

**BUILDING THE LAW FIRM AS
A DYNAMIC ENTERPRISE:**

FACING THE CHALLENGE OF CHANGE

Lisa Friedman, Ph.D. and Herman Gyr, Ph.D.

We are living in dynamic, tumultuous times. Changes are taking place in our businesses and organizations—across multiple industries—at unprecedented rates. Businesses, institutions, and government agencies face tremendous pressures to become enterprising, to deliver performance faster, cheaper, and smarter. At the same time, the business climate is complex and shifting rapidly around them. Changes come from almost all directions simultaneously: the marketplace, competitors, advancing technology, and increasing customer demands.

These pressures, that have confronted several industries for many years (such as manufacturers and their suppliers, retailers and their distributors, health care providers, utilities, telecommunications, and government agencies), are increasingly affecting law firms as well. As the legal profession's clients face changes in their own

businesses and are forced to respond effectively to these, they in turn expect each of their own vendors (including their attorneys) to do the same. Clients are increasingly demanding ever-higher value in work and service delivered, increased accessibility, effective use of emerging technology, all accompanied by decreasing cost—because this is exactly what their own customers are demanding from them.

In response, law firms are facing a number of new challenges. Although many firms may not be consciously aware of it, within their own industry, the nature of the changes they confront is itself beginning to change.

THREE WAYS CHANGE IS CHANGING

For law firms, change is changing in three significant ways:

- Changes are **multidimensional and complex**. They affect more than one system simultaneously.
- Changes are **accelerating exponentially**—they are occurring at an ever faster pace
- There are more changes of **greater magnitude**, that involve fundamental shifts in the very definition of the work or how it will be done.

Multidimensional, Complex Change

There are many *external* drivers of change impacting the legal profession, all of which exert their influence simultaneously. The most prominent driving forces will vary for each firm, department, or practice, but many will be strongly influenced by global business trends; shifting demographics; growing client needs and expectations; shifting relationships between competitors and outside strategic alliances; realignments in the basic industry “food chains” (who pays for what, and what they expect for it); emerging technologies; and even the rise in popularity of new business practices (such as business process redesign or outsourcing) used to streamline work and reduce costs—to name just a few of the external forces that may be exerting simultaneous pressure.

These changes in the external environment set off other changes in the *internal* organizations of many firms. We see many instances of shifting organization boundaries (through outsourcing, mergers, acquisitions, or alliances with attorneys outside the firm), new internal organization structures, redesigned work processes, new information systems, new purchasing practices, changing roles, changing employee expectations, new human resource policies, changing

compensation systems, and even new kinds of meeting formats (such as videoconferencing) that affect the way work is accomplished.

Accelerating Change

The dramatic interaction of various changes often causes others that were neither intended nor planned for. For example, one single change—the introduction of a new information technology such as the Internet —leads to new possibilities for marketing, for communication with customers, for internal information sharing (“intranets”), and in turn enables new work processes that can then lead to new departments, new job descriptions, new work relationships, and even a new company culture. Shifting opportunities and demands create a snowball effect, where each individual change creates a growing number of related (and often unpredicted) changes.

Greater Magnitude of Change

Some of these changes are small, such as incremental improvements in an area affecting a limited number of people. Other changes occur at the most profound levels and lead to the restructuring of entire industries. For example, in an age of direct connection and flattened

hierarchies, many industries and corporate functions that served a “middleman” role are shrinking or being eliminated altogether. When new technology and business practices enable clients or employees to go directly to the source of the information or goods, they find it repetitive and wasteful to go to someone who does not add value to the connection. This level of change is not simply a shift in the way work is performed, but often is a basic questioning of the very purpose of the work, of whether it needs to exist at all. These fundamental pressures for change are most often felt not just in one department, or one company, but across industries as a whole.

