

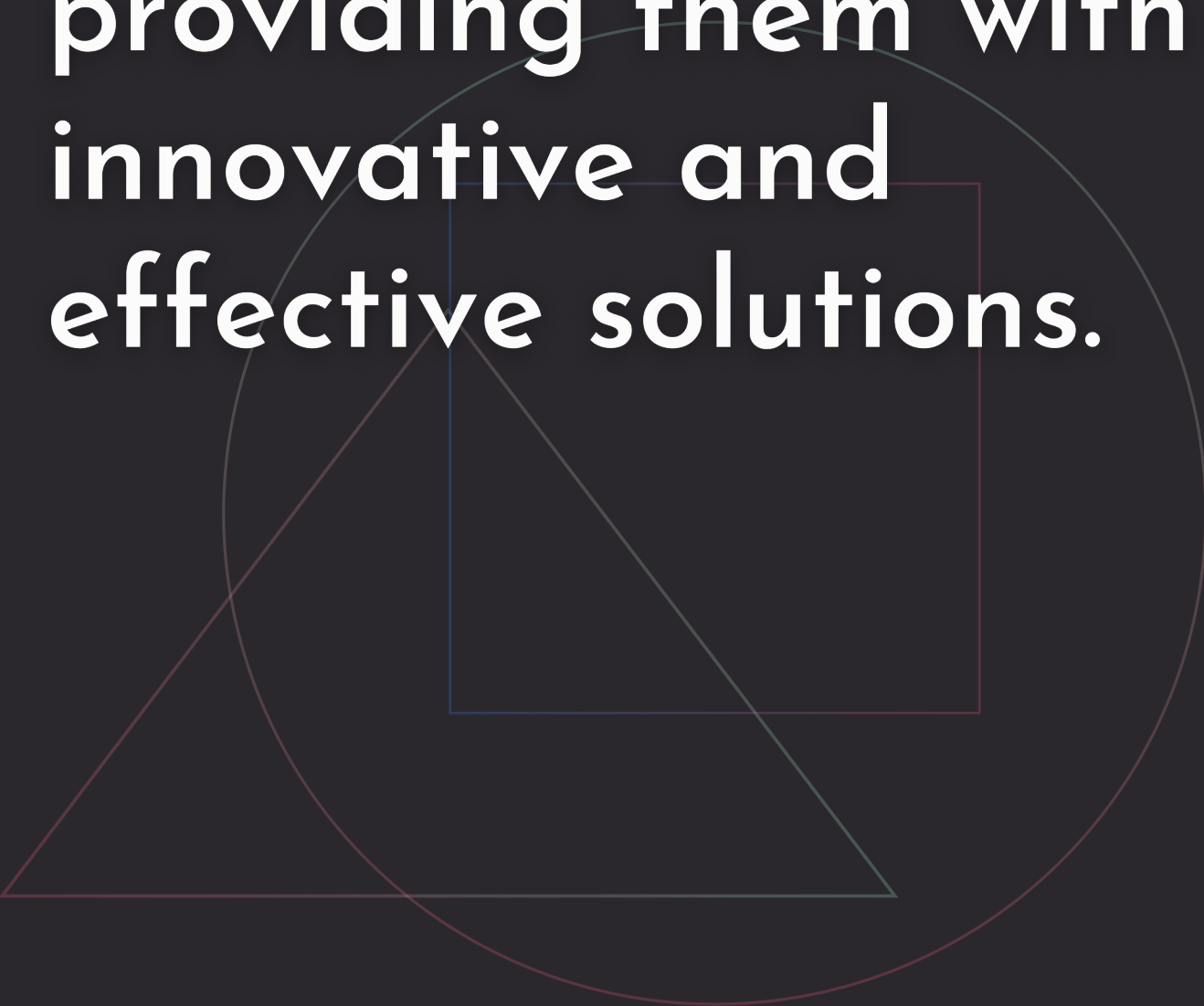
ORELLIUM

ADVISORY SERVICES



**LEADERSHIP
EDITION**

Strategy Revisited

An abstract graphic consisting of a large circle, a triangle, and a rectangle. The circle is centered in the upper half of the page. The triangle is positioned below the circle, with its top vertex at the center of the circle's bottom edge. The rectangle is positioned to the right of the triangle, with its top-left corner at the center of the circle's bottom edge. The lines are thin and light-colored, creating a subtle geometric pattern.

