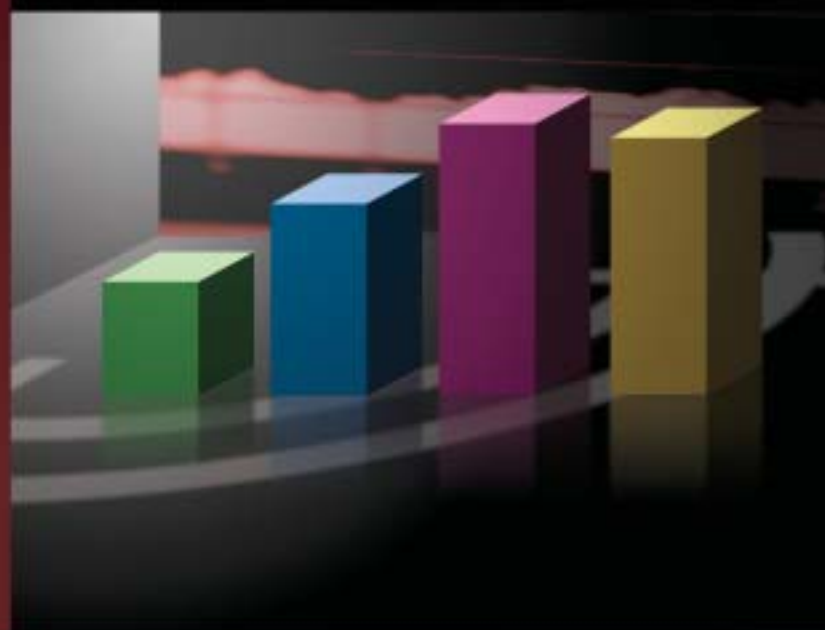


ANALYZING FUTURE TRENDS FOR STRATEGIC DECISION-MAKING

BY PATRICK MCKENNA

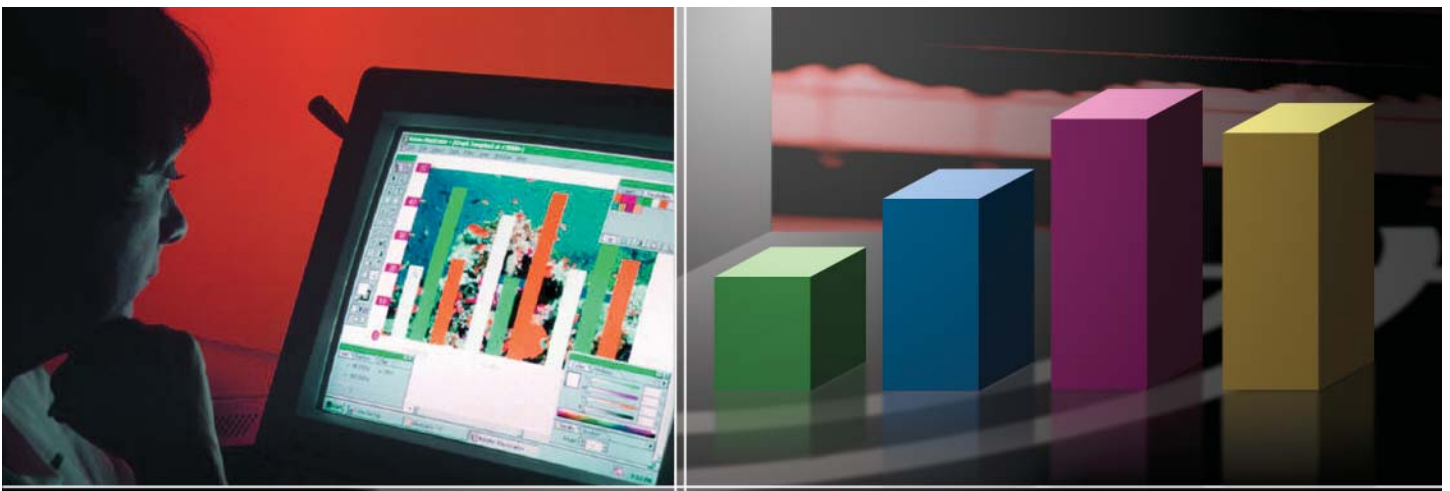


EDGE



ANALYZING FUTURE TRENDS For Strategic Decision-Making

BY PATRICK McKENNA • EDGE INTERNATIONAL



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In the most northern regions, there is an old tradition whereby hunters construct blankets made of animal skins. These blankets are not for shelter, but intended as a crudely improvised form of trampoline. The blanket is spread across the ground and one of the hunters steps into the middle. The remaining members of the group grab the edges, heave the blanket upward, and eject the hunter high into the air. The purpose of physically hurtling the hunter into the sky is to have him see if any caribou are in the area.

Closer to home, in the 1980's, a research study explored the opinions of professional service firms, in 20 countries, with regard to their perspective on global marketing. Many law firm leaders in the United States felt that domestic markets could support their interests without the need to enter worldwide markets. The executive committees of law firms in the UK felt that their prosperity largely hinged on expanding internationally. As time passed

and markets did indeed become global, one could wonder how much further ahead North American law firms would be today had their firm leaders recognized and acted upon the opportunities inherent within globalization, much earlier.

Fast-forward to today and my bet is that you would find many American law firm leaders subscribing to the notion that MDP's are dead. The recent accounting scandals, as well as the American Bar Association's opposition has taken the issue of multidisciplinary practices right off their radar screens. However, a close look at developments in your external environment, might suggest that a radical new departure is afoot in the UK that may yet revolutionize the legal profession!

Behind every new trend and its ensuing ramifications is either a potential marketplace threat or a window of opportunity. Those keen enough to perceive the trends early are in a prime position to pilot their firms into a promising

future. The obvious challenge therefore, is to be the first to see the future and then to devise appropriate action plan to take full advantage of subsequent circumstances.

And yet isn't this precisely what engaging in strategic planning is suppose to do for you?