Many emerging trends in the legal profession, paired with new technology, have the potential to significantly redefine the way legal work is conducted in several areas. For example, Maricopa County in Arizona has installed self-help kiosks in county law libraries and court buildings to enable the public to complete legal documents free of charge. Clients will be able to type in their name, address, and appropriate information for divorce or other legal proceedings, and the documents will be printed out in final form, complete with instructions for filing with the court.

This new capability has the potential to reshape the services attorneys offer clients. Clients are increasingly requesting “unbundled” services and self-help centers negotiate with attorneys who agree to offer these. Clients want to complete part of the case work themselves, and use attorneys’ expertise only when needed.

Obviously, as is occurring in many other industries, this trend toward client “self-sufficiency” can have a tremendous impact. Firms in different practice areas may each need to assess how new client capabilities and expectations will affect their particular field of expertise. Some services may decline in value to clients while entirely new opportunities can emerge.

THE DYNAMIC ENTERPRISE

To thrive in this dynamic business environment, law firms and departments must be able to respond rapidly and effectively to complex change. However, just when the law firm is facing its toughest challenges, many firms find that internal dissension begins to emerge. When confronted with change on many fronts at once, some law firms respond quickly and effectively, while others get mired in internal conflict and frustration. We have

seen firms split up or have key partners leave— sometimes with partners initiating complicated lawsuits against each other in the process.

If the legal profession follows the recent examples of many other professional groups and industries, the current era represents only the beginning of a larger wave of change to come. It is essential that law firms learn to look courageously into the future, identify the emerging trends on the horizon, make sense of the complexity, and turn the new information they perceive into a clear strategy shared by all. We call an enterprise with these capabilities a *Dynamic Enterprise*.

Definition of the Dynamic Enterprise

The Dynamic Enterprise continually transforms the multitude of changes occurring around it into coordinated strategic actions by its people to further the development of its products and services.

The Dynamic Enterprise captures the momentum of change in the external environment, and converts it into fuel for its own development forward.

The Dynamic Enterprise scans the environment for emerging trends that could significantly affect

its future. It then must be able to make sense out of these trends, to understand their impacts, and to evaluate and prioritize them. It must be able to translate the emerging trends into a strategic direction for the enterprise that all of its people understand and support.

Furthermore, the Dynamic Enterprise continuously translates emerging change into products and services, not just once, but on an ongoing basis.

What is Needed to Build the Dynamic Enterprise?

What makes the difference between a firm or department whose members can collaborate with each other to build the future into their work, and one where transition and transformation severely disrupt smooth operational functioning? What enables a work group to become a future-oriented, dynamic enterprise that stays creatively, yet realistically, responsive to change?

We have found that one key determining factor differentiating those firms and departments that can respond effectively to change from those that cannot is whether their members share a view of the “big picture” of where the company is headed and

the challenges it faces to get there. At the very time companies are making numerous changes, both internally and externally, the people in the enterprise may actually not be aware of all the changes occurring, or may not see them from the same perspective. They are missing the "big picture." One group may see one subset of changes, while another group is more familiar with others. (For further information, see the full-length book *The Dynamic Enterprise*, by Friedman and Gyr, 1997).

Furthermore, during such unsettled times, tensions naturally run high. People often do not display their best behavior under changing conditions. Sometimes change-related conflicts are labeled as "inefficient business process," "teams that aren't working well together," "turf battles," "personality wars," "leadership style issues," or even, "partners who refuse to talk to each other." Whenever we have worked with individuals or teams in conflict, or with whole departments or firms, we have typically found that work process, personality, and style issues do indeed exist. But very often something else is operating as well; something that creates a powerful impact and often prevents any one unidimensional intervention (such

as business process reengineering or team-building or leadership coaching) from having a lasting effect.

