



THE WORLD'S LEADING ASSOCIATION OF INDEPENDENT LAW FIRMS

**STRATEGIC PLANNING AND IMPLEMENTATION**  
**USING THE BALANCED SCORECARD**

SEPTEMBER 17, 2009

*Sterling Strategies*

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

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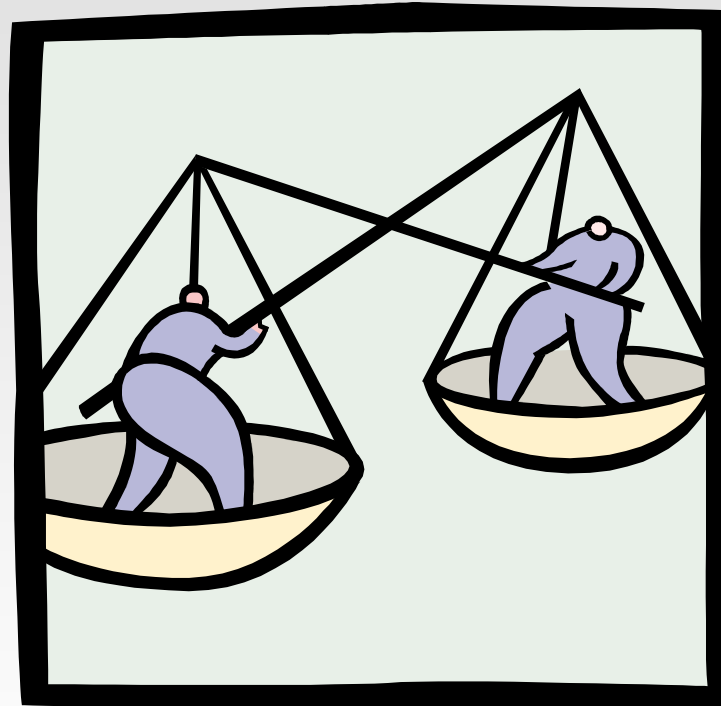
## Agenda

- # Post-recession balancing act – clients/profits
- # The balanced scorecard – a tool designed for this issue
  - What it is and how it works
  - Looking at the four dimensions
- # Pragmatic steps to using the tool in a law firm
- # Case studies (time permitting)
- # Q&A
- # Lunch

# **THE BALANCING ACT**

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## The Post-Recession Balancing Act



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## The Post-Recession Balancing Act

- # The recession has had an impact on clients' expectations of value (i.e., results ÷ costs)
  - Persistent rate increases drove profit growth
  - Associate starting pay – highly visible and seemingly irrational
  - Quality mid-size firms are proving to be capable...
  
- # Meanwhile, partner mobility has increased for a decade – following the recession it is fair to expect that mobility will return (particularly for those with strong client relationships)
  - Financial performance matters in the battle for talent
  - Thus, profit growth must return – and it is less and less likely to come simply from rate increases

