Globalization: an infinite opportunity?

It seems like everyone's doing it, planning it, or talking about it – but it may not be the right strategy for every organization. Simon Wallace and Paul Walker of Wallace Walker Management Consultants believe law firms should think carefully before committing themselves to a global future.

By the time this article goes to press, around a hundred partners and senior lawyers from leading law firms will have attended the Third Annual Legal Services Conference in London. There they will have heard a panel of industry experts address a subject of increasing importance to the legal profession: how to identify and adopt winning strategies to meet the challenges of globalization.

For those of us who try to keep abreast of what commentators predict will be the next hot topic in organizational and management thinking, it certainly seems as if globalization is pushing its way past previously predominant issues such as re-engineering, as the emerging business theme of the new decade.

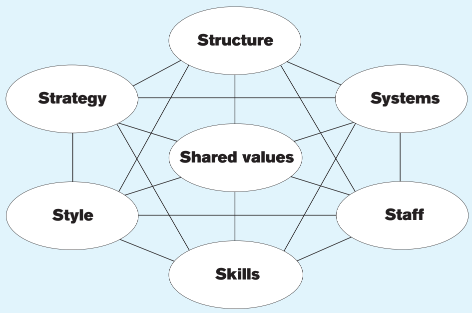
This is hardly surprising: in the last 25 years, according to UN research, the number of transnational companies trebled to almost 40,000. Between them they control a third of all private-sector assets, and in 1993 their combined output was $5.5 trillion. And if we come right up to date, it's easy to see the recent helter-skelter activity in global deal activity (valued at a staggering $3,435 billion in 1999 by *Thompson Financial Securities Data*, and seemingly set to continue growing in 2000) as proof positive that the future for many industry sectors, including the legal one, lies in going global. Indeed, with three investment banks – Goldman Sachs, Morgan Stanley Dean Witter, and Merrill Lynch – each advising on deals in 1999 with a cumulative value of more than $1 trillion, the trend towards going global seems unstoppable.

But what do we mean by globalization? What can be learned from the experience of corporations which pursued a strategy of going global? How does this relate to the challenges faced by law firms pursuing global agendas? How might a law firm seeking to globalize ensure effective implementation of its globalization strategy? What are the pitfalls to avoid, and what can be learned from those companies that failed to avoid them?

What is globalization?

A useful starting point is to define what we mean by globalization, and this is not as clear cut as might be expected. It is a term which is routinely used in different contexts. In one case, globalization can refer to a worldwide product introduction strategy, in another to the Americanization of national cultures, still another to some kind of complex organizational matrix, and so on. To give some clarity to the discussion which follows, we can define globalization as the process of ever-increasing worldwide integration of societies, cultures and economies. This has

The 7S approach:
Seven interrelated component parts



led, or is leading, to a global market-place in goods, services and capital.

What we have, then, is not a tidy, coherent explanation of globalization, but an amalgam of largely unplanned phenomena which appear to create unprecedented opportunities for commercial development and growth. And it is precisely because those opportunities seem so attractive that law firms should be extremely cautious about joining the stampede to globalize.

State of play today

Analysts who study the car industry largely agree that, by the end of this decade, the current players will have consolidated to form probably fewer than six volume manufacturers. Vodafone's hostile takeover of Mannesman and the merger of Time Warner and AOL illustrate an increasing appetite for mega-mergers in telecoms, media and the Internet. And the Clifford Chance/Rogers & Wells/Punder merger to create the world's largest law firm suggests that the legal industry – for an industry is what it is fast becoming – is also moving towards fewer, larger companies which will effectively be one-stop shops for providing multijurisdictional advice for global clients. The logic for them to do this seems inescapable: as corporations globalize, so too must their professional services counterparts if they wish to provide the holy grail of seamless, cross-border support. If we look at the growth strategies of law firms, investment banks, accountancy firms, management consultancies, and recruitment agencies, it is easy to interpret this as evidence of a desire to be seen as a genuine global player when the current spate of expansion comes to an end.

How have corporations fared?

Corporations following global strategies have learned the sometimes painful lesson that going global is much more than opening another new office in another capital city, or merging or making an alliance with a US partner (important as these activities may be). Competing effectively on the global stage requires an organization to look far beyond the mechanics of simple geographic coverage.

