

## Turbulent times

By Nick Sinfield

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*In a rapidly changing world law firms are faced with pressures like never before. Nick Sinfield looks at how the results of research in the business world can help guide the legal profession in an increasingly hostile environment.*

Few people today would argue against the notion that we are standing on the threshold of a very different world. To set the scene, Gary Hamel — often described as the strategic guru of our age — published a book called *Leading the Revolution* in August 2000. He talks on the opening page about the end of progress, by which he means the end of the kind of predictive scientific rationalism that has been at the heart of development of business strategy for the past few hundred years.

For him, the controlled evolution of businesses towards planned success in predictable future markets — which has been so axiomatic to our thinking for so long — is a dying game, if not dead already. His new winners will be those who can imagine and then create new futures faster than they can be imagined by others. What he had to say, unlike most management commentary, resonates with truth. And he is very convincing.

Things are certainly changing faster and in increasingly unpredictable ways. Three fundamental change factors appear to lie at the heart of this.

It is no longer financial capital but intellectual capital that is in short supply. This situation is true of the legal industry. Today's successful lawyers are demanding an ever higher premium for their ideas and abilities to drive revenues upwards. It would appear all law firms are struggling to enable or allow creativity and innovation and are finding out rather too frequently that intellectual capital walks easily out of the door. The historical bonds of partnership are considerably looser and the glue between a firm's plethora of international offices is weakening.

What is going to be really interesting during the next 10 years is which of our law firms will survive. While everyone was focusing on maximising short- to medium-term returns when everything was going well, a lot of work has been going more quietly over the past few years into the key issue of business sustainability.

The Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) initiated a major study of business in Britain in the mid 1990s, gathering together many leading companies and business thinkers under the banner of the Tomorrow's Company Enquiry. The results of this study were published and are having a profound and growing influence on an increasing number of commercial organisations, large and small.

In parallel with the RSA enquiry, a major study was completed in the US by two academics, James Collins & Jerry Porras at Stanford University, published under the title *Built to Last*. This examined 18 exceptionally long-lived companies, mostly in the US, but also including a couple of Asian and European examples. It compared them, not against the average, but against the next most successful in each business' market sector to see whether there were shared characteristics of longevity.

Privately, Shell also conducted a similar study on a global canvas. Many of the conclusions of the Shell study were also made public last year in Arie de Guesse's book *The Living Company*.

Finally, there is the powerful work conducted by Bain & Co over several years into the impact of loyalty on business performance — written up as *The Loyalty Effect* by Frederick Reichheld who led that part of the Bain practice.

The conclusions are very striking. There are four linked themes that emerged very strongly: the importance of a clear core ideology (in simpler terms, your purpose and values), relationships, learning and leadership.

Starting with the first — core ideology. Collins and Porras in the Built to Last work discovered that a major differentiator between the best and second best companies they studied was the huge effort long lived companies expend on endlessly stating and re-stating what they believe in — their values — and what the business was for, what purpose it serves. They were particularly struck by the fact that only very rarely does the idea of making money come up — and then it is mostly as a pre-requisite to sustaining the level of independence of action they demand of themselves. Profits were an outcome of fulfilling the firm's purpose, a requirement, not its fundamental purpose.

How then do we apply ourselves to leveraging the power of our values to the realisation of our purpose? The second theme is relationships. This is of particular relevance for professional service firms, since our currency is essentially one of relationships. The scientific rationalism I referred to earlier has caused most of us to hold an image in our minds of organisations as machines and to describe them principally in terms of organisation charts, process maps and interactions which are transactional in nature.

But in reality all law firms are in fact living entities, which, just like people, can only pursue their aims through relationships. These can be with clients, employees, even suppliers and beyond.

Sometimes these relationships are short-lived, but Reichheld's work at Bain dramatically demonstrates the exceptional value that resides in shifting our perspective on these interactions from a series of single events, each one being independently optimised, to a continuum of relationship.

This means building real interdependency and loyalty based on recognising long-term mutual interest and overlapping purpose. Clarifying our critical relationships and the way they should be conducted is therefore an important first step to sustaining our purpose. Recently a study of Ftse 100 companies indicated they wanted less law and more business thinking. But are we listening?

But let us not forget the change and turbulence I talked about earlier. Which brings me to the third theme — learning. Businesses, like individuals, face a huge challenge to maintain their capacity to adapt and respond to unpredictable and sometimes discontinuous changes. No small — or even large — team of strategists can think all this through and pre-empt the crises. I know this from my own experience.

Formal, centralised planning is already a thing of the past. Inventing and testing the new behaviours, processes and organisational models, which will win — next week or next month — now has to be done in real time, not off-line. It needs the committed input of everyone in the firm — being prepared to experiment and take risks — if they are going to learn new ways of doing things fast enough.

This in turn means that firms need to accept the possibility of failures — lots of them. Charles Handy, in describing the New Alchemists, voices the thought that great entrepreneurs never let a good idea be defeated by failure. The key is to keep capturing the learning — from both success and failure just the same. If intellectual capital is the scarce resource then the systematic capture at every opportunity of key learning is the wellspring from which it flows.

Finally, leadership. What does leadership become? Most of us have been conditioned to look for leaders who are prescient: who know what is going to happen at least as quickly as we do and who can guide us through the challenges without mishap. But in the legal world there are fewer and fewer maps. Benjamin Franklin's famous adage that it is 'dangerous to indulge in prediction, especially when it is about the future' has never been truer.

The role of the leader has changed. The leadership challenge has become the need to maintain a critical balance between sustaining the meaning — keeping the core idea alive and exciting at the heart of the organisation — while at the same time stimulating experiments, permitting failure and, most of all, capturing and transferring the learning across the whole business and sometimes even beyond into its key relationships. As Collins and Porras so succinctly put it — leaders must simultaneously “protect the core and stimulate progress”.

Interestingly, their study also highlighted that the vast majority of our greatest business leaders over the past 100 years could not be classified as “charismatic”. They were more interested in the organisations they served, than their own ego.

While the need for ‘strong leadership’ often echoes around debate concerning the industries’ needs, it is the firms that eschew charismatic leadership that tend to go on to greatness and that will last for the long term. Among our own magic circle are some excellent examples. Our leaders should become the architects of environments that enable the firm to adapt and change swiftly.

While the necessities of reviewing and monitoring operational performance must not be neglected, the leaders of the new age in the legal world will also be thinking about these issues — values, relationships, learning and leadership. Collins and Porras referred to this ability as “the genius of the AND”. You have to do both in this new era.

Very recently, the chairman of Boeing said: “It is not the strongest of the species that survives, nor the most intelligent; it is the one that is most adaptable to change.” How adaptable are you?

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### **Notes to Editors**

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