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MANAGING THE LAW FIRM'S BALANCE SHEET FOR FUTURE PROFIT

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STRATEGIC OPTIONS

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IN BRIEF: ON MANAGEMENT

HOW DO YOU PRACTICE STRATEGY?

by Friedrich Blase

FIRMS

by Nick Jarrett-Kerr

DEALING WITH BLIND SPOTS

by Robert Millard

COMPELLING TESTIMONIALS

by Patrick J. McKenna

MANAGING OUR FIRM, ONE LAWYER AT A TIME

by Gerry Riskin

LEADERSHIP IN LAW FIRMS: EDGE WELCOMES MAGGIE CALLICRATE



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IN BRIEF: ON MANAGEMENT

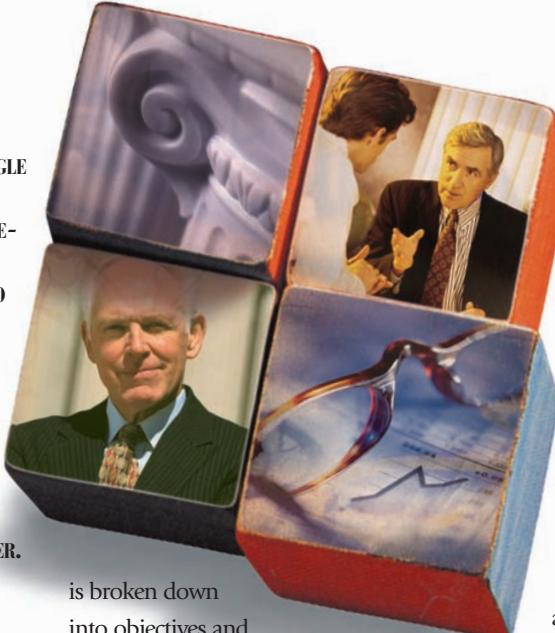
HOW DO YOU PRACTICE STRATEGY?

USING THE BALANCED SCORECARD TO ALIGN ACTIVITIES IN THE FIRM

MANAGEMENT IN LAW FIRMS OFTEN STRUGGLE WITH THE IMPLEMENTATION OF AGREED STRATEGIES. AFTER AN ELABORATE REVIEW THAT LED TO A MUCH CELEBRATED DECLARATION OF THE FIRM'S FUTURE DIRECTION, THE DEMANDS OF EVERYDAY BUSINESS ON MOST PROFESSIONALS PUT THE NEW STRATEGIES ON THE BACK BURNER. IT IS BACK TO BUSINESS AS USUAL.

Arguably the most successful approach to aligning a business's activities to its strategy and vision is the Balanced Scorecard (BSC), developed by Robert Kaplan and David Norton in the 1990's. More than 75% of multinational businesses are said to be employing the BSC in some form. The large auditing and accounting firms were among the first PSFs in the late 90's to employ the BSC; a good number of law firms followed since then and a number of learnings can be derived from their experience.

Using the BSC, the firm looks at its own performance from four perspectives, namely Financial, Clients, Internal Processes and People Learning & Growth. This balanced view of the firm safeguards against attempts to overemphasise short-term financial results at the expense of longer term improvements in market position, operational excellence and staff competence. The firm's vision and strategy



is broken down into objectives and related measures that are commonly derived by answering questions such as these (based on Paul Niven, *Balanced Scorecard: Step-by-Step*, 2002):

- **FINANCIAL PERSPECTIVE:** What financial steps are necessary to ensure the execution of our strategy?
- **CLIENT PERSPECTIVE:** Who are our targeted clients, and what is our value proposition in serving them?
- **INTERNAL PROCESS PERSPECTIVE:** To satisfy our clients, at what process must we excel?
- **LEARNING & GROWTH PERSPECTIVE:** What capabilities and tools do our professionals require to help them execute our strategy?

The key is to find objectives and measures that reinforce each other through a cause-and-effect relationship. The empirical studies tailored to PSF environments, such as the one undertaken by David Maister

in *Practice What You Preach* (2001), are a valuable guideline and rich source of ideas. The result is a firm-wide BSC that typically looks at a total of 15–30 interactive measures.

BSCs are first developed by firm-wide management for the firm as a whole. Following that, each practice and industry group, client team, department or office develops its own BSC that aligns to the firm-wide Scorecard. Ultimately, each professional who is a member of one or more groups can then focus his or her activities and priorities to the group's objectives and measures of success. At this point, the BSC promotes meaningful partner and associate development processes which holds them accountable to furthering the firm as well as themselves.

The key learning from the BSCs in operation at law firms and other PSFs are that you have to amend your profit distributions, bonuses and promotions to the BSC. One of the big audit firms established its BSC as its "four cornerstones," but rewarded contributions to financial performance; the BSC quickly became known as "the three pebbles and one boulder." Used right, however, the BSC can actually put your strategy into daily practice and drive your firm towards its strategic objectives.