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Are 'networks' the way forward for some law firms?

In the run-up to the regulatory changes later this year, there has been some debate about smaller and mid-size law firms becoming members of 'networks' in a move to build so-called "brands", which can begin to compete with both the potential new entrants to the legal market and with existing larger, more developed firms for better quality, higher value work, leading to greater competitiveness and profitability.

'Networks' can be 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 'tight' or 'loose' depending upon the particular needs and ambitions of the parties.

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

It is however becoming clear that there is an urgent need for parts of the legal profession to become more competitive by developing:

- Survival strategies for firms which consider themselves to be 'at risk' from market forces and new competitors with deep pockets, which are threatening to destroy their businesses.
- Greater access to certain markets and market knowledge which may currently be lacking
- A greater capability to deliver more efficient legal services across wider markets
- More cost-effective ways to service certain types of clients
- Enhanced ability to exploit opportunities which arise
- Greater critical mass and market share if firms are to be able to provide the value for money services many consumers are now demanding
- More effective compliance in the face of new regulation and increasing PI premiums.

To successfully achieve the above will require *resource* which is a critical factor in building competitive advantage. To do so is beyond the pocket of many individual firms and if they wish to continue in business then they must find other ways of providing the resource necessary.

In this Briefing Note we consider whether it may be appropriate for some law firms to collaborate through networks to provide resource at an economic and acceptable cost in order to:

- Meet the multiple threats and challenges which many small and mid-size firms now face, in particular from the increased competition which is being brought about, inter alia, by the Legal Services Act, government cuts and a difficult PI market.
- Provide to clients the depth and breadth of appropriate expertise which clients now need and demand, where they need it and when they need it, by being better able to attract and retain the best people and by creating, for example, '*centres of excellence*'.
- Provide the necessary management support infrastructure and know how / expertise to underpin the effective and efficient provision of the high quality legal services which are now demanded by the market place.

Why 'networks' as a collaborative option?

A growth strategy designed to build competitive edge 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? 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 strategic 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.

Further, will the network really represent a new competitive advantage so that its members will together be able to 'steal a march' on the competition?

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

- Do they 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 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.

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

Client added value?

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 tight or looser variety) will need to develop in particular, the notion of client added value as being central to their membership of the network and ensure that it is effectively communicated to the market place.

How can they do this?

Identify the 'added value' the 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 the network and then make them their focus to take forward their network 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 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 really 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 to be defined in ways that make sense to all 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 for example :
 - 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 in to a 'brand'. However, a "brand" is not just a recognisable name, but something which reflects the substance of an organisation, 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 to each of the member firms? Even more important will be the question of whether and how the members of the network build their respective brand values into the network's brand – because branding comes from *within*.

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 the 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 itself will need to examine what practical steps each must take to ensure success. This must not be confined to those who are 'managing' the network or just

a few people in each member firm. What a network stands for and how it can help each member to 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 depends upon having the trust and confidence of the people within an organisation. Whether an individual law firm or a collaborative organisation such as a network, effort will need to be put into integrating the people from each part of the organisation to making sure they work together well to achieve agreed objectives.

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

1. The organisation has a clear vision of what it is trying to achieve for its members;
and
2. The members wholeheartedly buy in to that vision and have a determination to make it work.