Budgeting for Growth: The Increasing Importance of STRATEX

Implementing strategy growth by matching growth with risk.

By Nick Jarrett-Kerr

Law firms are historically under-capitalized by external standards and in the traditional partnership model, partners are typically anxious to avoid any unnecessary expenditure which might result in profit dilution in the current - or indeed in any - year of trading. Not only will funding and budgetary constraints impact upon the array of strategic projects, but deep-seated partner prejudices may need to be overcome.

Such prejudices (against anything which might affect short term profitability) often question the value of long term strategic investments and surface in different ways. The partner nearing retirement, for example, may not be happy to invest in projects in which he or she is unlikely to see a return during the remainder of his or her practicing life. Other partners may be skeptical about the value of investment in technology.

But it is the area of growth that often gives rise to the greatest chance of partner knee-jerk. In principle, most partners are not against growth - particularly if growth does not require them personally to change greatly. Hence, growth by the organic means of hiring and developing new people is relatively easy to implement, provided that there is an existing load of work which newly arrived lawyers can tackle.

Things can become trickier if there is likely to be an insufficient volume of internally generated work for the new arrivals, because many managing partners instinctively will resist hiring new people - especially laterally hired partners - unless convinced that such partners will almost certainly be able - as the expression goes- to "wash their faces in their first year."

However, strategic growth almost certainly involves elements of risk. Efforts to prime the growth pump will need firms increasingly to make strategic hiring decisions which may not break even in the first two years. Here, the concept of STRATEX is appealing.

We are all used to OPEX (operating expenditure) and CAPEX (capital expenditure), and the identification of a separate line of strategic expenditure (for which the term STRATEX has been coined) can be a useful way of identifying and prioritizing growth initiatives in which the expected long term benefits and returns can be fixed and monitored.

STRATEX provides a useful part of prudent financial planning which can help both to budget for investment and to establish careful lines of accountability. Not only can this transform the odds for successful strategic implementation of growth plans, but - perhaps more crucially - it provides a useful means of persuading cautious and reactionary partners to think more positively about long term investment in their firm's future.

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