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Briefing Note February 2013

The resource problem

These are challenging times for law firms and it is only those firms which are able to develop their businesses in ways which enable them to gain a competitive advantage and outperform their rivals which will turn out to be the winners. The ability to perform at a higher level than rivals in tomorrow's legal markets will in particular depend upon having or developing certain key *resources*, for example having more highly skilled and trained people, or using its service delivery systems more effectively than rivals.

A useful definition of *"resource"* in this context is *"something to achieve one's purpose".*

It is likely that the current purposes many law firms are seeking to achieve will include –

- Survival strategies, in the case of those firms which may consider themselves to be 'at risk' from market forces and new competitors with deep pockets which are now coming into their markets, and which are threatening to destroy their businesses.
- The need to provide clients with the depth and breadth of appropriate expertise which clients now need and demand, delivered more efficiently across wider markets,
- The ability to be able to attract and retain the best people.
- The necessity to have a management support infrastructure and know how / expertise to underpin the effective and efficient provision of the high quality legal services which the market place now requires.
- Greater critical mass to provide enhanced ability to exploit opportunities which arise and to provide clients with the services they now need, and when and where they need them.
- More effective risk and compliance management in the face of new regulation and a changing PI market.
- Improving the quality of working life of all the people in a firm.
- Building a level of sustainable profitability greater than is achievable at present.

Identifying that *'something'* which will enable a law firm is to build its competitive advantage is now the critical task. However, providing sufficient resource to achieve many of the above purposes is in reality beyond the pocket of many firms and if they wish to successfully continue in business then they must find other ways to compete in their markets.
A topical example (which is a serious and pressing problem for many smaller firms) is how they will be able to resource their compliance and risk management and in particular how

they will be able to afford the resources required to enable their COLPs and COFAs to effectively carry out their roles to protect themselves and their firms. Many will not be able to satisfactorily manage their compliance risks, with the inevitable consequences which may follow from that.

Given such challenges now facing law firms, any firm which continues to try to sell services which clients do not want and which has an inefficient organisation with high cost methods of production, will be weeded out and opportunity will be given to those who can deliver the value for money services which client want.

What resources and attributes will law firms need to develop or acquire to become competitive in this new legal landscape?

I would suggest that as a priority, law firms will need to focus on the fundamentals of their businesses. The things that really matter in a law firm are -

- the **clients**; and
- the firm's **people.**

The only real test of success for a law firm is 'client satisfaction' and therefore efforts need to be focused on getting a firm's people to give priority to delivering this. Anything less will not do.

If law firms can focus their efforts on these fundamentals so they are aligned and working in tandem, then they are more likely to outperform rivals.

However, before a firm can provide clients with what they will want from a law firm , it will have to find out what clients need and in particular identify the factors which determine client choice when deciding which law firm to use.

Client surveys tend to show that the factors determining client choice of law firm include:

- consistent delivery and results
- skills and technical expertise
- size and depth of capability
- specialisms (and the way in which specialisms are delivered)
- 'brand / big name' – the right advisor for the right problem
- fee levels which represent 'value for money'.

Such drivers of client choice if they are to be competitively delivered will require that a firm first has a clear and achievable strategic plan, and for this purpose an appropriate definition which can be employed is -

- *a realistic plan or course of action **to gain competitive advantage**;*
- *which has clear and achievable objectives; and*
- *uses available **resources** (or resources which a firm can see its way to generating)*Thus resources of a law firm are central to achieving its competitive advantage and need to play a central part in its strategic planning.

However a business strategy may not be viable unless a firm has control over certain resources that have the ability to create for it an advantage which means that it can outperform its rivals.

This is the crucial issue – a firm may have developed a clear plan to compete but it will only be an achievable plan if it has or it will be able to generate sufficient resource on its own to achieve its goals.

If not, then a firm may need to consider whether there is a need to combine in some way with others to create a degree of 'critical mass' to provide the resource which an individual firm cannot realistically and at an economic and acceptable cost provide on its own.

In this Briefing Note I suggest three possible ways (there may be others) of combining to gain that competitive edge which so many law firms now seek –

- Merger (or acquisition) between two firms
- Joining a 'network'
- Creating (or joining) a new 'national' firm by bringing together a number of like – minded firms in appropriate locations. They could even be firms from various professional disciplines under the umbrella of an ABS.

Merger

Many firms recognise after carrying out detailed reviews of their markets, that they have certain strategic needs. For example, some have correctly concluded that they need a strategy of **focused growth** if they are to gain a competitive advantage and outperform their rivals. Some of those firms have also recognised that they have insufficient resources (in particular of finance and manpower) to enable them to achieve their ambitions organically and on their own. Whilst their strategy of focused growth is likely to be a sensible and viable way forward, they cannot see their way on their own to filling the gaps in their expertise in their chosen areas of work. For them, merger with or acquisition of an appropriate firm is likely to be a means to build a stronger platform for growth.

