Internal Frontiers: Law's Organisational Challenge

A REPORT BY JOMATI CONSULTANTS LLP, JUNE 2014

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About this Report

This is the twelfth Jomati report on key issues affecting the legal market. The next report focussing on the UK legal market will be published in autumn 2014.

Jomati Consultants LLP won the Queen's Award for Enterprise: International Trade 2012. The award recognises Jomati's success in growing its international revenues year on year and for advising an increasing number of clients globally. It also recognises Jomati's position as the leading adviser on law firm mergers.

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2012

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Contact Information

Jomati Consultants LLP
3 Amen Lodge, Warwick Lane
London EC4M 7BY
United Kingdom

Principal, Tony Williams. Contact: + 44 (0)207 248 1045, tony.williams@jomati.com

Consultant, Richard Tromans. Contact: +44 (0)793 967 1914, richard.tromans@jomati.com

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Introduction

"Organisation – noun: A business united and constructed for a particular end."
Collins English Dictionary

Law firms are complex organisations, not just because they sell multiple 'products' to a diverse client base, but because they require the co-operation of sometimes thousands of lawyers and non-lawyers to deliver those products.

In a law firm the ability to exercise individual choice is especially high when one reaches partner level. A partner has a high degree of choice in terms of how they interact with other partners, the associates and the non-lawyer support staff, such as the business development (BD) and marketing teams, and how they choose to relate to the clients. The more choice, the greater the possibility that partners may sometimes choose badly, or choose to act in ways that do not greatly help the firm as a whole. This in turn makes law firm management a constant challenge.

Unlike in a large corporate where the CEO's orders can be handed down with little questioning, a law firm's management can only lead by influence, at least if they do not want to trigger a partner revolt. As the leader of one highly successful global firm put it: 'Everything I do, I do through other people. I have to build a coalition, I need advocates for change.' That is to say, in a partnership of highly educated and empowered people who also own the business, giving 'orders' is rarely the best way to manage.

Moreover, management cannot control every individual's choices; they can only put in place the best organisational and remuneration system to match the firm's culture and encourage positive behaviours to sustain firm aims. Of course, the larger and more complex a firm becomes the more challenging it is to maintain a coherent execution of strategy.

We can sometimes forget how rapidly law firms have grown in size and complexity. In the mid-1980s a top 25 US law firm serving the world's largest companies had on average just 350 lawyers, today the average is 1,800 lawyers and steadily growing[1]. That is a huge expansion in size and scale yet the management culture of 30 years ago is still very much in operation today. Can management teams and traditional partnerships cope with the expansion and rising complexity of the 21st century law firm?

Failure here may not mean firm demise[2], but it could signal: missed business opportunities; weak cross-selling; and growth of dysfunctional partners, which triggers the loss of talent and low morale. These factors combined can lead to lower profits, weaker 'glue' between partners and can hold a firm back while its better organised peers move ahead. In short, some of the greatest challenges law firms face today are not strategic, but organisational.

1 See Chapter One: The Challenge of Size and Complexity.
2 Though, for some it does, see Appendix A, on average just under one AmLaw 100 firm collapses every year.

Chapter One: The Challenge of Size and Complexity

The Era of Giants

Law is a people business. Despite all the advances in technology the legal profession is first and foremost about human relationships. Crack a law firm open and there is little of value inside apart from individuals and their relationships, knowledge and expertise, plus some desks and an IT system. And the latter two are inferior in importance.

An outsider might think law firm managers have an easy job, after all what could be easier than 'shepherding' a group of well educated, intelligent professionals? But a group of high powered, often very driven individuals, many of whom also own the business, is a complex prospect. Or as one firm leader put it: 'It's an unusual type of enterprise where you go over the road for a coffee and find the owners of your business standing next in line to you.' In comparison, in the corporate world the 'shareholders' are often far away, persistent only in the ever present symbol of the stock market ticker on a screen.

In a law firm, clients will come and go, profits may rise and fall, but the business as a whole is only sustained by democratic consent. If the partners cannot work well together and if leaders and managers cannot communicate strategy or build coalitions of the willing then the firm's intrinsic value is diminished. This depreciation is felt first internally, leading to low morale, missed opportunities and departures. Clients soon perceive something is wrong and this adds to internal tensions. In the worst case scenario dysfunctional law firms disintegrate. Though, in most cases dysfunctional firms simply underperform for years until finally a crisis and/or new leadership triggers substantive change.

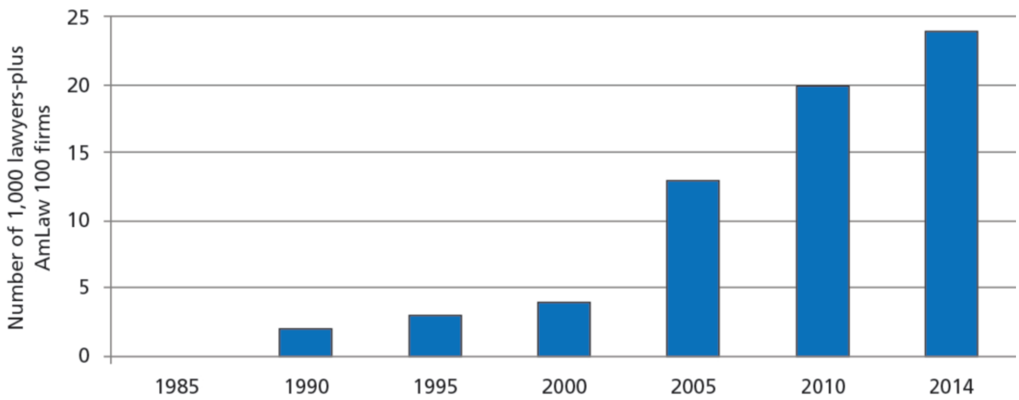

Table 1: Number of AmLaw 100 law firms with 1,000 or more lawyers. Data: AmLaw.

