

The Role of Profitability in a Strategy

By [Michael D. Short](#) on January 20, 2015

In the ever-evolving and dynamic world of strategy development, some poor practices are still being repeated and I want to begin 2015 by re-visiting one that is a pet-peeve of mine. Specifically, is higher profitability a strategic goal or an outcome of the implementation of a strategy? I've recently seen two strategies that include higher profitability as a "strategic goal." This bothers me because I think both firms were missing an important point.

The placement of "profitability" within a strategy tells me a lot about the firm and the process (and sometimes, the consultant) used to develop the plan. Achieving the highest level of profitability from current operations is a daily responsibility shared by all owners...a standard operating procedure. Achieving a higher level of profitability not possible from the current business model is the result of tough decisions, changed behaviors, and new ideas...the *real* goals of a strategy.

As I was writing further on this topic I got the feeling of déjà-vu, so I looked into my files and found that I had the same thoughts in 2007, during a period when I wrote a monthly column in LEXPERT – the Canadian monthly publication on the legal industry. Just as TV series go into re-runs, I am dusting off an old, yet still relevant, article from my archives to demonstrate the irritating timelessness of this issue.

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I was recently in a law firm talking about strategic planning and asked the partners to describe their experiences with the planning process. They told me they had a plan, it included four areas of focus and they were only experiencing success in one of these areas – elevating the profitability of the firm. The others, which were linked to practice focus and client types, weren't progressing at all. Still, because profits were increasing, they felt that they were making significant strategic strides. This discussion reminded me of an interesting topic related to strategic planning – where does profitability fit?

Before going further, I want to be very clear on one point – all good plans have financial goals. In the highly competitive law firm marketplace, maintaining a strategic position usually requires attracting and retaining the right lawyers, which requires a suitable level of profitability. So where does profitability belong in the plan? Is it an area of focus or the result of focusing? Is it an implementation task or the result of implementing the tasks in a plan? The differences are subtle but important.

In my example firm, profits have gone up significantly each year since their plan was adopted. The partners feel good about their progress and are better able to recruit and retain lawyers based on the financial outcome. This was a goal of theirs, along with experiencing significant growth in three select areas. Since the partners weren't experiencing success on the practice/client focused initiatives they really buckled down on the financial aspects. By managing to the numbers and the bottom line, they have done quite well.

What many partners at this firm don't realize is that they are not implementing a strategy. Their improved profitability is the result of a focus on sound financial practices and not the result of any change in their practice mix, business model or

client base. The only aspect of the firm that has changed is more attention to profitability metrics, which has resulted in significantly larger partner draws.

Unfortunately, this firm was not operating at an optimal level under its old business model and is now moving toward that basic goal. While it feels “strategic” to the partners, they are simply benefiting from better practices and policies and are now taking home money that they used to “leave on the table.”

This example illustrates the two basic types of profitability improvement in a law firm:

1. Business improvement – Optimizing what the firm can accomplish while operating in status quo mode. This involves driving profits to the bottom line while using a historical business model and serving a fairly constant client base. The time-frame is on a yearly basis.
2. Strategic improvement – Achieving new levels of profitability based on a concerted focus and related investments that result in new clients, new services, and/or a new business model that generate higher fees and profits. The time-frame for success can be several years.

The partners at my example firm are boosting their profitability via business improvement...not strategic improvement. The truth here – which is being glossed over by the “strategy implementation” moniker – is that this firm has been underperforming relative to its profitability potential for quite some time and is now elevating its performance to where it should have been all along.

If a law firm is not achieving the profitability level that it should from current operations, then some may want to feature profitability as a goal or initiative...often to gain the attention of the partners. Be aware, however, of a key risk associated with linking profitability and strategic planning in this manner – creating a false expectation for future planning efforts, wherein the partners will want to continue to make more money without making tough decisions and changing behaviors.

Most law firms have plenty of room for improvement with respect to profitability. Doing your best in this area should be expected from day-to-day operations. Elevating your profitability to a new level that is unachievable from your current business model is a result of strategic planning.