Strategy or Luck – and Does It Matter in the Long-Run

By LawVision on May 7, 2015

In recent weeks, we have been researching and discussing the growth trajectories of 25 law firms whose increases in revenue and profits per equity partner outpaced the competition in the slow-growth legal market – The Superfast. Despite the wishful thinking (and occasional straight-up demands) of our law firm clients, we have been unable to uncover the magic bullet: a single defining characteristic or risk-free solution that delivers superior rewards.

As it turns out, the strategies and experiences of the Superfast are varied and nuanced. For some, there is clear evidence of a well-designed and executed strategy – a plan that includes forethought, tenacity and disciplined implementation. For others, the firm's impressive rise appears to be happenstance – a high-profile score, a big win or a massive case that provides a boon to the bottom line – albeit one that may be temporary. Which begs the question – is it strategy or luck that propels a law firm to register year-over-year growth at a rate faster than the competition?

Event-driven ascensions up the ranks of the AmLaw 200 are quite common. Riding the wave of a major litigation sweep, capturing the deep-pocketed client in bet-the-company transaction or being tapped by a prominent individual or agency in a high-profile scandal are only a few examples of the ways some firms get a big boost to income over a short period of time. To assume these wins were the result of chance and not strategy, though, is unjust. Though clients are quick to indicate the value of personal relationships in making their hiring decisions, it is rare that clients will bet the farm on a firm that has not earned their respect.

At the very least, then, the firms that benefit from the "good fortune" of landing plum clients have done *something* to demonstrate their worthiness. This something may be the result of strategy (e.g., an intense focus on being the best trial lawyers) or it may not. Either way, it is not to be discounted. These one-off hires provide market validation of the firm's capabilities – a client vote of confidence that the firm is best-suited for a major matter. Whether articulated or not, a firm that enjoys this level of support has achieved an objective to which many firms still aspire.

Equally important is the potentially lasting effect of a prominent "win." Research from both Acritas and The BTI Consulting Group, both of whom released brand studies in the past few weeks, indicate a clear relationship between brand awareness and revenue growth. In fact, Acritas reports that an increase in brand awareness is a leading indicator of future financial performance. To put this to the test, we reviewed the financial performance of one of the most remarkable revenue jumps of the past decade – Wiley Rein. In 2006, Wiley Rein's revenue skyrocketed from $151M to $407M moving the firm up 76 spots in the AmLaw rankings for the year. The benefit of a notable contingency in litigation tied to the Blackberry, this move earned Wiley Rein not only a generous compensation package for the year but also a new name in the legal world. In the subsequent years, Wiley Rein's overall revenue, revenue per lawyer (RPL) and profits per equity partner (PPEP) have continued to rise. Their growth in RPL and PPEP consistently outperform the market and their performance prior to the significant case. What appears to be a blip or anomaly in financial performance, then, can also be a game-changer for a firm. Particularly for those with the wherewithal to tap into the strategic potential – and not leave success to chance.

Among the Superfast firms we look forward to sharing with you in our June 3rd Webinar are firms who have benefited from similar scores. Firms who can attribute at least part of their rise to the BP oilspill, the dispute between Chevron and Ecuador or the Bernie Madoff scandal. Do all of these firms have sophisticated strategies and powerful visions against which they are executing? Perhaps not. What we do know is that those firms that do have market-focused strategies and clear visions are performing better than they did without them. What we do know is that those firms with tenacious leadership and strategic discipline reap greater rewards from “lucky breaks” than those without. And that’s enough for us to conclude definitively that strategy trumps luck.