We help businesses succeed by providing them with innovative and effective solutions.

Expert Solutions, No Frills.

We provide pragmatic and effective advice to law firms, corporate legal departments, and companies that are looking to the future.

We guarantee Clarity in Purpose. Precision in Practice.



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Challenge Convention

When professional service firm partners look back in 3 years:

Will a strategy that is focused only on lateral hiring have withstood the test of time?

Is chasing revenue in and of itself, likely to be seen to have been a successful strategy?

In law firms, will the idea that only lawyers can make strategic decisions, have delivered success?

Will clients have agreed that the financial benefits delivered by new efficiencies may remain with the firms?

Will hubris have fragmented the market like one saw in the photography sector?

These are just some of the questions leaders need to be asking, since strategic decisions made today impact not just today, but also what happens in subsequent years.

Seldom before has the approach to strategy been so important.

Connect with me via: robert.otty@orellium.com

A handwritten signature in black ink that reads "Robert Otty". The signature is written in a cursive, flowing style.

Chief Executive Officer

From the CSO

Strategy is everywhere

Hiking is something that is very close to my heart. It combines two loves of mine: the outdoors, and strategy. Hiking, rather conveniently then, serves as an analogy for the strategy process as well as team dynamics and the role of leadership in strategy.

Much like the planning and foresight required in crafting a corporate strategy, hiking demands preparation and understanding of the terrain ahead. Before setting out, one must map the path, anticipate obstacles, and prepare for unforeseen challenges—paralleling the strategic planning process where leaders forecast trends, identify risks, and set objectives.

In the wilderness of both the natural world and the business environment, adaptability is key. Just as a hiker may encounter unexpected weather changes or trail blockages, requiring quick thinking and route adjustments, companies too must be agile, ready to pivot in response to market shifts or competitive pressures. This agility, grounded in a well-thought-out strategy, enables both hikers and businesses to reach their goals despite the hurdles.

Team dynamics play a critical role in hiking, mirroring their importance in the execution of corporate strategies. A hiking group, much like a business team, thrives on clear communication, shared goals, and mutual support. Each member brings unique strengths and perspectives to the journey, contributing to overcoming challenges and achieving collective success. Leadership, while guiding and inspiring, also listens and adapts, recognising the value of each team member's input in navigating the path forward.

Moreover, the journey itself—whether it be climbing a rugged mountain or steering a company towards its vision—teaches resilience and perseverance. Setbacks and detours offer invaluable lessons on endurance, teamwork, and the importance of maintaining a strategic focus amidst adversity.

Finally, reaching the summit or achieving a strategic milestone brings a sense of accomplishment and reflection. It is an opportunity to look back on the journey, evaluate the strategies employed, learn from the experience, and plan for future endeavours with greater wisdom and confidence.

The parallels between hiking and strategy are profound, embodying the essence of preparation, adaptability, teamwork, leadership, and the relentless pursuit of goals. These parallels serve as a reminder that the journey, with all its challenges and triumphs, is as important as the destination.



Jonathan

Chief Strategy Officer

We see a recurring issue in the professional service sector that stifles innovation. Too often, firms, eyeing their competitors, default to mimicry. They move to copy strategies, objectives, and even processes. Not only does this often dilute a brand, but it also leads to a homogenised industry where distinguishing one firm from another becomes increasingly difficult. With AI reshaping industry after industry, it's crucial for professionals to reconsider the usual approach to change.

The term 'innovation' often triggers fear. But, if we shift our perspective to view technological adoption and process improvement as elements of a long overdue evolution rather than revolution, we might navigate these changes more easily.

The integration of AI into professional services should not be seen as a radical overhaul that only displaces traditional methods but as an evolutionary step that enhances and complements existing capabilities.

Embracing AI in the professional service sector should not be seen as an optional leap into the unknown but as an essential step in an evolution. But if we don't recognise the need to rapidly evolve, we may find that revolutionary change is forced upon us - at a pace that we cannot manage and to the great discomfort of our stakeholders.