In our work at Edge International, we have been exposed to literally dozens of different firms' strategic plans. What we have discovered is different firm names, but fairly similar plans – at least from the way in which most firms over-obsess about internal issues like associate retention, timely billing processes, or the latest cost savings initiatives. In our view, very few firms give anywhere near attention to what's going on outside of their walls – in their external business environment.

Now admittedly, almost every firm that goes through the conventional strategic planning process does use some form of SWOT's analysis. To the uninitiated, SWOT is an acronym for "strengths, weaknesses, opportunities, and threats." Which means quite simply that as part of a strategic planning exercise, we will all engage in a brief look at the various internal strengths and weaknesses of the firm, and then look to what particular threats and opportunities there are. Sounds sensible enough. And it is, but the process as it is currently, most often executed, is a complete waste of time.

The greatest handicap with the conventional SWOT process is that it implicitly assumes, whatever the assertions to the contrary, that the future will be more or less like the present. Leading firms know that their future will not be an echo of the present.

In fact, we believe your firm's Executive Committee needs to regularly engage in some very deep strategic thinking about trends that are currently shaping the profession. Have your partners even thought about how the future of your profession may unfold over the foreseeable next few years, and what would be required of your firm to get to the future first?

Getting to the future first requires firms to be deliberately farsighted. Why is this important? By investing some serious time in examining trends, it may enable you to

see what competitors may not, thereby allowing you to get a serious jump on exploiting new opportunities or preparing contingency plans for the possibility of any disruptive events unfolding.

I'm not talking about navel gazing or trying to predict the future. Rather, tomorrow's potential threats and explosive opportunities are already being hinted-at today. If one looks closely enough, one can see the beginning of trends, often years before they become common knowledge. Seeing the future requires that you understand the potential of what is already happening. The essence of winning in a competitive marketplace is to be at the right place *before* the right time.

SCANNING THE FUTURE

My central premise is that there is no proprietary data about the future. Whatever you need to know about tomorrow is already visible. The data is there for everybody, but there is an enormous difference in firm's abilities to construct new opportunities out of that understanding.