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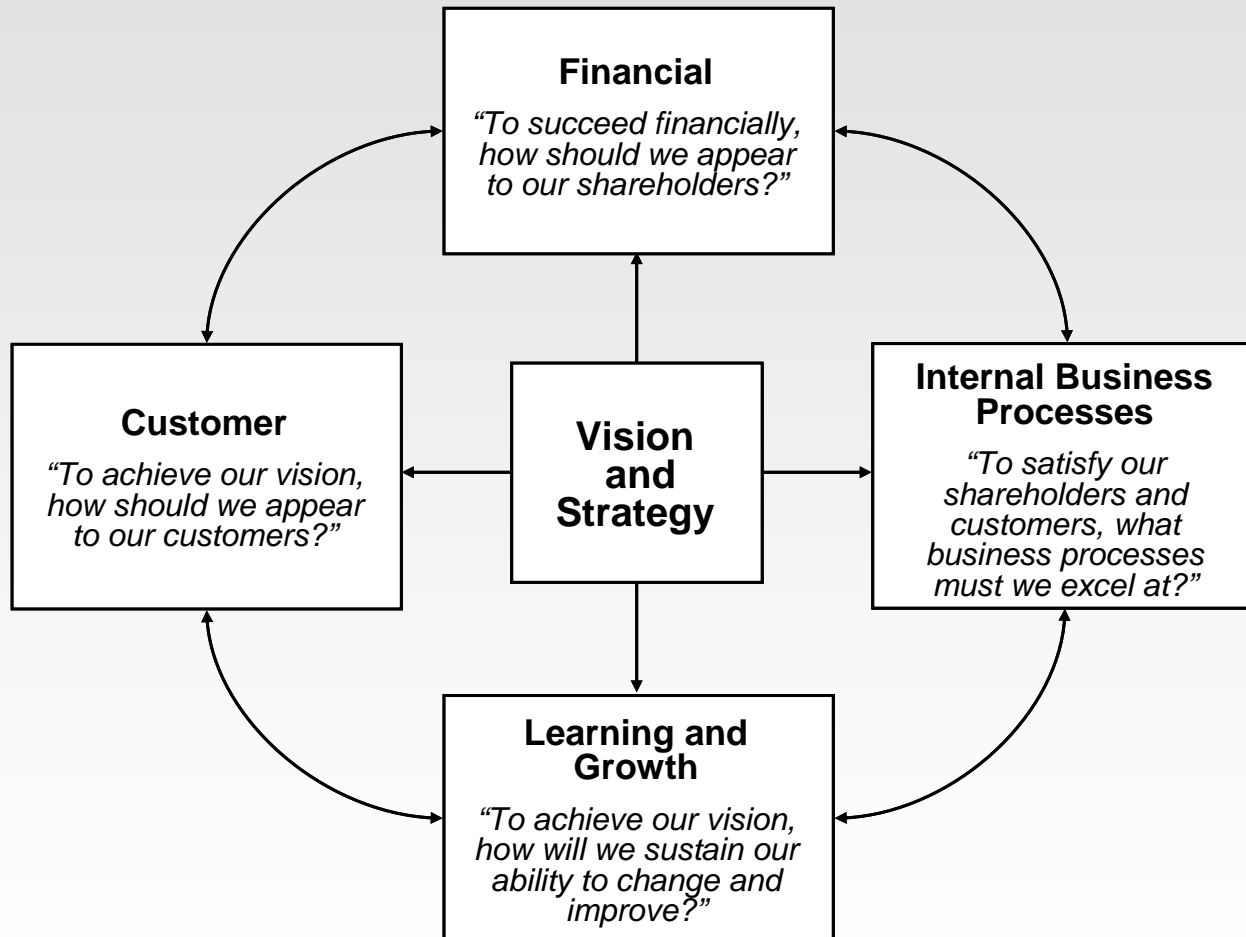
## The Post-Recession Balancing Act

- # Strategic planning and implementation need to balance the needs and expectations of these two key stakeholders
  - Clients
  - Shareholders/partners
  
