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Resourcing Strategy

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For most law firms, a successful strategy must blend the concept of opportunity-fit with that of resource-stretch. This is because, having identified new client or market opportunities, it is often not a simple task to re-engineer the firm to provide an alluring competitive fit. Firms are constrained by relative inertia in introducing new business units, working practices or product lines.

Compelling new service developments are a rarity in all but the most advanced firms and while lateral hires, team acquisitions and firm mergers are increasingly common within the legal sector, they are all time consuming and have a long lead-in before delivering significant returns.

It will often be more feasible to view nascent strategic opportunities in the context of existing resources, skills and competences. Seeking out ways of stretching these to meet the new opening may produce a more viable and faster strategic route.

Exploiting resources

A key component of most successful law firm strategy-making lies in the exploitation of current and emerging market opportunities to meet new client needs through better use of the firm's inherent resources and capabilities.

In other words, firms tend to build a sustainable competitive advantage by using what they already have better rather than by inventing or building something new.

This is in contrast to strategy models which are founded on the concept of 'fit' – identifying emerging marketing opportunities and moving an organisation and its offerings to create a close match with these.

Such strategies may often be realised through the divestment of non-core businesses combined with investments and acquisitions to quickly build a strong strategic fit with the new opportunity. They suggest a level of organisational flexibility and decision-making agility that simply does not exist in the vast majority of law firms.

Such approaches are not so straightforward in a law firm for many reasons, such as the following.

1. Decision making is often driven by consensus which either implicitly or explicitly centres on the preservation of the status quo or movement in an incremental manner – a 'baby steps' approach.

2. A desire to maximise profit in the short term among partners who are either unwilling or unable to forego short-term profits for the possibility of longer-term success for the firm.

3. The lack of any mechanism to deliver capital growth to partners and the opportunity for this to be realised is an exacerbating factor which further drives short-termism.

4. A number of the service lines which may be considered non-core in a significant strategic shift are staffed by partners controlling a large part of the equity.

5. A cultural paradigm which is riskaverse, highly cautious and resists big strategic plays.

6. Inter-firm cultural differences make the bedding down of any merger in order to realise significant strategic advantage in a short timeframe challenging.

7. Leadership teams are too often predominantly inward looking rather than market facing, meaning that they are unable to identify and respond to new opportunities and threats at the speed required by a fast-evolving business environment.

In such circumstances, any strategy (and the consequential change process required to implement it) is likely to take much longer and have additional layers of complexity than might be expected in other sectors.

A better approach is to identify, as a starting point in the strategy formulation process, the best fit between competitive opportunities and existing (or easy reach) resources and competencies. In this way, the optimal position between environmentfit and resource-stretch for a firm can be identified and a strategy roadmap developed that is both credible and achievable.

Inside-out approach

In this approach, the firm is viewed as a collection of resources and capabilities – both tangible and intangible – which can be combined in different ways to provide new value to clients. It is the way in which these internal factors are combined to create strategy which is emphasised in the resource-based view.

Unlike competitive strategy models, which may be thought of as being outside-in (i.e. external drivers are the primary force in determining strategy), a resource-based view is fundamentally inside-out, with the primary emphasis being on achieving the best possible configuration of existing resources and capabilities to create strategic advantage.

A resource-based view, considering capabilities and core competencies, is of particular relevance for law firms, in which traditional capital assets are of relatively minor importance and where intellectual capital provides the key source of strategic value. Many of these intangible resources are tacit, built up over years through a firm's culture, people and processes which are very difficult to imitate and not easily transferred – a positive attribute for those seeking to build competitive advantage.

One could indeed take a view that a law firm, at its most fundamental level, is about the leveraging of knowledge and relationship assets. Those best able to undertake these activities to deliver superior client value will prosper.

It follows that not all of the firm's resources will be of strategic significance, since some will be common to all firms in the sector or will be very easy for others to acquire. What is needed is an evaluation of those which contribute to sustainable competitive advantage.

The strategy must provide an immediate advantage over others in the competitive set as well as allowing this advantage to be maintained in the longer term. This evaluation of the firm's resources and capabilities is based on a judgment of how they meet four criteria: value, rarity, uniqueness and substitution.

Value

A resource is valuable when it allows the firm to be more effective and/or efficient. This is closely linked to areas of competitive strategy and models such as SWOT analysis, in which a firm seeks to reduce risks and capitalise on opportunities through a deeper understanding of market trends and its position.

