Why So Much Un-Executable Strategy? Part 2…

By Joseph B. Altonji on August 13, 2014

A few weeks ago we focused on the first reason why so much strategy in the legal world fails at the implementation stage (read blog) – much of it is poorly designed to begin with! Whether the strategy fails to identify, and therefore address, the core issue(s) the firm faces, or becomes impossible to implement through goal multiplication or other reasons, many strategies fail before they are even launched. Unfortunately, though, some partnerships that successfully design a good strategy are not out of the woods on execution, and many of them fall through on implementation. One of the key reasons for this is that their organizations are simply not aligned with the strategy they articulate, leaving the probability of failure close to a certainty.

A number of years ago, we were working with a mid-sized law firm on its strategy, and the strategy development process itself was well designed and executed. The firm invested the time and money needed to dig deep and create a coherent strategy designed to address its critical issues. Unfortunately, we were never really able to find out if it would work. Why?

In this particular situation, it became evident about 60% of the way through the development process that the firm's governance structures were not designed to and were in fact not capable of making tough decisions. Making matters worse, there was substantial separation, both literally and philosophically, between those responsible for driving firm performance (and strategy implementation) and those responsible for the firm's compensation process. It became clear before the strategy was even finished that the firm's governance approach would result in a least common denominator, zero risk approach to implementation and the strategy would fail. Although we, along with the firm's then-Managing Partner, pushed as hard as we could we were unable to overcome the cultural resistance to change. The strategy, though it was completed, had little impact on the firm.

This firm had a fundamental structural flaw blocking its ability to execute. Many firms have much more subtle structural impediments to overcome. One of the most common, not surprisingly, is the compensation system. Our survey of law firm compensation approaches conducted last year confirmed what we knew on one point – that most commercial law firms utilize some form of a "subjective" system that allows them to take into account various contributions to firm success, including strategic investments. However, not all subjective systems actually function that way. While all successful systems place importance on key economic contributions (especially personal fee generation and "origination"), some subjective systems are so correlated with these factors that they might as well be a formula. Whatever advantages firms might claim for formulaic approaches, the ability to reward investment and strategic efforts generally isn't one of them. Where compensation systems don't support strategic efforts, firms tend to underinvest in the strategy, at all stages. Making matters worse, these firms generally demonstrate the negative characteristics of both types of compensation systems, without gaining the primary benefits of either.

Many firms are culturally misaligned with strategic implementation. Examples of this are the many firms that, while wishing they could achieve a stronger market position, are unwilling to make the investments required to build the talent pool needed to achieve that goal. This is particularly problematic where firms need to stretch their compensation systems to attract highly paid laterals, or when an aging partner population tends to resist making investments of any kind in favor of current income. More than a few firms have strategies which might best be achieved by merger, but remain culturally committed to independence and "controlling their destiny." We are forced to ask the question, did you mean it when you created this strategy? Other forms of cultural misalignment are more subtle. One firm a few years back created a coherent and well-designed strategy focused on the effective use of team-based approaches to drive client service. Sometime later, though, that firm's web-site still reflected the driving underlying historic culture which featured individual performance – it highlighted to the clients that as often as possible they saved the clients money through efficient, single lawyer staffing of projects. Both may be the right things to do, but if your default is to do the work as individuals, you are less likely to succeed with team-based approaches.

Organizational misalignment prevents many firms from fully implementing their strategies, and in some cases prevents any implementation success. The unfortunate reality, though, is that in many situations these misalignments are recognized in advance, but for whatever reasons the firms fail to address them as part of their strategic efforts. Sometimes the leadership simply fails to make the compelling business case that change is needed, but if so, the strategy isn't yet complete. Clearing the misalignment should, if possible, be one of the critical implementing actions – whether that means a new compensation system, a different governance structure, a change in leadership, changes to the voting structures of the firm or other more subtle changes. If it is not possible to identify actions that will address the misalignment (i.e., the situation can't be changed) than it is likely you have the wrong strategy. More often than not, though, you know what you need to do – it's just not that easy to get it done! But, as we've said before, strategy is hard.