Strategic Planning for Law Firms: A Practical Roadmap

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AS OUTLINED in the executive summary, at its core, the purpose of strategy in any for-profit organisation is to position the firm to achieve better and more sustainable returns than the competition – in essence, to capture a sustainable competitive advantage. Doing so requires the firm to satisfy major stakeholders (primarily customers, but also knowledge workers, shareholders and others) over both the near and longer term. Ultimately, business strategy is about winning in competitive markets.

The origins of business strategy can be directly traced to the immediate post-WWII era and Peter Drucker’s 1946 book Concepts of the Corporation. Drucker gets to the heart of the issue making the following point: “A company’s primary responsibility is to serve its customers. Profit is not the primary goal, but rather an essential condition for the company’s continued existence. There is only one valid definition of business purpose: to create a customer.”

In other words, if an organisation cannot satisfy its clients in a superior manner over a sustained period, the rest of its mission is doomed – there will be no profits for the shareholders, no wages for the workforce and no future for the firm.

Business strategy really began to flower in the 1960s, when Bruce Henderson founded the Boston Consulting Group (BCG). While consultancies existed, BCG cemented the idea of business strategy. The premise that tools and models could directly influence business performance gained legitimacy during this period. Firms like BCG, Bain & Company, McKinsey & Company and Arthur D. Little all contributed to the proliferation of useful models and tools. Thus, today most managers understand things like economies of scale and the experience curve, product life cycles, and the various matrices that consultants trot out to analyse markets and businesses (many of the most pertinent tools and models for law firms are covered in greater depth in Chapter 6).

More than perhaps any consultant, academic or management guru, Michael Porter has provided the central definitions for what we know today as business strategy and strategic planning. In his seminal 1985 book Competitive Advantage: Creating and Sustaining Superior Performance, Porter began with the supposition that: “Competition is at the core of the success or failure of firms…Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.”

Porter highlighted three so-called generic strategies in Competitive Advantage:

- Cost leadership – Capturing customers on the basis of price;
- Differentiation – Capturing customers on the basis of offering unique value; and
- Focus – Targeting narrow markets in which your firm has an advantage.

A decade or so later, Porter refined this thinking, specifically sharpening the
definition in his landmark *Harvard Business Review* article, ‘What is Strategy?’, by explaining that: “Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.”

Porter makes the further point that simply pursuing the low cost position is not a source of sustainable advantage – someone is always willing to go lower. In the legal marketplace we see this manifest in many ways – the continual erosion of rates and margins in insurance defense, the increased outsourcing of document review to low cost alternatives (for example, contract attorneys, off-shore operations, etc.), and the standardisation of transactional and other documents (for example, simple wills, loan documents, etc.).

This chapter describes the four phase roadmap for creating a strategic plan at the firm or practice group level, assuming one is starting essentially with a blank sheet of paper. Most of today’s firms are not starting with a totally blank slate – many firms will start the planning process with a well considered and widely embraced mission and/or with a clearly understood set of shared cultural values. In general, the process works from the bigger picture and the longer term and moves gradually toward more specific decisions and the nearer term.

**Phase one – Situation analysis**

The situation analysis phase is designed to ensure strategy development is built on a foundation of facts. The intent is not to create analysis paralysis, but rather to establish a shared understanding of the internal state of the firm (or practice) and the external, competitive market environment it faces. Ideally, work during this phase is driven by a principle of information sufficiency (i.e. gathering enough information and performing enough analysis to understand the situation) – frankly, there is always one more data point that could be gathered, but ultimately continual fact gathering will result in diminishing returns.

**Phase two – Direction setting**

The direction setting phase focuses on reaching agreement on the big picture questions. What does the firm (or practice) aspire to become? What areas will it focus resources on, to gain a sustained competitive advantage? The end product is generally some combination of a well articulated vision and mission for the firm (or practice) and a related set of primary goals. The time horizon in the direction setting phase is longer term – three to five years (often longer with regard to the vision).