BARRIER TO INNOVATION



STRATEGY

REVISITED

Strategy, often clothed in vague definitions, extends beyond the mere articulation of goals and corporate ambitions. It is more than the simple reiteration of long-term goals, the restatement of broad corporate values designed to appease stakeholders, and the declaration of indistinct objectives that fail to meaningfully engage any level of the organisation. However, these attributes frequently masquerade as strategy in modern corporate discussion. Too often, leaders tout their "new and improved strategy" as being the means to achieve industry leadership, improve client satisfaction, boost profits, or champion sustainability. These conventional declarations often lack the necessary clarity, specificity, and actionable insight critical for achieving tangible strategic impact.

Effective strategy demands a nuanced understanding of the competitive landscape, a clear focus on actionable objectives, and the adaptability to navigate the challenges of a rapidly changing business environment. It requires a balance between strategic intent and execution, guided by leadership that is both visionary and pragmatically grounded.

At its core, strategy is adversarial. It encompasses a series of coherent actions designed to overcome specific, impactful challenges. It represents the central axis around which actions are orchestrated. It is defined as much by what it excludes as by what it includes. Just as negative space is used in art to reveal a subject's true form, so too, by defining what strategy is not, we can understand its true nature.

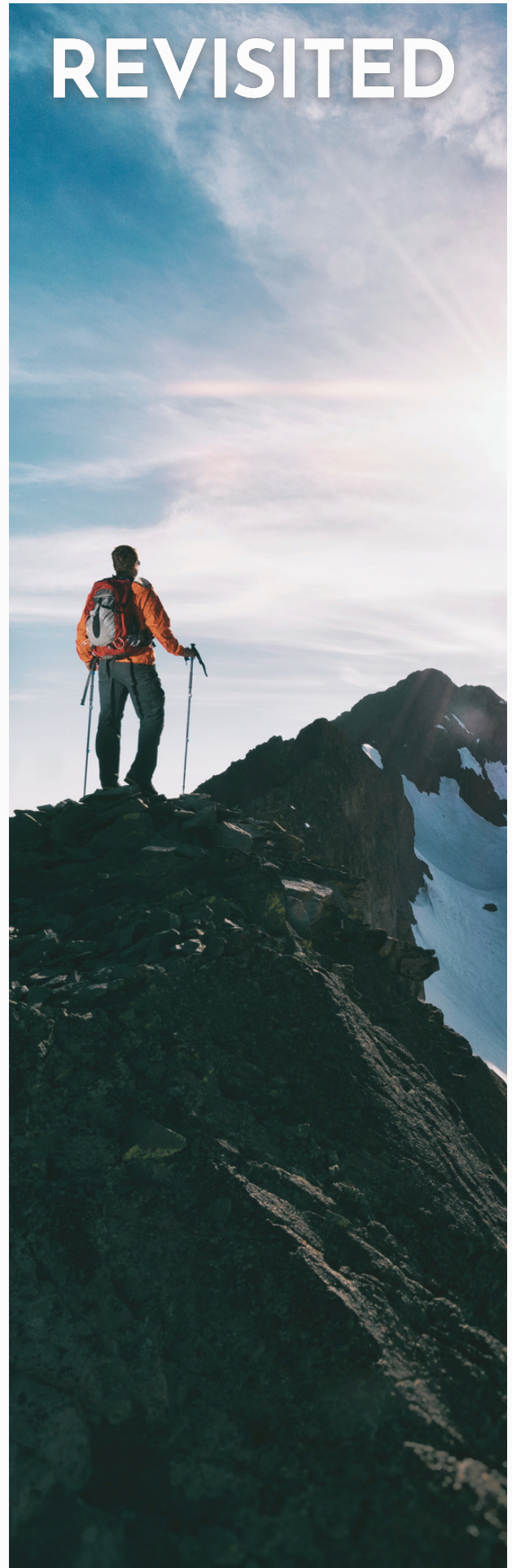
Strategy is a targeted effort, or as described by Sir Lawrence Freedman in *'Strategy: A History'*, it is "the art of creating power". It is about leveraging relative strengths against identified opportunities through a comprehensive understanding of challenges. Strategy is the centrality of action.

