



Comment: Looking ahead

## The law firm of the future

A perspective on what is in store for the legal profession over the next decade.

By Andrew Hedley, director, Hedley Consulting

Views on the shape and focus of the law firm of the future are widely divergent, but invariably pessimism is expressed by many as to how the profession as a whole will fare over the next decade. The common view is that the quality of work (and life) for the median lawyer will continue to be eroded. Why is this so and what can be done to improve fortunes?

### The future ain't what it used to be...

When Caspar Weinberger, US Secretary of Defense (1981 – 1987), said “The future ain't what it used to be” he acknowledged the huge turbulence inherent in the environment that we all now face. For the tens of thousands of lawyers practising in the UK (and for those that will enter

the profession over the next few years) the business paradigm that guaranteed, if not untold riches, at very least a distinctly comfortable, middle-class existence, has been shattered. Yes, some will still have stellar careers and find fame within the profession, but they will be a mere sprinkling when viewed in the context of the whole.

For the rest, those in undifferentiated practice areas where supply far outstrips demand, the impact of technology in making all process more efficient, the maturing of the global knowledge economy and the increased sophistication of clients of all hues means that economic success will flow from good business practices rather than any skill learnt in law school.

### Strategic orientation

Making choices about which markets to serve (and which not to focus on), where to position one's firm in the value chain, and how to organise the business to reflect the demand and economic drivers indicated by this position, are all areas that law firms find challenging.

In future the market will force firms to make these sorts of choices in a much more visible way; or suffer the consequences of being a 'jack of all trades, master of none' player – in a world that is increasingly buying specialist services.

### Creative talent management

Firms will need to continue to adapt to the macro-level social trends that have fundamentally changed the nature of the psychological contract between employer and employee, as well as the relationship between the professional and the client.

More than anything else, the ability of firms to meld personal choice at an employee level with the creation of a strong client brand will shape their ability to cope with these attitudinal shifts. The consistency with which surveys

The pre-eminent importance of client satisfaction in driving longer-term business performance in the legal sector will shape the ways in which firms go to market.

To succeed, the best firms will be truly client oriented in a way that permeates their entire decision-making process. Rather than paying lip service to the client (but still hankering back to the good old days when the lawyer resided in an ivory tower) these firms will ensure that excellence in client relationship management is much more than a natty marketing slogan. For these firms, advanced client service skills and direct 360-degree performance feedback will be key measures for career advancement and the basis for bonus payment calculation.

The European Foundation for Quality Management (EFQM) has developed the well-respected 'Business Excellence Model'. This examines nine aspects of the performance of market-leading organisations, drawn from across all business segments.

The results are surprisingly consistent, and show that the number one driver of sustainable business performance

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demonstrate the dissatisfaction with which many lawyers regard their current lot (leading to a desire to quit the profession) is illustrative of this point.

If law is the people business that it purports to be, much more emphasis on this core resource should be driving the management agenda. This means delivering consistent client experiences and services at a price point that meets expectations of value while still creating sufficient profit to reward current partners, attract new talent and invest in the future development of the business.

### Deregulation, external investment and consolidation

The Legal Services Act is of the moment, with keen interest in the impact it will have on the profession over the next five to ten years. However, it needs to be viewed in the context of broader deregulation of the legal profession; the catalysts for which are wider social changes, the impact of alternative approaches, the removal of protectionist practices and increased client awareness of their options and purchasing power.

is client satisfaction. This is more important than financial performance (which can be massaged for short-term results but which is ultimately only assured in the longer term by a resilient and loyal client base) and leadership.

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This will, of course, be achieved at the expense of the laggards who will find their market share diminishing incrementally year on year. While each year's diminution will be explained away by reference to exceptional issues, rogue events and particular client peccadilloes, the trend of decline and decay will be clear. Over time, these firms will reach a tipping point at which they are no longer viable – they will either merge or dissolve. Of course, a merger of two underperforming businesses simply results in a larger underperforming business, in which inherent problems are magnified. Fundamental shifts in culture, leadership and management are needed or the cycle will simply repeat.

This leads to a consideration of the role of external investment in the profession as a catalyst for these market changes, and, in particular, consolidation. Given the relative market sizes, ease of entry, management challenges and

delivering reduced internal costs that will create a new pricing regime. The vision is compelling. However, the nub of the matter is the business model restructuring that will be necessary. How will firms bring about these changes?

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the application of mainstream brand-building techniques (rather than those centred on reputation and relationship management), it should be anticipated that the first wave of external investment will consolidate the high street and establish a few ‘mega brands’ on a national basis – for example, the much heralded arrival of Tesco Law.

The medium term is likely to result in a similar consolidation in the lower end of the mainstream commercial legal services arena, beginning with law firms targeting the UK SME and small corporate market. In this segment, there is a strong probability that one or more mid-sized firm will use external capital to finance multiple acquisitions, building an attractive proposition to the mid-sized purchaser of commercial law.

The impact of these financial deregulations on the market for more sophisticated corporate and commercial law will not be immediate. However, one only needs to look at how other professions (which have been subject to the opportunities and challenges of a more open market for an extended period) have responded to such opportunities to provide an inkling of the future. In fields as diverse as merchant banking and consulting engineering, those now considered global leaders have a public market for their equity. The legal-services industry is unlikely to differ in any fundamental respect.

A further consequence of increasing competition, deregulation and the availability of external capital is an ever-quickening pace of consolidation, specialisation and the emergence of oceans of clear blue water between different types of firms.

### Technology

Aside from pure systems issues, three interlinked factors should be top of mind for law firm strategists:

#### *Operational efficiency and redefining the business model*

Technology can deliver huge operational improvement,

#### *Barriers to entry – money and people*

A key barrier to entry is apparent in the financial and people investments that are required to deliver on the promise of the systems, with firms constrained by their operational and management skills.

#### *Resolving the technology triangle*

The ‘technology triangle’ of people, systems and processes needs to be resolved. The cheque book can deliver the systems, but for all firms the real challenge lies in the people and process aspects of any technology implementation.

### Management rules

Compelling differentiation or cost advantage will be achieved by better operational management and investment in the service aspects of the client proposition. Non-legal competencies centred on talent management, business-development strategy and information technology will thus be the sources of future competitive advantage.

More than at any time in history, making active choices about where to build, where to maintain and where to withdraw will be crucial. For the management team, the ability to remain flexible and adaptive in the face of everquickening changes – in both the external and internal environment – is a prerequisite to enduring business success. In making efforts to reduce this uncertainty, the answer will often be to simplify, rather than to increase, complexity. Clarity of direction, strategy, purpose and communication all flow from a simpler, and more coherent, view of the firm’s future position. ■

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