



Eye on the prize

Researchers Robert Davies, Sally Sanderson, Nick Marson and Chris Storey explore how to prepare a business strategy in uncertain times

FOUR THINGS YOU WILL LEARN FROM THIS MASTERCLASS:

- 1** How to stabilise your firm based on the previous recessions
- 2** How to prepare your firm for change
- 3** How to explore and experiment to meet new client needs
- 4** How to embrace failure as the precursor to success

During these unique and uncertain times, long-term strategy making should not be regarded as a formulaic textbook process that can be completed in one or two months. It is more a period of exploration, knowledge gathering and nimbleness.

The real problem is that traditional strategy and business planning processes are ill-suited to dealing with a global recession. Established processes follow a rational step-by-step approach and the outputs are one plan and one set of objectives, notably all founded upon just one view of the future.

But past research tells us that using this approach may be a potential recipe for failure, especially when you are considering a long-term strategy for your firm.

The reasoning is quite simple. If the outside world is in a state of turmoil,

how can anyone forecast with any degree of certainty the final form that it will take? At this moment in time, it is better to hold off crafting a new long-term strategy and to focus, instead, on preparing the firm to explore an unfolding and uncertain environment.

“Feedback is the mother of innovation”

Research from the recession of the 1990s tells us that this is a time for managing partners to prepare their firms for a four-phase exercise to explore uncertainty. Each phase tackles different issues, has different outcomes and requires a different leadership approach, but the objectives are to:

1. create financial stability;
2. ensure the firm is ready for change;
3. identify how clients’ needs are changing; and
4. gather experience in meeting these new needs.

After completing this process, there will be a clearer view of the emerging world, clients’ needs and how the firm can meet such needs. All are essential foundations for a successful long-term strategy.

Phase 1: Create financial stability

The first key action is naturally to protect the bottom line during an ongoing period

of uncertainty. Over the past 18 months, we have seen many law firms focus on stemming financial losses and protecting their core profitable business.

The lessons from the recession of the 1990s tell us that managing partners need to take early steps to ensure:

- clients and offerings which are losing money are identified and appropriate action is taken;
- core profit-making clients and offerings are identified, protected and developed;
- clear lines of accountability for clients and offerings exist – especially at top leadership levels;
- the right performance management information is produced to track financial performance and quality of decision-making; and
- top-level leaders know precisely who makes the key decisions.

Phase 2: Ensure the firm is ready for change

Managing partners then need to prepare their firms for change.

First, the leadership team needs to be aligned around the need to fundamentally question established business practices. Views such as ‘we can sit this one out’ or ‘things will get back to normal’ need to be rooted out. They won’t and, while managing partners wait, competitors will move into the firms’ space.

Key decision-makers in the firm need to be attuned to the need to explore

change in the outside world. Getting this degree of alignment and focus can in itself be a real source of competitive advantage.

In our previous article, we suggested that leaders need to look for barriers to change and innovation. The following are common barriers to change and innovation in law firms.

1. **How the firm is structured** – quite frequently, practice group structures create silos. These can prevent the type of cooperation that is needed for innovation and change, in the same way as they create barriers to cross-selling.
2. **Skills** – in many firms, these cluster around established legal competences. But new skills will be needed for market research, offerings development, observing and analysing the outside world and developing local agents of change.

3. **Culture** – law firms perceive the focus on billable time to be one of the biggest barriers to change, along with an aversion to risk.

However, managing partners also need to root out pockets of thinking that reflect the view that 'if we can sit this one out – things will return to normal'. Successful leaders directly confront such attitudes as soon as they are found.

Critically, successful business leaders also focus on communication – and typically face-to-face communication.

When times are tough, managing partners need to make their leadership visible and create trust in their firms by communicating the drivers for change and what they are doing to prepare their firms to respond.

This means talking about plans for exploration and experimentation in a positive and inspiring way – it becomes a transitional strategy or vision, clarifying

how members of the firm are expected to contribute in the coming phases.

A very good exercise to conduct at this point is scenario planning. Typically, scenarios are constructed by creating views of the future, based around two big future uncertainties that are relevant to the firm.

The future of the euro and the US' position on the world stage are two examples. Taking two extreme positions for each uncertainty will provide four scenario themes for leadership teams to explore.

This is an important exercise as it provides a basis to see in which direction the world and the marketplace is headed, and how the firm's strategy will have to change in each scenario. It also opens up thinking for the next phase.

Phase 3: Identify how clients' needs are changing

The objective here is to spot and act on new emerging trends before competitors do so. After all, it is during the months and years after a recession has technically been declared over that real marketplace changes start to appear.