In *'Good Strategy/Bad Strategy'*, Richard Rumelt delineates strategy into three interlinked components:

- **Diagnosis** involves a clear, brutally honest assessment of the current challenges. It requires simplifying complex scenarios to identify critical elements. The goal is to pinpoint the specific challenges that, once addressed, will yield significant positive outcomes for the business.
- **Guiding Policy** outlines the approach to address the challenges identified in the diagnosis. Rumelt compares this to highway guardrails: they guide and constrain action without prescribing it exhaustively. The objective is not to stifle innovation but to ensure actions align with the most effective resolution of these challenges for the company's benefit.
- **Coherent Actions** represent the concerted efforts to implement the guiding policy.

Consider each of these to be a single leg of a stool. One requires all three for the stool to function correctly. Likewise, the lack of any one of these components in a company's strategy should be cause for some alarm and should lead to the re-assessment of the 'structural integrity' of the strategy itself.

The principle of proportionality is an addition to the three components and should underpin each of them. Proportionality is not simply the traditional balancing of advantages against negatives. Rather, it is integrating prudent judgment into strategic decision-making. In *'The Roots of Bad Strategy'*, M.L.R. Smith highlights the critical role of proportionality in encouraging measured risk-taking and meticulous assessment of strategy. This 'prudent' approach, in the corporate setting, allows companies to focus on strategies and actions with the greatest potential for meaningful, positive impact, while avoiding the resource drain common to more indiscriminate strategies. Proportionality requires strategic refinement, where decisions are based on a deep understanding of the firm's unique context, its available resources, and the broader market dynamics. What is needed is targeted, impactful actions rather than indiscriminate efforts.





Strategy can't be developed in isolation; it requires a thorough and realistic understanding of a firm's strengths, weaknesses, opportunities, and threats, arising from both its internal and external environments. It demands practical honesty and a move away from broad generalisations, and a move toward actionable insights. This honest assessment allows leaders to identify key areas for competitive advantage and recognise areas of vulnerability. It involves being prepared to confront hard truths and engage in discussions about the firm's recent past, its current state, and future prospects. Only through detailed analysis may an ambitious yet realistic strategy be developed.

Such a strategy must then be turned into clear, actionable plans that are communicated and implemented across the firm. This ensures that all levels of the organisation are in sync with the strategic direction, ready to act, and able to adapt. A practical strategy usually targets a shorter timeframe, from 1 to 3 years, focusing on tackling current challenges while not losing sight of future goals.

Kongō Gumi, established in 578 A.D. and the world's oldest company, demonstrates how these principles are vital to contemporary corporate strategy. It's focus on a market niche, specifically in constructing and maintaining Buddhist temples, demonstrates the significance of strategic market selection for long-term viability. Moreover, the company's willingness to diversify construction techniques and embrace new technologies, such as CAD, underscores the necessity of adaptability in navigating evolving business landscapes and technological shifts, a critical factor for sustained success in today's dynamic business environment.

For professional service firms (PSFs), the story of Kongō Gumi is especially relevant today with the rise of Gen AI, which presents both challenges and opportunities. Just as Kongō Gumi used CAD technology to improve their work, adopting Gen AI offers PSFs the chance to innovate and increase efficiency dramatically. However, it requires them to be open to change and to evolve, understanding that old ways may not work in the future - but without the complete dilution of the traditional strengths and capabilities which have led firms to where they are today. Incorporating Gen AI into their practices could set them apart in a crowded market, improving their services by leveraging the latest technology for better results.

Unlike construction firms like Kongō Gumi, which focus on specific, physical outputs, PSFs which are knowledge-based businesses, should be more agile. PSFs cover a wide range of services, which gives them a unique ability to rapidly adjust and expand their offerings in line with market changes, technological developments, and new trends. PSFs can use their expertise and client relationships to add new services that complement their main offerings. This approach of diversifying their services can lead to new sources of income and improve the firm's standing in the market, all while staying close to their core skills.