Interestingly, the sophistication of professional service firms varies considerably in the discipline with which they direct consideration to their external environment. The largest and most sophisticated of the accounting and consulting firms have long devoted serious attention to what's happening outside their doors. Many law firms, however, are populated with professionals that are so preoccupied with their particular area of specialty, that they are remarkably out of touch with the wider world.

Not all partners are equally up to date on what's happening. Many will be fully aware of issues that affect their particular practice area, but it is not at all uncommon for an entire practice group to lack a coherent concept of those macro-trends affecting their profession or the firm as a whole.

As our overall business environment becomes ever more complex and fluid, it becomes more critical that every member of firm management maintains a running dialogue on the meaning of significant events and trends – and that they use their understanding of those trends to

develop consensus on refining the direction and strategy of the firm.

Realistically, can anyone who devotes time to exploring “What’s going on out there,” ever fully understand all of the dimensions and interpret all of the signals? Not likely! But by thinking of your business environment in terms of its major components, we can at least make the challenge less daunting. We need to start, therefore, by dividing your

external environment into more manageable categorical components so we can begin to organize our knowledge of it.

While this list of nine (9) components may not be comprehensive, (and you may wish to add your own factors to the list); it can serve as a starting point for us to begin to examine some of the myriad of different trends and developments now emerging in each of these areas.

EXTERNAL STRATEGIC COMPONENTS

We have identified a number of different environmental components. The importance of each may be quite different depending upon the practice composition of your firm. By studying the goings-on in each of these areas and connecting the trends in all of them, you can build a reasonable basis of fact (and speculation) about what is going to happen over the foreseeable next few years.

- **Client Needs & Wants** This refers to the changing, unmet, and emerging needs of key existing and prospective clients (e.g. clients demanding more transparency).
- **Technological Changes** The degree to which technology is provoking new ways to practice and deliver services.
- **Relative Costs** The relationship of a firm’s key cost elements relative to those of competitors (e.g. the advent of more firms going paperless).
- **Market Barriers** Various factors which help keep potential competitors out of the market or profession (e.g. deregulation of the legal profession in the UK).
- **Economic Volatility** The health of your marketplace with respect to consumer and business confidence (e.g. the potential of a prolonged period of deflation).
- **Integrity** The basic trust that clients place in the profession, your firm and your services (e.g. the impact of Enron on the professions).
- **Special Abilities** The competency of any one firm to significantly outperform its competitors in ways important to clients.
- **Market Values** That cluster of marketplace values that creates demand for specific new services (e.g. the increasing attractiveness of outsourcing).
- **Resources** Refers to all professionals, physical assets, and materials employed in running your practice.

A SNAPSHOT IN TIME

Let's take a look at but a few trends that we believe are clearly visible in the third quarter of 2003:

TREND #1: MARKET BARRIERS

Various factors which help keep potential competitors out of the market or profession

ITEM: *The UK government has announced plans to deregulate the legal industry, allowing mergers between accountants, investment banks and lawyers in England and Wales. David Clementi, former deputy governor of the Bank of England and chairman of Prudential, will head an independent review panel in charge of recommending legislation for a more open legal market, as well as a new agency to oversee the legal profession. The Law Society, which represents 90,000 solicitors, may lose its self-regulating powers.*

[Source: The Financial Times, July 2003]

BACKGROUND AND IMPLICATIONS

In a move likely to lead to the legal world's own version of deregulation, the government signaled a radical shake-up of the legal profession. This deregulation would open the door to mergers and diversification where accountants and lawyers in England and Wales could combine to form complete business services practices. Investment banks could also set up, or take over, legal teams to provide a full transaction facility. New regulations may now be pave the way for law firms to be listed on the stock exchange. And corporations (like American Express who is a major player in the accounting profession) may soon own and operate their own law firms.

At the moment, solicitors are forbidden from entering partnerships or incorporating with anyone other than fellow lawyers. David Clementi, former deputy governor of the Bank

of England and chairman of the insurer Prudential, will head an independent review charged with drawing up new principles that will sweep away restrictions that stop companies such as banks and insurers offering legal advice to their clients. Mr Clementi will also consider the creation of a new super-watchdog - an equivalent to the Financial Services Authority for the legal profession - that could regulate all solicitors and barristers as well as companies that break into the market.