For a case study of a successful merger negotiation, see the Briefing Notes of February 2012 and March 2012 at www.peterscottconsult.co.uk

However, merger is not a panacea – it is merely a means to an end; that is to build a better resourced and a more competitive and profitable firm.

On the other hand, for some law firms merger as such is not the preferred or an available route and for these reasons many firms have looked at or are currently considering joining a 'network'.

Networks

"Network" is a convenient shorthand term for collaboration between law firms and can take many forms, including franchising, federations, and other forms of alliance, and can be as "tight" or as "loose" as is required to meet the particular needs and ambitions of the parties.

Are ‘networks’ a competitive way forward for some law firms?

Given the regulatory changes which have come about, there has been much debate about whether smaller and mid-size law firms can improve their competitiveness by becoming members of “networks‟, which can begin to compete with both the potential new entrants to the legal market and with existing larger and more developed firms for better quality, higher value work, leading to greater competitiveness and profitability.

Networks are not new - internationally, networks have been successfully used by law firms and accountants for many years. However, whether a stronger trend towards networks in the UK will happen to change the face of parts of the legal profession so that clients will choose to buy from network members instead of from others in the market will very much depend on what individual member law firms want from networks and how far they and those who run the networks wish and are able to develop such organisations. Ambition and vision are key factors in developing a successful network.

Why ‘networks’ as a collaborative option?

A growth strategy designed to build competitive advantage for a law firm will very much depend for its success on having sufficient people and financial resource available if it is to be able to provide its clients with the services they want, where and how they want them delivered and at a price which in the eyes of clients is *value for money.*

If a firm can realistically achieve its objectives by itself, then it probably does not need to collaborate as part of a network. But how many firms will in the future be able to successfully go it alone? Internationally, even some of the largest UK law firms ‘alliance’ with overseas law firms when and where it suits their needs. In particular, how many small and mid-size law firms can confidently say they will realistically be able on their own to develop at acceptable economic cost the resources necessary to achieve their objectives within the timescales they have set themselves?

At the heart of a well-constructed network will be the ability to provide its members with access to resources which no individual member could realistically provide on its own. This may mean that certain resources are most cost effectively and best provided from one central source for the benefit of all or alternatively, using the benefits of scale and the buying power of a larger organisation, are bought in at the local level. Purchasing professional indemnity cover via membership of a network is an example of how this can work well in practice.

A network, if it is in reality to create a new competitive advantage for its members, must be able to provide them with a real possibility of together being able to “steal a march‟ on their rivals, and not only their current rivals but also those firms which are already better resourced and more developed.

Membership of a network should not be regarded as an objective on its own – it is a means to an end; to enable its members to gain a competitive edge. Those considering participating in a network should at the outset clearly identify their objectives in joining the network and ensure that they really do have compatible ambitions with the aims of the network and with other members. For example:

- Do they all wish to go in the same direction?
- Are their priorities for building the network the same?
- What is the ultimate destination?

A tight network, initially working towards operational integration may for some firms be a practical way forward to achieve their goals. However, the ultimate destination will need to be clear and agreed at the outset. Moving towards financial integration in particular may in some cases be desirable or necessary if mutual goals are to be achieved (see later for commentary on creating a new 'national' firm).

On the other hand, looser networks with no clear "route map‟ for creating a competitive edge for its members will need to be looked at in a different way, and consideration will need to be given to whether membership will really help a firm to satisfy its specific needs. Ideally, the ambitions of the network and those of individual members should be aligned.

Added value from the clients' point of view?

The successful network will be the one which is seen by clients to benefit them rather than just the parties involved.

- How will clients benefit?
- What will they get out of it?
- And when they hear about it will they say ***"WOW – that will be great for us‟.*** The "WOW‟ factor is very important in helping a firm to judge how successful a network is likely to be. What is going to produce this "WOW‟ factor?

Firms contemplating becoming part of a network (whether of the tighter or looser variety) will need to develop in particular the notion of client added value as being central to their membership and ensure that it is effectively communicated to the market place.

How can they do this?

Identify the 'added value' a network can bring

The members of a network will need to identify those areas of their businesses that are going to both benefit from and in turn help to be drivers of a network and then make them their focus to take forward their collaboration. We are here talking about what a network and its members will become known for and this will often be something which none of the parties can currently achieve on their own without collaboration with others. The business case must be right and then implemented. In particular, members' needs will have to be clearly satisfied and realistic ambitions seen to be achieved by being part of the network. A firm if considering joining a network will need to ask itself what it is really looking to get out of membership and whether the network will help it to achieve its goals. And when joining a network, firms will need to be clear as to their territories. For example, will the whole of a firm's business join a network or a part only?

