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
The Post-Recession Balancing Act
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
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
The Balanced Scorecard – An Overview

Financial
“To succeed financially, how should we appear to our shareholders?”

Customer
“To achieve our vision, how should we appear to our customers?”

Vision and Strategy

Internal Business Processes
“To satisfy our shareholders and customers, what business processes must we excel at?”

Learning and Growth
“To achieve our vision, how will we sustain our ability to change and improve?”
The Balanced Scorecard – An Overview

- **Clarifying and Translating the Vision and Strategy**
  - Clarifying the vision
  - Gaining consensus

- **Communicating and Linking**
  - Communicating and educating
  - Setting goals
  - Linking rewards to performance measures

- **Balanced Scorecard**

- **Planning and Target Setting**
  - Setting targets
  - Aligning strategic initiatives
  - Allocating resources
  - Establishing milestones

- **Strategic Feedback and Learning**
  - Articulating the shared vision
  - Supplying strategic feedback
  - Facilitating strategy review and learning
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…
The Balanced Scorecard – Financial Dimension

- The numerator has many levers

- Firm Profitability
  - Realization
  - Hours/Productivity
  - Costs
  - Leverage
  - Billing Rates
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
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)
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
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
The Balanced Scorecard – Client Dimension

<table>
<thead>
<tr>
<th>Existing Clients</th>
<th>New Clients</th>
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<tr>
<td><strong>Market Penetration Strategy</strong>&lt;br&gt;(More of the Same – Status Quo – 95%)</td>
<td><strong>Product Development Strategy</strong>&lt;br&gt;(50% Probability of Success)</td>
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<tr>
<td><strong>Market Development Strategy</strong>&lt;br&gt;(25% Probability of Success)</td>
<td><strong>Diversification Strategy</strong>&lt;br&gt;(5% Probability of Success)</td>
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**Existing Services**  
**New Services**

*Source: Stanford Research Institute*
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.
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
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.
The Balanced Scorecard – People and Capabilities

Current State OCA

Desired End State
APPLYING THE CONCEPT – A PRAGMATIC APPROACH
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
Pragmatic Approach for Law Firms – One Page Plan

Mission
• Vision
• Core Purposes
• Core Values

Primary Excellence Goals

Primary Excellence Goals

Primary Excellence Goals

Primary Excellence Goals

High Level Strategies
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High Level Strategies
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High Level Strategies
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High Level Strategies
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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
Pragmatic Approach for Law Firms – Engage the Practices

<table>
<thead>
<tr>
<th>ROLE IN ACHIEVING</th>
<th>ROLE IN ACHIEVING FINANCIAL OBJECTIVE(S)</th>
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<tbody>
<tr>
<td>CLIENT RELATIONSHIP OBJECTIVE(S)</td>
<td>Premiums</td>
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<tr>
<td>Innovation</td>
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<td>Specialty</td>
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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
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
Pragmatic Approach for Law Firms – A Continuing Cycle

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Balanced Scorecard

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CASE STUDIES
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