Mr Clementi has been given until the end of 2004 to work out the details of how to regulate a more open legal market and safeguard the independence of the profession. His recommendations could lead to legislation. Announcing the review, Lord Falconer said there was a "significant chance" the Law Society, which represents 90,000 solicitors in England and Wales, would lose its self-regulation powers. He stressed that Mr Clementi would be asked to work out how - rather than whether - such changes should take effect. The current maze of 22 bodies regulating legal services was "outdated, inflexible, over-complex, insufficiently accountable or transparent", he said.

The review was prompted by a 2001 report by the Office of Fair Trading, which challenged competitive restrictions in the sector. It also called for the scrapping of the Queen's Counsel system of senior barristers.

Clifford Chance, a large law firm, welcomed the proposals, but many others are worried.

TREND #2: MARKET VALUES

That cluster of marketplace values that creates demand for specific services

ITEM: *Numerous firms have been quietly seeking joint-ventures with law firms in India, the Philippines and China. The sole driver behind this trend: the explosion in the offshore outsourcing market.*

[Sources: The Lawyer, Business Week, Gartner, on-line research – August 2003]

BACKGROUND AND IMPLICATIONS

The current boom in the offshore outsourcing market suggests opportunities for numerous firms.

Your corporate client can achieve significant cost savings by tapping into the cheaper manpower and property costs in India, the Philippines and China. And globalization is making people far more comfortable about having operations on another continent.

Broadly, there are two types of offshore outsourcing deals. One is the pure-play offshore outsourcing, in which a corporation hires an offshore supplier to provide what it previously ran onshore. India is a powerhouse in high-end IT services, while China's role is largely focused on providing back-office support for large multinationals in the financial services, telecom, software, and retail industries.

The other type is a hybrid, where major players (like EDS, Accenture, BearingPoint, or IBM) subcontract a portion of a usually global deal out of India or elsewhere. (BearingPoint claims that it can pay an engineer \$500 a month in Shanghai or \$700 in India, where it would pay \$4000 a month for the same quality engineer in the U.S.) Today, it is becoming increasingly rare to see a global deal that doesn't have an offshore component.

Meanwhile, there are three main service lines for offshore deals. Information technology (IT), primarily application development and maintenance, became the leading services. Business process outsourcing (BPO), including back-office functions like human resources and accounts is extremely active. And finally, call centers featuring telephone operators is the classic example. It is said that almost any function of a routine nature, in the back office or related to IT can be moved offshore.

Gartner Inc. predicts that by 2007, China will pull in \$27 billion in IT services, including call centers and back-office work – matching India. As one Deloitte Consulting partner pointed out, "Law firms are only now realizing the scale of opportunities in this market."

TREND #3: ECONOMIC VOLATILITY

How healthy the marketplace is with respect to consumer and business confidence

ITEM: *The economy and business profitability may experience a prolonged period of slow growth.*

[Sources: Barron's, Fortune, National Review, financial web sites – July 2003]

BACKGROUND AND IMPLICATIONS

When was the last time business profits, as a percentage of GDP, declined for 4 decades? Business profits as a percentage of GDP have fallen to their lowest level in about 40 years.

When was the last time The U.S. Labor Department reported that payrolls dropped for the 6th month in a row? More than half a million workers are so discouraged they've given up looking for work altogether.

When was the last time the Fed cut rates 13 times consecutively . . . without producing a serious recovery? When was the last time the world's second (and perhaps third) largest economies were in deflation? And when did the U.S. last run a \$500 billion budget deficit . . . and another \$500 billion trade deficit? Every day, the federal government spends about \$1.5 billion more than it takes in. And when was the last time the U.S. consumer was so completely tapped out by debt - with debt at 200% of GDP - that he could no longer carry the world economy forward?

