STRATEGY INNOVATION

RETHINKING THE BASIS OF COMPETITION

Why Strategic Planning *Does Not* Work!

AND WHAT YOU SHOULD BE DOING ABOUT IT

BY PATRICK J. MCKENNA • EDGE INTERNATIONAL

While some claim that profit-per-partner is growing, and for some it has been, don't be fooled. It is not going to last much longer for those playing the game by following the same old rules.

Look behind the profit numbers. Across the profession, leverage is flat. Margins are starting to erode and utilization is quickly reaching its peak of human endurance. After conducting an extensive analysis of the numbers (see *How Healthy Is Your Strategy*), we discovered that over the 10-year period from 1990 to 1999, only 19 of the *Am Law 100* firms were above-average revenue-per-lawyer (RPL) performers. We also found that based on a similar RPL comparison, only 25 of the *Am Law 200* out-performed their peers over the last two years (where comparative statistics were available).

So what are these few star performers doing differently?

Based on our research, meetings with the leadership at literally hundreds of law firms over the past few years and our observations grounded in two decades of working within the profession, we believe the overwhelming difference can be attributed to how these firms see the future, how they determine their particular direction, and how they craft their competitive strategies.

THE EVOLUTION OF STRATEGIC PLANNING

Strategic planning is the recognized process whereby any organization sets out to determine its overall direction, what specific actions must be taken to achieve the desired direction, and how those strategies will get executed.

We have watched strategic planning in law firms evolve from a status of virtually no planning ("we've done well without it thus far") to a grudging recognition that planning may have some minor relevance to a firm's future success.

In its earliest rendition, strategic planning was seen as nothing more than next year's budgetary extrapolation of the past. Remember a time when we asked our partners how much revenue they each expected to bill over the next year? And viola—we had our plan.

We then graduated to the era of the annual planning retreat, believing that strategy was simply an agenda activity best left to the weekend partner's gathering. Traditionally, these retreats began with some consultant describing "what other firms were up to," evolving into a relatively unstructured discussion by the partners on their favorite issues. In fact, partners would be quick to admit that the views expressed by many of their colleagues at these gatherings were already so familiar that they could usually finish their colleagues' sentences without prompting.

Some firms eventually became more sophisticated and began to initiate a formal strategic planning process. Unfortunately, as we have had the opportunity to review many of these strategic plans, it becomes very apparent that the overriding focus of these plans was predominantly internal—on the issues or concerns partners had about each other and the firm—rather than on reflection and consideration of the external, competitive marketplace. Many of these more formal plans focused on developing specific actions to address various objectives like:

- to maintain and improve our human capital;
- to use technology to become more efficient and obtain a better quality of life;
- to attract and retain the highest quality personnel;
- to adopt a series of initiatives to improve and expand client relationships; and
- to continuously improve the firm's economic performance.

(Fear not. No one leaked us a copy of your strategic plan. These are just a few of the more common objectives we find listed in every law firm strategic plan that we see).

Now, in the past this process probably didn't matter a whole lot, since virtually every firm during the 1990s was growing and making more money than any partner thought possible. There really was no crying need for effective strategy.

But our star RPL performers took a different view of the world. These firms recognized, earlier than most, that they were practicing in a dynamic environment in which rivals, like multidisciplinary practices (MDPs), could come from anywhere looking to eat their lunch and that the pace of change was becoming blindsiding. They recognized that the practice of law, for those firms playing by the same old rules, was destined to become a lot less profitable. These firms began to look to the horizon to see what changes might have an impact on their practice. They did so not in preparation to adapt —because then it's too late, but in "anticipation" of getting out in front of the curve.

"The overwhelming reason why some firms are achieving above-average RPL performance can be attributed to how these firms see the future, how they determine their particular direction, and how they craft their competitive strategies."

Let's take a glimpse at a few of the critical issues these firms might be looking at today.

REALITY CHECK: FEELING THE HEAT

What can you do to see if your strategy still has a pulse? Here are seven critical issues, that any worthwhile strategic planning being undertaken today, should be taking into account.

- Your practice may be dramatically affected by "convergence" trends, where companies like DuPont (and my partner Dan Mahoney) that once used 430 law firms now use only 34 firms. In fact, according to a very recent survey of the Fortune 1000 companies:
  - 70 percent plan to decrease the number of firms on their approved list over the next five years.
  - 57 percent plan to decrease their use of outside law firms over the next five years.

- Even more alarming, when general counsel of Fortune 1000 companies were asked the question: "How satisfied are you with the specific partner who handles your companies matters?" Only 5 percent responded "very satisfied."

When we sight these statistics to most firms, few will take us seriously. Try it yourself: Ask your partners how satisfied they think clients are with the level of service the firm provides. It is indeed hard not to believe the high percentages that your partners will offer. We ourselves had a hard time believing the reported 5 percent response. Then we came across some proprietary data from survey results in a number of top 10 U.S. markets. In these surveys, the question was phrased slightly differently. CEO's and business owners were asked: "If a law firm you've never used wanted to attract some of your company's legal work, what is the best approach they could take to get their foot in the door?" Only 6.9 percent responded: "Nothing, they couldn't, we're completely satisfied." Now, compare that to the 5 percent response!

■ Don't think professional services are immune from the competitive pressures brought about by the empowerment of the Internet. Clifford Chance is but one law firm that is implementing innovative new strategies and aggressively forecasting that online services could account for 20 percent of the firm's business within the next five years.