- # The balanced scorecard was developed specifically with this need in mind

**BALANCED SCORECARD –  
AN INTRODUCTION**

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

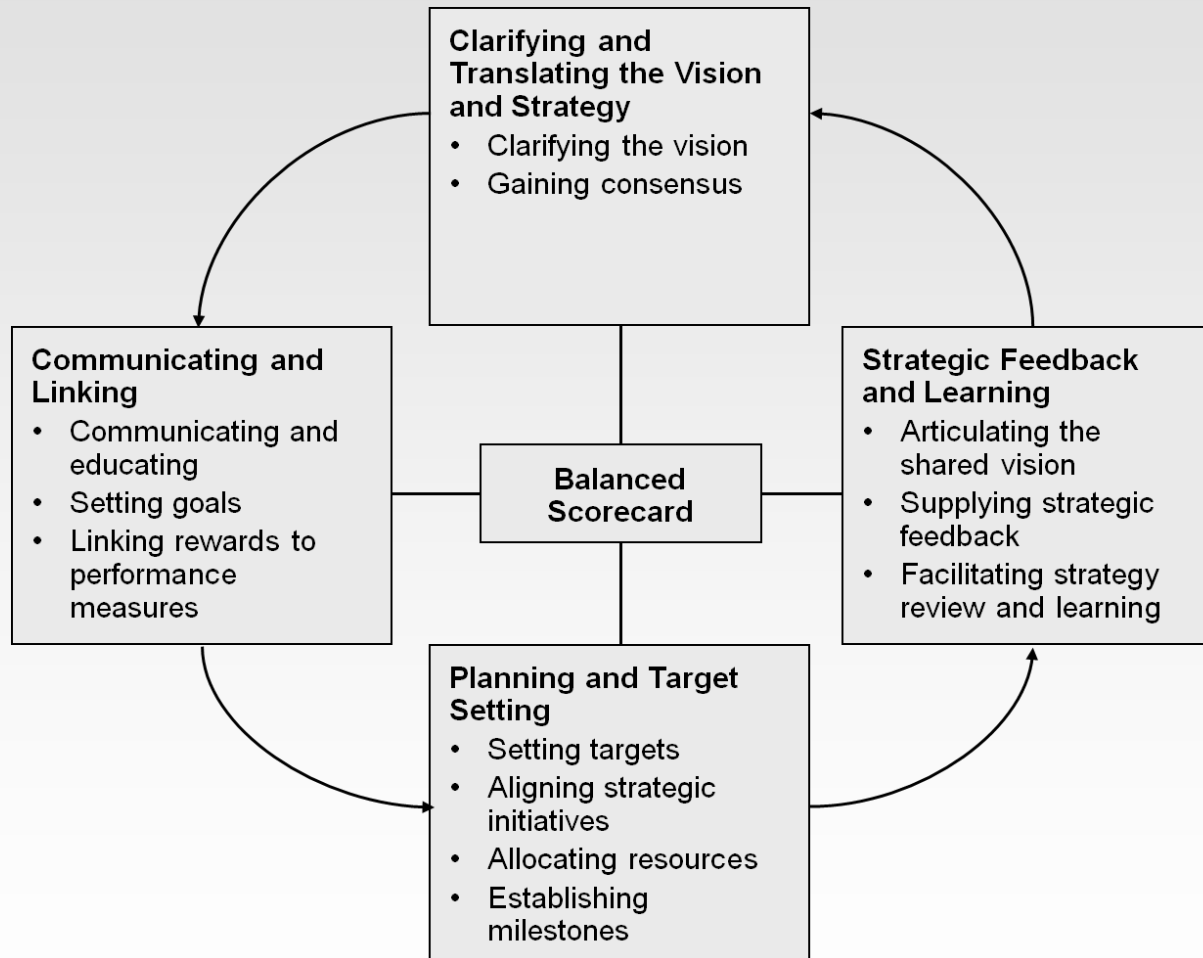
## The Balanced Scorecard – An Overview





# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## The Balanced Scorecard – An Overview



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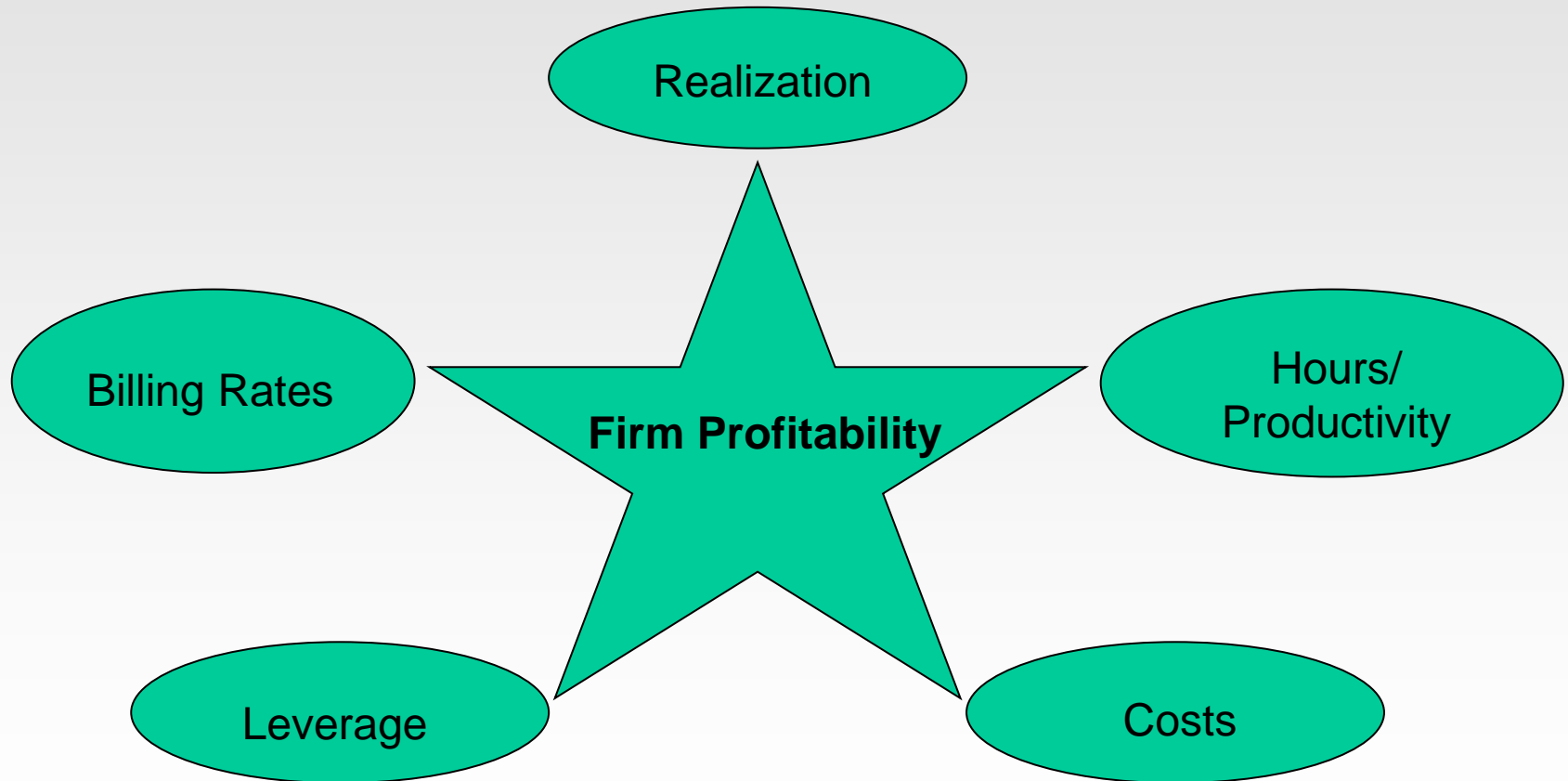
## The Balanced Scorecard – Financial Dimension