In truth, the corporate experience of globalization has been a mixed one: for every Nike there is a Marks & Spencer, for every Marriott there is a Forte, and for every Ford there is a Nissan. However, top management's failure to achieve their global aspirations has invariably been less about their lack of strategic clarity ("this is what we want to achieve"), and more about their inability to build the organizational and management capabilities to implement those strategies ("and this is how we'll achieve it").

The most striking failure has been the absence of the culture and management mindset needed to provide the organizational glue to operate effectively at a global level. (In 1995, the International Consortium for Executive Development Research asked 1,500 managers to rank their abilities in 34 different categories: cultivating a global mindset finished last.) What successful corporations knew, or learned pretty quickly, was that putting this glue in place was the vital ingredient in promoting international cooperation, and the flow of information and learning throughout the organization.

Where did Nissan go wrong?

Nissan's success in the 1970s, and its subsequent investments in overseas manufacturing capacity, was undone by its unquestioning reliance on Japanese management systems and its centralized direction and control. The car market is increasingly characterized by the need to balance complex, and sometimes conflicting, strategies – achieving global cost efficiencies, remaining sensitive to local tastes in design, and transferring learning and expertise around the world. Nissan's inability to manage the implications of these strategies, and devolve decision-making to the point at which decisions are best made, has thwarted its stated ambitions to become a global force in the car industry. Whether it will be any more successful as part of Renault is an open question.

The challenge for law firms

As economies, markets and corporations globalize, so will the legal market. The law firm which decides to pursue a globalizing strategy will be faced with precisely the same dilemma which unseated some of their corporate counterparts: how do we give sufficient focus to building the organizational and management capabilities without which we will almost certainly fail to achieve our strategic objectives.

To be successful, the firm will need to balance a number of interrelated factors which, when looked at individually, are each of huge importance, but when considered together as a single construct provides the clearest examination of an organization's capability to pursue a chosen strategy.

A model of organizational capability

Developed by McKinsey in the 1970s, and so effective still that it remains a consulting industry standard, the 7S approach breaks down this rather vague notion of organizational capability into seven interrelated component parts.

If we now consider each of these elements in turn, we can begin to identify some of the critical questions a law firm must address as it considers the implications of attempting to become a global player.

Strategy

How should a law firm develop its strategy? Insofar as strategy formulation exists, it is likely to be the preserve of the partners or a managing committee. The success of the firm to date will be largely as a result of the past decisions of this group. But just as Nissan's (or Marks & Spencer's, or Sainsbury's) top team was responsible for its success, they were and are equally culpable for subsequent problems. What they failed to do was to involve every part of the organization in the formulation and implementation of the strategy.

Of course, corporate head offices must always retain the responsibility for the issues which only they can manage. But how is it possible for an organization to think globally while acting locally, when decisions which affect the provision of service in Lagos are being made in isolation in London? If successful globalization can only be achieved by sharing and transferring key resources, knowledge, expertise and experience across national and organizational boundaries, and by managing conflicting strategic demands, it is difficult to see how this can remain the sole preserve of the centre.

Thus, the critical issue for a law firm considering or pursuing a global strategy is whether it has, or can develop, this strategic management capability. Fortunately (but not straightforwardly) the answer lies in the other six components of the 7S model.

Structure

A key issue, and one that appears to be the preoccupation of law firms pursuing global strategies, is how to achieve the appropriate level of geographic coverage. There are a number of very different options for achieving this: organic growth (Haarmann, Hemmelrath & Partners being particulary successful with this approach); growth by acquisition (Clifford Chance/Rogers & Wells/Punder being the most high profile, but there are many others); formal networks (such as CMS), or formal / informal (best friends) partnering arrangements (for instance Slaughter and May, Davis Polk & Wardell and Hengeler Mueller). Whatever the chosen strategy, the key determinant of success is the level of integration achieved, as this is vital to providing the seamless, cross-border global capability demanded by clients. Forward thinking law firms are already debating the pros and cons of these strategic options, and the level of integration that can be achieved through each.