■ New online auction services pit law firms against each other to bid for big legal jobs. As of January, eLaw Forum has conducted about 25 auctions, expects to conduct more than 400 by the end of this year, and estimates that it has driven legal fees down by an average of 30 percent.

■ More and more legal work is becoming "commoditized." As that happens, what many lawyers charge for their services is destined to drop significantly. Smarter corporate counsel are keeping more legal work in-house and pushing fixed-fee arrangements on some of their pricier firms. They are also placing more of their low-margin commodity work at cheaper firms.

■ The future may very well favor those firms that become well known for servicing specific industry sectors. When Fortune 1000 Counsel were asked the question, "What skills do partners lack most?" The highest rated response, at 51 percent, was "understanding our industry."

■ Finally, according to a recent study by PriceWaterhouseCoopers, "Law firm marketing suffers most noticeably from firms having a tough time focusing and agreeing on what really 'differentiates' their practices."

How many of these critical issues have you developed specific actions to address in your latest strategic plan?

EYES WIDE SHUT

Many firms that have been involved in conventional strategic planning are failing to improve their ability to differentiate themselves, their competitiveness or their relative growth, in spite of the investment of time and effort in the planning exercise. How many firms with a beautifully presented strategic plan have anything meaningful to show from their efforts? One would think that the application of strategic planning methodologies would have achieved more measurable results.

Our star RPL performers long age recognized that the typical strategic planning exercise now conducted and infused with massive quantitative data misses the essence of the concept of strategy and what is involved in being innovative and differentiated. Meanwhile, the word "strategy" has unfortunately become a devalued term, challenged only in the buzzword hall of shame by "paradigm" and perhaps "out-of-the-box thinking." Some supposedly enlightened consultants are now promoting "strategic thinking" or "transformation" as the latest terminology.

But the problem here for most of us isn't with terminology. The need for crafting competitive strategy could not be more acute. The real problem is one of helping firms understand that continuing to utilize a shop-worn, tired old approach simply does not work anymore.

If you're interested in learning how those firms who produce above-average RPL results are doing it, it may be instructive to start with what *doesn't* work before we turn our attention to what does. Let's delve into the typical strategic planning process as is so often practiced or proposed by outside consultants. Let's conduct a quick review of seven of the most time-worn methodologies that are still so often employed, and explore why they are so often a waste of time.

Conventional Methodology #1: Financial Review

"We will review your financial data and convert it into templates that allow us to advise you on how you compare to similar firms."

Many of us are just old enough to remember that in the early days, firms often recruited their first law firm administrator from either the military or the police force. (I guess managing partners needed someone with that kind of background training and clout to help herd the cats!) But now the executive director at a top firm is a sophisticated administrator with ample financial training and access to reams of comparative statistics. Do we really think that this professional has not been doing the job?

Top performers appreciate that all too often firm leaders forget that financial numbers are an abstraction, and often give the illusion of precision. They are largely historical and can serve to blind leaders to future changes. As an example, when American Express was experiencing a competitive crisis in the early 1990s, one of its executives commented, "Our return on equity had been in excess of 20 percent a year for decades. The attitude was, 'Who can argue with those numbers?'"

If you have retained a consultant to assist with your strategic planning, then asking that individual to conduct a financial review, look at your firm's organizational structure, peruse your partnership agreement, and audit past business development achievements, are all legitimate steps—in an "orientation process" that any consultant should naturally take to get to know your firm. But why would you start a strategy process (that implies looking forward) with a formal step that serves to focus internally and look backward? The top performing firms understand that the task at hand is to craft a competitive strategy, not conduct an operational review—and that this course of action doesn't exactly set the tone for a process that should be concerned with creating new wealth.

Conventional Methodology #2: Partner Interviews

"We will conduct one-hour, in-person interviews with the appropriate mix of lawyers and staff."

"Our fundamental belief is that if you want to see the future, 80 percent of what you are going to have to learn will be from outside of your own profession."

We trust that everyone can fully understand the importance of obtaining "buy-in," especially from our partners, to any strategic planning initiative. We ourselves learned many years ago that no partner will support, get truly enthusiastic about, or willingly participate in implementing any plan that he or she has not had some part in formulating.

But we are also convinced that there are far more effective (and far less time-consuming) ways of getting everyone actively involved than having a team of consultants run around your firm giving everyone a half-hour to articulate their pet peeves.

Conventional Methodology #3: Firm Vision

"We will commence our work with you by helping to develop and communicate to the partnership a guiding vision for where your firm is going into the future."

Remember mission statements? Mission statements first came into vogue in the 1980s—a single-page document filled with more platitudes than you'd find in the average prayer book, spelling out your firm's business mission. No one remembered the darn things, it was business as usual, and the document didn't have the profound impact on the fortunes of firms that their creators had hoped for. The mission statement exercise was quickly forgotten—except at those few firms that chose to laminate the statement as cards for all of the lawyers to keep in their wallets.

Then came the 1990s and … every firm needed a *vision.* It was a new name, but soon became the same old silly exercise. All of your skeptical partners exchanged winks and knowing glances. The Executive Committee would have to be indulged one more time. In 99 percent of all cases, the result was to be the same—having a vision changed absolutely nothing.

We are not aware of one single firm among those achieving above-average RPL performance who have invested partner time in developing a mission or vision statement.