Time after time, we have found that in the midst of profound and complex change, more than one significant aspect of the enterprise is changing at once. Often, key leaders or team members don't see the whole system in the same way—each sees a different portion of the overall picture. They generally do not have a shared view of the full range of forces impacting their business, or agree on their importance. They often do not have shared agreements about the key strategies the business should use to effectively respond to these forces, what the business must become, where they currently stand, or how they will go about the change or development that is needed to survive in the changing environment. Even when different members see parts of the system from a common perspective, key elements in the system are often “invisible” to any particular group, and their disagreements often lie in just these invisible areas. Conflicts arise because everyone is not on the same page regarding the key elements of the enterprise as a whole.

THE STEP MODEL: A TOOL FOR “SEEING THE WHOLE” OF THE ENTERPRISE SYSTEM

The STEP Model is a tool that enables users to organize and condense the data most relevant to their firm or projects in order to create a comprehensive picture of the larger enterprise system, rather than focusing only on one component at a time. STEP helps members see beyond the isolated elements of their enterprise, to “see the whole system.” STEP can be used with an “enterprise” of any size or scope: it can be used to map a law firm as a whole, a division within a larger firm, a legal department, a team, or even an association or strategic alliance that crosses the boundaries of several firms). STEP is also designed as a communication tool that enables people to have “simple conversations about complex issues.”

We present the STEP Model as a tool to help work groups simplify the chaos around them into clear, meaningful, and strategic information, in a way that allows them to communicate this information to others.

Business and Organization

An enterprise is a business supported by an organization. While this distinction appears embarrassingly simple, it is rarely made in practice, even though it has important implications for the success of the enterprise.

The function of the **business** is to provide products or services to its marketplace. The task of the **organization** is to provide structure, form, and resources that enable the business to meet its objectives. When the business and the organization are not aligned, the enterprise generally finds itself in trouble.

The distinction between business and organization is very basic. However, even though it seems so obvious, confusion between these two areas often leads to costly and time-consuming interventions aimed at the wrong area. People often use the terms *business* and *organization* interchangeably, and this nondiscriminating use muddles thinking, planning, and outcomes. We frequently find work groups trying to implement an organizational solution when a new *business* strategy is clearly required. If the customers in the marketplace want a new kind of product or service, no amount of organizational fixes (downsizing, cost cutting, restructuring the organization chart, team building, or leadership coaching) will help the

business thrive. Likewise, if an enterprise has just the right product or service for a receptive market and yet the organization is poorly designed to deliver the needed performance, no amount of customer surveying or strategic business planning will help *the organization* deliver the appropriate capabilities to the business it needs to serve. It is important to distinguish up front whether an emerging need is primarily in the business or organizational area.

When beginning to assess where the most critical issues for a given enterprise may lie, we generally begin with questions about the business: *What are the most important challenges facing the business? What is happening in the marketplace and external environment? What is the primary business strategy? How well do the business processes support the primary strategic objectives?* We then move to questions about the organization, and its alignment with the defined business: *Are the organizational arrangements appropriate for the current and future requirements of the business?*

At their most basic level, these questions generate conversations that provide insight about how the business is *functioning* in its marketplace, and whether the *form* of the organization supports

the business function. Form follows function.

