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Future-proofing your law firm

This is the first instalment of a new monthly *Managing Partner* column in which I shall examine how law firms can position themselves to create a future that is both profitable and sustainable – the concept of ‘future-proofing’. Achieving this future will mean being prepared to take decisive actions today (which some may regard as being unnecessary or overkill) to ensure that we are able to cope with that which is appearing on the distant horizon, as well as whatever is just around the corner.

For the managing partner, this presents a number of challenges – cultural, strategic, operational and financial – in convincing partners of the need to invest in the future when the burning platform for change may not be fully ignited.

Take, for example, the need of most firms to build their balance sheets, both to create more robust businesses and to have a platform for investment using equity rather than debt. It is rare to find a firm that retains profits to build its balance sheet in such a way. The usual *modus operandi* is to strip the business dry at each year-end by fully distributing all profits, effectively starting afresh on the first day of the new financial year.

“The vast majority of firms are hide-bound of their own history”

Without capital growth and the prospect of realising that growth through an equity sale process of some kind, there is little incentive to invest in a future beyond the immediate business cycle. In this context, it is clear that there is a significant persuasion challenge facing leaders wishing to build up their firms for the longer term.

In having discussions with senior

partners across a range of firms about the importance of long-term investment, the underlying message that I receive all-too-often can be paraphrased as “why should I forgo profits this year to build the firm’s capabilities for ten years hence, by which time I will be long retired?” The consequent inertia resisting change is therefore significant.

Vision of the future

It seems axiomatic that, in order to develop plans to future-proof one’s firm, there needs to be a good understanding of what the future may look like from a number of perspectives – that of the client, the lawyer, the owner, the leader – and how these may impact on the business – operationally, tactically and strategically.

Coming to such a long-term view is very difficult in a world that is non-linear and in which industry-disruptive events occur with increasing frequency and ever further-reaching consequences.

Moreover, such changes are not confined to just one sphere of operations. Taken in isolation, the turbulence wrought by deregulation, technology and shifting societal norms and expectations are significant. Acting in combination, they have a multiplier effect and create a business environment in which the need to do things differently (rather than simply striving to do what we have always done better) is necessary, not only for success but also for survival.

A metaphor of a sunrise or sunset encapsulates the point of inflection which we now face. At a particular moment in time, the visual image, if not the direction, of a sunrise or sunset can be identical. What happens next, whether the disc diminishes or grows, tells us at what point of the cycle we are.

Thinking about the legal sector, how then can we decide whether we are witnessing the sun setting on a prosperous era with a long, dark and

cold night to come or if we are observing a nascent sun rising to unveil a new world of opportunity? The answer to this question varies from firm to firm and, whilst it is shaped by specific market circumstances, it is most importantly predicated on the vision and leadership qualities of the partner group.

For some, unable or unwilling to adapt, the end is surely nigh. For others, prepared to shift their thinking and embrace a new approach to the practice of law (and, most importantly, the running of a legal services business), the landscape is verdant and the orchards of opportunity are overflowing. The choice, therefore, is yours to create a firm that is right-shaped, with a dual focus on client opportunities and new operational paradigms.

The vast majority of firms are hide-bound of their own history – culturally, structurally, financially and operationally. New start-ups and external entrants have huge advantages in being able to commence their journeys with clean sheet of papers, creating firms that are right for the 21st century. But, they have challenges too, with the need to build their brand, capital, reputation and client franchise.

Firm metamorphosis

Within this column in upcoming months, I will be discussing a number of the key issues which all law firms face and exploring how thoughtful, decisive and swift action by the leadership team can create future opportunities and minimise risks. But, be under no illusion: firms will not become fit for the future through reflecting, analysing and planning. Only leadership action, eliciting changes across all areas of the business, will deliver the metamorphosis that is required. ☞

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