The flexibility of PSFs to branch into new business areas is a key strategic advantage. It allows them to stay adaptable and strong amid market changes, technological shifts, and evolving client needs. By constantly adding and aligning new services with their main skills and what the market requires, PSFs can keep growing and remain relevant in a competitive and complex business world. This is a strategy that has been used effectively in the broader accounting and business consulting sector but has been woefully underutilised in the legal sector. This failure to leverage a strategic advantage is arguably now putting pressure on traditional law firms as they grapple with the looming disruption of their traditional commercial model caused by rapidly improving Gen AI capabilities.

EFFECTIVE STRATEGY REQUIRES EFFECTIVE LEADERSHIP:

In any discussion of strategic leadership, the inherent challenges of the partnership model, especially in PSFs, cannot be ignored. Leaders in partnerships often spend significant time managing conflicts with a minority of dissenting partners. The adage that a Managing Partner spends 80% of their time managing 10% of the partners is often too appropriate. Very often, this small but vocal group of partners disproportionately influences the strategic decision-making process. Frequently, this influence is driven more by their personal agendas than by what's best for the firm as a whole. This is one reason why we advocate for the need of PSFs to urgently review their management and leadership structures and authorities. For more on this topic, see [The Orellium Advisory Services Leadership Special Edition 1.0](#) in which we discuss the need for a more corporate structure to allow PSFs to adapt to and thrive in a rapidly changing environment.

PSF partners must recognise that, without effective leadership, strategy will never succeed. Searching for what defines a leader yields several descriptions: architects, visionaries, negotiators, even dictators. However, these labels miss the essence of leadership. A leader, at their core, is someone who guides actions and shapes opinions through persuasion, counsel, and reasoned argument. Their strength lies not in commanding but in convincing others of the logic behind decisions, leading them to act in the desired manner through effective communication.

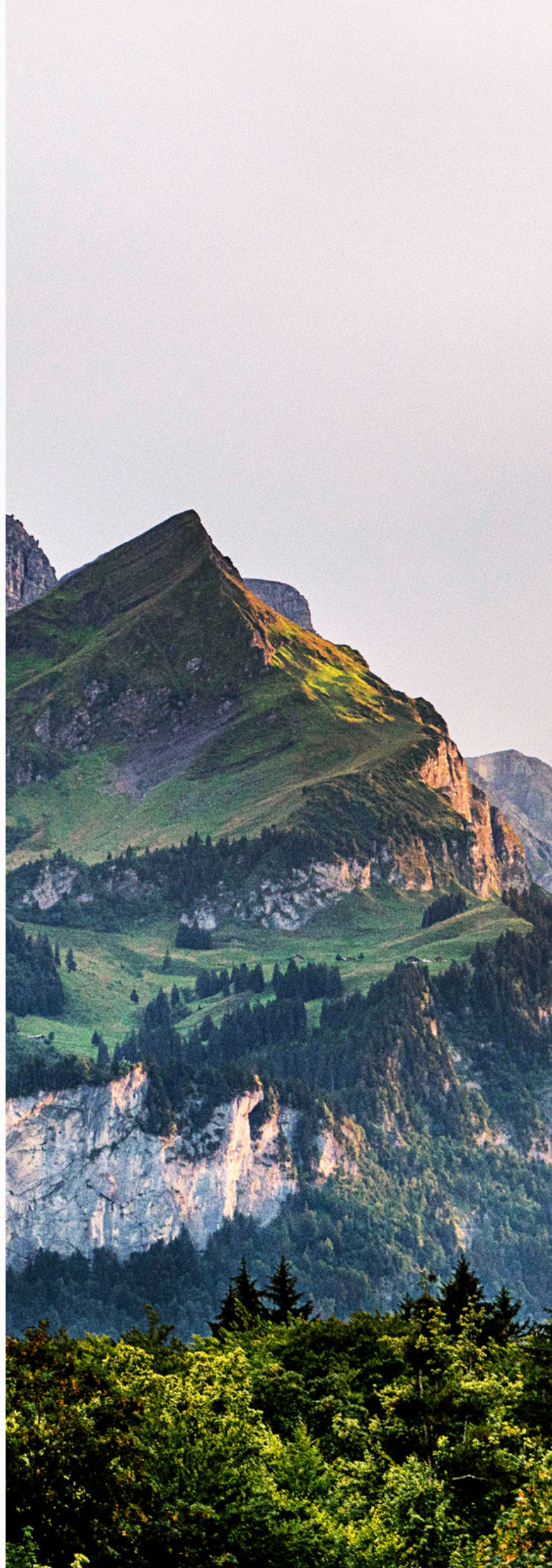
The ability to manoeuvre through competing interests, align strategy with guiding policies, and maintain direction amid uncertainty defines a strategic leader. Beyond being architects or visionaries, they are individuals who can lead others to action and belief through persuasion and reasoned argument.