Conventional Methodology #4:
Client Assessments

"We will conduct in-person interviews with a number of your most significant clients. These interviews make it possible to assess the service levels your clients perceive as well as identify areas in which you excel or need improvement."

How do you argue with motherhood? Yes, yes, it seems that despite the numerous articles published in law practice management journals over the years on the extraordinary merits of assessing client satisfaction, there are still those firms that have not made it an operational habit.

But . . . once again, this is an *operational* issue. Assessing client satisfaction should be an ongoing process and not merely relegated to being part of your strategic planning.

The strategy issue is not client satisfaction! The strategy issue is client (and prospective client) "needs." The highest performing firms clearly understand that.

It wasn't client satisfaction that drove a U.K. firm like Linklaters to devise an Internet service that investment bankers and portfolio managers would ultimately pay a one-time initiation fee of $200,000 and an annual subscription of $72,000 to receive. It was an acute understanding of client needs. So, understandably, we don't hold out much hope for firms being able to create new markets, new clients, or new revenue streams from asking clients about their level of satisfaction with the firm's parking availability.

We have long advocated that partners should make it their business to understand what it is that is keeping their clients awake at nights. But when you are seeking to craft strategy, you have to go even beyond what is keeping them awake, to truly understand their much deeper needs.

Understanding what clients need is a whole different process. There are five levels of client needs that should be explored: explicit needs, observable needs, tacit needs, latent needs, and emerging needs. Many are satisfied if they can get a handle on their clients' current needs. But this is not the total answer. You must also think far ahead of the curve. You must lead the pack by anticipating clients' needs before clients even know those needs exist.

Innovations like 3Com's Palm Pilot and Federal Express's overnight delivery service literally created new client needs to achieve growth. Dave Pottruck, the co-CEO of Charles Schwab, says that most of Schwab's huge innovations have come from asking clients, "How can we make your life easier?"

Please don't misunderstand. Improving client satisfaction is a critically important issue. It is just that it should not be the primary focus for conducting in-person interviews with clients when your firm is seeking to craft strategy.

Conventional Methodology #5:
SWOT's Analysis

"We will develop our strategic plan in the context of market realities and the firm's strengths and weaknesses, and offer suggestions."

Almost every firm that goes through the conventional strategic planning process uses some form of SWOT's analysis. To the uninitiated, SWOT is an acronym for "strengths, weaknesses, opportunities, and threats." Quite simply, this means that we will all engage in an exercise to have a look at the various internal strengths and weaknesses of the firm, and then look to what particular threats and opportunities could be exploited. Sounds sensible enough, and it is—if you are a boutique practice or smaller firm of perhaps 50 lawyers or fewer. But the process, as it is most often executed, is a complete waste of time for firms of any significant size. In some cases it has probably done more harm than good.

In fact, let us press this point by providing you with the following rigorous analysis of your firm's current strengths and weaknesses.

STRENGTHS:

- Many talented attorneys
- High level of client satisfaction
- Excellent opportunities for cross-selling
- Quality of firm's legal work
- Ability to serve most client needs
- Strong reputation
- Collegial culture

WEAKNESSES:

- Insufficient team approach to providing services
- Trend toward too much me, not enough we
- Relatively high attrition rate of associates
- Insufficient cross-selling
- High hourly rates for commodity legal work
- Unwillingness to make hard decisions like terminating unprofitable work
- Weak differentiation from competitors
- Unevenness of marketing efforts among partners
- Communication between management and partners

Does any of this sound familiar?

What, you might ask, is the relevance of this SWOT's analysis to strategic planning? Nothing whatsoever. All too often, this turns out to be an exercise in identifying the most trite descriptions of firm strengths and weaknesses!

The real question that the above-average RPL performers continually ask themselves is, "Are there any attributes, which signify meaningful differentiation, that clients regard as valuable and distinct to our firm?"

The proposition that we put forward is that a SWOT's analysis (like marketing) is irrelevant at the firm level—other than to perhaps help assess image, geographic aspirations, culture, or governance. Any meaningful assessment of strengths and weaknesses is best done at the practice group level, where we can instinctively understand that such an analysis will be far different for each practice group. This leads nicely to our next point, which is one of the most critical.

"The leading firms know that the future will not be an echo of the present. Getting to the future first requires firms to be deliberately farsighted."

Conventional Methodology #6: Practice Group Contribution

"We will hold meetings with your practice groups to allow members to voice ideas and opinions about the firm's strategic plan."

If the only contribution the practice groups are expected to make is to voice opinions about your firm's strategic plan or to sit quietly by, waiting patiently for marching orders from on-high, then you have effectively short-circuited the audience that could make the most meaningful contribution to your firm's strategy.

It has been long debated as to whether the most effective strategic planning is a top-down process or bottom-up process. Our observations and experience convinces us that it is both.

The top-down process needs to be concerned with the growth and direction issues that result from looking to where the profession is evolving and how we might best allocate critical resources to take advantage of the future.

Instead of advocating a top-down approach, strategy should be set in a dialogue involving all levels. The aim is to help firms, from the practice group up, create distinctive strategies to keep them ahead of the competition. Staying ahead is easier said than done. It requires a depth of insight that most firms depend on when they are young but lose when they age.