However, just as crucial to achieving integration – and potentially just as contentious - is how to achieve the best distribution of assets, resources, core competencies, responsibilities and decision-making across the organization. Not only is this vital to creating the cooperation and responsiveness (global and local) necessary to deliver a sustainable global client service, it also determines the cost effectiveness of delivering a global capability. The cost of legal services will become increasingly important to clients when global law services become the norm, and when the supply of specific services, such as global litigation, outstrips demand.

The issue of distribution is so crucial because, as corporations have learned, providing a global capability not only dramatically increases the need for integration, it also creates conflicting strategic demands. And this means that management has to think differently about how to manage the organization (as illustrated by the Nissan example). Thus, how should assets, resources, expertise, responsibilities and decision-making be distributed across the organization? Are there different roles for individual offices? Is there a need for centres of excellence?

This is the aspect of organizational structure that has been by far the hardest for corporations to learn. Evidence suggests that the larger law firms that are globalizing, either organically or by merger, are already tending to adopt corporate models of management as a means of managing these complex structural (and strategic) requirements.

Systems

Key to enuring that the chosen structure delivers the desired global service is the systems which the firm adopts to coordinate and manage its activities across offices and borders.

Is IT fully integrated? How well do corporate communications (both external and internal) work? Are the HR systems effective enough to attract, retain and motivate people, and how well do they support the ability to manage across borders? Does quality control ensure that there is no dilution of quality across an expanding network of offices? Is marketing intelligence keeping the firm fully informed about changing client demands? How effective is the system for maximizing the value of non-billable time? How do we ensure the transfer of knowledge, experience and learning across the organization? And perhaps the most fundamental question of all: is there a system for planning the firm's strategy, and what is the contribution of the other systems in helping to implement that strategy?

Again, the corporate experience indicates that the principal challenge for law firms will be the integration of systems across borders. Many of them will struggle with this aspect of capability; first, because of their approach to global expansion (genuine integration is difficult for firms that have expanded through acquisition or networks); and, secondly, because law firms have traditionally not viewed human resource management, strategic planning, marketing and client relationship management as important drivers to business performance. In building a global capability, it is vital that they do not underestimate the time and resources that will be needed to bring both existing and developing systems to a level where they are truly 'fit-for-purpose'.

Staff and skills

People are the firm. It is they who, individually and collectively, contribute to the successful (or not) implementation of the firm's strategy.

But are manpower needs being identified and planned to ensure that the firm has the right kind of people in the right locations? To what extent should headcount be grown ahead of revenue? When should a firm train, and when should it poach staff from competitors? What is the optimum ratio of fee-earners to non fee-earners? Does this ratio apply in every location or country?

Closely related to the staff aspect of organizational capability is the collective skill-base of the firm. If a law firm's raison d'être is the practice of law, its ability to do that - at least in line with client expectations, and at least as well as its direct competitors - is a determinant of its continued success. It follows, therefore, that the training and development of staff is an essential ingredient in the firm's capability mix. Of course, this is about more than just legal training; as we have seen, the leadership and management of the firm will be a critical success factor of its ability to deliver, as will the collective competence of non fee-earning staff.

Is training and development given sufficient focus? Is it considered strategically important? Who is accountable for it? Are the non-legal training needs of partners and senior fee-earners taken seriously? Are enough resources put into training – time as well as money? Does the firm have a training and learning culture? Is the firm's approach to training sufficiently international to support effective cross-border management?

Those client-focused fee-earners who think that staff and their training is best left to the personnel partner would do well to consider a study of 50 major North American corporations undertaken in the mid-1990s. Researchers found that the companies' human resource strategies were significantly less global than their business strategies. "The clear issue was that strategy (the what) was internationalizing faster than implementation (the how), and much faster that individual managers and executives themselves (the who)." Their conclusion was stark: the lack of attention on the people elements of strategy implementation was severely hampering the ability of firms to achieve their goals (with the consequent risk to promotions, bonuses and shares in profits).

Style

How a firm does things can be at least as important as what it does. Building the corporate glue that holds a globally disparate organization together simply cannot be allowed to happen by accident.

Some organizations will rely on strong, visible leadership from the centre to convince people anywhere in the world that they belong to one global firm, with consistent standards and operating practices: witness the profile of Baker & McKenzie's Christine Lagarde in November 1999's *Worldlaw Business*. Others will create regions, zones, or, in the case of Coudert Brothers, global practice groups, with each area having autonomy in matters such as the management of partners' career development.