Meanwhile, corporate pension plan liabilities are skyrocketing to become a very serious problem for many companies. Ryan Labs Inc., a New York-based pension plan consultancy, called last year "the worst year in pension history". By way of example, thanks to the long-running bull market of the 1990s, GE hasn't made contributions to its pension plan since 1987. GE's management expects its pension plan's investments to earn about 8.5% per year! Even if GE achieves its unrealistic investment-return bogey of 8.5%, health-care costs are soaring out of control. That's

a particularly acute problem for a company like GE, where nearly three quarters of pension plan participants are retired personnel and therefore, more likely to require medical care than current employees. The bad news for corporate America, is that GE's pension plan is fairly typical of established U.S. companies in that the lion's share of the plan's participants are retired, which makes any retroactive benefit reduction nearly impossible. In other words, there's no easy way to get rid of these nasty liabilities!

And as though the economy weren't suffering enough already, along came 9/11. 9/11 has provided the perfect excuse to accelerate government growth. Not one federal program has been cut to accommodate the new spending plans. Instead, we get more government heaped on top of all that's already weighing down the economy. Such things as the Patriot Act and the Homeland Security Department have to hurt the economy. Traveling business people lose an hour or two from their workdays because of airport security. Companies have to rearrange their affairs to comply with new reporting requirements.

The tax cuts are no remedy, because the federal government spends \$2 trillion every year. Where will that come from? Any change in the tax rates changes only the *method* by which we pay the \$2 trillion; it doesn't change the *amount*. So we can't expect the politicians to rescue the economy.

There may be upward blips in economic statistics and the investment markets from time to time, but the long-term outlook for the economy may remain grim until there are dramatic reductions in the government's spending, controls, and intrusions. And that doesn't appear likely in the near future. At some point we may slide into an extended period of "negative growth" — a contraction of the economy — that drags on for several years, rather than just two or three calendar quarters. No one can know when that will occur. We can't even be sure it *will* occur. But we have to be prepared for the possibility.

THE PROCESS OF ANALYZING TRENDS

If we had known in 2003 what we will know in 2006, (only three foreseeable years into the future) how would we have changed our attitudes, actions and the way in which we practiced law — the services we offered, the clients we targeted, and the ways in which we chose to deliver our services? That is what this process is really all about — observing the present trends to determine how we might intercept the future.

There are a number of different steps involved in going through a process of identifying and interpreting external trends. The most sophisticated firms might make this a regular quarterly review item on the agenda of their management meetings. If your firm is not yet at that point, you might want to start with making this the process you engage in, leading up to the next annual partner's retreat.

STEP 1: IDENTIFY THE RELEVANT TRENDS

Your first step is simply to scan the external environment for early warning signs and for areas of new opportunity.

It is my contention, that either the members of your firm's management or strategic planning committee are the ones best chosen to engage in this activity. The process of identifying these trends, transforming the data into valuable insights about the future of their practices is an inseparable part of the intellectual leadership that this committee needs to provide the overall partnership. While consultants might help, they should not supplant the executive committee's work. If the members of your committee create it, they will own it. It will form a key part of their thinking process and it will guide the decisions they make.

Some firms approach this by simply having each member of the committee volunteer to take one of the nine categories and devote a bit of time to researching various publication (both within the profession as well as across related professions), the internet, speaking with consultants, and so forth.

The challenge to your team is: “In your opinion, what would be the ten most important trends capable of impacting both positively and negatively, the overall profession and our firm’s operations over the next few years?”

In general, it helps to keep each identified trend reasonable concise; otherwise reading and reviewing it becomes a chore. Drowning your colleagues in facts, figures, charts, graphs, and detailed analysis makes it difficult for busy practitioners to find the critical insights that can help them shape their direction. Therefore, document and distill each trend in a carefully prepared, thoughtfully written, one-page statement of “what’s going on out there.” Also, the act of distilling the information can often lead to valuable insights. Explaining something in very concise terms forces you to get to the core of the idea.

Beware of Incomplete or Defective Data

In one of those classic “Pink Panther” films, Peter Sellers, is seen checking into a quaint hotel. In a corner of the lobby, he notices a small dog. Thinking he might go over and pet this cute little pet, he inquires of the innkeeper, “Does your dog bite?” Hearing the elderly gentleman say no, Sellers reaches down only to have the dog snap ferociously at him. Sellers turns to the innkeeper and says, “You said your dog didn’t bite!” To which the gentleman calmly responds, “That’s not my dog.”