The bottom-up process is simply a recognition that the greatest opportunities for truly differentiating your firm and gaining competitive advantage emanate from individual practice groups. If we recognize that a firm is comprised of discrete business units, we see that how you market a securities practice is likely to be very different from how you might market a heath care practice. So, too, will your securities group compete with a collection of firms that is far different from your health care group's competitors. What naturally follows is that the "needs" of securities clients and the emerging opportunities for the securities practice to explore require that the group develop its own strategies, interdependent of the firm as a whole.

What we have learned from firms that achieve above-average performance is that they balance the need to develop a top-down strategic plan for the firm with multiple, bottom-up plans developed by each practice group—where many of the most important growth opportunities exist.

Conventional Methodology #7: Implementation

"This process usually takes nine months to complete. We would be pleased to help you implement your strategic plan. However, we do not include fee estimates for implementation here because we cannot predict the form your strategy will take."

We understand that it takes nine months to give birth to a baby. We also believe that everyone instinctively realizes that a lot can happen in nine months. It took less time, for example, for an e-mail service called Hotmail to go from a standing start to millions of users, or for the NASDAQ to lose half of its market value.

It's a brand new, do-more-faster age. Today's global economic dance is no Strauss waltz. It's break dancing at breakneck speed. Success in this new marketplace is directly proportional to the competitive growth strategies and management sophistication that your firm can bring to bear, and how fast you can do so.

What is difficult to fathom is why implementation cannot be a natural part of any strategic planning process. Why can't you build ongoing implementation into various steps in the process? Rather than spend time interviewing every partner to build buy-in, why can't you engage the partners in an exercise that allows them to participate in assessing the firm's competitive position, identifying growth issues, and setting to work on some initial actions and, perhaps, some small limited-risk experiments? Where is it written that you have to wait for the better part of a year, until your plan is finalized?

In light of these glaring flaws, is it any wonder that some of the best performing firms have concluded that strategic planning, as currently practiced, is passé? If you begin to play that out, it leads inevitably to a very different kind of strategy process than you may have experienced thus far.

IT'S TIME TO CHANGE THE WAY YOU THINK ABOUT STRATEGY

We believe the state of most strategic planning tends to be too structured (read: boilerplated). It is too unimaginative, too backward-looking, too conformist (to precedent and what has gone before), too data- and numbers-oriented (a budget is not a strategy), too analytical, and far too similar (to plans developed by competitive firms). In the final analysis, most of these strategic planning "systems" appear to result only in massive paper, solemnly clad in three-ring binders, gathering dust—their specific prognostications long forgotten. The systems have been of little help to firms in developing truly innovative and differentiated strategies, or achieving above-average RPL results.

To grow, you must be able to challenge conventional thinking. Conventional thinking only leads to mediocrity, or being stuck in the middle of the pack. To grow you have to be willing to break the rules. You can't grow by following in the footsteps of competitors—you have to break away from the pack. Unfortunately, some firms tend to go along with everyone else, reacting to change, and hoping that maybe things will start coming their way.

From these firms, we continue to hear that "strategy is the easy part, it's the implementation that is hard."

Implementation may indeed be a challenge, but the notion that strategy is easy rests on the mistaken assumption that conventional strategic planning has anything to do with strategy-making. Of course strategy appears easy when the conventional planning process narrowly limits the scope of discovery, the breadth of involvement, and the amount of intellectual effort expended, and when the goal is something far short of growth, differentiation, and wealth creation. Little wonder, that in many firms, the whole notion of strategic planning has been so devalued. How often has it produced any real strategic innovation?

What is your measure of success in the development of strategy? Is it a lengthy document that finds its eventual resting place on the shelf of some managing partner's bookcase? Or is it a process that leads to competitive differentiation and wealth creation?

What we have learned is that the best performers are taking an entirely divergent tact. The way they are approaching the strategy process is based on some fundamentally different principles.

Get to the Future First

Forget focusing time and attention on having your partners develop some elusive firm mission or exotic vision statement. Their time would be far better spent in doing some deep thinking about the trends that are currently shaping the profession. Have we even thought about how the future of our profession may unfold over the foreseeable next few years, and what would be required of us as a firm to get to the future first?

Consider: What has been the most profound change in the profession over the last decade? (How long did it take your firm to figure it out and adapt accordingly?)

Now, taking that forward, if we had known in 2001 what we will know in 2004, (only a few years into the future) how would we have changed our attitudes, actions, and the way we practiced law? How would we have changed the services we offered, the clients we targeted, and the ways we chose to deliver our services?

The greatest disadvantage of the conventional planning process is that it works from today forward and implicitly assumes, whatever the assertions to the contrary, that the future will be more or less like the present. The leading firms know that the future will not be an echo of the present.

Getting to the future first requires firms to be deliberately farsighted. Make no mistake, we're not talking about navel gazing or trying to predict the future. Rather, what we have learned is that crafting effective strategy is really more a question of identifying the portent of changes that are already occurring—either in other markets, or in other professions, or in other industries. Some of the best rule-breaking ideas are out there already—in someone else's profession or industry. Look at what they have done and see how it might be applied to your own situation. Seeing the future has nothing to do with speculating about what might happen. Rather, you must understand the potential of what is already happening. Our fundamental belief is that if you want to see the future, 80 percent of what you are going to have to learn will be from outside your own profession.

"There are five levels of client needs that should be explored: explicit needs, observable needs, tacit needs, latent needs, and emerging needs."

