

# Capital Fabric™

By Sean Larkan

# The key to your firm's long-term success

**W**hat constitutes the underlying, unifying essence of your firm, the thing that defines your identity and sets you apart from your rivals? It's your Capital Fabric, and it's the single most important trait a firm can develop in these times of unprecedented upheaval.

Here's how to understand, apply, and reap the benefits of Capital Fabric.

*Picture these two scenarios:*

**P**artner A is a nice guy, has always been a solid performer, consistently achieves budget and serves clients well. He leaves the firm. Hardly a ripple is felt.

Partner B leaves soon afterwards. This time, there is an indefinable sense of loss and sadness. It feels like a piece of the firm has left.

## Weaving the fabric

What are the foundational elements of Capital Fabric? How do you propagate and encourage its development? Here are nine steps your firm can take.

**1. Explain and articulate it.** While Capital Fabric is not a difficult concept to grasp, it can be a challenge for partners to understand it in practical terms and see why it's so important to the firm. Once they understand and accept it, they need to integrate fabric-building activities into their own practices — not always easy, since it often takes partners far outside their comfort zones. That's why the next step is important.

**2. Get them involved in the creative process.** Once you're sure your partners understand the concept and support it, ask them to think carefully about how they think they can personally build Capital Fabric. That might mean adapting

and accelerating an activity with which they're already comfortable, or it might mean embarking on something new. Either way...

**3. Focus on one thing.** Partners will be more engaged and can build on an existing strength if they maintain focus in one principal area. Examples might include thought leadership in a particular field, exceptional client relationship skills, innovative new practice areas, or growing a new regional office in a short timeframe. With enough determination and genuine effort, any partner can develop this in relation to at least one activity. These chosen activities can then be built into individual partners' professional or work plans.

A couple of partners discuss these departures over Friday night drinks. The consensus is that Partner A performed well, but left few clients of distinction, didn't pass on significant skills, failed to bring along any partners and failed to develop anything new for the firm. Partner B, on the other hand, passed on skills, consistently ran an excellent team of high-calibre people, brought along two dynamic new partners, helped strategize a successful merger, and was the driving force for the successful new IP practice.

**4. Include it in your KPIs.** Make this one of the partner's key performance indicators. Whenever we are asked to help firms develop partner performance systems or develop KPIs, we strongly encourage the incorporation of capital-fabric building as a key criterion. Of the eight to ten KPIs we normally recommend, even if a higher overall weighting is given to financial contributions, we believe this is the most important contribution a partner can make to a firm.

**5. Provide feedback.** Ask other partners to assess their colleague's contribution to the Capital Fabric of the firm, providing recognition and encouragement wherever possible. This gets everyone involved in the process, requiring them to understand the concepts and think them through carefully. Just make sure it's handled in a constructive and positive way.

**6. Recognize it.** In most cases where a partner is actively building Capital Fabric, other partners barely notice it. It is very important that any new efforts and successes

achieved are recognized. In some firms, depending on their profit-sharing and remuneration structures, this may well translate into enhanced financial results.

**7. Identify successful role models.** Some partners are naturally good at building Capital Fabric — they happen to build it while doing other work. Use them as examples, and ask them to talk about it and possibly coach others.

**8. Get new arrivals involved.** Explain the idea to new and potential partners on arrival or recruitment. In fact, we encourage firms to look for capital-fabric track records or capabilities in potential senior recruits.

**9. Invite young lawyer participation.** Once they understand the concept and the benefits that can flow for themselves and for their firm, our experience is that many young lawyers quickly adapt and focus on activities that over time contribute to building Capital Fabric.

The difference is clear. Partner B contributed significantly to the fundamental long-term strength and well-being of the firm. She helped build the firm's Capital Fabric™ by weaving into it a number of significant activities and contributions that will fundamentally strengthen the firm in future. Partner A, despite being a solid and reliable performer who contributed his share to short-term profits, did nothing of the sort.

