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Ways to Compete Against the Goliaths

Midsize firms have to specialize, select the best cases, and develop a clear set of values. **By John Niehoff and Rob Burton**

With the rise of the "billion-dollar law firm," many people in the law profession warn that midsize firms will have to consolidate and pursue the models of the bigger firms to be sufficiently profitable, retain leading attorneys, and recruit new ones.

But that is not necessarily true. By thinking creatively—and sometimes even counterintuitively—midsize firms can achieve strong profitability, attract and retain top talent, and still preserve their cherished independence. In fact, four strategies can help small and midsize firms distinguish themselves as attractive alternatives to the megafirms.

Specialize

One of the most important decisions a midsize firm can make is to specialize its practice. At first glance it may seem counterintuitive to circumscribe the firm's range of opportunities to a few limited sweet spots. Doing so, however, can allow a midsize firm to charge premium rates—and thus achieve higher levels of profitability—that are more in line with a much larger practice.

Specialization also enables firms to develop efficiency and productivity improvements as a result of concentrated experience, tailored training, and better evaluation and selection of clients. The recent profitability achievements of business-litigation specialist Quinn Emanuel Urquhart Oliver & Hedges, detailed this month in an *American Lawyer* article, provide an outstanding example of a firm that has focused its practice solely on business litigation.

Specialization can also attract attorneys who are particularly passionate about or skilled in a given area of law. Firms that do not specialize in a particular field cannot offer their attorneys cases in their preferred areas of concentration with the same consistency that specialty firms can. The flip side, of course, is that other attorneys in the firm may grow bored with the specialization and seek to leave the firm in search of more diverse challenges. In such cases, however, the turnover helps improve the firm's solidarity and focus, rather than undermine it.

Pursuing a specialized practice can enhance a firm's marketing efforts, as well. A firm that specializes in a chosen practice can more easily distinguish itself to potential clients in a marketplace where many firms can look the same and decisions boil down to an analysis of fees. By pairing outstanding client service with specialization, a previously nondescript practice may even compel clients to seek out the firm, whereas in the past it was the firm that had to search for prospects.

A Firm-Focused Business Model

Small and midsize firms can also adapt by pursuing a business model that emphasizes the financial health of the firm and focuses on building long-term relationships with clients. Such a model would provide a significant break from the more common model, in which attorneys focus more intently on their individual practices than on the firm as a whole.

This inward focus on the part of attorneys is understandable,

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given that most compensation systems are based predominantly on individual measurements that can be easily quantified. In focusing purely on the personal picture, however, many attorneys may blind themselves to larger opportunities for the firm. For example, an attorney may serve an important client in one area of legal practice but not be aware of other legal needs that this client may have and the opportunities that such needs may offer to other members of the firm.

To run a firm effectively from a business standpoint, the partners need to understand the firm's business plans, invest themselves in the strategies that the firm intends to pursue, and remain informed enough—as those strategies evolve—to make sound decisions. For example, basing a portion of partner compensation on group or firm performance, rather than on individual statistics, would provide one avenue for securing partners' direct investment in a firm's "big picture."

A Well-Defined Culture

To further enhance their attractiveness to potential hires, midsize firms must develop a unique culture. The key is to determine a set of values that the majority of the attorneys in the firm can agree upon, and then act on those values.

Firm values may include a commitment to people (the law firm's most valuable asset) through respect, development, opportunities, and recognition, and a commitment to client service or the good of the community. Too often, law firms without a well-established value system struggle with difficult strategic and organizational issues because they don't have a clear foundation on which to base their decision-making. Accordingly, short-term profit often becomes the only apparent objective.

When that occurs, strategic investments in the business- and staff-development efforts are often delayed, higher levels of risk are accepted, and the long-term success of the firm is less likely. Factions arise in the absence of these cohesive values, and those factions can drive decisions that ultimately prove inconsistent with any member's values. This in turn erodes confidence in what the firm stands for, can prompt attorneys to contemplate leaving after each decision that appears to hurt them personally, and often leads to decision-making that emphasizes appeasing "key" constituents, rather than examining what will be best for the firm as a whole.

Clarifying the firm's definition of "success" can form a substantial part of this equation. In measuring performance, firms should select measurements that encompass every aspect of what the firm believes it brings to the table—both for clients and employees.

Emphasizing public service efforts, encouraging a balance between work and personal life, and facilitating collegial interaction for training and mutual support are examples of cultural distinctions, even though each appears on the surface to be antithetical to maximum profitability. For example, D.C.-based firms often value the principle of public service. Accordingly, they are often many of the leading firms nationally when it comes to providing pro bono services. Such distinctions help build cultural pride within law firms, even though dedicating time and resources to these activities instead of billable work can actually reduce short-term profitability.

Leadership becomes a key element in establishing and maintaining this culture. Firm leaders need to cultivate relationships throughout the firm to reinforce and uphold these values during good times and bad. When issues arise that require difficult decisions—such as whether to accept a potentially risky engagement that a partner brings to the firm, whether to invest in new technology that may enhance efficiency but reduce billable hours, whether to use more resources to market one practice over another, or whether to quickly cut staff when revenues slow down—these leaders must discuss these decisions with the firm, explain and identify how the decisions relate to the firm's shared values, and help all the parties understand the conclusion.

Be Selective

Finally, midsize firms must be selective about the engagements they take on. Again, this may seem counterintuitive, as a firm that chooses to maximize its gross revenues can certainly boost profits in the short term. An approach such as this, however, may lead to an exceptionally cutthroat mentality and impose extraordinary strain on the firm's professionals as well as potential risks to the quality of client service the firm provides.

When evaluating potential engagements, a smaller firm must consider a number of factors. Some are no-brainers: The firm should be certain that it has the expertise the client seeks and that the client has the ability to pay. Just as important, however, is ensuring that the work helps the firm achieve its objectives, that the firm has the resources to complete the assignment on time, and that the work doesn't conflict with larger opportunities that are important to achieving other business goals.

In the end, it boils down to asking a single question: Why are we using our precious resources on this engagement? If the answer doesn't make sense within the framework of the firm's values and objectives, the firm would be best served to walk away. More often than not, the short-term dollar benefits of many engagements that do not support a strategic purpose will lead to the breakdown of firm values, the departure of personnel, and eventually serious challenges to a firm's ability to sustain recruiting and maintain independence.

Small and midsize firms that can differentiate themselves in these ways to clients, employees, referral sources, and prospects will have a significant advantage over competitors and a substantial opportunity to remain independent in a marketplace populated by increasingly bigger players.

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