Work from the future back. Make your aim-point the future you want to create not the future you're forced to accept. Then work backward to the present to build the glide path to get there.

Just look at the way some have approached positioning their firms in the online legal arena. The current examples cross a wide spectrum, from firms that are totally reactive to client demands to those aggressively "seeing" entirely new ways to sell and deliver legal services. Even an RPL winner like Weil Gotshal can slip and was only reactive to the demands of Jack Welsh. As the story goes, it would appear that Jack Welsh woke up to the realities of the information age and decreed that all suppliers to General Electric must, within 18 months, be in the position of providing services to GE by way of the internet. Weil Gotshal responded with the provision of a secure Web site for GE's 700 in-house counsel. Now looking to the future, the firm has sought permission and is marketing the non-GE portions to other companies. And even smaller firms can act with foresight. Moses & Singer, a 63-lawyer firm, recognized an opportunity to innovatively build its health law practice. The firm now markets an online "e-Health Law" service to hospitals that are desperate to comply with HIPPA regulations.

These examples in some small way suggest that you can either choose to wait until changes are forced on you by eager clients, or you can look for opportunities to differentiate your practice and help create a profitable future before the clients have to ask.

To see the future, you must first, systematically deconstruct your old notions and ideas. 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 allow the past to become a major constraint. Instead, you must reject the past, reject precedent, and determine that you are not going to be bound by it anymore. In effect, in looking for new directions, you are not going to begin at the same old starting point.

The way the RPL winners get to strategy is by challenging their partners to think differently about how they have been practicing law. "Do we have to practice in that way?" They look at their firm's service offerings. "Do these have to be delivered in the way we're been delivering them?" They look at the basis upon which firms have chosen to segment the market. "Is there a different way of doing that?" They look at the parameters of competitive differentiation that are being used. "Are there other parameters?" They look at the assumptions their partners have made about whom is and who isn't the client.

Thus to see, and get to the future first, requires that you embrace an attitude of strategic innovation.

Identify Innovation as a Top Strategic Initiative for the Coming Year

Law firm management committees just naturally focus their attention on that which is presented to them. Most often, what is presented are internal problems: partner performance that falls below budget, juniors that are not achieving according to expectation, and clients that are not being fully serviced. Firm leaders are usually given written reports on many of these issues. They will often receive a computer printout giving quantitative evidence of the performance shortfall. Then at meetings of the management committee everyone sets to work on reviewing and suggesting remedial action steps to address the problems. While these problems may consume the agenda time of management committee meetings, they should not be on the agenda of any session concerned with crafting strategy. Your strategy sessions should only be concerned with looking externally, looking to the future, and looking for growth opportunities. To do anything less allows growth opportunities to die of neglect.

It is not sufficient for a managing partner to simply say, "Okay, I think it is time that we developed a (new) strategic plan for our firm." Your firm must be made receptive to the concept of strategy, innovation, and made comfortable with perceiving change as an opportunity rather than a threat. We often hear the question, "But, how can we overcome the resistance of certain of our partners to the idea of innovation?" Even if we knew the answer, it would still be the wrong question. The better question to consider is, "How can we make our firm more receptive such that individual partners embrace innovation and are prepared to devote some of their precious non-billable time to working for it?"

When strategic innovation is perceived by partners as the flavor of the month, the very concept rankles and there will be no innovation. Innovation must be part and parcel of the ordinary, the norm, the routine. The concept must be communicated in such a way as to be made attractive and beneficial to partners.

We have observed that the high performers will make a strong case for the need to change by creating a "sense of crisis" and urgency from which to direct the partner's attentions to taking advantage of change. The management of these firms tells the partners, "We see some potential changes on the horizon that may either present an opportunity for us, or if left unattended could have an adverse effect on our collective, personal fortunes. Here is what we see . . . What do you think we should do? What actions might we initiate that could have the potential to transform these changes in our favor?"

Still some partners may say, "Why should we do anything? Things are going well without our messing around." High performers recognize this as the opening for them to educate their partners as to what those competitors who are a little more alert might do, if we wait and miss the opportunity window. These firms work to create a clear understanding throughout the firm that innovation is the best means to preserve and perpetuate the firm's wealth and individual partner's continued personal success.

According to a February 2000 *Economist* article, a PriceWaterhouseCoopers study on innovation claimed: "Innovation will be the dominant value proposition for the next century. Innovation is the basic imperative for new approaches, new processes, new delivery systems, new services, and the prerequisite for sustainable growth."

Your primary strategic challenge is not to find new sources of funds to fuel innovation, but rather to discover new ways to change attitudes and mind-sets throughout the firm. Every professional in your firm must come to understand that it is his or her job to think of new solutions and new ways of doing things.

The message is to shake up old patterns or behaviors, break old routines, and begin thinking differently. A certain degree of zeal and importance needs to accompany the announcement of innovation as a priority. It must be seen as a new way of doing business and as the essence of the growth strategy for the firm. The message is that we value "newness" over "sameness."

Turn innovation into "job one." Identify and articulate, with a sense of urgency, all of the various reasons why your professionals need to come up with new ways to:

- go outside the confines of the current practices into new areas
- offer clients new benefits
- apply new technologies
- target new market segments
- develop new-to-the-firm ideas and new-to-the-profession innovations.

Our fundamental question to any managing partner is, "How much of your last strategic planning effort was spent in actually creating new-to-the-firm and new-to-the-profession competitive strategy options?"

