

# **Moving the Global Law Firm Through a Challenging Economy: Focus on Strategy**

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Law firms with teams of lawyers on different continents have platforms that work well for the world's global companies. They can expand into new markets as their clients expand and they can add to practice capabilities as their clients' needs change. However, recent economic events mean that global law firms will have to adapt more quickly than ever. Clients' needs are changing at an unprecedented pace because their companies face extraordinary challenges leading to declining revenues and narrowing margins. Those layoffs left a sour taste among law school recruiting officers for years and made it difficult for firms to re-staff and win increased market share when the economy roared back.

Global law firms will add value if they can stay on top of the rapid pace of change and adapt along with their clients. However, the pressure that their clients are under will translate into rate pressure and lower demand for many practice areas. Global firms are better positioned to withstand economic pressures because they are diversified across markets and practices. As a result, they will have more economic power to react to opportunities. On the other hand, it is more difficult for global firms to change quickly. A strategic plan is a very helpful tool to guide any law firm through the decisions it faces. For global firms it is essential because their challenges and opportunities have many more dimensions: more markets, more clients, more talent, more leaders and more practices.

## **The Role of the Strategic Plan**

Global firms that have a clear, focused and detailed strategy in place will be best suited to meet challenges and leverage opportunities. Most firms' strategic plans give them general guidance regarding their vision, values and growth strategies. However the true test of a strategic plan's value lies in its ability to guide the firm through challenging economic times. The strategic plan must include comprehensive goals with plans for

implementing them that are specific enough to help the firm determine what to do and what not to do when faced with extraordinary threats and opportunities.

At its essence, strategic planning is about making choices, including:

- Where and how to grow
- What markets in which to compete
- How to improve profitability
- Which clients are most valuable and how to strengthen those relationships
- What kind of talent is necessary to meet firm goals and how best to attract and retain that talent
- What types of leadership and management structures are necessary to implement the firm's plans across geography, practices and functions
- How best to develop effective firm and client-team leaders

In times of economic stress, law firms will be faced with more choices than ever. Weaker firms will continue to shed lawyers and offices, and some will close their doors forever. Global firms, with their portfolios of clients, markets and practices, will be well-positioned to react to these opportunities. However, the costs of running a multi-office global firm are high and expansion is expensive. A robust strategic plan can help firms act quickly and avoid costly mistakes because it streamlines decision-making.

This is particularly true in a global firm because decision-making conducted on an ad hoc basis can be very slow. Global firms need to have input from representatives of key geographies, practice areas and client teams, but that can be cumbersome. If the strategic plan is created appropriately, involving the key constituencies across the firm, it will provide a framework for dealing with contingencies. For example, economic upheaval has brought about many opportunities to recruit individuals and small groups of laterals. Strong strategic plans will provide guidelines and procedures for determining which of these opportunities to pursue and how to pursue them without engaging in extensive new discussions across the firm.

### **Start From a Set of Assumptions**

A strategic plan is based on a set of assumptions about the firm. These include the strengths (internal), weaknesses (internal), opportunities (external), and threats (external) that the firm must deal with, factors such as:

- Core capabilities
- Competitive advantages
- Competitive threats

- Diversity and strength of client base
- Market share in markets, sectors and practices
- Brand strength
- Market and industry trends

In times of rapid change, many of these fundamentals will change and the analysis underlying the plan will need to be revisited to reflect those changes.

To bring this process to life, firms need leaders who are in tune with the internal and external factors that have the greatest impact on their firms, know how to track and measure those factors and can react quickly when significant change occurs. In short, the plan cannot remain static; when major changes in the environment occur, the firm leadership must act immediately to revise the firm's plans as necessary. For example, we are experiencing rapid and severe changes in the financial services industry throughout the world. Global law firms that do significant business with these ailing giants and rely on the transactions they generate, should have already drawn up plans that address how to help their clients through difficult times as well as how to deal with large declines in expected revenue. Immediately thereafter, the firm must address the long-term implications of a restructured financial sector, revising the strategic plan as necessary.

#### **What are you trying to achieve, and with whom?**

The essence of a strong strategic plan is communicated in the vision statement; it articulates what the firm is striving to achieve. Fee-earners and staff should be able to communicate the vision easily. As important is the positioning statement, which articulates the firm's target market and value proposition to its external audiences. It must be consonant with the vision. The positioning statement defines the firm's highest priority markets.

In defining the market, it is best to be as specific as possible, defining geography, size, industry and services provided. In addition it articulates how the firm benefits its markets vs. competition. For example, "We are the firm of choice for the most important cross-border transactions conducted by the world's largest multinational corporations because we have the largest and best integrated team of experienced corporate lawyers in each of the critical jurisdictions around the world."

