

# Harnessing Resources and Capabilities

By Nick Jarrett-Kerr

It is clear is that the intangible assets of every law firm form its greatest strengths. The tangible assets, such as the building, the bank accounts, the equipment, are of little use without the brain power of the human resources, allied to the strength of the firm's reputation, brand and client base. A firm's intangible assets can be defined as its 'intellectual capital' – its resources and capabilities made up of its human capital, its relational capital (which includes clients, brands and networks) and its structural capital (which includes its processes, working methodologies and culture). In this article I explore how the effective application of the firm's intellectual capital can confer sustainable competitive advantage for a firm if harnessed and organised correctly. I also propose that a thorough analysis of a firm's intellectual capital can assist as a basis for helping to formulate strategies which exploit the firm's internal strengths.

In many firms the intellectual capital – however strong or weak – is often badly coordinated and applied. Take, for example, a firm's human resources, namely the expertise and effort offered by partners and employees, which are clearly critically important to success. Law firms are, after all, essentially people businesses and heavily reliant on partners and staff to manage engagements, satisfy the needs of clients and produce results and outcomes which are worth paying for. If, however, the firm remains a loose collection of individuals, it will not be making the best use of its assets. The

firm's individual sets of resources are not fully productive on their own. If resources are seen as the productive assets owned or used by the firm, capabilities are what the firm can do with those resources when harnessed together. The resources of individuals do not, of themselves, confer much competitive advantage – they must work together within the firm's business recipe to create organisational capability and it is organisational capability that is the essence of superior performance. The problem is that in many firms the relationship between the skills of individual lawyers or departments and the overall performance of the firm is a weak one. Like some very famous football clubs, firms may often not punch the weight which it seems that they have when viewing their expert partners individually. It is not necessarily the size of the firm's resource base, the numbers of its people, its network of offices or the depth of its pocket which is the primary determinant of its capability. It is the firm's strategy and business recipe which brings all items of the firm's intellectual capital and moulds them into the firm's overall market proposition. Indeed, the larger the law firm, the more difficult it is to harness a spirit of collaborative cooperation.

This can give the smaller firms a useful starting point in trying to address their competi-



tive capability in relation to larger firms. The smaller firm can often prove both more flexible and more collaborative than its larger competitors in organising resources into competitive organisational capabilities.

## How an appraisal of a firm's resources and capabilities can help guide strategy formulation

In appraising resources and capabilities to guide strategy formulation there are four key steps. Firstly, the key resources and capabilities have to be identified. Next they have to be appraised both for their strategic importance, and then for their comparative strength in relation to competitors. Finally, strategic implications – how these capabilities can drive value - have to be developed.

### Step One. Identifying Key Resources and Capabilities

The first step, therefore, is to identify the firm's key resources and capabilities and this should be done both from the client end (what the clients need) and the firm's supply end (what

the firm offers). It helps thoroughly to identify, analyse and appraise key resources and capabilities. This work should include an overall look at the practice, some investigation of client needs, industry and sector analysis, financial analysis, market intelligence, partner interviews and practice group discussions. Much of this work can be done at departmental or practice group level. The key is to work out the elements of the overall practice mix which help make the firm successful. It is relatively easy to identify the particular skills and experiences of each practice area, the types of engagements and matters in which the firm is experienced and the client types and industry sector in which it normally operates. What lawyers however find testing is to identify their relevant sets of expertise and experience in terms which are compelling to clients. The sample table shows the sort of organisational capabilities which a practice area might include. The capabilities at firm level might appear somewhat different.