Rarity

A resource must also be rare to be of strategic significance. If a large number of competitors possess the same valuable resource, then the ability of any firm to use it in a way which is strategically significant is materially reduced.

Uniqueness

To be strategically useful, a resource must be difficult to imitate or copy. If this is not the case, any advantage will be short lived as competitors will simply adopt the leader's approach.

This issue can often be seen by the way in which law firms deploy resources and capabilities in the area of client service strategy. Each new initiative created by one firm is copied in short order by its competitors. The result is profit eroding, since all firms inevitably increase their cost base without any competitive advantage being ultimately achieved.

One source of uniqueness which any firm potentially possesses is derived from what strategists term as 'path dependency', which can be thought of as the unique resources, capabilities and experiences which a firm has acquired as a result of its history, client base, relational capital, knowledge and cultural attributes.

Evaluating such resources can be very difficult and indeed it is, to an extent, the inability to 'bottle' these factors which creates their uniqueness and value.

Law firms have high levels of social complexity and deep-rooted cultures which make those which are successful difficult to imitate. The same factors can also be a significant hindrance to management teams seeking to change those which are less successful.

Substitution

It is possible for a resource to be valuable, rare and unique but to still lack strategic significance because it can be easily substituted by a different resource which creates a similar type of client benefit.

This may be seen in law firms which adopt equivalent management or governance structures in an effort to change partner behaviours and improve operational performance. While the approaches will differ, they could be viewed as substitutes of each other.

Recipes not ingredients

It is also important to appreciate that a successful strategy will be more about the way in which resources are combined than about their existence per se.

A cooking metaphor usefully illustrates the point that an appetising dish is not achieved simply by having the correct ingredients (i.e. resources) but by the chef, the precise recipe and the way in which they are combined in the cooking process (i.e. capabilities).

Even chefs judged to be of comparable skill and experience will produce distinct dishes with the same ingredients – both may be of high quality but will appeal to consumers in discernibly different ways.

In the same way, an effective strategy is just as much about the planning and execution as it is about the presence of the basic resources.

Building a resource-based strategy

A model illustrating how to build a resource-based view is set out in Figure 1. It provides a systematic approach over five stages which allows a firm to understand, configure, deploy and assess the effectiveness of its resourcebased strategy.

An objective assessment of resources and capabilities against competitor firms sits at the core of the strategy process. It is important to appreciate that such an assessment must be done within a peer-group context (those which are current competitors and those against which the firm will compete in the future through the successful execution of its strategy).

Figure 1: The five stages of a resource-based strategy

Resource identification and competitive view

- What are our key resources?
- How do they measure up against competitors?
- How can we use them better?

Capabilities vs rival firms

- What are our capabilities?
- What can we do better than competitors?
- What resources does each capability need?
- How complex is each capability?

Competitive advantage assessment

- What is the potential of our resources and capabilities?
- How do we create sustainable competitive advantage?
- How can we appropriate them and protect revenue streams and returns?

Strategy to maximise impact of capabilities

- What strategy will best exploit our resources and capabilities in view of the external opportunities we have identified?

Monitoring and capability gap identification

- What resource gaps do we need to fill?
- Where do we need to invest to refresh, supplement, replace or upgrade our current resources?

Adapted from 'The resource-based theory of competitive advantage', Robert M. Grant, California Management Review, 1991.

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The danger of viewing competitors too generically must be avoided, since this is not aligned with the way in which clients evaluate and select their law firms.

Since a successful implementation may well change the nature of the competitor, this process is necessarily cyclical so that, in a dynamic market, resources, capabilities and competencies are under constant review.

Competitive advantage

To be clear, what is being suggested is not a rejection of competitive strategy theories, but rather a proposition that they be complemented with a resource-based view to maximise the chances of success.

A willingness to both actively and objectively manage the resource and competency profile of a firm will ensure a better fit with desired clients and a stronger competitive position.

The competitive and resource-based schools of strategy are not mutually exclusive. Rather, each has the potential to provide the law firm leader with powerful insights which can inform thinking and provide new direction. Applied with insight, they are complementary and synergistic.

A resource-based approach can create an important source of competitive advantage. An examination of the interplay of clients and competitors with the capabilities and resources of the firm is vital in identifying a strategy and differentiators that are determinant rather than just different.

This means creating a strategy which positions a firm, practice area or work product in ways which clients see as adding distinctive value, are defensible and can be clearly communicated.

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