As firms try to bulletproof themselves against a future global financial

## The Rainmaker Test

**Are your rainmakers also fabric-makers? Consult this chart to determine whether your top business development lawyers are contributing to the firm's long-term success or merely to its short-term profits.**

### ***Rainmaking activities that do not contribute to Capital Fabric***

- Exceptional rainmaking skills are present, but they are not exercised with perseverance and consistency.
- Activities benefit only the individual rainmaker.
- Due to poor administrative capability, rainmaking does not translate to good fee performance and utilization.
- There is no proper follow-up or follow-through with clients after they have been introduced to the firm or the first matter has been taken on or completed.
- Clients become disillusioned.
- As many clients may be lost as gained.
- There is no cross-selling to other sections of the firm of either the client or the practice area.
- Rainmaking skills are not passed on within the team or the firm.

### ***Rainmaking activities that contribute to Capital Fabric***

- Exceptional rainmaking skills are present and are exercised with perseverance and consistency.
- Activities benefit the whole team.
- Utilization and billing management are excellent.
- The rainmaking skills are supplemented with good client relationship management skills.
- Clients become advocates for the firm.
- Clients become long-term clients of the firm.
- The new clients are cross-sold to other parts of the firm.
- Rainmaking skills are transferred to others within the firm.
- The partner is recognized as a leader in his or her industry sector or practice area.
- Confidence builds and enhances the brand of the firm and the practice group.

crisis (GFC) and regain lost ground from reduced profits during the last GFC, they would do well to consider and learn from these simple examples.

During this post-GFC period, firms are focusing on the dollar: partner performance management systems and KPIs geared principally to productivity, profitability, utilization, cost containment, tight management of work in progress, and collections. This is creditable and necessary. But in the process of carrying this out, short-term efficiencies have inadvertently undermined long-term effectiveness. Many firms have overlooked their most valuable asset, their Capital Fabric.

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### WHAT IS CAPITAL FABRIC?

**C**apital Fabric is the fundamental essence of a firm. It is the firm's foundational, inherent strength, and it contributes in a subtle yet powerful way to the firm's long-term resilience and might.

A firm's Capital Fabric is built by certain activities carried out in such a way that they significantly reinforce the fundamental, foundational strength of the firm over the long term. It can determine if a firm will do well and succeed in the long run, or if it will stumble and fall. Capital Fabric can be strong, or it can be weak. Short-term activities, regardless of how beneficial they might be to near-term profits, invariably will not enhance the Capital Fabric.

I was fortunate to serve in leadership roles with large law firms for 20 years, and I have been consulting to others for the past five years. Throughout this time, I have been actively involved in devising partner performance management systems, key performance indicators, long-term firm strategy and the like. What I have come to realize from these experiences is that partners' key contribution to their firm is to do at least *something* that contributes to the foundational, long-term strength and growth of their firm. They must do something to build the Capital Fabric of their firm.

Yet in most firms, I have seen no conscious effort to encourage, develop or recognize the creation or reinforcement of Capital Fabric among partners.

**An activity that might in one case be unremarkable will, in another case, clearly contribute to building the Capital Fabric of the firm.**

When it occasionally does develop and evolve, particularly in successful start-ups, often it's by chance or accident, "while other things are happening." Capital Fabric is too important to be the strategic exception rather than the rule.

#### **HOW CAN WE BUILD CAPITAL FABRIC?**

**M**any different activities can contribute to building Capital Fabric. Whether they do, however, or whether they merely amount to the conduct of day-to-day business, is determined in large part by the intention with which they are undertaken. An activity that might in one case be unremarkable will, in another case, clearly contribute to building the Capital Fabric of the firm.

Let's go back to Partners A and B, and suppose that each of them ran a leveraged team.

Partner A led his team quite effectively: all its members worked hard, they were fully utilized, they did good work, they met client needs, and they made budget, all proving to be a valuable contribution to the firm's short-term profitability.