- # The importance of (obsession with) PPEP grew steadily over the past decade
- # PPEP is a legitimate measure of financial performance – and it has become the de facto yardstick
- # Remember – there is a numerator and a denominator...

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## The Balanced Scorecard – Financial Dimension

# The numerator has many levers



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## The Balanced Scorecard – Financial Dimension

- # The denominator has one lever – the number of equity partners
- # The euphemism for managing the denominator – “financial engineering” – is just another way of saying de-equitization and/or firing partners
- # It is reasonable to expect the business model to change in the coming years – and to expect equity ranks to continue to tighten
- # But, the balanced scorecard (and strategy development more broadly) is not about managing the denominator

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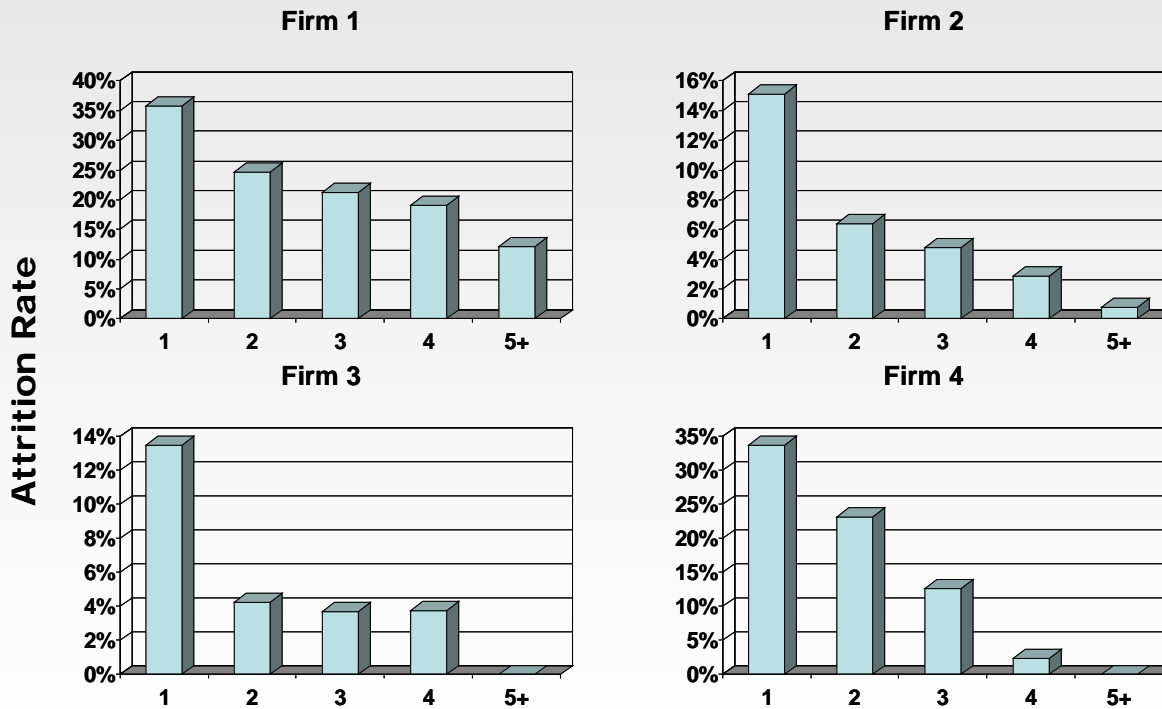
## The Balanced Scorecard – Client Dimension

- # What do we (want to) look like to our clients?
- # How do we know when we have achieved that?
  - Client diversification (breadth and diversity of client relationships)
    - × Number of clients at defined threshold
    - × No clients representing defined percentage of fees
  - Large/Institutional relationship
    - × % of fees from large transactions/cases
    - × % of fees from clients over threshold level
    - × Increase in number of large relationships
  - Depth and breadth of relationships
  - Client satisfaction scores/feedback
  - Third party rankings (see the Mallesons case)

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## The Balanced Scorecard – Client Dimension

Key Findings from all 4 Firms – **Area of Law Count**  
Clients with work in only one Area of Law have a much higher attrition rate than those with more breadth of work

