One Size Does Not Fit All

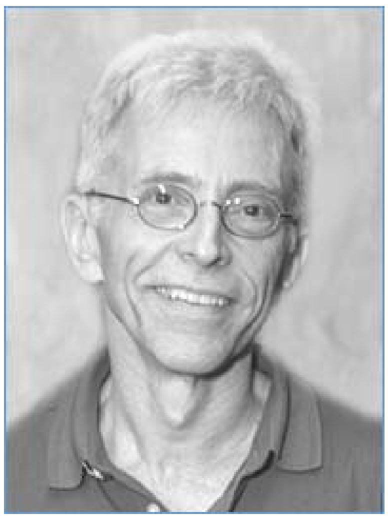
Is Downsizing Really Good for your Firm?

Once again the legal profession is recognizing a trend already standard in other industries: competitive intelligence (CI). Legal managers are taking a page from their counterparts outside legal organizations to ensure their rims remain ahead of the game.

What Is It?

The Society of Competitive Intelligence Professionals defies CI as "the legal collection and analysis of information regarding the capabilities, vulnerabilities, and intentions of business competitors, conducted by using information databases and other 'open sources' and through ethical inquiry."

Stephen Mabey, CA
Principal & Managing Director



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"The bottom line may not be be the only measurement area for success in law firms.

Professional service firms must evaluate what drives their success:

The people who do the work."

"Leaner and meaner" is the cry of consultants, corporate leaders and partners who see the strategy as a path to survival and prosperity now and into the next millennium. The cry can be heard in most professional service firms. Law firms are following this advice and reflecting what the corporate world has espoused--seemingly without regard to the long-term implications and consequences of downsizing.

While there are many surface similarities between the corporate and the professional service worlds, there are also fundamental differences that cannot be overlooked by law firms. Yes, professional service firms must make a profit. Yes, their managers must understand and leverage the latest technology. Yes, they must keep pace with rapid changes in the preferences of their clients. And, these professional service providers need to strive for increasingly higher financial reward for their shareholders/partners. But the bottom line may not be the only measurement area for success in law firms. Professional service firms must evaluate what drives their success; the people who do the work.

Despite the apparently easy path downsizing offers to improved financial health, professional service firms may be adversely impacting their single most important success driver. These firms sell the intellectual expertise and services that only their employees can provide. Firms must realize this as it will affect the types of corporate strategy they implement. Downsizing in a professional service environment could be equivalent of a manufacturer removing some of he essential production machinery from the factory floor! To do so would be to remove the company's ability to maintain and increase its revenues.

However, many firms fail to realize this distinction, so downsizing in professional services firm continues. So, is downsizing really good for your firm?

Are clients better served by downsizing?

In a downsized environment, law firm professionals and staff try to deliver more to clients using fewer resources (people). However, in many cases overworked employees end up delivering less service for more money. While many law firm professionals claim they are most efficient and effective serving clients when they are busy, it's also true that too much work can result in a serious deterioration in the quality of service to all clients. Another important facet of a viable law firm, relationship management, has suffered due to downsizing. Building rapport and effective communication with clients is second only to quality work in maintaining a successful practice. Clients want, and have the right to expect, timely, effective communication from their professional advisers.

Downsizing can affect the quality and quantity of client communication. How can a firm ensure that needs and expectations are being met when there are fewer and fewer knowledgeable people available to handle clients' calls? And, to counteract the decrease in timely service that may arise from downsizing, should firms pass along savings to clients? This uncovers one side-effect of downsizing that is starting to be recognized: It costs more to attract and maintain clients in the face of eroding client service.

Are your partners/shareholders better off from downsizing?

Downsizing can cause, in the short term, an upturn in profits for partners or shareholders. However, it's difficult to discern whether these are sustainable profit increases or if, in fact, the increases are really taxing the intellectual capital of the firm. Some of the costs resulting from downsizing are sufficiently abstract that, to date, they have not been acknowledged or even recognized, as affecting the bottom line.

One of the unquantified costs associated with downsizing is the lower morale it can cause among the firm's remaining professionals. There is a real cost attached to the spreading dissatisfaction being expressed by professionals with their careers and lives. This can drive off younger professionals or preclude entrance to the profession by the brightest and the best. And, downsizing can create a definite loss of collegiality among professionals within firms and throughout various disciplines.

Possibly, these will become the acceptable costs of doing business in the future.

Are surviving staff members better off from downsizing?

Many firms will tell you that their success is predicated, in part, upon the efforts of their support staff. Downsizing can create an environment which psychologically impairs staff members' productivity. The impact (both shock and productivity) of "people cuts" in the flat organizational structure normally found in professional services firms is more personal and felt more widely. The staff's loss of faith or trust in a professional service firm quickly goes beyond a problem of morale to a real issue of productivity. The result is a diverting of energy and focus from client issues and external opportunities and challenges to internal issues and conflicts. The direct and indirect costs of replacing the resulting disaffected staff should not be ignored.

The Beneficiaries

There is a strong case to be made that the real beneficiaries of downsizing are temporary employment agencies, employee outplacement firms and the ancillary industry that has evolved from downsizing.

A growing group of established and respected business prognosticators are deeming downsizing not the magic business "fix" it has been touted, but rather as an unqualified failure. These people feel that the cost of downsizing, which is just beginning to emerge, will be very high and will have serious negative long-term implications for the business community. (See S. Roach, "The Hollow Ring of Productivity Revival," Harvard Business Review, November/ December 1996).

Obviously, if this is the case, organizations that are intellectual capital intensive may experience an even greater negative fall out from downsizing. Professional service firms still embracing downsizing need to be cognizant of the increased risk assigned to this practice.

The consequences of downsizing are difficult to predict or control and the benefits problematic.

Comments or Questions?

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