Contrast that with how Partner B ran her group:

- **Individually, members of the team developed abilities beyond their professional skill sets. They became good marketers, managed client relationships well, improved their professional profiles, developed particular interests, and took thought leadership roles in their area of practice or industry sector.**
- **CLE within the team is excellent and effective.**
- **The team developed a top-notch information database.**
- **Members of the team quickly started exhibiting potential partnership credentials.**
- **Leading graduates from top law schools now want to be part of the team.**
- **Lawyers from other parts of the firm want to switch to be part of this team.**
- **Turnover is extremely low.**

- **The team is fully engaged: they will “say,” “stay,” and “strive” for the firm (strengthening the firm’s recruitment position) and enhance the firm’s brand.**
- **The partner and her team became role models for achieving optimal partner/team performance within a firm.**

You can start to see why losing Partner B would be such a blow to the firm. By undertaking this standard such that it contributed to the fundamental, long-term strength of the firm, Partner B contributed significantly to its Capital Fabric.

It will quickly be evident that even these “everyday” activities can be converted into Capital Fabric. Obviously, it takes an exceptional effort and an extremely high level of performance to move activities into the realm of contributing to the Capital Fabric of the firm. Simply carrying out practice in the normal course does not qualify.

But many partners, once established in a firm and in the “system,” slip into automatic mode and meet most normal requirements of partner contribution without attempting to go any further. In our experience, many such partners exist in a majority of large firms, and generally they do not attract the adverse attention of management: in many firms, it is regarded as acceptable behavior.

To our minds, however, it is also an indicator that there is unrealized potential among partners in many firms. Once partners understand Capital Fabric, are encouraged to identify areas in which they could do something to reinforce it, and are supported in this process, many will start contributing to the firm in ways that they and management previously thought was not possible.

#### **STRATEGY, PURPOSE AND BRAND**

**T**here is a strong correlation between the implementation of a firm’s strategy and the engagement of individual partners in building Capital Fabric. As we know, it is one thing to develop vision and strategy and entirely another to ensure implementation. Individual partners’ decision to actively build

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Capital Fabric can contribute significantly to the implementation of strategy.

Many of the key strategic objectives identified by the firm in the development of its strategy will coincide with the Capital Fabric-building activities encouraged at the individual partner level. In our experience, there are few better ways to actively involve partners on the implementation side of strategy. It can also ensure the firm achieves the ability to successfully adapt

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to and absorb whatever the market throws at the firm, including a GFC.

In addition, a firm with a clear, higher purpose and direction — one that goes farther than simply increasing partner profits — can be another catalyst to get partners actively engaged in building Capital Fabric. This is especially the case if partners have played a direct role in determining that purpose and feel passionate about its attainment. In this way, a firm can connect to partners' desire to leave something useful and lasting behind them.

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to the strength of the firm's recruitment and retention ability.

### REALITY CHECK

**W**hile Capital Fabric is a relatively straightforward concept, it is often a challenge to introduce it, explain it, and persuade more than a handful of people within the firm to actively build it. But the effort is worthwhile, and the rewards can be substantial. Consider, within the context of your own firm, the impact if 25% of your partners actively contributed to building the Capital Fabric of the firm, beyond their normal contributions. This could jump-start a firm to a new level of performance and strength within its market.

Strong senior leadership is essential, however. Building Capital Fabric needs active support, encouragement and follow-through: it's not enough to

simply explain it and articulate it and wait for it to happen. Partners will need strong backing, and an annual discussion at partner reviews is not enough. This is an ongoing exercise requiring constant attention. Divisional, department or practice group leaders must be actively engaged, and role models should be identified and highlighted.

Building the Capital Fabric of one's firm is the most important contribution a partner can make. You are really trying to get a majority of partners to focus beyond their own world and comfort zone, and to focus instead on doing things that will be in the long-term interests of the firm.

Harnessing the power of a number of partners in building this fabric can significantly reinforce the underlying strength of a firm and differentiate it from competitors. It sets a firm apart and enables it to weather the storm of external market volatility or future downturns. More of your highly talented, successful partners will give you everything they've got. •



## *Strategy never sleeps*

**Sean Larkan** uses his 25 years of direct leadership and consulting experience and a number of unique methodologies to help law firms internationally to develop new or revitalize existing strategy. Sean has a track record of helping firms realize their potential and achieve actual implementation and growth. In whatever he does, his underlying philosophy is always to build a firm's confidence, strength and well-being.

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