

## **The Firm of the Future**

In my article, I exposed the predominant practice equation for The Firm of the Past, and dissected the problems with it, how it does not explain the success of professionals (because it is far too focused on hours, efficiency, and inputs, rather than results, output and value), and why it no longer comports to the intellectual capital economy professionals inhabit today.

The New Practice Equation offers a viable and proven alternative to leveraging the real critical success factors of The Firm of the Future:

***Profitability = Intellectual Capital x Effectiveness x Price***

## **The Market Share Myth**

This theory has many advantages over the old one. First, rather than focusing on top line revenue, the firm is forced to think about the *profitability* of each customer. Business is a game of margins, not market share, and growth for the sake of growth is the ideology of the cancer cell, not a profitable business.

Further, not all customers are equal, and many firms could stand to lose up to 40-60% of their customers, and they'd be more profitable if they did so. Marginal customers may contribute revenue, but they also absorb precious, fixed capacity that is better allocated to more valuable customers.

## **Mind Over Matter**

Second, professional firms don't sell hours. They create and sell — and their customers buy — Intellectual Capital (IC). This is a far broader view than thinking about leveraging people and hours. Microsoft didn't create the wealth it has by pricing by the hour, and I doubt Bill Gates keeps a timesheet.

A firm's IC consists of three components: Human Capital (its people); Structural Capital (its systems, proprietary software, checklists, resources, etc., that enable it to perform its work); and Social Capital (customers, vendors, suppliers, referral sources, alumni, and alliances). These components are the real levers of profitability in any professional service firm, not people hours. You can't leverage an hour; time is simply time, and all businesses — indeed, all living beings — are constrained by it. So what?

There are so many more ways to leverage the three components of IC, but it requires a radical change of mindset to get away from the notion that "billable hours" drive a firm's profitability. As Archimedes said, "Give me a lever long enough, and I shall move the earth." The real lever in a professional service firm is its IC.

## **Doing the Right Things**

Third, the Firm of the Future will focus on *effectiveness*, not efficiency. There's not much the average firm can do to squeeze another 15-20% efficiency from its Human Capital, which are only fallible human beings. The focus on billable hours has hindered professional firms from focusing on being effective with their customers.

If you study surveys of how customers select — or fire — their attorneys, efficiency is never mentioned. It is always because of outstanding service, or lack of service — issues such as they don't ignore me, they are proactive in looking after my interests, they are aggressive in helping me pursue opportunities, etc. You can't do all of these things if you are focused on nothing but billable hour quotas.

Therefore, the Firm of the Future will measure *and* judge team member effectiveness by utilizing Key Predictive Indicators (KPIs), which are *leading* indicators of performance. Timesheets are *lagging* indicators, and don't offer firm leaders a relevant, or timely, measurement of the right things (effectiveness); instead, they attempt to focus on doing things right (efficiency). And they do a lousy job of it, since one can look great on a timesheet while having a lousy service attitude, or upsetting colleagues, or performing sub-quality work.

I will take effectiveness over efficiency any day in a knowledge environment. ***Let me be clear: The Firm of the Future does not have timesheets.***

### **Pricing on Purpose**

Last, Firms of the Future recognize they are a business just like the airlines, hotels, rental car companies, etc. Businesses have prices, not hourly rates. You'd never fly an airline that tried to charge you \$4 per minute. The idea is simply ludicrous. *In fact, professional firms need to start pricing up-front for everything they do, period.* No more excuses.

To retort a firm can't do that because it doesn't know exactly how long it is going to take is specious. The customer doesn't care how long it takes, they only care about the price relative to the value, and they want to make that comparison *before* they buy, not after. Do you care how long it took Toyota to build your car?

Besides, from the firm's perspective, it is much better to know the customer doesn't agree with the price before you do the work, which helps you prevent committing precious firm capacity to customers who don't value the work.

Pricing earthquake and other disaster insurance is far more complicated than legal services, yet my insurance company gives me a fixed price, before I buy (and before they know what their costs are going to be). It's called risk, and it is where all profits come from. The professions are going to have develop pricing competency if they are serious about capturing the value they create, and if that means they have to hire pricing professionals, including actuaries, then so be it.