In identifying relevant trends you must remain keenly aware of the problem of incomplete or defective data. What you ask, whom you ask, and how you ask can be critical to getting valid and useful information.

Here are a few guidelines to consider:

- ❖ **Get as many different perspectives as possible.** If you are hearing the very same predictions from a number of sources, try to find a contrarians view.
- ❖ **Distrust your own biases.** If you are hoping to find the research to support a strategic decision you have already made, it’s very likely that you will find the support you are looking for.
- ❖ **Be willing to contradict prevailing beliefs.** The majority is not always right, the conventional wisdom not always wise, and the accepted doctrine could very well be flawed. Breakthrough thinking depends on it.
- ❖ **Be careful of jumping to conclusions.** Are you betting your future on the assumption that a particular market will materialize, grow or disappear? Do you have enough real evidence to support your conclusions?

- ❖ **Censor incoming bits of information at their source.** Be constantly vigilant to the impartiality and agendas of reporters, journalists, commentators and anyone supposedly in-the-know, reporting their take on some new development.

STEP 2: DISCUSS AND EVALUATE EACH TREND

A special meeting of either the firm’s management committee or strategic planning group should provide the means for focusing attention on the business environment and building consensus about what the signals are telling us.

An effective way to tackle this is for your committee to divide into small working groups of about three or four partners. These participants share their thinking about the issues at hand and thereby can uncover important differences in the ways each might perceive the impact of any given trend. Each group is first assigned one of the trend categories (i.e., technological changes, market barriers, etc.) and prepares its interpretation of the data. Each group can then be given their choice of one other trend category to review.

During the process debates or differences will emerge about various aspects of these trends. Although these discussions can sometimes become rather heated, they tend to be very useful.

To see the future, you may need to deconstruct some old notions and ideas. It is important during this step to keep a watchful eye on a few natural tendencies that do occur:

- **Denial.** When a trend suggests a potentially negative consequence, some suffer from the ostrich syndrome. They would prefer to bury their heads, deny the validity of the trend they are observing, and ignore any danger signals.

For example, in the billing arena, some firms do not (want to) see the trend for providing clients with complete “transparency” as it relates to whom is working on what matter, when, and at what internal billing rate. These partners often act as though they believe that the provision of a one-line invoice at the conclusion of the client’s matter should still suffice. In other words, the firm’s billing processes will take place in the future just as they have in the past or other partners will continue to believe that the traditional hourly rate system will continue to be the mainstay of compensation from clients, despite its well known inefficiencies, misplaced incentives and perceived unfairness relative to the value of the work produced.

- **Blindness.** What we know (or think we know) determines what we see. Unfortunately, the more

experienced and the smarter we are in our particular area, the more myopic we may tend to become. Often trends present themselves, but firm leaders don’t see them. Not knowing how to look for them, or simply missing them is the primary factor. What we see determines our destination.

- **Arrogance.** Management theorist, Peter Drucker, once commented dryly, “Whom the gods would destroy, they first grant forty years of business success.” Drucker believes that sooner or later, time will turn your most precious assets into liabilities, and that the most powerful competitive advantage may eventually be neutralized by the shifting sands of the external environment. Intel’s past-Chairman, Andy Grove agreed, with his now famous remark, “Only the paranoid survive.” Ironically, one of the reasons why leaders miss trends is “success arrogance.” The firm is doing so well that firm leaders fail to see the danger signals.

The key point here is to make sure that all members of your committee participate on a personal and intellectual level in forming a consensus about what’s going on. Through active participation they will also be much better equipped to communicate any particular trend’s meaning to other partners in the firm.