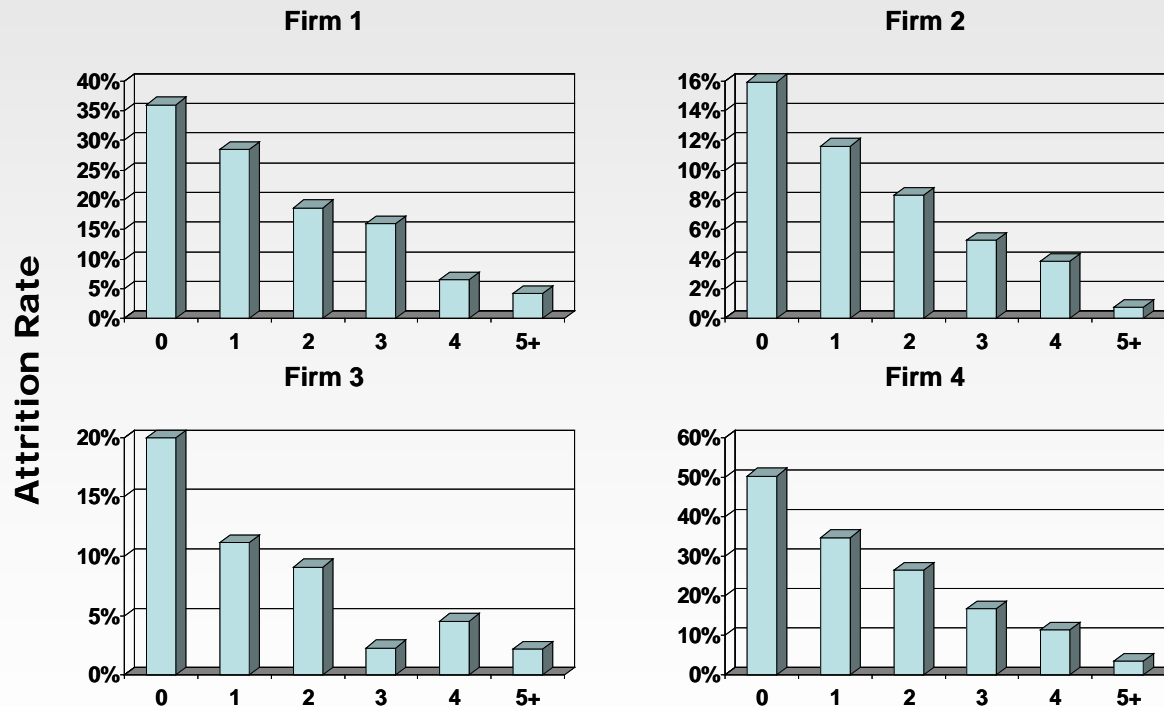


Source: Redwood Analytics

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## The Balanced Scorecard – Client Dimension

Key Findings from all 4 Firms - **Partner Count**  
Clients who have more partners involved in their relationships have lower rates of attrition



Source: Redwood Analytics

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## The Balanced Scorecard – Client Dimension

<b>Existing Clients</b>	<b>Market Penetration Strategy</b> (More of the Same – Status Quo – 95%)	<b>Product Development Strategy</b> (50% Probability of Success)
<b>New Clients</b>	<b>Market Development Strategy</b> (25% Probability of Success)	<b>Diversification Strategy</b> (5% Probability of Success)
	<b>Existing Services</b>	<b>New Services</b>

Source: Stanford Research Institute



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## The Balanced Scorecard – Business Process Dimension

- # Focus should be on processes that have a genuine impact on financial performance, on client satisfaction/experiences, or – ideally – on both fronts
- # Remember the demise of TQM and “Clients First” programs
- # Most meaningful business processes occur in one of two places in a law firm
  - In practice groups – the closer to the delivery of legal services, the more meaningful the process
  - In administrative functions – accounting, procurement, technology management, etc.
- # Time capture, billing and collection cycles are often low hanging fruit and link directly to realization

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## The Balanced Scorecard – Business Process Dimension

- # A brief word about alternative fee approaches
- # Understand your costs
- # Understand the clients' motivations
  - Saving money
  - Predictability
  - Shared risk
- # Business process is integral to aligning the two (costs and client motivations) – the solution is a by-product of that analysis