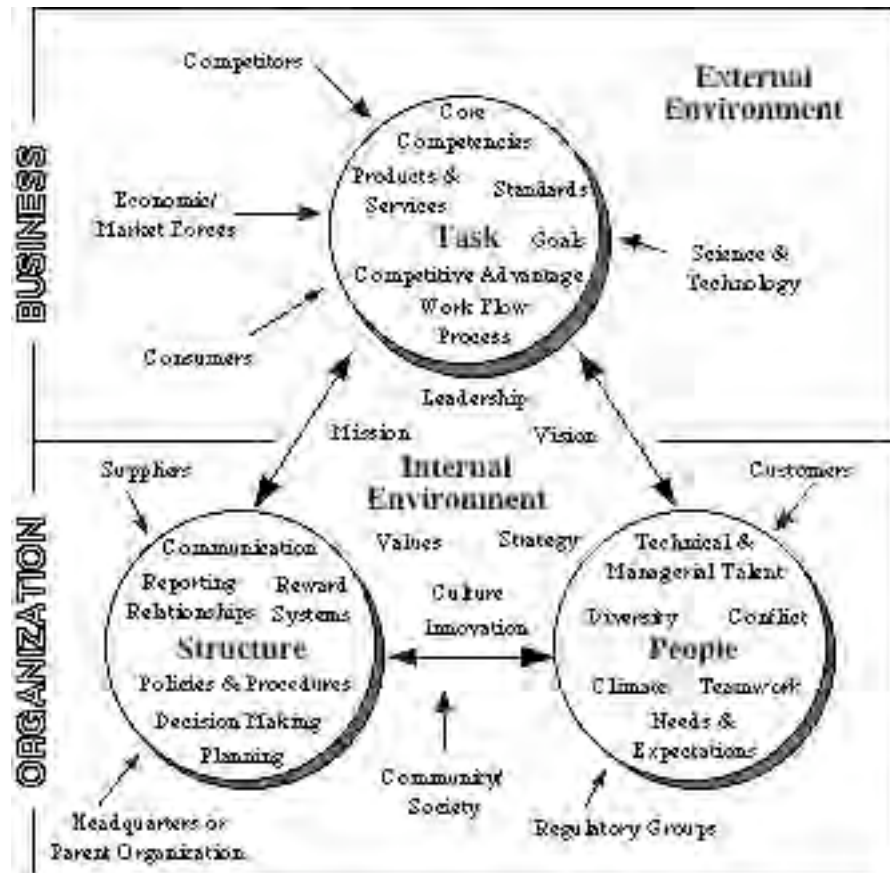
Before the business issues are addressed, discussions of form can be misleading.

The enterprise is the sum of the business and organizational dynamics. The blending of a business and organization perspective into one integrated picture distinguishes “Enterprise Development” from the separate fields of strategic business planning or organization development.

Overview of STEP

The enterprise is a system composed of five components that interact dynamically with each other: the Structure, the Task, the Environments (both internal and external), and the People (see Figure 1). We use the acronym *STEP* to make these components easier to remember. To gain a clear understanding of an enterprise, it is important to understand these components both individually and in relation to each other.

Figure 1
The STEP Model of Enterprise Systems



We typically begin a STEP assessment by examining the impacts that come from outside the enterprise . As described earlier, an enterprise exists within a given **External Environment** of multiple forces: customers; competition; cultural, economic, and societal trends; resources; regulations; and new market opportunities. When the enterprise being considered is a unit within a larger organization or network, its External

Environment also includes the parent company, headquarters, or larger institution that lies outside the boundary of its own work group.

Next to be considered is the **Task** of the business: to create and deliver products or services within the demands, constraints, and opportunities present in the external environment. The task component includes business strategy, types and quality of products and services delivered, specific work processes and standards, as well as the more tactical goals and objectives. The enterprise task has to interact effectively with its environment. Its ability to deliver products or services to the external environment determines its level of success. When the interaction between the environment and the task breaks down, the business is usually in trouble.

The *organization* supports the business through systematically arranging and administering its resources. Each enterprise develops certain organizational **Structures** to help the business accomplish its tasks through **People**.

Structure is defined as the arrangements and systems that support and coordinate the core work process. Examples of structural elements include the organizational structure (typically reflected by the organization chart), management systems and reporting relationships, job descriptions, team

structures, policies and procedures, planning processes, decision-making systems, reward and other human resources systems, communication systems, financial systems, technology and information systems, meeting systems, and actual physical structures such as facilities.

To understand the **People** dimension of an enterprise, we look at the demographics and diversity in the organization and how people work with each other to accomplish the tasks. We examine the dominant styles of communication; the nature of the working relationships; the degree of collaboration, commitment, motivation, and conflict; and the way conflicts are handled when they arise. Finally, and perhaps most importantly, we try to make an assessment of the talent and skills in the organization and how well these match the demands of the task, as well as the way the work is structured.