The rapid increase in size and geographical complexity of law firms has only exacerbated their organisational challenges, i.e. the more partners and the more staff spread across a more complex organisational matrix the harder it is to keep everyone working together in an aligned way. As seen in Table 1, even in 2000 no more than four 1,000 lawyer firms were ranked in the US. By 2014 there were 24. This matters more than ever before as firms seek to gain more work from less clients, a strategy that demands a very high level of co-ordination and co-operation between everyone within a firm, no matter where they are or what 'business line' they are in.

Moreover, this gigantism is a trend that will spread, even if some extremely large firms see a deceleration to their expansion as they 'fill out' their market space. More UK and US firms will globalise, and more national firms will merge together to gain greater strength and depth. The Swiss Verein system, which helped to make possible the deal of Norton Rose with Fulbright & Jaworski and the multiple firm deals that formed 2,600 lawyer Dentons, will also continue to support ever larger collections of lawyers, just as the Big Four accountants used similar 'modular' systems to rapidly build greater capability.

In the UK, the Magic Circle helped pioneer the building of partnerships on a massive scale in the 1990s largely due to the need to globalise and follow their clients. But, the formation of 'giant' firms with London components continues. Recent deals include Ashurst with Australia's Blake Dawson, Herbert Smith with Australia's Freehills, as well as the ground breaking SJ Berwin merger with Asia-based King & Wood Mallesons. Today, there are 16 firms[3] ranked in the UK100 with over 1,000 lawyers (See Table 2).

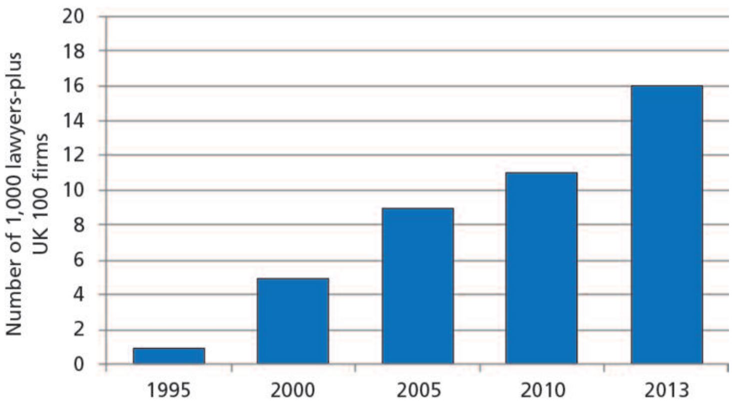

Table 2: Number of UK 100 law firms with 1000-plus lawyers. Data: Legal Business.

3 Though some firms, such as Norton Rose Fulbright and Dentons, are also ranked in the US due to transatlantic mergers.

However, rapid growth is not just for the global firms, the UK and US have both seen tremendous consolidation among small and medium-size firms. This 'great consolidation' is driven by the same fundamental forces that have driven the global firms: a reversal in client attitudes toward legal fees that makes economies of scale more attractive; the need for stronger, wider and deeper key client relationships that drive up the breadth of capability required; and competitive pressures from rivals that target the same client groups, i.e. peers are making your firm 'look small' and/or 'weaker'. While some elite and niche firms can escape these pressures, most commercial law firms cannot. Hence, the market is driving firms to grow, but as they grow the risks of organisational failure also increase.

Size and Influence

While many firms are experiencing rapid growth in size, it is among the very largest where the impact is greatest. As can be seen in Table 3, the average top 25 US law firm now is just under 1,800 lawyers[4]. In 1985 the top 25 average was a far more manageable 350 lawyers. Yet, most firms adhere to the same management ideology of the past. Fundamentally they continue to operate under the expectation that one elected man or woman[5], will be able to positively influence, (naturally with some support), the partners and staff of the firm. And the word 'influence' is critical if one needs to build coalitions of support in ever larger partnerships spread over ever greater geographical distances.

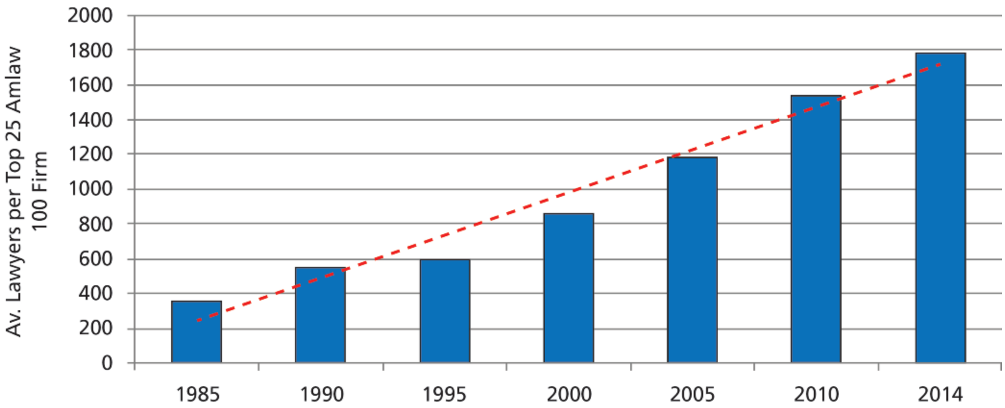

Table 3: Average number of lawyers in a top 25 AmLaw 100 firm. Red shows trend line.

Another factor that is amplified by scale and may interfere with management influence is 'churn'. Although many partners will stay at a firm for their whole careers, as law firms expand the number of people joining and leaving a firm naturally increases. During a period of restructuring, or following a merger, the number of 'new faces' at a firm can suddenly accelerate.

