



# Taking your client's temperature

cannot keep up with management trends – in the past few years, we have had balanced scorecards, Six Sigma, values-centred management, quality management, customer-centricity, value innovation, blue ocean strategy and many more.

Most management trends have the same appeal and longevity as fad restaurants. For a while, everyone is talking about them, racing to get a booking and recommending them to friends. Then, just as quickly, they are gone, replaced by the next new thing.

Supporting every new management trend is a library of corporate-styled self-help books, videos, tapes and promotional tours. These promise much and deliver little. They are a lot like diet books, in that you do not get thinner just by reading them. Let me stretch the analogy between trying to maintain a healthy weight and successfully managing a law firm even further. The fundamentals required for both are pretty simple: it is all about cause and effect.

## FIRMS CAN OVER-COMPLICATE THINGS

In his book, *What Were They Thinking? Unconventional Wisdom About Management*, Stanford professor Jeffrey Pfeffer takes a beautifully succinct and simple approach to many challenging issues. One of Pfeffer's suggestions about why companies and managers make poor choices is the tendency to over-complicate what are reasonably straightforward choices.

Many law firms are guilty of over-complication. In partnerships, this is understandable. It is hard to make choices and even harder to say no to people. So many strategies are pursued, and often pursued simultaneously.

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These strategies can be as complex as:

- high-end, complex legal work
- commoditised legal work
- running plaintiff and defendant work
- transactional focus
- client relationship management focus
- focus on top 100 public listed companies
- pursuing an SME focus
- government focus
- geographic coverage in Australia
- rural/regional coverage focus, and
- global coverage.

It is not uncommon for firms to be pursuing four or more strategies simultaneously and often with a management team comprising partners with ambitious fee budgets. It does not get much more complicated in Law Firm Land.

## THE PARETO PRINCIPLE

One of the most-widely known and, some say, least exploited ideas in business, is the 80/20 principle, also known as the Pareto principle. First articulated by 19th-century Italian economist Vilfredo Pareto, the principle states that there is an inbuilt imbalance between causes and effects, inputs and outputs, and efforts and rewards. The applications of this principle in business are many – for example, 80 per cent of performance problems will often come from 20 per cent of staff; 80 per cent of profits will come from 20 per cent of your service lines; and so on. Everyone has heard of the 80/20 principle, yet very few make effective use of it. Why? It just sounds too simple to be true.

Michael Davies, ITW group vice-president, ITW construction products – Asia Pacific, spoke passionately about the value of the 80/20 model when interviewed by *The CEO Forum*. Davies said: "We try to simplify everything, and use the 80/20 model across all the businesses, be it products, customers or suppliers. We have a program where we analyse our customers to see which are profitable. The result was that from 14,000 customers, 80 per cent of sales came from around 4000 of these. This doesn't always mean that we just get rid of the other 10,000, as there are

a number of ways in which you can manage it. If you have customers who aren't buying from you in significant volumes, for instance, you may need to segment your customer-service delivery accordingly. We reduced the number of customers to 7000 and, as a bonus, managed to eliminate most of the slow payers and overdue accounts in the process."

## SHORT-TERM PAIN

Why the 80/20 principle is not used more in law firms has a lot to do with fear. People aren't willing to apply the principle if revenue is affected in the short-term. If, for example, you have identified all this complexity in your business, but the immediate effect of removing it will be a decline in revenue, that is often the end of the matter for many people when, in fact, it should be the beginning of a robust discussion.

Like tackling weight issues, a little short-term pain can lead to significant benefits; it is the old cause-and-effect issue. If you are looking for inspiration look no further than M+K Lawyers Group – it slimmed down its five offices to a base in Dandenong, Victoria, and an office in Melbourne.

It dropped between \$2 million and \$3 million in revenue, but then bounced back the next year with 25 per cent more profitability. Would this have happened if M+K had the distraction of all those offices and the broad-based service offering?

Before you consider a new management theory, why not think about applying the Pareto principle in your firm? If 80 per cent of results flow from just 20 per cent of causes, it seems sensible to revisit a truth that has been around since the 19th century. If nothing else, you won't be accused of being seduced by the latest management theory. ●

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