Law Firm Business Fundamentals: How to Run a Successful Law Firm

Firms that take the time to address business fundamentals now will be stronger now than they were before.

This is an ideal time to look at the fundamentals underpinning a law firm's business. We see four areas - costs, lawyer performance, client relations, and strategic focus - as requiring the most attention from firm management right now. Addressing these will ensure that a firm can take full advantage of what is available to strengthen it for the future.

Costs

Any firm that has not yet instituted a review of all major expenses over the past year should do so immediately. The review should begin by analyzing growth in specific expense items over the last few years and comparing them with benchmark studies. But the most effective part of the review is a study of the activities that result in expenses. Each activity should be assessed in light of the contribution that it makes to revenue generation and then graded as "essential," "required but deserving of study," or "of little or no use."

The activities in each category can then be examined in depth. "Essential" costs should remain, naturally, but attention should be given as to whether there is a more cost-effective means to achieve the same or a better result. For instance, a precedent database is an essential tool, but it might not be operating efficiently. Action might both improve its effectiveness and reduce costs.

A considerable number of costs will fall into the "required but deserving of study" category. These need to be analyzed carefully before being cut or reduced. For instance, many marketing expenses will almost certainly receive this designation. Broader marketing efforts of a firmwide nature can be questioned, unless they are directed at a part of the market where it is important to build name recognition. For this and other items in the category, the critical issue is to analyze each cost at a level where its direct or indirect contribution to revenue generation can be assessed.

Costs in the third category require some analysis, although many can automatically be cut if needed. The number of costs that fall into this category will be surprising. In some cases they will represent overcapacity-for instance, a resource was added during a high-growth period but not adjusted during a downturn. An example would be temporary support staff that has become permanent.

Still, don't lose sight of the indirect benefits that might enhance revenue generation. Cutting staff entertainment appears to be an easy saving-but what if it damages morale? The same is true of partner and practice group off-site meetings. Two critical questions to ask are: What would happen if we didn't incur this cost? and What would we do instead?

Lawyer performance

All firms need to review how they manage performance to ensure that everyone's performance is-at the least-acceptable. This should start with partners. They are the firm's costliest resource. Their underperformance hits the bottom line the hardest.

Managing performance requires a firmwide definition of acceptable performance that is clear and unambiguous. The definition should cover the key areas in which people are expected to perform and include measurable targets and goals for each area of activity. It is vital that the definition be in line with the firm's overall strategic requirements. Many performance management programs in use at firms today fall short on all counts.

Performance management is just as valuable at firms with lockstep compensation systems as it is at firms with merit-based systems. In a downturn, firms can be greatly damaged by tension that builds up within the partnership over differing levels of performance. High-performing partners might tolerate some underperformance in a merit-based or flexible lockstep system, but are much less tolerant in a pure lockstep system.

It is critical here to define "underperformance." Partners whose revenue streams are below average because of economic conditions affecting their practice areas are not underperforming if they are still putting in all of the required time in such things as marketing, client relationship management, and managing and mentoring associates. Underperformers are partners whose revenue streams are down but who are doing little to correct the situation. They sit in their offices as the work declines, arguing that they always receive their work from other departments, that they can't market their work, or that their regular clients have less work to give. This is unacceptable. Partnership requires the capability to generate revenue, find new clients, and develop new revenue streams.

In some cases, partners should focus on increasing their market share of higher-margin work-in other words, generating the same level of profit on a lower revenue base. Partners who keep their personal revenue up by doing lower-value work that would have previously gone to associates are underperforming just as much as those who do not chase work.

In some situations, it is clear that the firm has too many lawyers and that a readjustment is needed. There will be some associates recruited in the boom who should never have been taken on. They should be dismissed quickly. There will be partners who have never or rarely performed at an acceptable level. Action should be taken here, too.

For many firms, facilitating the departure of partners is just too hard, so they unwisely get rid of good associates instead. This results in lower leverage, which can have a negative impact and reduce the firm's future talent base. Removing underperforming partners allows work to be delegated to capable associates. It also helps morale-most associates know who the underperforming partners are and find it discouraging to see associates fired while underperforming partners remain.

Marketing and Client Relations

During a discussion of client relations, a partner recently asked, "If I don't have a decent entertainment budget, what can I do?" The answer is: plenty. Marketing and building client relationships is more about spending time than about lunch tabs. It is time for partners to go back to basics.