In which case, how does a manager build up lasting influence among a growing group of individuals who may not know each other well? When one considers the waves of lateral hires, promotions, forced exits, retirements and willing lateral departures, a firm leader's 'constituency' is not only far larger today it is also constantly changing. As one global firm leader noted: 'Over the last four years one third of our partners are new people.' And this was not due to a single merger. As sports fans will have noted teams with over frequent changes to the line-up rarely build cohesion and successful team play.

4 The average size of a top 25 UK firm is 1,660 lawyers, a little under the average top quartile size of US firms.
5 This role can vary by firm, most commonly it is the managing partner who is the de facto 'leader', in others CEO, co-CEO or Chairman roles are used. Ultimately they all share the same job: owning the strategy of the firm and being responsible for implementing it. Of course, how they do this varies enormously and in some firms there is no leadership to speak of, despite there being a person holding the 'top job'.

But, this challenge is not just about the partners. Around 40%, on average[6], of any law firm's manpower are non-lawyers and they are also on the move. Today, a firm's business development (BD) team is a major factor in growing a firm's profits. Anything that makes it harder to organise and manage the performance of this group adds to the 'influence challenge'.

In which case what are the answers to the challenge of size and complexity? We will examine some potential responses in more detail in Chapter Five, but suffice it here to say that management teams must focus on:

- Increased delegation to 'middle managers' – because it is simply impossible for one or two senior people to absorb all the information from all parts of a major law firm and micro-manage every single partner. Also, local knowledge of conditions 'on the ground' makes office and practice managers invaluable in helping to make the right judgment calls.
- Continually refine the organisational matrix – because as firms grow the matrix will need to be re-examined to ensure it is still delivering. I.e. just because there is an organogram with practices, sectors and offices outlined does not mean that it works well, nor that the partners in those multiple groups work well with each other.
- Focus on communication – as firms grow larger the periphery of the firm, whether that is in the next town or the other side of the planet, needs to be kept fully informed and 'in the loop' and never allowed to feel it is isolated. This is all the more pressing as much law firm growth in the future will come from new and developing markets.
- Keep reiterating firm-wide strategic aims – because increased complexity can lead partners to forget what the strategy is and how best to execute it as daily issues and local problems overwhelm any sense of firm-wide goals.

Meeting the Scale Challenge

One last thought with regard to size and scale is whether we will soon reach 'peak law firm', i.e. a point where law firms will grow no larger. It has long been suggested that there is a maximum size for a law firm, though as far as we know no one has ever defined it. We would suggest that there is in fact no maximum size as long as a degree of diversity was maintained in each client segment of the market. That is to say, client conflicts would only become an issue if one law firm sought to hold such a large share of one type of work that its clients felt uncomfortable about their lawyers advising companies they saw as direct competitors. However, if for example, the top tier of global corporate matters was shared between five firms, and those five together effectively represented the combined revenues of the 20-plus global firms we have today, then there would not necessarily be a problem. Such firms would by today's standards be roughly $7bn-plus revenue each. But that is not a ceiling.

As the global economy develops and more emerging markets produce high value legal work and developing nations also become more evolved legal markets, the total possible legal market for global law firms will grow. This in turn will lead to ever larger law firms.

Also, even if a law firm did not win new global clients, just by meeting the legal needs of its top clients there is likely to be more legal work for them in the future. This is because the world's largest companies are growing in size and in the number of markets where they operate. For example between 2006 and 2013 Volkswagen saw its employees rise from 344,000 to 549,000; and Apple saw its employees rise from 15,800 to 76,000 over the same period. Clearly, size does not automatically equate to more top tier banking and finance matters or M&A advice, but it does signal a likely increase in many commercial areas ranging from property to employment, and likely over a wider geographical range.

6 Jomati research. For example, the recent average non-lawyer staff level for UK 100 firms is 40.8% of total headcount.

Could we therefore one day see law firms as large as the Big Four accountants? The simple answer is, yes, given sufficient time. Though much will depend upon the strategy of such law firms in terms of the range of work they seek to capture. PwC currently has 184,000 staff and partners who together produce revenues of $32.1bn. This huge professional services business needs to operate from 157 countries and offer services on a variety of levels, e.g. from SMEs to global corporations, plus a wide variety of product lines, e.g. from routine audits to sophisticated tax advice[7] to achieve this. That is to say, very approximately[8] 5,730 staff are required to produce each $1bn of revenue.

In comparison, the largest law firm in the world in 2014 is DLA Piper[9] with a revenue of $2.48bn has 4,200 lawyers according to the American Lawyer. We estimate, by using the 40% staff rule, that the firm also has around 2,800 staff, equating to 7,000 total 'workers'. This means a global law firm of this type can produce $1bn with 2,880 workers.

This suggests that some global law firms are more than twice as effective at generating income as the global accountants. Law firms would not need the geographical spread of the accountants and can therefore remain focused on higher revenue- and profit-generating locations.

Although the Big Four accountants represent a different model, with the global legal market estimated by MarketLine to be worth around $610bn in 2013, even the largest law firm constitutes less than 0.5% of the global market by revenue. On this basis it is fanciful to suggest that any notional 'limit' on the size of law firms is close to being realised. Of course, size and profitability are different things. Premium law firms may be more cautious as to expansion in case it reduces rather than enhances their profitability on a profits per partner basis.

It is quite possible that a first year associate in a global firm today may well retire from a law firm several times larger than it is today and far larger than its management might imagine possible at present. If continuing growth[10] is the future of the legal sector, and we believe it is, then organisational challenges are only ever going to become greater.

