacted in practical terms on the way most staff worked day to day. Teamwork was not yet fully effective. And while relationships between partners and staff were seen as good locally, barriers still existed: there was still a sense of 'us and them'. This was borne out in a survey of the consultancy operation reported in *Accountancy Age* in February 1995:

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Talking about the strengths and weaknesses of the change programme so far, Colin Sharman commented:

> Everyone has heard the key messages about leadership and change, and there is strong support for the concepts. What we have to achieve next is to translate the concepts into everyday actions everywhere in the business. Two contrasting recent examples: we've just retained a high-profile client, and pre-empted a tendering process through proactive contact and management of the relationship. This isn't startling — it's just what I expect from client lead partners. But we've also just lost a major client simply because for the past two years no one had asked them if they were happy with our services.
>
> I'd say we're where I thought we'd be at this stage of the change process. The next stage will be even more challenging because it's not just about changing systems and structures — which we've done — it's about really changing people's everyday actions and decisions at every level in the business.

Contrasting responses were also received when staff were asked in an informal poll what the Leadership Project means to them. For example:

> 'I have it in the back of my consciousness when I'm doing business development. I ask myself, "Can we be a leader in this?".'

'It hasn't been brought down to the individual level... so how do you know what to do differently?'

Learning from experience

Looking back on the developments since 1992, David Westcott reflected:

> Perhaps we did too much in too much of a hurry, but it is now actually working, so there will be others that say that we did it at the right speed. There were too many threads left untied in retrospect. It has had the required impact, but there were a lot of negative reactions which could have been reduced had we given ourselves a year, rather than six months, in which to do things. In the past there would have been great debate; it would have been decided by committees of partners and then dropped on an unsuspecting world. Suddenly, Colin opened it all up, said we were going to do this, here are the principles, here is what we are going to achieve, asked people for their views and then the infrastructure followed on.
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> We have got some superb HR practices and procedures, but we have variable quality in the nature of our people management. No amount of procedures or policies can necessarily affect this. There are those people around who will say, 'we've seen all this before, if we keep our heads down it will go away and we will carry on as usual'; so it's business as usual. And there are those who capture the vision and say, 'yes, we see the need for change and we will pursue it energetically'. All that HR were able to do was to provide the framework to support and effect that change. But change can only come about when the management of the units want it to happen, and visibly demonstrate that.

Colin Sharman believed that, although 'there was still some of the old politics lurking around', overall the changes had been a success:

> Individuals very clearly identify with the new units. And we've been able to capture the imagination of the troops with what we are doing with a lot of the newer initiatives. They will now say, 'well, we don't care what you middle-ranking partners say — you don't matter'. Our managers are now more confident. In the old days it was 'keep your mouth shut, keep your head down and patronage will take care of you'. Now it is 'we don't care, we have been told what is going to happen and you guys had better change, because if you don't you're going to get squeezed from the top'.
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> Clients love it. We asked them what they wanted and then we were able to sell it to them and they bought more of it. We've gone back and said, 'do you like what you're getting?' and, by and large, our clients are very positive about what we have done.
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> All the evidence that we can see from the market place is that we are number 1 or number 1 equal with Coopers. In terms of quality of service, we usually come out very high, usually ahead of Coopers. The question is whether we can continue to sustain that because others will respond. We are not making progress in the areas of innovation — we are seen as the premier prestige accounting firm that leads the market place. We are not being seen any more favourably in the areas of innovation, we have always been seen as a bit dusty, a bit conservative. However, we have put six points on our market share in the last four years.

The future

In 1995, KPMG announced that it planned to incorporate that part of its audit practice dealing with companies listed on the UK Stock Exchange or in the regulated financial services industry. One reason for this was the need to protect the personal assets of partners from increasing threats of litigation affecting the profession as a whole, especially in the USA. However, as the *Financial Times* reported on 25 January 1996, KPMG believed that the move would provide competitive advantages:

> KPMG felt that a stronger corporate management structure would give it an edge in competing with the looser partnerships of the other Big Six firms. With incorporation comes disclosure. Accounts will have to be published for the audit company, but KPMG has pledged that it will go further — it will produce full financial results for the whole firm. This has wrong-footed the competition, most of which are still pondering a response . . . KPMG's focus on auditing is a strategy which sets it apart from many of the other big firms. While some firms have boosted volumes by entering markets such as out-sourcing and information technology — and the implementation of services — KPMG is seeking to preserve the pre-eminence of auditing.

The *FT* reported the publishing of 50,000 copies of KPMG's annual report for the UK — the first major accountancy firm to do so:

> Why has KPMG become the first to disclose so much about what it still, legally, a private business? Whatever the truth, the firm's chutzpah is admired by most — albeit privately. The firm admits that it would have had to publish full results for the audit plc, but that its decision to open all the books was prompted by a desire to present a transparent business to clients and the general public. It feels the public has a legitimate interest in an organisation which audits 400 listed companies.

By 1996, Colin Sharman could reflect on four years of managing change in an increasingly competitive environment. However, his term as UK senior partner was due to end in 1998, and he also needed to consider what would happen to the Leadership Project and change programme without him.

> We have to get away from the idea of change as a project, with a beginning, a middle and an end. Change is continuous, and my prime objective is to turn KPMG into an organisation which continually renews itself. That's the only way we will be able to maintain our leadership position. Right now, I'm just providing the 'push' which gets that process going. Once the momentum gets going, change will be independent of me, and unstoppable by anyone else: it will simply become part of the way we do things in KPMG.