The point about developing an identifiable and consistent style of managing the firm is to send a clear message to staff, clients, competitors, partners and suppliers: this is what you can expect from us; this is how we will manage our relationship with you.

There are dangers, however, in attempting to transpose a given style across different national cultures. The retail experience in France does not lend itself well to the 'have a nice day' approach so common in the US. Similarly, the aggressive, decisive leadership qualities so prevalent in US and UK businesses are seen as unwelcome, or even rude, in the more consensus-oriented cultures of Japan, Germany and Scandinavia.

What, therefore, should the style be? Should there be a common face to the client anywhere in the world, or should there be local autonomy to conduct the client interface in the most culturally sensitive way. To what extent should the corporate centre establish guidelines for satellite operations? When and how should the preferred style be inculcated?

Achieving a consistent working style across any organization is challenging; operating globally only serves to amplify the challenge. Growth through mergers and acquisitions or networks – the preferred route for most law firms – will add further complexity. With so much emphasis being placed upon the hard issues of strategy, structure and systems, law firms must not neglect those softer, more people-oriented factors, because paying insufficient management attention to the style and culture of an organization is likely to be as damaging to its long-term performance as the failure to develop a clear strategy and direction.

Growing a culture

Much is written about organizational culture, and some of it is even worth reading. Put simply, a firm's culture is the way it does things. At one time both created by, and creating, the style of the organization, a firm's culture is the single most important factor in shaping people's beliefs, attitudes and behaviour.

But to maintain and cement the culture of any organization, let alone one encompassing different jurisdictions, time zones and languages takes sheer, unrelenting hard work. Percy Barnevik, chairman of the electrical engineering company ABB Asea Brown Boveri, is credited with having built a truly global organization from the merger of two Swiss and Swedish competitors. He has glued ABB (1,300 companies and 5,000 profit centres) into a corporate whole by introducing internal benchmarking, centres of excellence, consistent corporate parenting, and all held in place by a set of values which every employee – wherever they are in the world – is expected to operate by. Everyone on the payroll, particularly those who hold management positions, is expected to behave in a way which is consistent with those values.

What Barnevik, like others, has recognized is that when it comes to globalization, an organization's people are at least as important as its services. A study of virtually any failed globalization strategy will show that the people did not understand it or support it. (The authors were advising a $12 billion multinational organization which had recently reorganized from geographic centres into cross-border business streams. During the effort to build the trust and cooperation which is essential to the successful implementation of this kind of structure, we were told by a UK director that he would rather outsource work to the competition than see it go to his colleagues in the US. His views about his French counterparts were even less charitable.)

Barnevik's solution to the people difficulties of globalization is to build what he has called a "multicultural multinational" – an organization diverse enough to respond to local influences, but united enough to be more than the sum of its parts. The challenge, of course, is managing the complications of such an organization.

Pursuing a global strategy: a realistic option?

It is impossible to predict with certainty what the legal marketplace will look like when the dust settles after the current cycle of mergers, takeovers and consolidation. There will undoubtedly be a need for firms that can offer a total law capability to global clients, and this will be met by a small number of genuinely global law firms. The pre-eminent position they acquire, and the fees rates that go with it, will set them apart from the rest of the legal services industry.

But going global is clearly not the only strategy law firms can adopt for a successful and profitable future; not all clients will be looking for global legal support. What they will demand, however, is the best lawyer providing the best service. If this is cost-effectively available from a global firm, with the branding and image to match, that is who they will use. (And remember, the global performer is likely to be managing all the elements of its organizational capability pretty well, and will be able to price itself very competitively when it needs to.) For all other law firms, whatever their chosen strategy (developing internationally or regionally, focusing on a specific product or sector), the only sustainable defence against a larger global rival is to maximize the effectiveness of every aspect of their competitive capability. More than ever before, the law firm which is going to be outside the global club will have to be clear on its strategy and the means to implement it.

As this article has stressed, the achievement of a strategy is about more than simply producing a plan; it is to do with creating the organizational and management capability to manage all of the complexities that the strategy's implementation will surely create. The corporate graveyard is full of firms which failed to pay heed to this simple truth; they will doubtless be joined by more law firms in the future.

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