Understanding the role of leadership in strategy reveals that successful strategy is often implemented top-down, contrary to the 'bottom-up' approach most popularised by many management books, and very often seen in PSFs, where partners either expressly argue that "as an owner", they should have a say on all matters, or passive aggressively refuse to adopt a defined strategy or change "the way I work".

We do not suggest that leaders should ignore input from all levels of the organisation. A true leader values their team's insights, knowing they don't have all the answers. However, strategy isn't a democratic process. Leaders must recognise their responsibility in guiding the organisation and accept the duty of accountable action. Diluting responsibility, in the hope of avoiding personal accountability - unfortunately a trend in many modern management teams - is counterproductive to strategic leadership.

We advocate for single point ownership in strategy formulation and execution, acknowledging the risks of failure but not letting them deter action. Creating a culture that doesn't punish failure is an essential first step in this and will go a long way to addressing many issues which plague the partnership model. As Peter Drucker famously said, "culture eats strategy for breakfast." No strategy can succeed without a supportive culture that rewards corporate goals over individual initiatives.

The common thread among successful strategic leaders is the aim to leverage one's strengths against the weaknesses of others. It's important to note the significance of "relative" in relative strength. Strategy often gets framed in terms of the value it generates, positioning it as a solution to pressing challenges. We must, however, remember that strategy is inherently adversarial. In a competitive market, no two forces are perfectly symmetrical in their values and objectives.





STRATEGIC MISCALCULATIONS CAN DISRUPT A SECTOR (AN EXAMPLE):

Consider the legal sector's disruption by new entrants and Alternative Legal Service Providers (ALSPs). The challenge for these newcomers was not just entering an established market but scaling quickly and competing against larger, established firms with deep-rooted relationships and regulatory protections. However, it was precisely the entrenched mindset within traditional firms that allowed ALSPs to make inroads into the legal market. Operating under a distinct set of rules, which traditional law firms either underestimated or overlooked, ALSPs rapidly expanded. They were even inadvertently assisted by law firms that outsourced low-value tasks to them, thereby granting them direct access to their client bases.

Just like in a chess game, strategies must be both offensive and defensive, aiming to disrupt the market in a way that challenges competitors and capitalises on competitive advantages. Underestimating ALSPs was a strategic miscalculation by traditional law firms. They simply ignored the need to defend their market against new entrants. Traditional law firms not only allowed ALSPs to refine their offerings and gain credibility with traditional law firm clients but also accelerated their growth by failing to adapt to new service models and technologies. The miscalculation facilitated ALSPs' expansion into comprehensive legal services, directly challenging traditional law firms.

With the introduction of Gen AI and LLMs specifically, ALSP agility, technologically enabled business model, corporate structure and access to funding now presents formidable competition to traditional law firms. As we said in our first Leadership Special Edition we believe that ALSPs may well become the dominant providers of legal services to many corporate clients. And the irony is that it was the strategic miscalculation by law firms, in failing to defend their position, and accept the need to adapt their model to meet client expectations that assisted ALSPs to secure the opportunity to disrupt a market that has been dominated by traditional law firms for hundreds of years.

The evolving dynamic between traditional law firms, ALSPs, and the emerging influence of Gen AI underscores the imperative for traditional firms to critically evaluate their strategic stances and embrace technological progress. This adaptation demands strategic vision from leaders capable of both foreseeing and adeptly responding to competitive strategies. Emphasising inherent strengths while proactively identifying market shifts is essential. To secure enduring success, we recommend that PSF leaders champion simplification and foresight, recognising the value of patience and comprehensive planning. Furthermore, adopting innovative and unconventional strategies is key to overcoming imminent challenges and capitalising on new opportunities.

