Building Competitiveness

Over the past four years the dramatically increased focus on financial management in law firms has been essential, and in the main highly successful. The financial crisis of 2008 and its reverberations had a major impact on the market for legal services. The year on year growth in demand slowed dramatically (and indeed reversed in many markets) while the ability to drive profitability growth through annual increases in billing rates at levels often considerably above inflation came to an abrupt end.

To counter these changes both costs and productivity came under intense scrutiny with a reduction in the former frequently coupled with an improvement in the latter, offsetting much if not all of the negative impact of the market changes.

For many firms there is now limited potential for further gains from cost control. The reduction in costs have reached their practical limits – with further reductions or deferments in investments more likely to damage rather than enhance financial performance. Furthermore, and rather more significantly, the focus on financial control, while remaining a vital hygiene factor, does little to increase competitiveness.

Firms are leaner and fitter but this does not mean they are any more competitive or attractive in the marketplace if other firms in their peer group have achieved much the same.

Success in the future will increasingly be dependent on identifying sources of and building underlying competitiveness.

Setting a clear direction; being specific about the clients and work a firm is seeking to attract; building partnership cohesion; having the appropriate caliber of partners and staff; ensuring high levels of energy, motivation, drive and performance; having efficient internal systems and processes; are all unquestionably core elements of a strategy.

But these building blocks are on their own not enough. To thrive and develop in any market, and particularly so in markets where overall growth is muted at best, requires firms to outperform their peers. And this means focusing increasingly on the issue of competitiveness. Competitiveness is about being better than others – or at least the vast majority of others – and better on the dimensions that matter to clients.

And this is what must be at the core of a successful law firm strategy. This is a change from pre-recession strategic plans, which were as likely to focus on how to be similar to the leading firms and being different was seen to be less appealing.

Identifying the basis of, and then building and maintaining this competitiveness is for most firms the single most challenging management task they face.

For a small number of firms this competitiveness may be based on an outstanding track record of success in a particular field and the consequential reputation built and nurtured over many years. There is inherent and significant competitiveness derived from their brand. And for a second, equally small group, it may be based on

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the extra-ordinary ability, drive and excellence of a small group of exceptional partners. Such partners attract work to both themselves and their firms because of their personal reputations.

Unfortunately, the majority of firms lack these market differentiating strengths. For such firms identifying and building a basis of sustainable competiveness is critical. If they do not achieve this, they will be forced to compete essentially on price because that is the fallback differentiator, all other things being equal. And while price can be a competitive differentiator, it must be deliberate and accompanied by rigorous management of staffing, processes, systems, costs, etc. to ensure the firm operations and structure align with a strategy based on price.

A firm's competitiveness can be built in many different ways – the only inviolable factor is that it is based on being better as judged and perceived by the market on the criteria clients perceive as critical. These may or may not be the same as the criteria that those within a firm would naturally regard as most important. Understanding the views of the firm's clients of both the firm itself and competitors is therefore critical in identifying potential sources of competitiveness.

Competitiveness may be based on particular strengths in certain practices areas or areas of law or on serving particular types of clients or market sectors. Alternatively, it may be based on the way services are provided, the price at which they are provided, the depth of knowledge of clients' needs and their business or the sector within which they operate. It may be based on service delivery and responsiveness or be derived from the style of relationship with a particular ability to build a very high level of confidence and trust with the client. It may be based on geographic capabilities, which is often the case for global firms. It may be based on the degree to which the client is dependent on the firm for institutional knowledge.

Or, most likely of all, some combination of the above and other factors too.

Building competitiveness invariably requires making choices - not least because being competitive to all types of clients with a very broad range of service capabilities is simply an unrealistic aspiration. Hence focus is essential.

The basis of competitiveness may in practice be relatively small – a more extensive basis of competitiveness is without doubt preferable to a smaller one – but even a relative minor one can over time be used to generate considerable advantage in terms of attracting and keeping clients. Clearly, however, the smaller the advantage the lower the financial premium it will command and the less sustainable it is likely to be with a greater likelihood that a competitor will be able to overcome it.

Ideally the basis of competitiveness should be only in part based on individuals – who after all can always decide to practice elsewhere. The capabilities of individuals will likely play a significant role but ideally it should be at least in part based on the firm as an organization – how it manages and shares knowledge, how it operates, how it provides services, how its particular strengths are harnessed to provide a unique, or certainly highly distinctive, service that is not readily available elsewhere or copied.

The basis of competitiveness usually evolves and develops over time. We have certainly seen this with international firms - as more and more firms operate internationally being international is no longer as distinctive as it once was and other characteristics must move to the forefront as differentiators. For similar reasons firms that operate nationally have needed to refine their basis of their competitiveness while mid-sized and smaller firms have also had to reconsider the basis of their competitiveness to counter the challenges from larger firms encroaching on the markets they traditionally have serviced.

Building competitiveness is in our view the single most important challenge most firms will face over the coming years and while this will be hugely demanding the success from its achievement will be equally rewarding.

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