Sample Identification of Capabilities in a Typical Practice Group

Area of IC	Organisational Capability
Human Capital	<ul style="list-style-type: none"> <li>• Technical Expertise</li> <li>• Depth of experience of Departmental Practitioners</li> <li>• Depth of team</li> <li>• Size of Department</li> <li>• Areas of Specialism</li> <li>• Services Offered</li> <li>• Quality and Effectiveness of Client Service</li> <li>• Responsiveness to emerging and growing areas of client demand</li> <li>• Departmental Management Ability               <ul style="list-style-type: none"> <li>› The ability to delegate and manage work at the right level</li> <li>› The ability to manage multi fee-earner matters</li> <li>› Training and mentoring</li> <li>› Maximising productivity</li> <li>› Obtaining consistency</li> <li>› Project Management</li> </ul> </li> </ul>
Regional Capital	<ul style="list-style-type: none"> <li>• The strength of the existing client base and its potential to produce a stream of work</li> <li>• The ability to mine the client base effectively</li> <li>• The capability to serve different types of client</li> <li>• Experience within certain Industry Sectors</li> <li>• Relationships with referrers</li> <li>• Relationships in other networks</li> <li>• Reputation, brand and name recognition</li> <li>• Effectiveness of Business Development</li> </ul>
Structural Capital	<ul style="list-style-type: none"> <li>• Processing, Case Management and systems</li> <li>• Knowledge Management and Research Capability</li> <li>• The creation, use and deployment of precedents</li> <li>• Cohesiveness and teamwork within the Department</li> <li>• Organisation culture</li> <li>• Work ethic</li> <li>• Effective use of office space and facilities</li> <li>• The ability to price and process work profitably</li> </ul>

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## Step Two – Assessing the Strategic Importance of the firms Resources and Capabilities

Once each practice group has fully identified all the resources and capabilities available to it, the second step is to appraise the strategic importance of the items in the list. The principle here is to assess how vital (or unimportant) it is for the firm or a department to have certain capabilities in order successfully to pursue their strategic objectives. A volume conveyancing department would clearly place a great importance on systems and efficiency, whereas a specialised tax department might rate technical expertise as extremely important. A useful plan here is to look at the list of resources and capabilities established in step one and to work out which items present and potential clients are likely to value most, and focus on those that are likely to drive future profitability.

The true test of strategic importance is to assess the extent to which the resources and capabilities of the firm actually give the firm a sustainable competitive advantage against its rivals. In this context it has to be remembered that many law firms have practice areas and offerings which, however strong, are to some extent irrelevant or superfluous to their competitive position. It also has to be borne in mind that some resources and capabilities are necessary merely to give the firm the chance of playing in their competitive league rather than winning it. In his excellent book *Contemporary Strategy Analysis*<sup>1</sup> Robert Grant suggests that in any assessment of the strategic importance of resources and capabilities for profit earning

potential, it is vital to assess the potential for establishing and sustaining competitive advantage. If a resource or a capability is widely available it will not usually be a sufficient basis for giving a firm a competitive edge over its rivals. Such capabilities may be needed in order to play in certain markets but they are not usually sufficient in order to become the winning firm in those markets.

## Step Three - Relative Strength

At step three, the firm or the practice group should assess how its resources and capabilities match up with rivals. Resources and capabilities need to be assessed for relative strength compared with those firms identified as competitors. It is important for this exercise to be carried out in each department or practice area as competitor firms will vary in different parts of the firm. Here the firm should be wary of internal hype – past glories, hope for the future and wishful thinking. Most firms also find it difficult to know how they compare with rival firms – insights into the strengths and weaknesses of other firms tend to be anecdotal. Nevertheless, the collection of publicly available data about rival firms is essential, because no strategy to achieve a competitive advantage can really work unless the firm has a deep and profound understanding of the competitive environment in which the firm operates. A thorough competitor analysis – considering the likely strategies of

<sup>1</sup> Grant, R M(2008) *Contemporary Strategic Analysis* Blackwell



competitors, their overall objectives, their resources and capabilities, their positioning in their markets, their specialist strengths, the sorts of clients and sectors they server, their pricing, service levels and profitability – all helps to establish ways in which the firm can successfully compete. In addition to public held information, it is usually also possible to gain feedback on rivals from joint clients, referrers and staff who have joined the firm from a competitor. There are two other key matters to consider in an analysis of relative strength. The first is the size question. A larger firm is not necessarily a more profitable firm, but it may mean that the firm is able to field deeper teams of experts and it may also mean that the firm has greater financial resources to support its development. The second question is the matter of comparative branding and name recognition. The firm needs to identify if rival firms enjoy benefits from being better known, higher profile and enjoy the fame of leading individuals.