One managing partner expressed it this way:

> "I used to spend most of my time worrying about the *how*—*how* we did things, *how* we operated, *how* efficient we were" (the internal). "Now I spend much of my time worrying about the *what*—*what* opportunities to pursue, *what* alliances to form, *what* technologies to back, *what* experiments to start" (the external)."

Effective innovation also requires effective teamwork—professionals with complimentary skills who can view a client's problem from different perspectives and bring in alternate solutions, build momentum, and orchestrate an action plan. Innovation requires an in-depth understanding of clients—their lives, routines, problems, frustrations, hopes, fears … and their needs.

> **"No organization outperforms its aspirations. Our beliefs set the upper limit on what is possible."**

Ascertain the "Needs" of Both Clients and Prospects

When we are looking to the future, many of us tend to think in terms of improving what we currently do. As lawyers, we tend to look at our current ways of doing things and how we can improve our methodologies, rather than taking a step back and thinking about what our clients may actually want. If we are concerned for our future profitability we have to think about what is it that we do as lawyers that adds value or helps manage the risks that our clients face.

That sounds like a line from a screed on "getting close to your clients," doesn't it? The sermon on knowing thy client is a good and worthy one. And it has been delivered so loudly and so often for the past several years that many firms have taken it to heart. Those firms—the stellar performers—know quite a bit about their clients. But we are talking about something else that they do.

Creating new wealth requires more than simply responding to market demand. Think about some of the path-breaking innovations that you have personally observed during the past few decades. For example, no car buyer walked into a Chrysler dealership in 1983 saying that what he really wanted was a van mounted on a car chassis with folding seats—and don't forget some cup holders. No customer told Sony that the only thing wrong with its tape players was that you couldn't strap one on your head.

We're talking about crafting a competitive strategy based on being innovative in recognizing client needs, preferably even before the client may know that they have the need.

Imagine a simple 2x2 matrix (heaven forbid!) in which your existing clients and potential new clients are on the horizontal dimension. Now construct the vertical dimension by articulated and unarticulated needs. (See chart.)

When we say we need to be client-focused, what we are trying to do is to better understand the articulated needs of existing clients. Your future-oriented challenge is to understand the unarticulated needs (the “what could be”), especially of new kinds of clients. Seeing the future first is very seldom about responding to articulated needs. It’s about understanding deep-down frustrations and anxieties that people have, and creating new alternatives for them. We call this finding the “white space” opportunities in which you have no competitors!

Thus, the question is not, “How might we better serve our clients?” That is an example of working from what *is.* To work from what could be, the central question becomes, “What service might we provide that clients are not yet asking for?” Your challenge is to encourage your people to continually ask, “Whom do we serve? How do we do it? What new service offering that clients haven’t even thought to ask for yet, can we surprise and delight them with?”

Some partners may think that this is the proper role of the marketing department. Unfortunately, the marketing function is about the worst possible conduit for bringing insight into this process. That is because marketing—particularly through the use of market research—tends to be a prisoner of the existing concepts. The only solution is to put your partners right up against existing and prospective clients, to live with them, breathe with them, understand their frustrations. Only then might you have the chance of developing deeper insights. You have to take off the blinders.

The problem with most of us in the profession is that we are all too often blind. The deepest reason for this is our inability to look outside of current experiences. If we think about it, most firms converge around how they perceive what business they are in and what clients they want to serve.

Think about the effects of everyone going to the same legal seminars and conferences, hearing from the same pundits, reading the same gossip rags, and trading partners back and forth. Is it any wonder that firms obsess and spend their time focused on what every other firm is doing—watching to see what Skadden Arps or Jones Day is up to—rather than sharpening their own views of the world?

Dealing with this blindness involves looking deeply within the client to find hidden knowledge.

Think Differentiation

Let’s think for a minute. How different is what you are doing right now—the strategies that you are employing now—from the four or five key competitors in your marketplace?

If your answer is “not much,” then how can you ever expect to surpass their performance? We all know instinctively that doing the same thing and expecting different results is futile. But that’s pretty much the result that conventional strategic planning has provided.

In our strategy sessions with groups of partners we have often posed a simple question to the entire group—a question we believe reflects the primary concern that occupies most prospective clients’ minds, what we have come to think of as the “defining” question. It goes like this: “Tell me please, as a prospective client, why should I choose you (your practice group/your firm)? What makes you distinctive and what added-value can you bring to my business

	EXISTING CLIENTS	NEW CLIENTS
UNARTICULATED NEEDS	WHITE SPACE	WHITE SPACE
ARTICULATED NEEDS	“CLIENT-FOCUSED”	WHITE SPACE

"Can you point to 10 or 12 small experiments going on right now that you believe could fundamentally remake your firm?"

HOW MIGHT YOU EVALUATE YOUR STRATEGY?

We believe the measure of an effective strategy is the:

- breaking of existing rules and precedents
- search for a (temporary) monopoly
- ability to differentiate in a meaningful way that attracts clients
- creation of new wealth by creating new markets, new clients and new revenue streams
- achievement of above-average RPL and profitability
- making of hard choices which usually involves excruciating trade-offs
- action plan that folds the future back into the present
- number of small, limited risk, field tests and experiments that get underway

Correspondingly, an effective strategy is not:

- a fill-in-the-blanks "boilerplate" that some consulting company uses with you and everyone else
- a vision–the blinding insight of a managing partner
- the product of superior analysis
- numbers driven–the development of a five-year budget
- following best practices–more about getting better than getting different
- simply merging your way to competitiveness
- easy to develop–unless you're content to have a strategy that mimics every other firm.

matters—*that I cannot get anywhere else?*" (Please, do notice those last six words).