The configuration and the dynamic interactions between the Task, Structure, and People of the enterprise in turn create their own unique **Internal Environment**, which includes the culture, identity, values, and morale or climate of the enterprise. The Internal Environment becomes the setting or context in which the work of the enterprise occurs, thus

exerting its own influence back on the Task, Structure, and People of the enterprise.

The STEP components, the External Environment, Task, Structure, People, and Internal Environment, all interact dynamically with each other as a single system. A change in one components will influence each of the others. When all five components are aligned, the enterprise is likely to be vibrant, healthy, and successful in its marketplace. When any one (or more) of the components is not aligned with the others, the enterprise almost always is experienced as dysfunctional in some way and will have impaired business results as well.

Observations on Using STEP

STEP is very basic. After all, it differentiates only five key building blocks of the enterprise system. However, we have found that these five components are almost never understood clearly, and the process of working with the members of a department or firm to analyze, in depth, all five elements has almost always led to surprising results.

Work groups almost never see all five elements in equal detail. In fact, most groups focus the majority of their attention on one or two STEP

components. For example, some work groups spend a great deal of time restructuring their organizational reporting relationships, partnership tracks, or compensation systems. They are experts in organization structure, but they may not have noticed shifts in the external marketplace. Others may be very sensitive to the market pressures, to growing competition or new possibilities, but have little awareness about how their own leadership style and company morale affect productivity and performance.

One of the paradoxes of using STEP—that actually makes good sense when you think about it—is that the most useful pieces of data often lie in the very areas the members know least about. Work groups typically incorporate the intelligence and best ideas from the areas that interest them most, while they can remain quite undeveloped and naive in the areas of least concern. However, if the problems could be solved within the areas that receive everyone’s energy and focus, the issues would already be resolved. For issues that remain on the table (sometimes the most challenging and urgent dilemmas by the time they get addressed), the causes can frequently be found in the STEP components that have been “left off the map.”

CASE EXAMPLE: USING “STEP” TO CHOOSE THE RIGHT CHANGE

The STEP Model helped clarify the most powerful leverage points for change to resolve the difficulties faced by one law firm. This firm initially requested a particular intervention based on their own intuitive assessment of what was needed. It turned out that their impression was based on an incomplete understanding of the issues confronting their enterprise, and as expected, previous attempts at this kind of intervention had failed. They had assumed that they had simply hired an incompetent consultant, and they were trying to find a better version of the same solution. However, a view of all the STEP components of their enterprise system made it clear that a very different kind of change was required to solve their problems.

This law firm initially requested help with team building and leadership coaching related to conflicts between two partners. These two partners were in constant struggles with each other, and had split the firm into two camps of divided loyalties. This conflict created a great deal of tension throughout the firm, and one of the partners was threatening to leave with several other attorneys (and all their combined clients).

Because one of the attorneys had a particularly belligerent personality, the struggle was seen most obviously in personality terms. The firm as a whole had not dealt well with this attorney's rudeness, inability to collaborate with others, and verbal outbursts in firm meetings. Because this was such a blatant difficulty, the "People issues" became the most obvious at first glance. However, coaching attempts and combined teambuilding sessions were having no effect at all. The two partners and their respective subgroups continued to argue with each other.

The second most obvious issue was a Structure issue, since the specific content of the argument centered on disagreements about the current compensation system. However, here too, a compensation specialist had been unable to bring the most critical members on each side of the split to agree about the best approach.

As we examined all the STEP components for this law firm, new data emerged that shed light on why these conflicts had been so persistent. The conflicts were actually related to data that was important for the firm to pay attention to if they wanted to ensure they were a dynamic, successful company.

