

Momentum matters: here's eight ways to maintain it

By Tony Williams
25th January 2019

For law firms the real question is how to get and maintain momentum. Jomati's Tony Williams explains how to do it.

The importance of momentum in stock market investment is well known. Investors using momentum buy shares that have achieved high returns in the last three to 12 months and sell shares that have achieved low returns over similar periods.

This approach seems to run counter to the old adage of buy low and sell high and is instead buy high and sell even higher. But the adherents of this approach suggest that it achieves long term performance.

So, does momentum have any relevance to law firms? Firms that are able to grow revenues and profitability at above market norms for a three to five-year period do appear to be able to sustain a level of momentum that keeps them performing at a higher rate than their original peers or even the rate of their new peers.

Such momentum is often evidenced by a significant increase in revenue (without a major merger) and equity partner profitability. In the US this includes firms such as Latham & Watkins (revenue up 59 per cent and PEP up 63 per cent between 2010-17), Kirkland & Ellis (revenue up 95 per cent and PEP up 27 per cent in the same period) and Quinn Emanuel Urquhart & Sullivan (revenues up 123 per cent and PEP up 30 per cent in the same period), while in the UK over a similar period this includes firms such as Osborne Clarke (revenues up 186 per cent and PEP up 44 per cent), Fieldfisher (revenues up 125 per cent and PEP up 58 per cent) and Mishcon de Reya (revenues up 239 per cent and PEP up 122 per cent).

It is typical for PEP to rise at a slower rate than revenue because as firms grow, they usually add more equity partners. Once a firm has achieved momentum, like a snowball rolling down hill, it is likely to get bigger and faster. Its momentum makes it attractive to potential lateral hires who want to work in a successful firm. Clients will also notice firms that are doing well, winning cases or tackling complex M&A, and want them to act for them. Hence the snowball gets bigger.

But for firms the real question is how to get and maintain momentum. There are eight key action points:

- **Be clear where you see momentum coming from.** What is the next big area of work or type of client? Firms such as Latham and Kirkland identified the growing importance of hedge funds and private equity funds not just as investors but also as alternative lenders. This may necessitate a detailed review of potential industry and political trends and some fresh thinking as to likely areas of opportunity
- **Bet big.** For law firms developing a clear focus and executing it is difficult. All too often a firm's strategy contains something for everybody, even though some areas may be low or no growth. Only by developing a leading position in its chosen area is a firm likely to achieve momentum.
- **Identify what you need and get it.** This may entail growing your own talent or making carefully targeted lateral hires to develop the necessary credibility and critical mass in the chosen area.

- **Know the clients.** It is necessary to know who the clients are likely to be in this area and, as importantly, who the winners are likely to be. Identifying these clients, understanding what they are doing and what they will need will inform the firm's decisions as to the talent they need and the locations that they have to operate from. Be alert to changes in your clients needs and respond to them.
- **Stay the course.** The snowball may be very small and be moving very slowly at first. It needs to be kept moving. Others inside and outside the firm may question the short-term cost and, unfortunately, this is when most firms stop and revert to supposedly safe options.
- **Use the improved performance of one area to encourage all practices** to raise their game and engender a sense of excitement and common ownership in the firm's new sense of direction and success.
- **Be hardnosed.** As a practice develops and moves upmarket some of the partners may not be able to keep up. Encourage them to do so but do not permit any brakes to be applied. Momentum is exciting for some but challenging for others. The partners must get with the programme or get out.
- **Be public.** Initially it may be preferable to develop the initiative in private as the firm builds initial credibility and critical mass. However, as soon as it has a credible story to tell it needs to be told, within the firm, to clients and across the market. The ability to demonstrate sustained success captures the interest of clients and potential laterals and should encourage your more passive partners to get on board.

Law firms often revert to the status quo as the supposedly safest option. Indeed, for many this approach has served them well. So, developing momentum is challenging but can be done and if achieved can achieve a fundamental repositioning of the firm.

Unfortunately, momentum once achieved needs to be maintained. As firms get bigger and as competitors adapt and markets change this can be difficult. It will be necessary, on a continuous basis to keep identifying and betting on the next investment opportunity. Just staying with the same snowball inevitably results in a pile of slush.

Available Online: <https://www.thelawyer.com/momentum-matters-heres-eight-ways-to-maintain-it/>