As an example of stunning growth let us consider Allen & Overy, one of the UK's Magic Circle and a global firm. In 1992 it had 543 lawyers and revenues of £112m ($185m), recent figures show it had 2,821 lawyers and revenues of £1,190m ($1,964m). That is an increase in revenues of more than £1bn and a quintupling of lawyer numbers in just 22 years, well within the career span of a young lawyer who had started in the early 1990s. Going back over forty years this giant firm had in 1970 just 18 partners and a total revenue of just £1.2m ($1.98m). Clearly it would have seemed impossible to a young lawyer in 1970 that the largest law firms today could have such size and scale. Yet for many even 40 years is not the complete span of a legal career. Therefore we must keep an open mind as to the future scale of law firms.

7 PwC has built up a global legal practice of over 2,400 lawyers, i.e. larger than many law firms in existence today already, and it intends to grow this. Rival Ernst & Young is also growing its legal capability.
8 This is naturally a general estimate as different parts of the business will generate varying levels of revenue and need very different staffing levels. But, as a 'ball park' benchmark this is still useful.
9 There are many very large global law firms, and each will have different profiles, however, DLA is used as a yardstick as it is currently the largest firm in the world. Other firms might produce higher revenues if they had the same level of staff and partners.
10 Some of this growth may come from 'mergers of equals' between the largest UK and US law firms, as well as further mergers in China and other Asia-Pacific markets such as Australia. However, this is not the report to consider these future strategic issues.

Chapter Two: The Integration Dividend

Does Integration Matter?

Integration is an issue that matters very much to a large part of the legal sector. Law firms, no matter how large they grow, remain groups of individuals and getting them to work together, or at least not against each other, is a major aim of most management teams.

Integration is so important for some firms that they have used the factor as a marketing tool. In the 1990s and early 2000s there was a significant effort by some global law firms to emphasise how they were 'a one stop shop' or that they were 'seamlessly integrated'. Such efforts were in part a defence against critics of the global firm model who claimed it was impossible to have a large, multinational law firm that would provide a client with the same level of service as a smaller, single jurisdiction 'independent' firm. By the mid-2000s the argument had been won by the international firms: the global firms' success and their clients' satisfaction proved a firm can in fact be highly integrated and provide a seamless service even if it had 20 or more offices.

In recent years the debate has returned in the shape of the argument that to be an 'integrated firm' the partners need to be part of a single equity system. Suffice it to say it appears to us that a firm can be seamless whether it uses a Swiss Verein or a single remuneration system/partner structure, or any other structure. The key issue is how the partners behave, not through which LLP they are paid[11]. Or to put the argument another way: do partners see a fellow partner and first think 'competitor', or do they think 'colleague and team mate'? Do they see a client and think 'how can the partnership as a whole help this client more'?, or do they think 'I hope the other partners don't try to get too close to my client'. Of course, integration may be in the eye of the beholder, but we feel there is more than one way to achieve this.

But, despite its importance integration is not essential for all types of law firm to prosper. There are some firms that are very profitable, whose clients are happy and whose equity partners are content even though they are far from having a team-based, highly integrated culture (see below regarding different culture types).

Nor does a law firm absolutely have to have practice areas that fit neatly together into a highly integrated, collective offering that can be cross-sold to clients. For some this is the right way to be organised, for others it may not be. After all, there are commercial law firms that handle banking and finance matters, yet also operate 'consumer' personal injury litigation/clinical negligence departments, though sometimes under a separate brand name, or sub-brand.

One reason for selling what appear to be very different products or services that may have little cross-selling potential is that one product may provide a very stable 'annuity' income that helps to support the higher value, but more sporadic, services of the firm. To borrow an analogy from the corporate world: a tech company sells mainframes and laptops. On face value this may seem an illogical strategy. It may only sell two or three mainframes a year, whereas it may have a steady sales volume of one million units of laptops every year to generate cash flow even though they are low margin products. In comparison the mainframe is a very high margin product, but cost of sales is high and total sales are very hard to predict. This 'product balancing' therefore makes sense. Ultimately the choice on how integrated and how purposefully designed for cross selling a firm should be is a subjective issue, though, as we explore below there are unmistakable advantages for firms that are able to exploit this.

11 Clearly a structure or remuneration system can promote or discourage the provision of an integrated service and leaders need to understand where the potential pressure points arise and how to mitigate them.

The Integration Dividend

Some of the issues to consider when examining the level of integration and cross-selling in your firm include:

- **Untapped potential** – Work that your firm does not do for key clients, but that it could do, is necessarily being performed by other firms. In short, lack of integration and cross-selling leaves work on the table for your rivals to capture and reduces your potential income as a partnership.
- **Increased loss of clients** – If firms are not providing a joined up service across several practices and offices this may weaken client loyalty to you, making it easier for clients to 'defect' to a rival. Given that winning a new client is more expensive in terms of BD cost than maintaining one this is doubly damaging.
- **Loss of strategic drive** – The more disconnected a firm's partners are from each other the harder it is to effect lasting change, and in some extreme cases any change at all. I.e. how can one effectively execute a new strategic vision when the partners rarely think of the firm as an integrated whole, but rather as only a platform for their personal careers?
- **Management loses effectiveness** – If management disengages from integrating it sends a powerful message. Partners will receive the signal that it is permissible to operate how they wish regardless of firm-wide goals. In some firms this may not be an issue as neither 'the management' or the other partners want any type of centralised direction.
- **Weak 'glue' is dangerous** – Weak glue between partners can undermine the firm's stability in times of crisis. The worst case scenario is that when a crisis occurs there is insufficient mutual interest and shared loyalty between partners for the firm to stay together. As is explored below, a lack of integration can also catalyse a firm crisis[12].

