

Strategy and the 4th Quarter: Can Law Firms Use This Time to Advance the Strategic Agenda?

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It's hard to believe but it's here – the fourth quarter. The time when most law firms become intensely focused on the immediate, short-term, administrative and highly internal management needs of their organization. For many, if not all, key strategic initiatives are back-burnered, to be picked up in February with the inevitable need to get refocused, cover already-covered ground and begin thinking about what can get done in the next year (which inevitably means the next eight months until the next Q-4 rolls around.) It's not that Q-4 activities aren't important. They are. Most firms spend a huge portion of their Q-4 "non-billable" time on the following activities:

- Collecting receivables to make sure the year comes out OK.
- Partner compensation.
- Associate evaluations and compensation.
- Budgeting and rate setting.
- Promotions.
- Retreats and practice group meetings.

All these activities are critically valuable. Unfortunately, with the *potential* exception of the last bullet, most of these are done with limited thought about how to use these initiatives to advance the firm's strategic goals while prepping the firm for material advances in the next year. With a little tweaking, it is easy to see how Q-4 might have a much greater strategic impact.

Rather than the annual rinse and repeat processes we so often use, we urge you to consider modest changes that over time might have a big impact. Consider some or all the following suggestions:

- **Focus the partner compensation process on messaging and on strategic efforts.** Most firms spend a fair amount of time pouring over the data, massaging numbers, and in many cases soliciting partner input. Then they spend more time "getting the results right," usually with reasonable success. For the most part, partners consider the results "fair." The problem, though, is that relatively few firms do a good job of creating the real messages needed to get partners focused on how they can improve their performance (even, or possibly especially, for the most productive partners) and how they can better help advance the strategy. Fewer still do a good job of valuing performance that does advance the firm's strategy at a higher level than less strategic outcomes that produce similar "numbers." What would happen if they did?
- **Use the billing and collection process, along with the pricing discussions, to improve the client base and your relationships with your best clients.** Everyone focuses on collections, and many cut deals with clients to assure payment prior to year-end. At the same time, most firms are looking at across-the-board rate adjustments and thinking about whether individual clients will be receptive to them. What if we took these processes one step further and asked a few more questions?
 - Should this client even be a client of the firm? For clients who regularly pose slow-payment issues or

excessive discounting demands, or are otherwise problematic, the firm should question the reasons they continue the relationship. Most firms would be better off if they increased the discipline with which they manage their client base – and Q-4 is the ideal time to conduct those reviews.

- Are we getting the work we should be from this client? If not, why not? Do we have the right relationship lawyers in place? Has anyone in leadership met with this client recently? Do we even know who our competitors are for their work?
- Does this client need an active succession plan? It takes years to fully transition a good client, assuming active effort and good intentions. Where do you stand with any client being managed by senior lawyers? Similarly, where is the client in its own internal succession planning? Do you have relationships with the future leaders?
- Does this client present opportunities for different pricing approaches? Can we move them toward more relationship-based pricing models?
- Is an across-the-board rate increase appropriate? Or would the firm be better off with a more strategic approach to pricing? Who are our most valuable people? And are there some partners whose rates are too high?

Overall, an effort to use Q-4 as an opportunity to more effectively manage the firm's client base may pay enormous dividends over time.

- **Improve the practice group and partner planning processes.** Most firms require some level of practice group and partner individual planning efforts, but the quality of the results varies enormously, in part because many partners view this as a perfunctory requirement with limited real value. Once the plan is filed no one really looks back at it, and the goals set out have little impact on future compensation decisions. What if that changed for the individual partners? And what if the practice group plans really did focus on the group's role in advancing the firm's strategy and the group leaders were evaluated and compensated based on their success?
- **While we're at it, the year-end process should always include a systematic review of the performance of practice leaders and others in similar roles.** At least annually, a systematic review of which members of the leadership team are successfully advancing the firm's goals, and which should be replaced should occur. Reward the former well, and replace the latter. No excuses. And you have a great opportunity to gather data during the compensation process.
- **Use the associate evaluation and promotion consideration processes to manage the firm's talent strategy.** These two processes together are critical to shaping the firm's future talent pool, but how often are strategic considerations considered at this time? Does the firm factor in differential practice economic structures in considering promotions and compensation decisions? Or are all practice treated "equally" in spite of radically different profitability drivers? Are we using cultural considerations as a strategic asset? Or making promotions in different areas more based on "balancing interests" than on value creation? Are we helping people to move on when they should? Or keeping people longer than we should to "give them a chance and be true to our culture?" If you really do have a firm strategy, linking it tightly with firm talent decisions is one of the most important ways to assure its long-term success.
- **Use the budgeting process to rethink resource allocation decisions.** Does the firm allocate marketing funds strategically? Or is it more driven by partner economic clout? What are our investment priorities in the coming year from a talent perspective? Every lateral costs money – are we focusing our efforts on the right segments or do we have more of a shotgun approach? Where are we making our profits today, and how is that likely to change over

time? Are we budgeting based on a real understanding of client needs, or are we simply extending last year's numbers forward? Can we use our budgeting process as a strategic decision tool? Or is it destined to be forever an arithmetic exercise?

- **Use the annual retreat or meeting as a strategic communications opportunity.** Some firms try, but many fall short of achieving the greatest impact, preferring to focus on social interaction, or more routine financial performance reporting (the latter especially at an "annual meeting" type setting.) The core of your partner communications strategy should always be around "how are we doing against our strategy?" Use every opportunity to continue to support this messaging.

There are many other things to consider to help keep things moving in Q-4, (including moving some of these efforts, such as compensation, out of Q4 – a subject for another day.) Make sure Strategy Committees don't take that time off, for example – even if the Managing Partner and others might be a little distracted! But the suggestions above are intended to help you think about how to better use time you are already going to spend to accomplish more than most firms usually do. With a little advance thinking about how to best use the fourth quarter, most firms could enter the new year better positioned than they would simply pursuing "business as usual."