TREND ANALYSIS ASSESSMENT DIAGRAM • Impact on Firm

SIGNIFICANT [Positive - Negative]		Trend #3 (-)	Trend #1 (-)		
				Trend #2 (+)	
	0%	25%	50%	75%	100%
<i>Probability That The Trend, Event Or Condition Will Occur</i>					

STEP 3: DETERMINE THE IMPACT POTENTIAL OF EACH TREND

Each of the trends that have been identified can then be evaluated within the context of the probability of occurrence and impact on the firm of such occurrence. The Diagram presented above is designed to help with your analytical efforts. We can use this graph to assess the overall pattern of the trends identified.

Obviously, those trends judged to have a very high probability of occurrence and a very harmful impact or portend huge opportunities should they occur, become our top priority. Clusters of trends falling into the top right-hand corner of this diagram are the ones that require **urgent attention** – and in most cases are usually already receiving some type of attention. In those instances this Assessment Diagram may serve as a tool to help explain to other partners the need for urgency.

The secondary band, running diagonally through the graph, represents those trends that are likely a ways out there, time wise, but nevertheless should be considered **important** and needing executive committee attention in your firm's strategic planning.

Finally, the cluster of trends that will tend to occupy the bottom left-hand corner of the graph fall into the area best labeled as **postponable**. These trends might be monitored for changes which would cause them to shift to a higher priority.

In spite of the graph presented here to help with your analysis, let us not create the impression that this processes is scientific, systematic, or precise. If anything, the future is guesswork at best. The events, trends, issues and opportunities in the external environment are ultimately whatever we interpret them to be. Intelligent professionals may disagree completely about what a particular trends impact may suggest.

The most valuable aspect of this process is how it can enable to leaders of your firm to discuss, debate, interpret and assimilate the lessons the external trends have to teach. Out of this understanding, which must be continually updated

and refreshed, they can commit energy, attention, talent and resources for the greatest strategic value. This Assessment Diagram is merely intended as a practical tool that we have used with firms to help them make sense out of and prioritize those eternal issues deserving of some attention in their efforts to determine the best strategic direction.

STEP 4: DEVELOP YOUR ACTION PLANS

Finally, it is necessary to transform the discoveries that come from your discussions into actions. There is little point in knowing that you're heading for an iceberg if you don't determine how to steer around it.

Your action planning session should draw upon and involve partners from various different practice areas. We have observed that partners not normally involved with any particular issue can have very creative and useful insights relevant to that issue. We often find that the insight has never been tapped because that partner was never asked to share views outside of their area of practice.

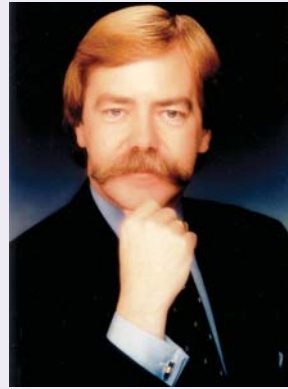
In order to be effective, some portion of your firm's strategy must concern itself with what we must be doing right now in order to be well positioned to capitalize on our future. Your strategic plan therefore should identify what skills your firm should be developing (or hiring) *right now*, what you must do to anticipate and better serve unmet client needs *right now*, what new practices you should be pursuing *right now*, and what new experiments and field tests your firm should be engaging in *right now* in order to intercept the future.

A Necessary Part Of Your Strategy Process – But Also An Ongoing Exercise.

When partners sit down to think about their firm's strategy, too often they take 90 percent of "the way things have been done in the past" as a given and it then becomes the major constraint. Monitoring and analyzing trends should be a continuing process of observation, reflection and learning. Even where it is formalized as a critical ingredient of the

strategic planning process, the best firms will still need to be attuned to their external environments all year round. It's not as if you can activate this exercise once every few years, scan the environment, and then shut it down until the next planning period. We need to have an ongoing format for staying constantly alert for the first signs of important new developments.

The American writer and humorist Mark Twain advised, "When everybody is out digging for gold, the business to be in is selling shovels!" And there is actually a grain of wisdom in his wisecrack. What foreseeable trend may represent the figurative shovel that every client will need tomorrow?



Patrick McKenna is a partner in Edge International and co-author of the international business bestseller, *First Among Equals* (Free Press, 2002). Edge International is comprised of seven principals with offices in four countries. Patrick can be reached at www.patrickmckenna.com.

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