

PETER SCOTT CONSULTING

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A crisis? What crisis?

I am increasingly detecting a certain complacency creeping back into law firms, now that they think the worst is over and because in some areas of work they are now receiving more instructions. However, work is unlikely to ever come back as it was before the financial crisis because the world has changed, and law firms need to change with it if they are to survive.

As Professor Richard Susskind said in a speech in May 2009

*“There seems to be a disturbing strategy of hunkering down, cutting some fat and hoping that business will return to normal. That is not good. The terrain will look very different when this is over. **This is not a minor blip, but a discontinuity**”*

Some firms and their partners are still hoping they will be able to pick up from where they left off in 2008 and continue to operate as if nothing has happened. However, the process of remaining competitive in the market for legal services is not a forgiving one because -

“Competition is a process by which ...

- *services that people are not prepared to pay for,*
- *high cost methods of production; and*
- *inefficient organisations are weeded out*

and opportunity is given for new...services methods and organisations to be tried”
(Everyman’s Dictionary of Economics)

That is a process currently taking place in the legal profession and the pace of that process is only likely to quicken.

How many firms have now put in place well thought - out plans whereby they –

- really understand the services their clients will in the future require, and are now providing those services?
- have worked hard to re- engineer the way in which they do their work so they can provide their clients with what their clients regard as ‘value for money’? and
- have streamlined their organisations by driving out inefficiencies and benefited from economies of scale brought about by consolidation?

In PwC's annual report this year on the legal market it was said –

“Worryingly, with almost a third of law firms outside the top ten recording disappointing net profit margins, our view is that unless these firms can radically restructure their business, their short to medium – term survival must be in doubt”

What form of 'restructuring' needs to take place in many law firms if they are to survive, and how can firms approach the process?

Managing change in fast-developing legal markets requires a **continuous** process of forward planning, decision – making and implementation as -

- clients rethink their own plans for the future;
- new markets emerge and existing markets contract or disappear;
- technology continues to develop, enabling those firms which are innovative in their use of technology to become even more competitive;
- commoditisation of legal work continues, in relation to both consumer and business markets;

The restructuring of a law firm's business will require its owners to challenge their previous thinking about the business, where it should be going and, in particular, what they collectively and individually want to achieve for the business and for themselves. They should take a reality check.

The systematic analysis, planning and decision-making processes a law firm needs to go through to restructure to arrive at a competitive model will inevitably need to focus upon those factors which are now bringing about change. All the forces being exerted on a firm and its marketplace need to be taken into account to ensure that the owners of the business really understand the reality of their situation -

- Which types of clients should it act for / realistically expect to be able to act for?
- In which sectors should it operate / realistically expect to be able to operate?
- What services will those clients and sectors require in the future and how will they require those services to be delivered?
- What levels of performance will those clients and sectors expect?
- Will the firm's people be prepared to perform to the higher levels required to meet those challenges?

If a restructuring plan can be formulated which realistically recognises the true nature of the business, its people and its market positioning, and ambitiously but realistically sets out a *vision* of what the business can become, given available resources, then that plan is more likely to stand a chance of being realised.

Law firms are 'people businesses' and so a firm's people are likely to be the most appropriate place to start if a firm is looking at restructuring its business to enable it to compete in the future. In today's competitive legal markets, any law firm that wants to be successful must ensure that the performance of its people (and of its partners in particular) is actively managed. Ensuring that a law firm's people are highly trained, skilled and motivated should therefore be a critical objective if a firm is to achieve a competitive advantage over its rivals.

Firms should in particular ask themselves whether they have the people on board who will enable firms to achieve their goals. Focusing on some of the following questions may help to identify issues which will then need to be addressed. Try to answer 'Yes' or 'No' to these questions about your own firm -

Are all your partners prepared to be managed?

Are all your partners 'passionate' about building your firm?

Are all your partners 'hungry'?

Do all your partners want to earn more?

Are all your partners prepared to stretch themselves?

Do all your partners have sufficient financial discipline?

Are you making sufficient investment in your people to develop their skills and encourage behaviour which will help you to build future success?

Have you agreed with your partners the performance criteria and levels of performance required of them?

Are all your partners prepared to change the way they work and behave to enable your firm is to achieve its goals?

Can you say you have no under - performing partners?

Do you know how much under - performance is costing you?

Are you able to recruit and retain the best people for your business?

Do you have succession plans in place?

Should all your equity partners really be equity partners?

If you have answered 'No' to any of those questions, then unless such people issues are first faced up to and dealt with, it is unlikely that your firm will be able to achieve its objectives. To do so is likely to involve a firm having to take some difficult decisions but unless those decisions are urgently taken then the problems will only fester and get worse.

Many critical people performance issues can best be resolved by '*taking people with you*' because success in many cases is unlikely to come from telling partners what to do – it will more likely be achieved by winning hearts and minds. Managing change is never easy and there is no simple or just one way to achieve it.

The future for many law firms currently looks uncertain and survival is likely to depend upon how determined they are to now take action to get themselves into shape to meet and overcome the serious challenges facing them.

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