CONCLUSION

In the dance of corporate survival and success, strategy is not a static declaration but a living, breathing undertaking that thrives on adversarial wisdom, targeted agility, and the unyielding pursuit of actionable clarity. The story of Kongō Gumi and the evolving landscape faced by PSFs underscore the timeless relevance of strategic adaptability, where the fusion of historical insight and forward-looking innovation charts the path to ongoing relevance.

As we stand on the cusp of technological transformation, the stories of past and present converge to remind us that true strategy is the art of war in the boardroom, demanding not only the vision to foresee the future but also the courage to define it with decisive, coherent actions. The role of leadership transcends mere management. It embodies the essence of strategic navigation through the constant change, focused always on sustained success and legacy.

“Management is doing things right; Leadership is doing the right things.”

Peter Drucker

99.7%

The “needle” recall accuracy level of Google’s Gemini

2026 - 2030

The time frame in which forecasts predict the emergence of General AI

64%

The percentage of professionals that think AI will lead to their skills being valued within the next 5 years.

2%

The dip in demand for AM Law top 50 firms in the last quarter of 2023

SIDEBAR

In our first Leadership Publication, we discussed how the emergence of substantial Large Language Models (LLMs) challenges the traditional PSF management model.

Some of the leadership topics that partners and management must consider in a disrupted sector:

True leadership means considering all stakeholders' interests - making decisions that support sustainable growth and adaptability. In a sector transformed by technology, the definition of “stakeholder” needs to be revisited. A future-fit firm needs a blend of new skills and qualifications, some of which will be more valuable than those of equity partners. Managing Partners and CEOs will need to recognise all these stakeholders. The age-old separation between “Professionals” and “Business Support” should finally be dropped from firm lexicon.

What constitutes success for firm management will need to be redefined, moving away from primarily financial metrics to include technological integration and commercial adaptability. We recommend a balanced scorecard that evaluates financial performance alongside these broader objectives and accordingly incentivises more than 1-3 year results.

We believe a leadership style that prioritises the firm’s needs over personal gain is critical. This style encourages a culture of trust, collaboration, and shared success. Given the likely changes in the hierarchies and dynamics within firms as they try and quickly adapt, collaboration and trust are more critical than ever.

Compensation models that reward individual performance over all else, hinder collaboration. Leaders should redesign these models to promote teamwork and contributions to collective goals, fostering an environment better suited to address complex challenges. A new remuneration model should also reflect the need to include disparate non-legal expertise in teams and, in some instances, completely re-shape a team to replace some humans with technology.

A management team’s approach to change is crucial. A readiness to communicate and manage change effectively signifies true leadership and is likely to lead to successful adaptation and sustainability. Conversely, if a management team is resistant to change, preferring to focus only on the short-term issues that they can control, the firm’s future is likely to be jeopardised.

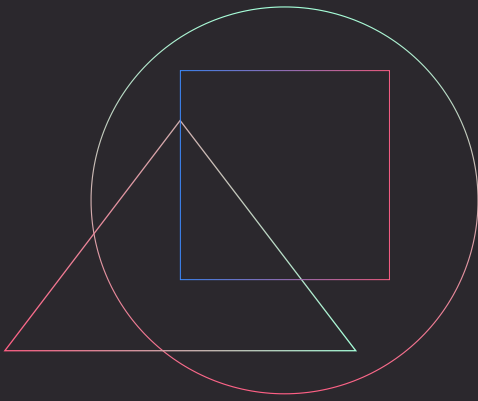
Partners and management need to avoid what we term “success driven paralysis.” They must look past immediate short-term success and recognise the imminent disruption of a sector in which the fundamentals are rapidly changing. Hubris is what killed Kodak. Let’s not allow hubris to kill the PSF sectors.

Partners must critically assess the skills and expertise they include in their management teams. In a new environment so strongly influenced by technology, the idea that all strategic decisions must be taken by “a lawyer” is old-fashioned and risky.

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