Integration is Also Vertical

While the main focus of the integration debate is on horizontal integration, i.e. the knitting together of product lines and partners, there is also a challenge with vertical integration. That is to say: is the management of the firm integrated with the partnership, or has it become separated and isolated from the partners who elected it? Interestingly even firms that are horizontally integrated can sometimes suffer from a 'detached leadership', though in our experience the firms that fully embrace team work and cross selling often have well-integrated management teams.

Let us take the example of a firm where a lack of integration, primarily between the management and the partners, could be viewed as a contributing factor to its eventual failure. Dewey LeBoeuf[13] failed not just because of its remuneration system (and allegedly worse[14]) but because it was a 'dis-integrated' firm. The partners became used to being part of a merged business where communication and transparency from management was apparently weak. It is hard for people in a business who do not know what is going on to feel they are closely connected to each other and work well together. A leadership that appears to work in isolation and does not communicate sends out a signal that the firm's culture is about secrecy and individual action. Strategic execution is likely to be undermined as a result. During what was a difficult recessionary period for many firms Dewey suffered financially, though its culture perhaps exacerbated its performance problems (see Table 4).

12 This can be especially true in the US where partners cannot be held to a restrictive covenant and may leave at will, making sometimes quite dramatic firm collapses more prevalent in the US than UK (see Appendix A). In the UK the tendency for troubled partnerships is instead to stay together until a rescue merger can be arranged, though not before several key partners and clients have been lost.
13 Dewey LeBoeuf was the product of a 2007 merger between Dewey Ballantine and LeBoeuf Lamb Greene & MacRae, both based in New York, but each with multiple offices. Its last major expansionary act was to open an office in South Africa in Jan 2012. The firm went bankrupt in May 2012, just four months later.
14 'Four indicted in US for fraud in Dewey LeBoeuf collapse,' 6 March, 2014, Reuters.

Table 4: How a lack of integration leads to weak performance.

Though it kept expanding globally and investing in new offices giving the impression of a shared strategic goal and apparent success, the firm's financial position was apparently weakening with revenue per lawyer first plateauing, then nose diving. Yet, even as the end approached most partners were understood to be unaware of the firm's true financial position.

When in spring 2012 the US legal media questioned what appeared to be overstated financial[15] data, doubts grew over the management's credibility, which in turn led to national and international media attention. The firm then rapidly fell apart. By May 2012 it had declared bankruptcy.

We don't have space here to explore this collapse in detail, however it seems to us that a firm that had a vertically integrated management team would probably not have reached this point. In a more open, transparent and integrated partnership one hopes the partnership would have intervened long before a firm got itself into a position where it could not survive. Naturally, this is an extreme example, but lesser and non-fatal versions of this 'body not knowing what the head is thinking' type of behaviour are still present in the market.

Promoting Integration

How should a firm increase its level of integration? One way of looking at this challenge is to consider both pro- and anti-integrative forces that may be at work in a firm.

15 'American Lawyer to Revise Dewey's Financials', 4 April 2012, New York Times.

Pro-integrative factors:

- Management actively drives integration and teamwork, as well as seeking to measure[16] change in this area.
- Breaking down silos is explicitly stated as a key job of middle managers (i.e. practice leaders, members of sector or regional committees), who are tasked with finding new ways to work with other groups.
- Committees, when formed, are designed to bring disparate partners of the firm together, rather than reflecting the powerbase of the 'head office', i.e. the firm actively seeks to tap into its practice and geographical diversity.
- A significant portion of the firm's work demands working closely together across logically connected practices.
- The firm has a practice mix that will support an integrated practice offering, i.e. if your practices are too disparate to provide a joined up offering then they may not contribute to integration.
- Remuneration/bonuses reward partners and staff for working well together and cross-selling.
- Uniform CRM systems that all partners and staff buy into and populate with data, i.e. a CRM system only helps people work together if everyone provides the data needed and makes use of it.
- A business development (BD) and marketing team that aligns with a one firm vision, rather than allowing itself to be side tracked by certain practices/offices.

Anti-integrative factors:

- Management is not truly engaged with integration other than via top down communications, i.e. it tells the partnership this is 'a good idea' but it is never fully ingrained in partner behaviour.
- Governance system and committees permit and unconsciously reinforce practice isolation/silos by over-delegating[17].
- The firm does not have the supporting, adjacent capabilities that would both enable and encourage successful cross-selling.
- The firm does not measure team-based behaviour when considering performance.
- Remuneration does not have the same impact on successful partner or staff co-operation, cross-selling or team work.
- CRM system is installed, but there is patchy inputting of data and partners seem uninterested in tapping its cross-selling benefits[18].
- The BD team, whether unconsciously or under pressure from certain partners, maintains silos and operates without a one firm vision.

Even once the 'right behaviours' have been identified and management has sought to instil a pro-integrative culture firms need to be aware of how long lasting behavioural change can take to bed down. Though it may appear there is firm wide support for change, management must be alert to passive resistance. Few partners will openly vote against a plan that appears to be good for business, but it is all too easy to do little other than pay lip service. Real change demands plenty of senior and middle management time and on occasion some 'heart to heart' talks with those influential partners that appear cynical and dubious of the change programme. In fact, as we have noted from our own experience, it is the 'unlikely convert' that is often the most effective 'proof of concept' and eventual advocate for change.

16 As the management saying goes: 'That which gets measured gets done.'
17 Delegation is more an art than a science and firms will likely have to experiment over several years to find the right balance between central control and giving too much power and autonomy to their business groups.
18 We recently heard of one law firm where partners were reluctant to input data about 'their' clients into the CRM system in case other partners made approaches to them, even if they were from another practice group. The lack of protocols for the use of CRM system data and partner insecurity can reduce the value of such software.