The starting point is identification of the core clients of the firm and each of its practice areas. If a firm is to strengthen its relationship with its core clients, it has to start with a realistic picture of the relationship as it stands today. Does the firm really understand the nature of its relationship with the core client? Is the relationship with the firm or with an individual partner? Does the client see the firm as its legal adviser or as the provider of a specific service or services?

The client's picture of the firm determines the firm's ability to market other services to the client. A client who sees the firm as a narrow specialist will not seriously consider the firm's cross-selling efforts. Therefore, after the firm does its initial fact-finding about the client, an objective interview with the client should be conducted. Ideally, this should be carried out by someone outside the firm, or at least outside the relationship.

The result of the internal fact-gathering and the client interview will allow development of a core client plan. This plan will contain a clear objective to be achieved at the end of, say, three years, and a series of actions directed at achieving the objective. In some cases it will be clear that the client is open to cross-selling. In others, it will be necessary to shift the client's perception of the firm and its capabilities before any real marketing can be done. In some cases, the appropriate initial actions will be to widen the relationship beyond one person. In others, it will be to make an existing team function more like a team than an ill-directed group of individuals.

Strategic Refocusing

Over the last five years or so, firms of all sizes have developed strategic plans and business planning processes for practice areas. Often these are seriously flawed and insufficiently robust to stand up to the competitive tests of what the market might bring. Many of them reflect little or no sense of the way the firm is positioned in the market, no clear focus for the future, and no sense as to how the firm can improve its competitiveness. For the most part, they are a mix of wish lists and improvement plans. They set targets that sound good but are neither realistic nor achievable. Many of them have no relationship to the firm's hoped-for future positioning [which isn't always clear to start with]. The plans contain lists of actions, some of which are statements of intent, not clear-cut actions. Some of the proposed actions are disconnected from anything else in the plan, while others might cause some improvement but won't much affect competitiveness. Some of the so-called strategies are of inordinate length and represent a past history of the firm, with very little that is relevant to strategy as such. Others are brief but contain meaningless, vacuous statements-more platitude than meat.

In any economy, the most successful firms will be those with effective and robust strategies. In every market, truly focused firms come out stronger than when they went in. Less focused firms fall behind the competition and almost never make up the gap. It is vital, therefore, for a firm to conduct an in-depth review of its existing strategy and decide whether it is appropriate for the next few years. Some firms fill their so-called strategy statements with a set of nice words about the type of firm they want to be but no desired strategic positioning. Alongside this are the extraordinary number of strategies that are developed without meaningful input from clients, prospective clients, or others who understand the market. Some firms use a client satisfaction survey as input, but that is usually inadequate. Surveys tell you whether a client is satisfied, but there is little concerning the firm's relation to competitors or market trends.

An effective strategy is one that enables a firm to compete more effectively for its target work with its target clients. Defining "target work" and "target clients" is critical. Too many firms have fudged this. Firms cannot be all things to all people. Competitive requirements vary widely across client types, practice areas, and geography. Focusing on selected client types and practice areas allows a firm to develop clear competitive advantages.

Effective strategies are built on the following:
deep understanding of current market trends and changes in competitiveness, as well as of the firm's **current position** within a dynamic market context;
selection of a future market position that is real and recognizable; and
identification of core client types and core practice areas consistent with desired market position.
This research enables a firm to identify what it will need to compete more effectively in the future and what it will have to do to achieve a better level of competitiveness. Clear goals, targets, and actions can be established to push the firm toward its desired market position. It's the lack of clarity that many firms have about these elements that turns their plans into wish lists and statements of intent. It's why many of the actions they set out concern nonstrategic issues and are disconnected from enhancing competitiveness.

Achieving this clarity is tough-it requires facts, analysis, interpretation, vigor, and discipline. The short time that law firms have had to come to terms with these concepts makes it unsurprising that they are not well equipped to develop effective strategies. Nevertheless, the market is often uncompromising and unforgiving. Firms that lack effective strategies are likely to suffer at the hands of more competitive firms over the next few years, and the gaps that open in the market will not be bridged as the economy changes. Such planning should take place no matter what the market looks like.

We are not suggesting that law firms have not made improvements in the areas of costs, lawyer performance, client relationships, and strategic focus over the past decade. Nevertheless, competition is intensifying, and there are a small number of firms in every market that are much better placed to exploit strategic opportunities than the majority. These kinds of issues must be grasped quickly if a firm wishes to be successful over the long term.