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

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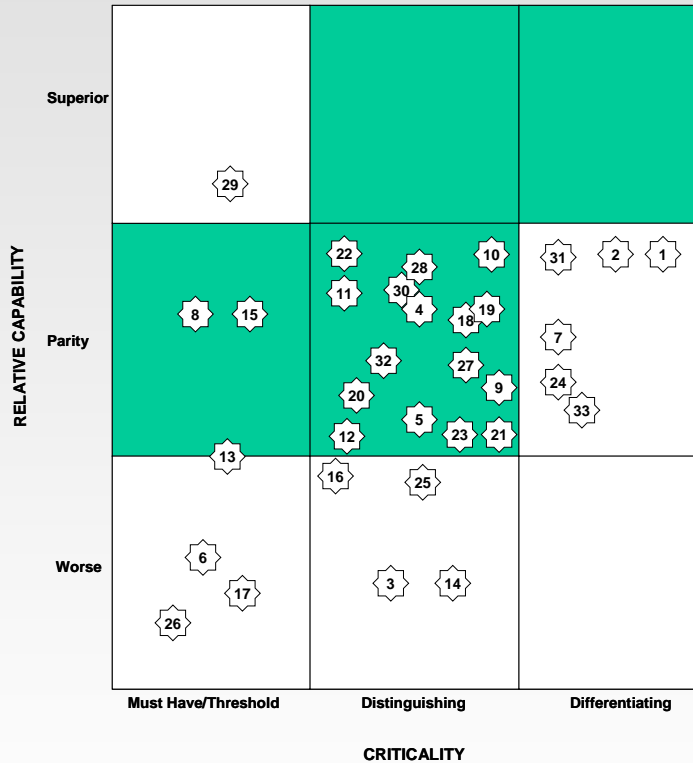
## The Balanced Scorecard – People and Capabilities

- # Learning and growth is about people, capabilities and tools that support them
- # People measures are often (too often) soft
- # Some hard (and hard to achieve) measures
  - Associate recruiting **and retention** statistics/targets
  - Diversity statistics and targets (relative to competition)
  - Equity partner performance and standards
  - External recognition
- # Organizational capability analyses – gap analysis can focus and prioritize resources and initiatives

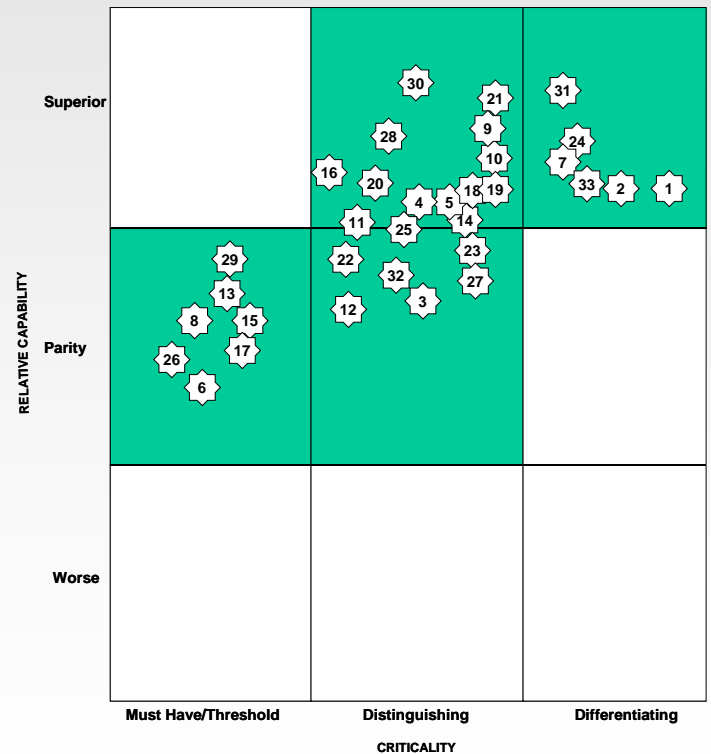
# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## The Balanced Scorecard – People and Capabilities

