



STRATEGY

LAW FIRM

Business planning for practice groups and individuals

Surveys and studies show a link between planning and performance: even brief, informal and straightforward business plans help firms perform at a higher level than those that make no plans. To reap the full benefit that business plans can deliver, follow these guidelines for the preparation and implementation of law firm, practice group, and individual business plans.

By Nick Jarrett-Kerr

A solid business plan can help the law firm, its practice groups and its individuals create an operational road map that reflects the direction that has been set, the possible effect and context of the future expected world, the available resources, and measurable expectations in terms of results and non-financial performance.

Understanding these aspects will help the partners and management team make better decisions and keep the ongoing discussion of the firm's operation alive as events unfold. In this context, there is a distinction between the longer term, higher-level Strategic Plan and the shorter-term, action-oriented and highly measurable Business Plan.



The success of any strategy is determined by the effectiveness of its implementation. If the firm has made the right choices from among its strategic options, then successful implementation will involve a careful coordination and harnessing of the firm's resources and capabilities. It will require a determined focus on the competitive environment. What is more, the firm's aspirations and strategic direction need to be resolved into some consistent, straightforward, long-term goals.

This, then, is where business planning comes to the fore.

THE BUSINESS PLAN

For many firms, the process towards a Business Plan can be a rather informal one; nonetheless, it is often advisable to follow an organized and structured business planning process. Not only can a little organized planning be a fascinating learning experience for those involved, but it can also achieve:

- a framework in which longer-term or cross-departmental issues can be discussed;
- an articulation of the core strengths of the group and the areas where the group can remain or become competitive;

- an identification of the realistic choices that are open to the group;
- an operational route map that crystallizes a prioritized list of actions, a budget and measurable steps towards implementation;
- a shared view of what matters, which can motivate group members and give them a sense of belonging;
- a dynamic tool of management as greater knowledge is acquired of the performance of the firm in the market, feeding back to strategic choices; and
- a useful tool for communicating both internally and to the outside world.

Key Indicators

Critical Success Factors <i>The Major Strategic Goals</i>	<ul style="list-style-type: none"> • Increases in Size and Profile • Growth in Reputation • Profitability Goals • Development of Capabilities 	CSFs need to be: <ul style="list-style-type: none"> • Aligned to strategy • Focused and measurable
Lagging Indicators <i>To record the past</i>	<ul style="list-style-type: none"> • Debtors and receivables • Monthly management accounts • Measuring wastage 	To make Indicators work well, you need: <ul style="list-style-type: none"> • Real Time Accounting Systems • Good Financial Disciplines • Active Management
Leading Indicators <i>To predict the future</i>	<ul style="list-style-type: none"> • Levels of utilization, generally and by grade • Client pipelines, wins and files opened • Client acceptance procedures • Client feedback • Staff feedback 	

MEASUREMENT IS CRITICAL

The chart above illustrates the three main measures in businesses today. Critical Success Factors (CSFs) form an important feature that links all the elements of a Business Plan and highlights those things at which the firm must excel in order to achieve its strategy and delight clients. CSFs are also the milestones by which the group can judge in due course not only whether it has been successful, but also what are the measurable outcomes or group of outcomes, the absence of which will jeopardize success.

The Critical Success Factors lead into measurable objectives for the firm and the practice groups. The firm therefore needs to identify which measures

it will monitor, to judge whether a practice group is achieving its critical success factors. These measures can focus on *past results* or *current and future performance*.

A results indicator measures how the firm or group has done in one perspective, *e.g.*, increases in fees billed, revenue per lawyer, new clients won. It is the result of many actions across the firm and is a lagging indicator. A performance indicator, on the other hand, is predictive and focuses on what has to be done. Hence, performance indicators are helpful in driving future activity.

Team and individual financial targets, for example, focus on what needs to be done to meet acceptable performance standards. Client and business pipelines help to indicate the level of future business, while levels of utilization show how busy the firm is, which in turn might lead to improved financial performance further down the track. Performance indicators are therefore more helpful if they are measured frequently and tied to both individuals and teams.

The Business Plan for the firm should reflect the overall strategic intent, strategic objectives, Critical Success Factors, and framework for moving the firm forward.

WRITING THE BUSINESS PLAN

Depending on the size of the firm, it is useful to create Business Plans on three levels, as illustrated on page 38.

1. The Firm

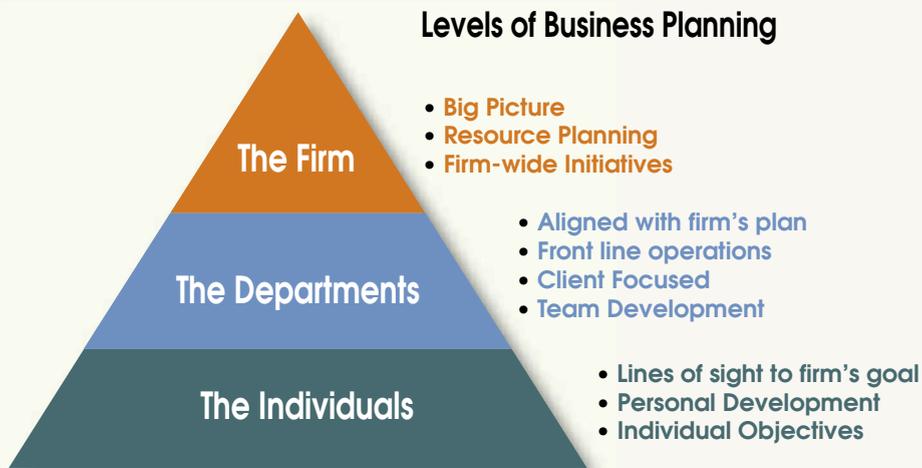
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2. Each Practice Group or Business Unit

Except in the smallest of firms, each practice group should have its own business plan, which should follow the format of the firm's overall Business Plan.

