

PETER SCOTT CONSULTING

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How fit for purpose is your firm?

Law firms succeed when they are **competitive**. They fail when they cease to be so. Therefore achieving a competitive edge over rivals is the Holy Grail for many.

Identifying what will make a firm competitive and then testing those components to see whether they are of a **good enough standard** to achieve the level of competitiveness required is an essential part of the process of achieving and maintaining that competitive edge over rivals.

We tend to use many definitions of **competitiveness**. For example –

- Being more successful than others (but we often do not define ‘successful’)
- Being better than others (but again we do not define what ‘better’ means)
- By selling services at lower prices than rivals
- By differentiating services from those of rivals so that buyers will be prepared to pay higher prices.

All of those ideas can feed into becoming competitive which has been defined* as 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 process is an on-going one in the legal profession today where there is increasing focus on what clients really want from law firms and how much they are prepared to pay, how firms need to become more productive so they can be more price competitive and how law firms need to be agile if they are to successfully identify and respond quickly to threats to their businesses and to take advantage of opportunities.

The following questions focus on a number of these issues.

Clients

Planning for a law firm's future competitive direction and growth needs to be client-driven and requires continuous research, analysis, planning and decision-making.

Is your firm achieving a good enough standard to ensure your clients are satisfied with your services?

Do you in a planned and methodical way talk to and **listen** to clients, prospective clients and referrers of work, about –

- How you are perceived in the market place?
- Your capability gaps and improvements needed to your service to ensure client satisfaction?
- Their legal services needs in the future?
- Your strengths and weaknesses compared to competitors?

Do you know –

- What are your most profitable opportunities?
- What is the potential demand for your specialisms?
- Where your firm should position itself and build capability to gain more profitable business?
- How you can generate more revenue from your current client base?
- How you can reduce the risks of losing clients to competitors?
- In which of your clients there is untapped potential for categories of work you currently do not do for them?
- Where in your referral relationships there is untapped potential for more work?

Are you now in the right place in relation to your strategic focus

Do you know the hurdles which exist in your firm that need to be overcome for your firm to achieve its goals?

Your people

A law firm that is determined to be successful must ensure that the performance of its people is actively managed. Ensuring that a law firm's people are highly trained, skilled and motivated should therefore be critical objectives.

Are your people achieving a good enough standard to ensure client satisfaction and to achieve your objectives?

Do you have the right people in the right places to enable you to achieve your objectives?

Have you agreed with your people the performance criteria and target levels of performance required to ensure client satisfaction?

Do you have in place a process of feedback and development review to manage performance?

Is your feedback and performance development review system effective in building high performance?
Are all your people prepared to change how they work and behave to achieve your agreed goals?
Do you have any underperforming or badly behaving people?
Do you know how much underperformance and bad behaviour is costing you (not just in direct financial costs but in the cascading damage that can be caused throughout the firm)?
Are you able to recruit and retain the best people for your business? If not do you have a strategic recruitment plan?
Do you know what your people want from their careers?
Does each person in your firm have a clear career plan?
Do you have succession plans in place to secure the future of your firm? - When do your partners wish to retire? - How do they propose to bring on new partners to take over their practices before they retire? - Will you have the right people in place to achieve your strategic objectives?
Are your admission and progression policies sufficiently transparent so that aspiring partners know what will be expected of them?
Are all your people prepared to be managed?
Are there sanctions on a partner who refuses to comply?
Are the skills and behaviours you say are valued in your firm appropriately and fairly rewarded?
Is your firm making sufficient investment in people to develop the skills and behaviours required to ensure client satisfaction?
Are all your people willing to expand their knowledge in new areas and develop new skills?
Do all your partners – - Form strong relationships with clients? - Understand and manage clients' expectations? - Have good team working skills? - Manage people well through helpful supervision, feedback, coaching and tackling poor performance?
Do you know what the people risks are to the future of your firm?

The efficiency of your organisation

The needs and ambitions of the people in a law firm need to be supported and facilitated by organisational structures designed to help and not hinder the development of a firm. The two need to be aligned and operate in tandem if a firm is to successfully achieve its goals.

Traditional organisational structures which have served their purpose in a slower moving and simpler world may no longer be sufficient to help meet the challenges facing much of the legal profession and to manage the changes now being forced on many firms. Law firms need to be agile, and to be agile they must focus strongly on change management, have quick response times to threats and strategic opportunities, have streamlined decision – making processes and have people who are open minded, flexible and prepared to learn new skills and ways of operating.