Current State OCA



Desired End State



**APPLYING THE CONCEPT –  
A PRAGMATIC APPROACH**

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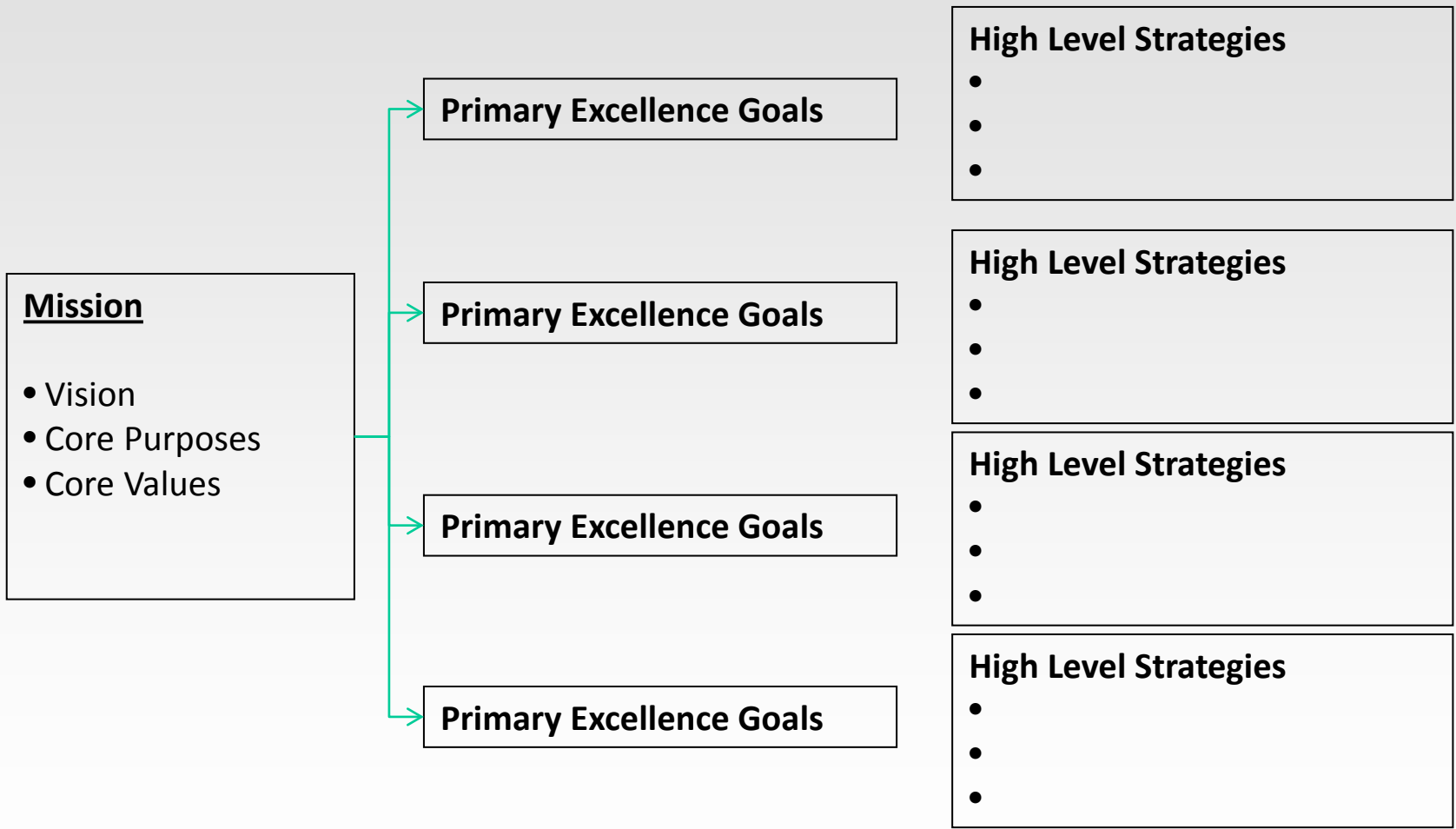
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## Pragmatic Approach for Law Firms

- # First, get a strategic plan, then...
- # Firm level planning involves some basic steps
  - Analytical rigor – internal and external environment
  - Vision and direction setting
  - Strategic positioning – where we intend to win
  - Strategy development – high level resource allocation
  - Implementation – plugging in the balanced scorecard
- # Articulate high level objectives or targets for profitability and client relationships
- # Express it simply – get it on one page

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## Pragmatic Approach for Law Firms – One Page Plan



# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

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## Pragmatic Approach for Law Firms – Engage the Practices

- # Ultimately, implementation must involve the practice groups
- # Balanced scorecard tools were developed with business units (shared customers, shared products, shared processes) in mind
- # Engage the practices by “mapping” the firm’s strategy to each practice group – this can be top down or bottom up
- # Customize practice portfolio management tools to make it transparent and easy to use



# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## Pragmatic Approach for Law Firms – Engage the Practices

		ROLE IN ACHIEVING FINANCIAL OBJECTIVE(S)		
		Premiums	Core	Volume
ROLE IN ACHIEVING CLIENT RELATIONSHIP OBJECTIVE(S)	Innovation			
	Specialty			
	Service			

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

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## Pragmatic Approach for Law Firms – Engage the Practices

- # The practices then drive implementation via the use of balanced scorecard tools
  - Direct actions related to financial performance
  - Direct actions related to client and business development (external and cross-marketing)
  - Direct action related to people/professional development
  - Process improvement focus/initiatives
- # Set near term targets in each area
- # Denote champions or owners for each initiative
- # Meet, monitor and discuss the results