Cultural Types of Law Firms

People make up businesses, but it is the culture[19] they share that is at the root of how they behave and how the business operates. And culture in businesses can change, or as noted above, sometimes the culture needs to change. However, all management teams have to begin with the reality of how their firm is today, or in the case of two merged firms joining together the reality of the combined cultures.

Though there is a wide spectrum of firm cultures we have outlined below four approximate cultural 'types' that help to describe today's legal market. Naturally, some firms may be a blend of the types below, however the examples below (see Table 5) illustrate the 'cultural compass points' of the legal sector. And as noted, there is no 'right way' or 'right culture' and as long as clients are sufficiently satisfied then each cultural type 'works'. Though, certain cultural firm types may fit better with the expectations of certain clients.

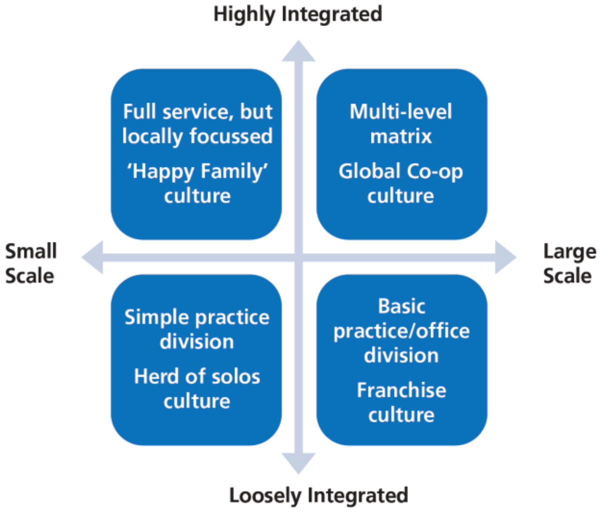

Table 5: Law firms' cultural compass points.

Global (or National) Co-operative – This firm, which can be very large in scale, will have complex matrix organisation and highly networked governance that links everyone in the firm together to maximise their effectiveness. Such firms will usually have a strong vision of where they are heading and a senior management and middle management that are skilled at executing strategy. Partners see not just the benefits of working closely together and cross-selling or sharing time and ideas, but actively seek to do this because they enjoy and value it. Often the remuneration system will reflect the benefits of cooperation. Regardless of how large such a firm may become its strong values permeate all offices.

Happy Family – Such firms are generally smaller in scale and often have a focus on a particular market, sometimes a specific region, as well as a strong identification with a defined group of clients. Though it may have multiple practices and more than one office the firm is highly collegiate and partners genuinely know each other and spend time knowing what the rest of the firm does. Their success and pride in their market position can also foster among lawyers and staff a strong esprit de corps that is 'familial', with a strong sense of service to local clients. Management generally does not need to heavily influence the partners as there is a high degree of shared vision.

19 Most famously expressed by US management guru, Peter Drucker, when he said: 'Culture eats strategy for breakfast.' I.e. one can strategize all one likes, but if there are not the right cultural values then any effort by management to change strategic direction will not bed down and will face passive rejection.

Franchise Culture – These firms can often be quite large national or international operations. In some cases they will have grown very quickly. Individuality and office independence is seen as more important than cooperative action. As a result remuneration will heavily focus on individual action and there will be a tendency to allow offices and practices to be relatively autonomous. Though management may have introduced universal CRM systems and have a single brand the firm operates more as a 'franchise'. This does not mean it will not be profitable, though it could also be underperforming relative to its peers. The partners take pride in the brand name and scale of the firm, in part because it helps to gain client interest, but culturally the partners are happy to work alone and most likely would not wish to be in a more tightly integrated and team-based culture.

Herd of Solos – The culture here is one of maximum individuality and minimal bureaucracy with the most basic matrix organisation. Such firms are often 'boutiques' or highly specialised firms with low overheads and minimal support staff. With approval from senior partners the firm is primarily a platform for each partner to carry out their practice in isolation. A partner in a highly integrated firm would no doubt not fit in here, but partners who thrive in a truly independent environment are often very happy and profitable in such firms. Moreover, their clients, who expect high levels of one-to-one partner attention on their specific matters, are usually satisfied. Could such firms generate even higher profits by the partners working more closely together? It is possible, however the partners would not enjoy the change in culture.

But how does a firm know what culture is right for the partnership? This can only be answered by the partners and what they instinctively feel is 'right' for them. Though, over a period of several years and if sufficient partners wanted to move firm culture then there could be an evolution to another cultural type. In this respect the firm's culture is always under a degree of evolutionary pressure, especially when there is an influx of new partners or the retirement of several influential opinion formers in the firm, or when client and market pressures demand a change in culture in order to remain profitable.

Management has a key part to play in cultural change, primarily by demonstrating the value of change and then acting as a model for the other partners to emulate in terms of behaviour. They can also put in place remuneration and measurement systems that encourage certain behaviours, while middle management can also be powerful advocates to 'spread the message'. Of course, if the majority of partners still do not want to change then management may have no choice but to accept the preferences of the firm's co-owners.

Chapter Three: Irreconcilable Differences?

Local Culture vs Firm Culture

There are three main areas where local culture[20] manifests itself in the legal sector: legal education and local approach to the law; social organisational/behavioural norms; and the business practices of local clients. These wider cultural values are expressed in behaviours that cannot easily be tamed or changed. This is because it is far easier to learn something wholly new than it is to un-learn a cultural habit. As firms continue to expand and move into new territory, even within their own countries, these issues will become more important.