As a result, firms now need to consider afresh how they organise themselves to meet these challenges if they are to prosper. However, well - designed management structures on their own without the presence of great people will achieve little. On the other hand even great people are likely to be held back if the organisational structures within which they must work are *not fit for purpose* and are preventing a firm becoming agile and more competitive.

Are your organisational structures good enough <i>to ensure your firm can meet the challenges now facing it?</i>
When did you last review your governance documents, your decision-making processes and the composition, role, authority and responsibilities of your organisational structures?
Do you have the structures and people in place to: <ul style="list-style-type: none"> - Identify the key issues and challenges you face? - Manage the changes brought about by those challenges
Do you have adequate leadership and a 'Top Team' in place <ul style="list-style-type: none"> - To challenge every aspect of your firm's operations and every assumption on which its current plans are based? - To develop and communicate a realistic and achievable vision for your firm to inspire your people and which they will believe in and follow? - To build consensus that change is necessary and to implement that change?
Is your decision-making sufficiently streamlined to enable you to deal quickly with threats and strategic opportunities?
Do you have the means to adequately manage projects such as an office move or new office, a merger or acquisition or a new IT system?
In relation to the functions of finance, business development, risk and compliance, HR, training and development, IT, knowledge management and innovation - <ul style="list-style-type: none"> - How are they currently organised and managed? - Is each managed by the '<i>best person for the job</i>' - How are these functions internally overseen and co-ordinated? - Are there more cost-effective ways to manage these? - Are any of these functions outsourced and if not, then should they be?
What changes should now be made to your organisational structures?

Your financial management

Successful financial management should be regarded as a strategic goal to underpin a law firm's ability to develop and achieve its ambitions. For example, the ability to '*recruit and retain the best*', which will be a critical element if law firm is to achieve a competitive edge over its rivals will not be possible without the ability to remunerate people at a level which they perceive is at or above the market rate.

Is your financial performance good enough *to enable you to achieve your ambitions?*

Do you know:

- The profitability of your clients?
- The cost of carrying out types of transactions / types of work?
- The profitability of types of transactions / types of work?
- The financial performance of each part of your firm?

Do you have the appropriate level of financial expertise in your firm?

Do you consider you should be able to make more profit from your existing level of business?

Do all your partners want to earn more?

Do all your partners understand how to generate profit and cash?

Do your partners feel confident to 'talk money' with clients?

Do all your people understand the financial reports provided to them and do they take appropriate action on them?

Do you know how much more profit you would make by:

- Each fee earner capturing an additional 15 minutes per day of matter related time?
- Increasing your charge out rates by £10 per hour and fully realising that increase?
- Reducing by 50% the amount of WIP you write-off?

Do you regularly test your KPIs to ensure they are telling you what you need to know about your business?

Do you use all the information provided by your KPIs?

Can your KPIs be simplified and made more effective?

Are you certain you have adequate financial resources to continue in operational existence for a period of no less than 12 months from now?

Your exposure to risk

“It has got to make financial sense, but you have to see risk management as one of your strategic objectives. Business resilience is actually a competitive advantage”*

*Lenoire, C., head of FM Global's risk consulting division, as quoted in an article by Miles Costello in *The Times*, 21 January 2013, p.36

The connection between measuring and managing risks to reduce or eliminate the possibility of suffering loss and as a consequence, creating a law firm capable of outperforming its competitors to gain a competitive edge, has not always in the past been understood. However, it is now increasingly recognised that a more resilient business is likely to be -

- More profitable (lower PII premiums;
- More attractive to invest in;
- A place in which people want to work; and
- Have a higher reputation (claims against firms can kill reputations).

If a law firm is seen by its clients to be effectively managing the risks in its own business, then those clients are more likely to choose that firm to help them manage the risks in their businesses.

Does your exposure to risk mean your risk management is not good enough to enable you to achieve your strategic objectives?
Do you know all the risks to which you may be exposed in each area of your business?
Do you have gaps in your knowledge of your risks?
Do you know where knowledge of all your risks is stored?
Is that knowledge under your control?
Do you have controls and procedures in place to manage all the risks in your business?
Are your controls and procedures embedded into your systems in a way that they cannot be bypassed?
Do you have systems in place which enable you to monitor on a regular basis those risks and to review the effectiveness of your risk management procedures?
Do you have controls in place to vet both existing and new clients?
Do you risk test every new matter?
Do you have a professional risk manager?
Do you train your people to be aware of the risks in your business?
Are there sanctions on people who do not follow your risk procedures?
Do you have contingency plans in place to limit damage to your firm in the event of a risk crystallising?

There are of course many more aspects of a law firm which will always need attention, but if a firm can ensure that it is effectively dealing with the above, then it is likely to be making progress towards becoming *fit for purpose*.