Take, for example, the depression of the 1930s. During the period 1930 to 1932:

- luxury magazine Fortune was launched;
- Motorola introduced the first car radio; and
- cosmetics brand Revlon was born.

Managing partners need to find out what is really happening in the new, emerging competitive environment. Get a 360-degree view of what the new world might look like by:

- tracking outside global events in the same way that competitors are tracked;
- spending time with other leaders in diverse industries to get fresh perspectives;
- looking at touch points with clients to ensure they are positive experiences; and
- asking for and listening to feedback. Informal feedback is better than formal client or employee satisfaction surveys. Feedback is the mother of innovation.

DEVELOPING A BUSINESS STRATEGY

Do

- ✓ Communicate: explain the need for change and discovery.
- ✓ Align your top team.
- ✓ Protect your space and create new space.
- ✓ Use scenario planning to develop fresh perspectives on client needs in the post-recession world.
- ✓ Experiment with new types of innovation to meet emerging needs.
- ✓ Analyse lessons learnt from the inevitable failures along the way.

Don't

- ✗ Plan a completely new strategy.
- ✗ Rely on one view of the future.
- ✗ Rely solely on cost-cutting and outsourcing.
- ✗ Think the world will go back to how it was.
- ✗ Do nothing and hope things sort themselves out.

INNOVATION PALETTE

The innovation palette consists of:

- 1 Offerings:** New products and/or services by the organisation.
- 2 Markets:** Building customer markets not served before.
- 3 Processes:** Improving efficiency and effectiveness of existing processes, and implementing new structures to provide better client focus.
- 4 Distribution:** New distribution routes or ways of reaching out to customers.
- 5 Customer experience:** Innovation in the way customers or clients interact with the organisation.
- 6 Management:** Finding new ways of managing, especially in terms of the relationship between an organisation and its staff.

Information gathering will allow the firm to gather a more objective feel for the ultimate shape of the new emerging world and, most importantly, to capture the information to take longer-term decisions.

As part of this process, managing partners need to create a clear view of how their firms might meet these new emerging client trends.

“When ideas fail, avoid the tendency to move on to something else without analysis”

A good step is to clearly communicate the innovation palette within the firm (see box: Innovation palette).

There is a need to emphasise and explore, particularly at the level of individual practices within the firm, the market, distribution and client experience elements of the palette.

The scenarios can be very helpful here – they can assist in identifying the range and importance of innovations needed to meet the demands of all four potential futures.

Compare the innovation types which are planned with those used over the past five years.

If there are any new types of innovation, strongly consider creating those innovation capabilities.

Phase 4: Gather experience in meeting client needs

Then experiment and learn from any failures. Many of the most successful organisations in the 1990s initially failed in their attempts to reconnect with the outside world.

But they excelled in analysing why their attempts failed. And it was from this analysis of failure that the best offerings and services were born.

Managing partners need to construct a culture that supports controlled experimentation and learning. When ideas fail, avoid the tendency to move on to something else without analysis.

It is only in the past few years that law firms have established post-matter reviews as best practice. In the same way, they need to start analysing lessons learnt when experimenting.

Long-term strategy development

It is a matter of judgement for the leadership team to decide when the firm has gathered the knowledge and skills it needs to craft a new long-term strategy. But by this point the firm will have:

- developed a clearer view of how traditional markets have been affected by the aftermath of the recession;
- explored new markets;
- created an understanding of how to meet emerging client needs;
- created new competences; and
- explored potential new strategies. ^{mp}

LESSONS FROM ALLIANZ GLOBAL INVESTORS

As part of our research, we examined how Allianz Global Investors (AGI) tackled the process of innovation and change. Below are some key learning points from its experiences.

- **Tackle the process of change before change is forced upon the firm.** Do not wait for a crisis. It is far easier to instigate innovation and change in an organisation that is performing well than in one that faces a life-threatening crisis.
- **Create a compelling reason** why the capacity for change must be created.
- **Spend time researching and exploring** external and internal environments. AGI used multiple routes when it undertook this process. In addition to market research, it gathered the opinions of external recruiters to see how top talent in the market viewed the business and conducted its own survey of employees too.
- **Think very broadly about innovation.** Considering management innovation strongly. AGI's innovation work was a careful balance of innovations that benefited two groups: clients and staff.
- **Set in place a tracking mechanism** focusing upon culture and the competences needed to deliver outstanding client relationships.

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Endnote

1. See 'Getting ahead', Sally Sanderson, Robert Davies and Nick Marson, *Managing Partner*, Vol. 13 Issue 5, February 2011