3. Individual Partners

Many firms find it is easier to build practice group business plans from the plans of the individual partners within it. In addition, requiring individual partners to write their own personal business plans helps to foster ambition and a culture of high expectation.



HOW TO APPROACH BUSINESS PLANS

The first place to start in the business planning process is for offices, departments, business units and practice groups to understand how they fit into the firm's strategic intent (its agreed identity, purpose and vision), its overall strategic goals, and the firm's agreed Critical Success Factors.

One of the main purposes of a practice group's business plan is to align and harness the group's resources and capabilities — its intangible assets of intellectual capital — towards the group's strategic and financial goals. The ingredients of a successful business plan are formed by the perspectives of intellectual capital and the balanced scorecard (as shown on page 35):

- the group's economic capital (the financial perspective),
- the group's institutional and structural capital (the operational perspective),
- the group's human capital (the people perspective) and
- the group's relational capital (the client perspective).

Many business plans make the mistake of concentrating on just one of those perspectives (the financial perspective), whereupon the business plan becomes little more than a budget and a set of revenue targets.

PUTTING IT ALL TOGETHER

These ingredients need to be mixed together to form a coherent and logical plan. At least ten areas need to be covered in any business plan:

1. A realistic and honest assessment of the group's current state, in terms of services, capabilities, experience, and reputation.
2. Agreement on the group's actual and aspirational marketplace and client base: geography, client types, industry sectors and value segments, as well as the firm's market positioning.
3. Goals that are aligned to the right business recipe for the group, whether as volume providers, no-frills services, or mid-tier or high-value specialists.
4. A clear grasp of the group's economic model: what drives the group's economics in terms of rates, utilization, leverage and margin, and how this economic model can best be exploited.
5. The imperatives for growth of the group (team size and specialties, bench strength, revenue and profitability growth) and how they need to be expressed in terms of realistic and measurable objectives.
6. Objectives that are aligned to give the best chances of future success: marketing, branding and general business development goals, efficiency and business process improvement goals, and objectives for skills-building.
7. Client development targets, relating to both the development of existing clients and the attainment of new clients.
8. Staffing goals to attain the right alignment and mix of lawyer grades, the development of the group's capabilities, and tactics to deal with recruitment, retention, staff satisfaction and training.
9. Sensible but stretching financial budgets.
10. Identification of risk areas and factors and plans to mitigate or contain such risks.

PARTNER AND ASSOCIATE BUSINESS PLANS

Law firm strategies are often highly conceptual. However, if all partners are to carry out daily and weekly work to support and contribute to the firm's overall needs and objectives, then they need to know exactly what actions they must perform in order to be perceived as dynamic performers and in order to achieve all that is expected of them and more.

Plans identify where partners need assistance and support to enable them to achieve their goals, and they help partners to concentrate on areas where

development is needed. Consideration of personal development needs highlights resources that will help.

There are three compelling reasons in favour of encouraging partners to complete a personal business plan or personal contribution plan.

Many professionals have found that their objectives can often be more personal, pragmatic and measurable if included in a career plan that they have taken time to consider and write.

1. Written goals improve performance

The existence of written goals and objectives has been shown to improve performance: one study demonstrated, for example, that those who send written goals, commitments and weekly progress reports

to friends accomplish significantly more than those who do not. While they can arise from appraisal discussions, rather than from a written plan, many professionals have found that their objectives can often be more personal, pragmatic and measurable if included in a career plan that they have taken time to consider and write.

2. Goals link with the firm's strategy

By requiring partners to think about how they are going to contribute to the success of the firm, it is possible to link their personal contributions and goals to the overall strategy and goals of their practice group and the firm. Great care must be taken, however, to ensure that the lawyer's personal plan complements the plans of other partners in the same practice group and fits generally with the plans of the firm as a whole.

3. Goals help drive measurable outcomes

A well-written plan should include some measurable objectives across all critical areas of performance that meet the SMARTER criteria (Specific, Measurable, Agreed, Aspirational and Advantageous, Realistic, Time-Scaled, and Evidence-Based). Writing a plan should help partners reflect on their past accomplishments and successes and how to build on them in the short and long term. Once SMARTER objectives are drafted and agreed upon, it then becomes somewhat easier to gauge success.

Lawyers are good at both concepts and drafting, but they sometimes lurch from high-level ideals to drafting without much thought in between. Business planning requires careful assessment and analysis together with an honest and pragmatic appraisal of potential and risk. The business plan must convert high-level ideals into measurable action, transforming glib and lofty phrases into an operational road map that can be monitored, measured and managed. •



Positioning to compete

Nick Jarrett-Kerr is a specialist adviser to law firms worldwide on issues of strategy, governance, leadership development and all important business issues facing law firms in difficult market conditions. In the last few years, Nick has consulted to firms in 15 countries on three different continents. As Visiting Professor at Nottingham Trent University, he leads the strategy modules for the Nottingham Law School MBA strategy modules.

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