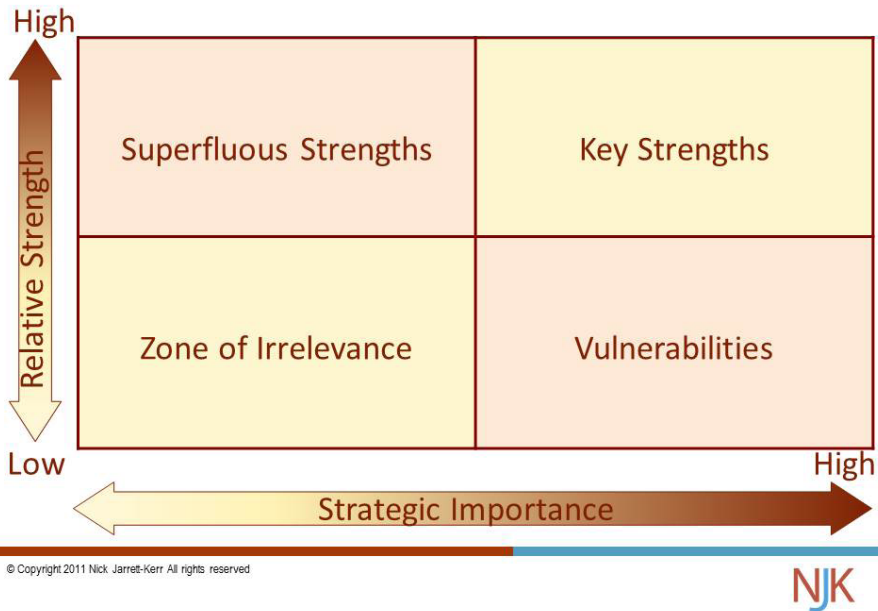
In its review of comparative strength of resources and capabilities, the firm should also look out for stagnating capabilities and declining competitiveness. Where relevant, benchmarking and other analytical methods should be used to move analysis from subjective to objective.

## Step Four – Bringing it all Together

These capabilities can then be brought together in accordance with the table at-



tached and strategic implications can be developed. Capabilities and resources which are relatively strong but are not seen as significantly important will be shown in the top left hand box. Capabilities and resources where the firm is weak but the issues are of little strategic importance will appear in the bottom right box. Capabilities and resources which are both important and where the firm is comparatively strong will appear in the top right box and those which are important but where the firm is relatively weak will appear in the bottom right hand box. The key is to focus on the two right hand quadrants. How does the firm exploit its key strengths more effectively and what should the firm do about its vulnerabilities either to correct them or reduce the firm's exposure to them. On the two left hand columns, the firm should consider whether superfluous strengths are a possible distraction and therefore should be dropped or alternatively deployed to greater effect. An example of just such a superfluous strength for some firms is personal injury work. For years, this work may have been an extremely profitable area for many firms, and has provided them with high level experience and reputation. However, such practices are notoriously hungry for working capital due to the long running nature of cases, and may therefore utilise resources of the firm which could be better used elsewhere. In the face of increasing competition from well organised and well resourced bulk suppliers, many firms are deciding to abandon such practices. Another obvious example is publicly funded work. However expert a firm in areas where public funding applies, the relative lack of profitability of such work may mean that the strength of the firm in such areas is not material for future profit making potential



The next step, therefore, is to develop some strategic implications so as to exploit strengths more effectively and so as to address weaknesses by correction development, outsourcing or acquisition of further resources.