Educational and Legal Culture

Naturally every jurisdiction will have differences in legal education and how law students then progress to becoming an authorised, practising lawyer. This produces certain challenges, though more of an operational nature. For example, in Germany it is usual for trainee lawyers to study several more years than in most other countries, often to 28 or 29. 'Newly qualified' lawyers in the English or US sense[21], who are in their early 20s, are therefore far younger than equivalent associates in the Frankfurt office of their firm. This age difference also shortens the path to partnership. While in France, due to local tax rules, associates are treated at least on paper as self-employed lawyers though in reality they are fully employed staff. In China a PRC lawyer may join a foreign firm, but must give up their practising certificate and this impacts what work it can be said they are helping clients with, at least publicly. Yet, these local differences are not insurmountable once understood by an international firm.

More important are the behavioural traits that are fostered by each legal educational culture. For example, one expert on US legal education explained the biggest challenge in their view is that American law schools focus too much on competition within classes and there is an absence of academic team work. A recruitment partner might say: 'So what? I want our young lawyers to be focussed on their academic success.' That may be true, but does your firm also want yet another generation of lawyers who tend to think only as individuals and need strongly enforced remuneration and bonus systems (and penalties) to think 'firm first', rather than 'me first'?

As psychologists have observed, the behavioural lessons that we learn at an impressionable age tend to stay with us throughout life. The US education expert explains: 'Look at MBA courses, very often course work is team orientated, this reflects the nature of working in a corporate setting. MBA students can be graded on their assigned team's work, so teamwork is learnt early on[22].' In comparison the battle to get into the top law schools, followed by the battle to reach a certain rank in the class to secure a good job interview are founded on the idea of individual accomplishment via short term, high pressure exams. This is followed by the associate's advancement by 'tournament' and often pay based on an individual's hours billed, which often prefigures their advancement. Rewarding group or team success hardly comes into the frame.

20 By this we mean the ingrained and often implicit protocols, behaviours and expectations of a specific region, as opposed to firm culture.

21 And even between the US and English systems there are huge differences despite the adherence to Common law and many similar training concepts. In the English system there are two years as a 'trainee' within a law firm before they become qualified 'solicitors', in the US the transition is more immediate once law school and the local Bar exam is passed.

22 Though, more and more lawyers are now opting to take MBAs partway through their careers, often paid for by their firms. It will be interesting to see if this has any impact on firm behaviour.

In comparison many corporates continually push the idea of team work from day one and look for those traits in their recruits, i.e. team workers advance and later will become the managers who will then continue to foster that culture. Fundamentally, many law firms rather than undoing the excesses of legal education tend to strengthen these traits. Interestingly, in parts of Asia e.g. Hong Kong, although there is significant pressure on individual exam success, perhaps even more so than in America or the UK, young lawyers once at a firm tend to be strongly encouraged to work together, i.e. legal education qualifies you to join the team, not to operate on your own.

Local Culture Impact on Firms

As with educational differences there will always be national characteristics that permeate life inside a law firm. Sometimes these differences can be a notable obstacle, for example in the Middle East some nations' attitudes to women are an obvious barrier, shutting out a huge part of many firms' talent.

Often these 'local differences' are benign, even if frustrating to those brought up in a different culture. For example, the European insistence on actually having a 'proper' lunch[23] at a restaurant when it is lunch time and not just a desk-bound sandwich may shock some Anglo-Saxons used to a utilitarian regime. But European staff will tell you a proper break energises them and they are possibly more productive in the afternoon than their perpetually imprisoned cousins in New York or London. Moreover, for a new management team, especially following a merger or greenfield opening, an easy way to produce discord and resentment is by banning deeply ingrained dining habits.

The challenge with local traditions that permeate lawyer behaviour is knowing where and when to draw the line. When do they become more serious and could substantively impact the operation and strategy of the firm? For example, in China and Hong Kong it is considered normal for local partners to lavish clients with considerable levels of hospitality. A sense of 'ownership' of client relationships is also very strong and the sometimes heavy focus on keeping 'their' client happy with hospitality is part of this. While some may applaud such after-hours dedication to client development the problem is that this relationship is very often strongly bilateral. This can undermine efforts to cross-sell key clients globally and undermine the plans of the central BD team. It can also raise issues as to what level of hospitality, given or received, is appropriate.

The gut reaction of management to a 'local issue' that could be an obstacle may be: 'This has got to stop, right now.' But, when 'foreign management' seeks to change local behaviour the results can be unexpected and sometimes worse than the immediate problem. International firms learnt this in the 1990s by trying to force their newly acquired Italian partners to behave like Anglo-Saxons. It didn't work. Of course, it was misguided and culturally insensitive to even try, but it had seemed 'a good idea' at the time. In some cases these 'assimilation' efforts drove the Italian partners to leave en masse, taking clients with them, often after many months of effort to intervene from 'head office', not to mention the loss of money invested by that point in the office.

23 This is a perfect example of something that appears quite minor, yet generates significant anger and discord when challenged. Anglo-Saxons tend to think 'long' breaks equate to a lack of work, while not appreciating many lawyers in France or Spain will work just as many hours in total, but simply with breaks in between.

No one likes to be reprimanded, especially by a fellow partner and co-owner of the business. This can be especially problematic in Asia where there is an extra special importance to not shaming or singling out individuals. As one expert on law firms in Asia explains: 'Partners in China, for example, always seek to avoid open conflict. Management needs to talk to any partner about a problem in complete privacy and keep the discussion secret. There may be office gossip, but the partner cannot feel their issue has been made public. Some may need to leave just to save face rather than change their behaviour.' The message is clear: think twice before assuming all partners across the same firm 'naturally' see things your way.

Business Culture

Different countries do business differently, yet we often gloss over this fact with the constant talk of a 'global economy' as if this meant all businesses were now clones just because they trade with each other. Globalisation in fact means greater exposure to greater difference and cultural variation. This impacts law firms because no matter how they believe something should be done the local clients will have their way of doing things.