Simply working harder and improving utilization may achieve enhanced short-term profit but will not get you long-term success. Similarly, focusing efforts on operating efficiencies and improved margins will not do it for you either. The root of all successful strategy lies in being differentiated. Your firm—all of your individual practice groups—must all work at making itself different and intrinsically more valuable to clients.

Break the rules. In every industry and in every profession, there are rule-makers, rule-takers and rule-breakers. Increasingly we've learned that the firms that will be the true leaders will be those that reshape and redefine the profession. A good strategy makes the firm different. It gives the firm a unique position. And a unique position involves the delivery of a particular mix of value to some array of clients.

A firm simply cannot be all things to all people and do a very good job of it. Strategy requires choices. But it's not good enough just to be different. You've got to be different in ways that involves a trade-off with other ways of being different. In other words, if you want to serve a particular target group with a particular definition of value, this must be inconsistent with delivering other types of value to other clients. Firms that end up competing for the same set of clients using the same set of inducements will find that it is a loser's game.

The trouble is that firms hate making choices, because doing so always looks dangerous and limiting. They always want the best of all worlds. It is psychologically risky to narrow your range of services, to narrow the range of prospects you are targeting. And this unwillingness to make choices is one of the biggest obstacles to creating an effective strategy.

Today, the only thing that counts about your strategy is—how different is it from the strategies of your competitors?

Articulate "Stretch" Targets

Incremental goals fail to bring out the highest and best in law firms or partners. "Make no small goals," the old saw goes, "for they lack the power to stir our souls." Ritualistic planning is pedestrian. It rarely stirs anyone to sustained action, let alone to produce consistently outstanding results.

Subscribe to radical goals. Imagine what might occur if you declared to your partners that you wanted to achieve a 35 percent growth in revenues-per-partner over the next two years, and then asked them to come forward with ideas as to how each of them could contribute to making that happen.

We had an interesting experience recently in one firm where the managing partner decided to survey every member of the executive committee prior to an important meeting. Using a questionnaire, he asked each committee member for his or her views on what might constitute a reasonable expectation for the firm's future growth prospects. In the questionnaire, he told his partners, "Our profits-per-partner have increased during the past five years at an average rate of around 4.2 percent per year." Then he asked, "What do you believe is an acceptable annual rate of growth in profitability over the next five years?" Now, he did *not* disclose that 4.2 percent was not the *real* number, nor did he inform them that 4.2 percent was only about half of what competitive firms were averaging. Quite predictably, based on the information this managing partner provided, nearly all of the partners responded that they would be quite happy to achieve a level of 4 to 5 percent growth over the next five years. The lesson here is very clear. No organization ever outperforms its aspirations. Our beliefs set the upper limit on what is possible.

GE was one of the first organizations to institutionalize the idea of stretch goals. According to Chairman and CEO Jack Welch, stretch means moving beyond being as good as you have to be or achieving the budget—to being as good as you possibly can be—setting impossible goals and then going after them. He adds, "If you do know how to get there, it's not a stretch target."

Make Practice Groups the Key Building Blocks of Your Firm's Direction

One of the most disastrous developments happens when firm leaders or a select committee of power partners takes it upon themselves to develop the firm's plan and then make their pitch to sell the plan to the rest of the partnership.

Recently, that lesson became evident to us again when observing the strategic planning process unfolding at a prominent Washington, D.C. firm. This particular firm decided that it desperately needed to develop a new direction and as a result, the managing partner, executive director and a retired McKinsey & Company partner decided to develop the firm's new strategic plan. The plan was completed and the general partnership meeting was convened. That all transpired in early 1999, and to this date the firm still does not have an agreed-upon strategic plan.

There are a number of inherent problems with developing a strategy from a top-down perspective.

First, it assumes that all wisdom reposes within the firm leadership. Now that is not meant to be a disparaging comment. Centering the process on the thinking of the firm's executive committee may certainly involve some of your best and brightest, but unfortunately it does serve to harness only a portion of the firm's creative potential. Look at any emerging development, being undertaken by any law firm, anywhere, and ask yourself a question. Did that initiative develop at the executive committee? Or, did some monomaniac, in some practice group, perceive an unmet client need and then make it his or her personal mission to initiate an innovative course of action? In many cases, our observation is the later.

We find that in the best performing firms, management looks to practice groups to make a meaningful contribution from their particular vantage point. They are especially looking to practice groups that are doing things better and doing things differently. They single them out, celebrate their achievements, and consistently ask, "What are you doing, or not doing, that the rest of us could learn from?"

They are also asking individual professionals for their personal ideas on how things could be done better and differently. They tell these professionals, "I want to hear about your personal career aspirations. I want to hear where you see the greatest opportunities for your group and for the firm. And, I want your ideas on what you would like to see us try that is new, that would develop new service offerings, and provide new ways of reaching clients."

Secondly, if one of your goals is to differentiate your firm in a meaningful way that attracts clients—and it should be—you will find it difficult to project a differentiated position for the entire firm, unless you are a boutique practice. Most clients will talk about the dominant strengths of a particular practice group, but rarely about the entire firm, no matter how much we invest in "branding" programs. Therefore, any attempt to develop strategy without looking to the practice group as the primary building block is likely to miss the mark.