The Structure conflict over compensation actually related to a recent change in their External Environment. One of their current clients was an insurance company that had recently gone through its own downsizing and reengineering initiatives. In the past six months, the company had proposed that they outsource much of their legal department to this firm. The firm would decide which cases to pursue to recover fees for the client company, and would receive a percentage of the fees they gained. While they previously had charged by billable hours and the client had borne the full risk of choosing the cases to pursue, the insurance company was now looking for a provider to take over the entire function, including the financial risk of choosing the right cases to try, in exchange for potentially higher fees.

This client presented an entirely new line of business to the law firm, and it soon became apparent that the existing organization structure did not support this business very well. This new business offered potentially higher financial return, but it also carried higher risk. If the firm did not choose its cases wisely, it could spend a great deal of time for very little return.

The problem for this firm actually arose because it was highly successful at its new line of business.

The attorneys on the new project chose their cases very well, and brought in much higher profits in substantially fewer hours. They were not working as many hours as other attorneys in the firm, but believed they deserved more compensation since their financial contribution to the company was so much higher. Ironically, it was the new business success that created the conflict that was splitting the firm apart.

When this firm used STEP to examine all the elements of its enterprise system, it became apparent that this single new project actually opened the door to a whole new type of business opportunity. Their current client had come to them, but it was highly likely that other companies might want to pursue the same strategy. There was a new market opportunity for a high risk, but potentially lucrative, new line of business.

However, this new business unit functioned very differently from their traditional business, and seemed to need a different kind of organization to support it. Because the new line of business did not bring in hourly billings, there was also the risk that attorneys could work hard and lose money. The time schedules and compensation arrangements for the more predictable traditional business did not make sense for the new business.

In addition, a different type of attorney was attracted to this kind of work (the new business needed different People). The more aggressive and more risk-taking personalities were more attracted to this team, as well as those who had a different set of skills.

The new department was also needed to develop its own more entrepreneurial Internal Environment or work culture, that was well suited to the nature of the business and distinct from the more slow-paced and stable culture in the rest of the firm. Thus, the new business called for new organizational structures and policies, a different set of people, and a different work culture in order to be successful.

Once it became clear that the firm was having a hard time settling on uniform policies because it no longer had a single unified business, it became clear that the firm had a critical strategic decision to make. The key drivers for the success of the firm were not personality or compensation issues alone, but centered more around the very identity of the firm (Task). Their External Environment appeared to contain a significant new business opportunity. Did they want to pursue this new line of business? If so, how could they differentiate it from the traditional business? They faced a challenge familiar to many companies trying to launch an

entrepreneurial start-up business within an established company.

Within this context, it became much clearer why people had not been able to agree, and why the personalities had split into two camps. Their reaction had been entirely appropriate and understandable. They had two different businesses, requiring two different organizations. It was not that one side or the other was right or wrong—they both were right. In addition, seeing the big picture together allowed this firm to accomplish much more than frame their past struggles in a more positive light—it opened up whole new opportunities for growth in their business.

Members in this firm still needed to resolve their interpersonal issues, and set guidelines for their behavior with each other. They also still needed to deal with their People and Structure issues, but these were much easier to resolve when there was no additional conflict being created each day from a mismatch in other parts of the STEP system. Once the firm made its most critical strategic decisions, people could actually become inspired about the kind of firm they could build together. It could suddenly seem worthwhile to resolve their interpersonal differences—there was

an exciting new company that could make it worth the effort to support each other in new ways.

This example shows how the people of a work group, department, or firm can only create a dynamic enterprise when they can create a shared view of the big picture and can think coherently about the challenges they face together. When they can see *all* the elements of their enterprise system, they can formulate a powerful common reality, a reality all understand, all are committed to, and all can implement.

Notes:

1. For further description of the six core competencies of the Dynamic Enterprise, see Friedman, L. and Gyr, H. *The Dynamic Enterprise: Tools for Turning Chaos into Strategy and Strategy into Action.*, San Francisco: Jossey-Bass Publishers, 1997.