Quality and Performance issues

In a network as in any other organisation, quality and performance will need to be managed:

- How are quality and performance expectations to be defined in ways that make sense to members and in particular to clients?
- What quality and performance expectations should each member have about the others?
- How are members going to control and manage -

- Levels of client service?
- Quality and risk?
- Regulatory and compliance issues?
- Pricing policies?
- Sharing of know – how?
- Sharing of fees?
- Branding?

Branding

In recent reports regarding networks, much has been made of the ability of firms to ‘plug into’ a ‘brand’. However, a brand is not just a recognisable name, but something which reflects the substance of a law firm in terms of the quality of its people and the advice and added value it must be determined to provide to its clients. Satisfied clients are the key to building a profitable law firm and the only real measure of success.

In a world where branding is all important, how is the brand of a network to become known in a way that makes sense to clients and each of the member firms? Even more important will be the question of whether and how the members of a network build their respective brand values into the network’s brand? Branding is about the substance of and comes from within an organisation.

To build a ‘quality brand’ network delivering legal services will require ‘quality’ to be built into every aspect of the operations of each member of a network. This will require stringent quality audit and review procedures to be accepted across the entire organisation, because *a chain is only as strong as its weakest link.*

Work at it

Networks do not work unless worked at by everyone. Members of a network and those who are directing the network will need to examine what practical steps each must take to ensure success. What a network stands for and how it can help each member achieve agreed goals will need to be communicated throughout all member firms so everyone can buy into the relationship and work at it.

Working together

Members of a network must also get their people working together. Law firms are people businesses and success will depend on having the trust and confidence of the people in the organisation. Whether an individual law firm or a collaborative network, effort will need to be made to integrate the people from each part of the organisation to make sure they work well together to achieve agreed objectives.

Ultimately however, networks usually succeed or fail depending upon whether -

- The organisation has a clear vision of what it is trying to achieve for its members; and

- The members wholeheartedly buy in to that vision and have a determination to make it work.

The above discussion of ‘networks’ leads on to a third possibility - a new ‘national firm’.

A new ‘national firm’

At least one of the major ‘national’ firms started out life as a ‘federation’ of six or so individual firms which over a period of years created a wholly integrated law firm and has since gone from strength to strength.

Consolidation between law firms to achieve the purposes listed on page 1 of this Briefing Note may need to go beyond just one - off mergers between two individual firms or the creation of networks as just discussed.

To achieve those purposes may, for some law firms, involve building a law firm across the UK and in London, which over a given period of time, will become “greater” than the sum of the individual firms which comprise it.

‘Greater’ will need to be measured and judged by the improvement perceived by clients, partners and employees of such a larger and stronger firm to be able to compete with the best in its chosen markets.

To achieve this is likely to require -

- Creating at the outset a platform for future growth which will have a larger capital base and bring economies of scale to enable such a combined ‘national’ firm to achieve goals the individual firms which comprise it could not achieve on their own.

- Building a “brand” which can begin to compete with larger, more developed law firms for better quality, higher value work, leading to greater competitiveness and profitability. The “brand” which is developed must not be just a well - known recognised name, it must reflect the substance of the firm in terms of the quality of its people and its clients, as well as the advice and added value it must be determined to provide to its clients.

Building a ‘national’ firm to achieve these objectives could be implemented in a number of ways. For example:

- by bringing together firms which in their own regions are regarded as market leaders, which share such a vision as set out above and are prepared to work hard to make that vision a reality; or

- alternatively, because being competitive will increasingly require firms to be more focused on their client-type / work – type / value mix, then it would make sense to bring together a group of already highly focused firms into a larger, better resourced and market – leading specialist national firm.

Turning such a vision into reality would not necessarily initially require ‘full merger’ in the sense of complete financial integration. If merger as such is not immediately achievable a tight federation could be created under an ‘umbrella’ organisation, working towards in the short term, operational and management integration and in the longer term, seeking to create a fully financially integrated firm. However, a law firm is about people and getting people working together would be the key to building such a successful new national law firm.

The undoubted success of several of the leading national law firms, which driven by a need to become more competitive, developed from their regional markets and combined with London firms to build national (and subsequently international) law firms, is evidence that such a vision can be successfully turned into reality.

The need for access to greater resources on the part of law firms today if they are to outperform their rivals is arguably even greater now than when the original national firms were created.

A new legal landscape now beckons for those with the vision, ambition and determination to grasp the opportunities to achieve their destinies.

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