Pricing is the number one driver of profitability in any business, and is far too important to leave to people who lack the creativity, imagination and self-esteem to price based upon value. You know who the mediocre and wimpy pricers are in your firm. They are severely handicapping your profitability by leaving money on the table, since they are far too focused on costs, hours, and efforts to think clearly about results, outputs and value to the customer.

Lawyers are subject to the same laws of economics, and consumer psychology as every other business. It is time they learned to *Price on Purpose*, and stop hiding behind the veil of billable hour.

### **Do Professionals Hate Change?**

Other consultants will tell you professionals won't take this journey to become a Firm of the Future because they hate change. In fact, the physicist Max Planck once said "Science progresses funeral by funeral."

I reject this line of reasoning. I don't think a profession progresses by shooting its elder members. It is not change, per se, lawyers fear, it is the uncertainty of the effects of the change they fear. That is a much different issue to deal with.

If I was Lloyds of London, and I could insure a firm's losses for a given period of time if they were to try my theory and it failed, I think many more would change. Unfortunately, I'm not Lloyds and can't do that.

I have to convert my colleagues based upon the logic of my arguments and ideas, through the use of words. I am optimistic I can do that — I have a fairly good track record so far — which is why I will continue to write, lecture, educate, and disseminate my ideas into the national conversation, through our think tank, VeraSage Institute.

In fact, the Fellows at VeraSage are so committed to this process — a group of 14 dedicated professionals world-wide assembled in order to better the professions and quality of life — we offer any firm assistance, in the form of e-mail and telephone consulting, if they are truly serious about making the transition. They can learn from our collective experience —and from other firms — and this will help them avoid the mistakes others have made, thereby lowering their risk.

### **A Paradigm Worthy of a Proud Profession**

Professional firms are Intellectual Capital organizations, and it is time for them to begin acting as if they understood this fact, rather than trying to constantly enhance efficiency by treating their Human Capital as if they had no mind of their own, redolent of the days of Frederik Taylor's time-and-motion studies.

Humans are not simply machines that exist to bill hours, yet the old practice equation keeps us mired in this mentality. No one entered this profession to bill the most hours; it is simply not a relevant metric to judge the success of an attorney. I believe we can — indeed, must — do better than the one-dimensional opportunities presented by an antiquated model.

When I first publicly presented and contrasted The Firm of the Future with The Firm of the Past, a CPA explained to me at the break why she thought the new equation was so superior to the old. She said, and I'm paraphrasing here, "Your equation presents so many more factors that enable a firm to achieve its objectives than the old one did. It is like being freed from a cage that has restricted our firm for decades."

I have offered you a testable hypothesis, one that is subject to the falsification principle of the scientific method. I hope someday this theory will be replaced with an even better one, as that is how all knowledge creeps. I only hope to live long enough to see it.

Clare Boothe Luce used to say, "The only difference between an optimist and a pessimist is the pessimist is usually better informed." When it comes to the professions, I certainly hope she was wrong. But the road not yet traveled is long, and it seems the professions, to

paraphrase Winston Churchill's exhortation of America, will do the right thing — once they have exhausted the alternatives.

Despite this, I remain optimistic. Milton Friedman tells a wonderful story that may illustrate what we need:

*A young nun was out driving a car down a superhighway and ran out of gas. She remembered that a mile back there had been a gas station. She got out of her car, hiked up her habit, and walked back. When she got to the station she found that there was only one young man in attendance there. He said he'd love to help her but couldn't leave the gas station because he was the only one there. He said he would try to find a container in which he could give her some gas. He hunted around the gas station and couldn't find a decent container. The only thing he could find was a little baby's potty that had been left there. So he filled the baby potty with gasoline and gave it to the nun. She took the baby potty and walked the mile down the road to her car. She got to her car and opened the gas tank and started to pour it in. Just at that moment, a great big Cadillac came barreling down the road at 80 miles an hour. The driver was looking out and couldn't believe what he was seeing. So he jammed on his brakes, stopped, backed up, opened the window, and looked out and said, "Sister, I only wish I had your faith!"*

The Firms of the Future must lead the profession by following a model worthy of its proud heritage. If we reinvigorate and revitalize the professions, begin to understand and leverage the Intellectual Capital it creates, there is no limit to what we can achieve, as long as we do not lose faith in ourselves.