Your strategy-crafting process at the practice group level should be concerned with three things:

1. How do we identify those areas where we have potential to truly be differentiated and become a preferred provider? The good news is that, in many firms, "hidden diamonds" already exist within some of the out-of-the-ordinary client matters that have been successfully handled in the past. To exploit the potential that lies hidden requires a bit of analysis.

For example, within one firm, we began the practice group strategy process by having a professional interviewer construct with each partner, a profile of any recent, out-of-the-ordinary client transactions. We asked each partner to tell us about those particular matters they had handled over the past 18 months that presented a new and inspiring challenge. We asked who the particular client was and what might have made the client's situation rather unique. We then explored with the practice group whether the lessons learned from any of these transactions might suggest new client, new market, and new revenue opportunities.

Deconstructing past client experiences can provide a means of escaping the myopia and put you in touch with the deeper capabilities that can be brought to bear in other commercial ways.

The practice group must examine every out-of-the-ordinary transaction with the questions:

- What would it mean for us if we exploited our success with this?
- Where could it lead us?
- What would we have to do to convert it into a business opportunity?
- How do we go about it?

It is precisely because these hidden diamonds jolt us out of our preconceived notions, our assumptions, our certainties, that they provide such a fertile source of innovation.

2. How do we become more valuable to clients by specializing our skills and expertise in those areas that are of greatest emerging client demand? The point here is that in the early stages of any new industry, any new market, any new trend, or any new regulatory development, there is an opportunity to search systematically for an opportunity to develop and apply specialized skills.

This strategic move aims to obtain a practical "monopoly" in a small area of practice and become the leaders. This monopoly must be obtained by developing specialized skills very early on—skills that serve to put the practice group far ahead of competitors, making it difficult for anybody else to try to challenge them. To attain a leadership position always requires something new, something added, something that is genuinely innovative.

3. How do we involve clients directly in discerning their "needs" and actually helping us develop new innovative ways to serve them? The best practice groups take their draft strategies to the clients for input on whether the group is on the right track. This step becomes the natural follow-up to those one-on-one meetings with clients to discern their latent, unexplored, and future needs. (Any internal and important issues of hiring, training, organizing and delivering legal services then all flow from these externally focused determinations.)

Develop Strategy in Action

When it comes to executing a strategy, the end target may be clearly visible (for example, "I want to climb that mountain over there"). However, much of the route may be invisible from the starting point. The only way you are going to see the path ahead is to start moving. Thus while your strategy starts with foresight, it evolves through experimentation.

The most successful strategies start as small, inexpensive, limited-risk field trials. This is often far more effective than protracted analysis or market research—and always more reliable. Your market will tell you when you get it right. Craft strategy as you go, mixing thought and implementation into the process. True partner commitment can only be expressed in actions.

In many firms, the quest to follow precedent and achieve perfection drives out experimentation. One question we often ask managing partners is, "Can you point to 10 or 12 small experiments going on right now that you believe could fundamentally remake your firm?" In most cases, the answer is no, there is nothing to point to.

We posed this same rational to the hundreds of partners at McDermott Will & Emery last year during a morning partnership meeting, when we had the honor of addressing the group on the importance of strategy innovation. To our absolute astonishment, the firm's Executive Committee retreated together for lunch and returned to announce that they were initiating a new internal R&D fund of some significant magnitude. Partners were invited to submit individual proposals for any new initiatives they were prepared to personally champion. Then again, is it any wonder that McDermott has achieved the highest RPL growth over the past 10 years of any firm in the *Am Law 100?*

The more experimentation, the faster you understand precisely which strategies are likely to work. The goal is not to develop "perfect" strategies, but to develop strategies that take you in the right direction, and then progressively refine them through rapid experimentation and adjustment.

STRATEGY INNOVATION: "THE TIME TO ACT IS LONG BEFORE YOUR HORSE STUMBLES"

For much of the past decade, most firms have been busy following the conventional rules. They've been wringing every penny they can out of an ever-increasing, internal demand for billable production. What first began in the gut of managing partners as a legitimate means to improve profitability then became an obsession—and the primary strategy for most firms. The ultimate result is that firms are "hitting the wall" in terms of how many more billable hours they can achieve. What does that leave you with as a viable means for increasing your firm's growth and profitability into the future?

Working with and observing firms that consistently out-perform the average certainly suggests to us the merits of a methodology for developing innovative strategy—one that is dramatically different from past approaches to conventional strategic planning.

Strategy innovation is about rethinking the basis of competition. Strategy innovation does not depend on past success or established ways of practicing, or deep pockets, or having certain types of practices. A strategy steeped in innovation should make every decision a consequence of *imagination,* not p*recedent.*

We once heard an entertaining speaker describe the situation in this way:

> "Dakota tribal wisdom says that when you discover you're on a dead horse, the best strategy is to dismount. Of course, there are other strategies. You can change riders. You can get a committee to study the dead horse. You can benchmark how other firms ride dead horses. You can declare that it's cheaper to feed a dead horse. You can harness several dead horses together. But after you've tried all these things, you're still going to have to dismount. The temptation to stay on a dead horse can be overwhelming, but, the time to begin searching for new strategies is long before your horse stumbles."

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