The positioning statement brings the strategy to life because it is used to guide all of the firm's marketing and business development activities. When appropriately and consistently implemented, along with the visual identity—name, logo and graphics—it helps the firm build the brand it wishes to achieve in the marketplace, and is, therefore, critical to achieving its strategy.

## **Focus on Profitability *and* Client Satisfaction**

The firm's strategy should include a plan to improve the fundamental operational drivers of profitability: productivity, realization, collections, expense management, and rates. If the firm does not exceed industry averages among peer firms for these components, the firm will be less able to withstand the uncertainties of difficult economic times. The management tools to implement better financial practices are readily available; they just take discipline. Improvements in these areas will help insulate law firms from revenue declines and often benefit clients at the same time. For example, in-house lawyers prefer timely bills because it helps them manage their budgets.

Ensuring that rates are comparable to peer firms is an important driver of profitability. Firms continue to raise rates in spite of the recession. That said, great care needs to be taken in these times. Rate increases are trending lower than in previous years and there will be more push-back from cash-strapped clients. Law firms need to be sensitive to their clients' situations and be creative about alternative arrangements.

After many years of discussion, the momentum appears to be shifting towards alternative pricing. For example, some leaders of large law firms report that they are entering into an increasing number of fixed-fee arrangements in litigation matters while a portion of transactional matters, which are often easier to predict, have been billed that way for some time. These pricing arrangements may involve risk-sharing, allowing the law firm to share in the gains if a matter settles early. Clients are looking for predictability regarding rates, not necessarily lower rates. Firms that can manage litigation so that costs are predictable will be well-positioned to benefit from this trend. With regard to collections, clients will be paying more slowly. If collection practices have not already been optimized, changes should be implemented now. It is not only beneficial for the law firm, but for client as well, since timely bills enable them to better manage their budgets.

## **Staying Close to the Client**

Any viable law firm strategic plan includes a marketing and business development section. The firm should continue to implement that plan during an economic downturn. Of first importance on this front is building and maintaining profitable, long-term client relationships, particularly for global law firms, which span or have the potential to span multiple jurisdictions.

The starting point is to have a clear view of the clients the firm represents and those it aspires to represent. Winnowing the base to eliminate unprofitable clients and in tandem developing a keen understanding of the top clients' requirements and preferences are the next steps. Firms may be reluctant to eliminate any client relationship in tough times, but making sure that the firm's clients are profitable is just sound business management. The firm needs to focus precious resource on clients that are profitable or that have the

potential to be more profitable if the firm builds the relationship. Staying in close contact with those clients then protects the firm's most critical asset.

Regular client relationship status meetings are one of the best ways to help ensure a strong partnership with the firm's clients and to gain clarity about how best to support the client's business. They are not easy to implement but this is a great time to start if such meetings are not already in place. Corporate legal departments are eager to meet with their law firms to determine how those firms can help them navigate difficult times and changing environments. Global client teams can also be developed to organize a firm's efforts with respect to key clients. Global teams not only help build institutional relationships, they also allow the law firm to efficiently leverage the insights its professionals have on the client's behalf around the world. These teams have the added value of enhancing bonding and collegiality among lawyers from many cultures as they work together on client matters.

The client base analysis and regular client meetings will help clarify which markets or practices to expand or curtail. This will in turn enable the firm to make the right choices about what kind of lawyers and how many it needs in a particular geographic region to meet client requirements. Salaries and rent are the largest expense items for law firms and managing those numbers carefully is perhaps the most critical element of surviving a downturn in a way that does not damage the firm's ability to serve clients or undermine its strategy.

## Conclusions

Armed with a strong strategic plan, the firms that identify the trends and move on them first will benefit greatly. The first few firms to enter a particular market or practice area will almost always achieve a much larger market share than later entrants. The classic example is Skadden, which was one of the earliest firms to understand and serve clients in the hostile takeover market as it developed. The traditional M&A firms entered much later and Skadden became a powerhouse in M&A as a result.

We live in unpredictable times, and law firms should be prepared for changes as

- The focus of litigation changes in reaction to market turmoil
- Capital flows again and new investment vehicles or M&A tools are created
- National governments and world bodies pass new laws and add regulations to correct for past market excesses
- Climate change and demand for clean energy drive energy investment

Firms should leverage those trends that are consonant with its vision and strategies and resist the opportunities that do not leverage existing strengths. Firms that focus where they have the basics in place

will be able to ride the trends to success. Clients need lawyers who can help them make sense of the new landscape, find new opportunities, and protect them against new and more pervasive threats. If the firm can add value to its clients when times are tough, it will be well-positioned for new work as the recovery begins.