Allocating Scare Resources

"Because every firm's resources are finite, strategic decisions always involve what not to do as well as what is to be done. In fact, the two best indicators of a functioning strategy are how often and under what circumstances a firm and its leadership say 'No' to attractive (but nonstrategic) opportunities."

Lorsch and Tierney, Aligning the Stars

Lorsch & Tierney's salient observation rings particularly true in today's competitive legal industry: Like most other businesses, law firms face limits on the availability of internal resources. Compensation dollars, management time, the marketing department's attention, energy spent on lateral recruiting all represent scare resources. And because such resources are limited, law firms must choose: Which practices, industries, geographic markets or other opportunities represent the best strategic investments? The answer to these questions provides the foundation for a firm's strategy. By identifying areas which offer the greatest market opportunity and which best leverage the firm's existing strengths, firms define when they will say "yes". Areas not identified for strategic focus are more likely to hear "no" when requesting additional resources.

For some firms, the notion of prioritizing one investment opportunity over others in order to benefit the entire firm is possibly threatening and certainly difficult. Their partnerships fail to recognize that resources are, in fact, scarce. Or they may recognize the scarcity of resources but a lack of clarity in the firm's strategy means that each practice, partner or initiative believes that their opportunity is the most important. As a result, they allocate resources haphazardly across all practices and markets, leading to an uncompetitive and diluted strategy. These firms miss the opportunity to develop the talent and clients in high priority growth areas which could make their firm more successful and distinguish it from others in the market. Strategic differentiation represents an elusive and likely unachievable aim.

Many of the most successful firms in the world have achieved their illustrious market position and financial results due to efforts to focus their firm – allocating scarce resources to their best investment opportunities. They have successfully pursued a path for developing clear and coherent strategies which prioritize specific practice areas, industries and geographies for investment. Their success draws out the critical question – how does a firm identify areas for strategic investment?

Identifying Investments

For law firms, identifying areas for strategic focus and prioritization goes well beyond a basic supply and demand analysis applicable to many other industries. Yes, firms do need to evaluate demand for services, the supply of available lawyers with the requisite expertise, both internally and externally and the difference between the two. But, in addition to supply-demand modeling, firms must also evaluate expertise depth, client relationships and access, and overall pricing and positioning implications.

To accomplish successful identification of practices or sectors for prioritization and focus, we recommend that firms develop robust internal frameworks by which to measure opportunities and compare them to one another. Such frameworks tend to have at their core some combination of the following factors:

- **Market Position.** How well does the firm compete in this particular area? How does the market view this particular practice of the firm? How does its depth and breadth compare to those of other firms?

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- **Market Opportunity.** How attractive is the outlook for this particular practice? Where is the practice in its demand curve? Will this type of work be in demand in the next five years? Does the firm have inroads into the clients that need this type of work?
- **Degree of Commoditization**. Has the work in this area become a commodity? Are there a large number of undifferentiated competitors? Is there severe price pressure? Is competition in this area focusing increasingly on price?
- **Internal Effectiveness.** How well is the practice managed? How does it perform economically? Does it require a disproportionate level of resources and attention?
- **Link to Other Firm Services.** Does the practice have shared clients with or drive clients to other practices? Are there interdependencies with other firm practices? How does the practice fit within the firm's array of services?
- **Link to Core Clients.** Are a significant number of the firm's major clients being serviced by the practice? Are the types of clients serviced by the practice the same type the firm is targeting? Are the clients in the firm's core industries?

Successfully identifying the best opportunities for investment requires that firms compare how a particular practice or industry sector ranks on the above criteria relative to other areas. Considering one practice, industry or geography in isolation fails to take into account the opportunity cost associated with that investment. What other areas could the firm invest in instead, and what would be the relative return?

The issue of risk also needs to be considered. For example, opportunities in areas of high demand, but where the firm lacks existing expertise, typically represent risky investments, as the firm may be entering the market too late or find it too expensive to attract the talent needed to gain market share.

Having identified the most promising areas for investment, firms must then begin the even more difficult process of implementing their strategy. This involves focusing capital, talent, and other scarce resources in some parts of the firm rather than others. In some cases, firms must reallocate resources from low potential practices, industries or geographies to those areas with greater strategic potential. Moving out of and into practices and markets can be hugely time consuming and intensely stressful for firms. It requires tremendous discipline and, as noted by Lorsch and Tierney, the ability to say "no."

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