**Phase three – Strategy and objective development**

The strategy development phase focuses on making strategic trade-offs among rational alternatives. Since resources are necessarily limited – in a law firm environment, time is the most finite resource – choices need to be made. The strategy development phase

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**Figure 1: The schematic phased process for creating a strategic plan**
enables the firm (or practice) to answer the question: “What do we intend to do to achieve our primary goals?” The issue of how (in the very near term) the firm will implement those decisions is dealt with in phase four. This phase also positions the firm to identify high level measurable objectives that will enable management to assess progress against the primary goals – answering the fundamental question: “Are the strategies working/helping us to achieve our goals?”

**Phase four – Implementation planning**

This final phase puts the strategic plan into action in the near term. At the firm level, it should enable the practices, firm leadership, and firm administration to align activities with the strategic direction of the firm. Further, it prioritises action, so that efforts are not wasted or dissipated. At the practice group level, it creates clear roles and responsibilities for every member of the group – so that everyone is engaged in some meaningful way in the implementation of the strategy.

There has been considerable debate in the strategy literature and among strategy professionals surrounding the subject of ‘top down versus bottom up’ approaches to strategic planning. The process detailed in the following sections explains why on the contrary, the process needs to be both top down and bottom up.

Critically, people need to be engaged early in the process to think (and opine) on the state of the law firm (or practice) and the opportunities and threats apparent in the external market. Further, people should be engaged from the outset in thinking about and talking about the long term direction and vision the firm should pursue.

Likewise, people need to be clear on what the resulting strategic plan means for them on both a short and long term basis.

Ideally, they should have some direct role in moving the firm (or at least their practice group or team) in the direction the partners have agree to go.

To further aid bottom-up engagement, process checkpoints can be created to share working drafts with all but the largest partnerships as the planning process unfolds. Thus, the process should have a bottom up nature both at the beginning and the end of the process and can include even more involvement if necessary.

That said, with the exception of very small firms, a smaller group will need to do some of the heavier lifting associated with articulating the strategic direction, working through strategic trade-offs and choices, and setting high level objectives. There are many ways to engage a broader (or large) partnership in adjusting and affirming those decisions. However, some smaller groups will need to take the lead – and there are many ways to make that work effectively (refer to case studies in Part Four of the report for practical examples). Some alternatives include:

- Working directly through the governance structure of the firm – using the firm’s management committee, board of directors, or executive committee (or their counterparts) to act as a de facto strategic planning committee.
- Creating an ad hoc strategic planning committee broadly representative of the partnership vis-à-vis areas of practice and thought leadership. With highly capable process facilitation, an ad hoc committee of this nature can be relatively large (roughly 25 members). While that may not satisfy every political consideration in the partnership, it should enable even fairly large partnerships to be well represented.
Engaging in a hybrid approach, where a small governance body (for example, an executive committee) develops draft work products at each stage of the process and a larger committee engages in debate and discussion to improve upon those drafts—freeing the large group from getting bogged down in wordsmithing, while enabling that large group to be directly involved in strategy development.

This overview underscores the need for good process design, management and facilitation. That in turn raises a recurring question: Does a firm need an outside consultant in order to develop a strategic plan? The short answer is no. Many firms develop strategic plans without outside assistance and that includes some of the most successful law firms in the world.

A broader question is: How and where can consultants add value to a firm’s efforts? A good consultant should be able to tailor a planning process so that it fits the firm well—leveraging the right analytical models and applying the right strategic principles to the issues facing the firm. A good consultant should bring strong facilitation (and listening) skills to the process—to ensure partners’ time is used efficiently and effectively throughout the process. Finally, a good consultant should balance industry expertise and knowledge with creativity and an open mind—ensuring the firm avoids pitfalls and blind alleys, while encouraging the firm to find its strategic differences (rather than forcing law firm management dogma on a firm’s leadership team).

The following four chapters provide a more detailed discussion of each phase of the strategic planning roadmap. Each section includes a description of the substantive work products that should emerge from the respective phase, a guideline for structuring and managing that phase, and tips and tools that may be useful to individual readers as they pursue the process.

References
2. Boston Consulting Group, visit: http://www.cg.com