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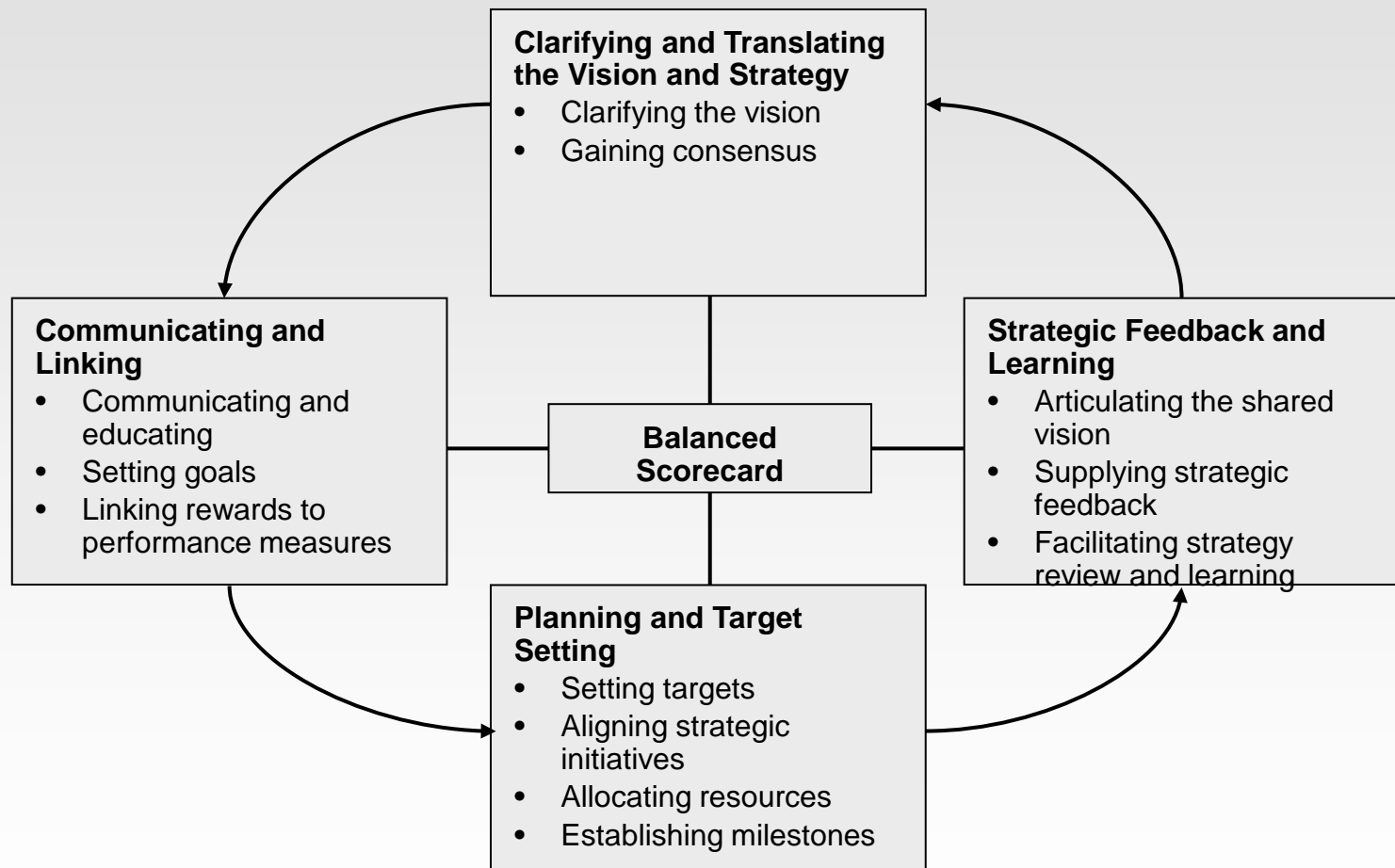
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## Pragmatic Approach for Law Firms – A Continuing Cycle

- # Regular dialog and discussion – consultation to the practices and assistance from administration
- # Adjustment based on outcomes – of firm strategies and underlying assumptions
- # Annual planning at the practice level – in line with budgeting

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

## Pragmatic Approach for Law Firms – A Continuing Cycle



## CASE STUDIES

# STRATEGIC PLANNING AND IMPLEMENTATION USING THE BALANCED SCORECARD

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## Case Studies

### # Mallesons Stephen Jaques – Australia and Pacific Rim

- Return to #1 ranking in client satisfaction
- Objective drivers of client satisfaction identified
- Getting a lawyer on the phone on the first call
- Development of PeopleFinder tool
- Results – 10,000 fewer VM, 1 million hits on PeopleFinder, #1 on BRW Client Choice Awards

### # Bryan Cave – US Based, global law firm

- Balance of financial and client at center of strategy
- Desktop tool development – right people on the matters
- Cost control, margin management, high satisfaction
- Results – 70% tool usage (including newly integrated PoGo lawyers); gains on every objective target