We recently heard the example of a client in South East Asia who when presented with a counter party's terms and conditions said 'Yes' to every point. The other side were very happy with this apparent one-sided negotiation. The adviser to the client was eventually forced to intervene and explain to the counter party that every 'Yes' only meant their client had understood their point, as was the local custom, but in no way had they agreed to or conceded any point. The result was that the adviser had to take over the negotiations to prevent a very serious misunderstanding taking place.

When it comes to corruption and bribery cultural confusion becomes an even greater challenge. As groups such as Transparency International[24] have shown bribery is still rampant across most of the world. In many cultures bribery is seen as culturally normal, in fact in some regions 'bribery' is not necessarily seen as a pejorative term. However, as Transparency International explains regardless of cultural norms: 'Bribery undermines the rule of law and the principle of fair competition and entrenches bad governance.'

Most Western lawyers would have no problem with this assessment. The challenge is when one's client, such as a global corporate entering a new market, feels it is at a disadvantage locally if it does not offer incentives to regulators or its clients. And this is very dangerous territory. The UK Bribery Act and US FCPA have highlighted the potential risks involved with being linked to corrupt activities. In some countries local regulators may even single out a foreign company for 'corruption' rather than accusing corrupt domestic businesses that would be more problematic and politically sensitive for them to bring a case against.

Wrongdoing in this murky environment can range from indirect bribery such as using nepotism to curry favour, to outright cash payments to buy the influence the Western company may want. Recently, JP Morgan[25] and GSK[26] have been linked to alleged ethical lapses in their China businesses. It would be all too easy for a partner of a law firm advising a compromised client to become linked, even if indirectly, to accusations of bribery. Western investigators may first target the corporates, but, as seen in other areas of white collar crime, attention can eventually fall upon

24 Transparency International's 'Corruption Perceptions Index' has now become the main benchmark for judging levels of corruption and bribery in the world.

25 'SEC Probe into J.P. Morgan's Hiring in China Shows Risks of Giving Jobs to the Well Connected', Wall Street Journal, 19 Aug, 2013.

26 'Big Pharma beware: GSK China case may be just the beginning', Reuters 18 May 2014. 'The charges relate to GSK executives, accused of funnelling hundreds of millions of dollars in bribes to doctors and health officials via travel agencies.'

professional advisers, such as lawyers and accountants. Although law firms may believe that under attorney/client privilege they could hold back publication of any communications from a client that alluded to their intention to make a bribe it should be noted that lawyers and staff inside law firms also can be whistle blowers. As a recent Supreme Court case[27] in the UK highlighted, a member, i.e. a partner, of a Limited Liability Partnership may be protected under whistle blower legislation.

Perhaps the moral of this story is that while we must be culturally sensitive to client behaviour, partners must draw a line to protect their own businesses. Could this result in losing some work or even a major client? Perhaps, but the reputational damage to a law firm that can be caused by being linked to a bribery scandal could be far worse.

27 http://www.thelawyer.com/news/practice-areas/litigation-news/clydes-to-face-whistle-blowing-claim-after-supreme-court-holds-llp-members-are-protected/3020843.article. In this case the matter allegedly involved an incident in Tanzania.

Chapter Four: The Gorilla Challenge

As noted, the building blocks of a law firm are its people. But, what happens when one of these building blocks is unconsciously harming the firm because of their behaviour? If they are an associate or support staff member they will no doubt be shown the exit door relatively quickly. But what happens when they are a partner, especially a highly productive partner with strong client links? Then the issue becomes more challenging.

Gorilla or Rainmaker?

One of the greatest problems any managing partner will face is dealing with a partner that some colleagues regard as a 'rainmaker' and a great asset to the firm, and who others regard as a disruptive and anti-collegiate 'gorilla'. The problem is that there is a fine line in some cases between someone you want to keep in the firm and someone you would rather see leave.

First, let us consider what attributes a gorilla will display. They will generally be:

- Very hard working.
- Have won many clients and developed a lot of business.
- Have gained allies in their immediate team due to their success.

But, they will also be:

- Very insecure and sometimes aggressive.
- Find it hard to work with other partners who they see as unwanted competition.
- Tend not to see how they upset people and can be bullies.

In short, it would be simple if gorillas were some type of 'monster' who had no redeeming qualities, worked few hours and had few clients. They would be removed very quickly. But, the partners who grow into gorillas are not like that, instead they are often very successful and therein lies the problem.

The Partner Balance Sheet

The reality is that most firms have gorillas at one time or another and most firms do not quickly eject them. The reason is that these powerful and sometimes outright impossible individuals to work with appear, or at least claim to be, very popular with certain clients. In some cases these claims will be exaggerated and the gorilla's removal will liberate those who had been held back by their possessiveness. In other cases the management may not have a clear assessment of the situation. This lack of an outright clear answer is often the reason why so many gorillas remain at large. However, there is a pragmatic solution.

As one global firm leader points out, one can be methodical about gorillas rather than relying on guess work. This leader sees each partner as a business. No business is perfect, but one can at least assess the positives and negatives. As the firm leader explains: 'I see it as a balance sheet. Each partner has assets and liabilities. You have to make a judgment. If a gorilla's assets outweigh their liabilities, then you have to be very pragmatic.' That is to say, not all gorillas face automatic ejection.

This manager was very honest, but his views were also in line with the values of his firm. If they had not been aligned with the firm's culture then he would not have been able to permit the occasional gorilla to continue. That said, if the firm leader felt the gorilla's liabilities outweighed their assets then they equally would have no qualms about giving them an ultimatum to change behaviour or face ejection.

The question for all firms is how do they balance a partner's assets and liabilities? How many negative factors will be tolerated? Will there be zero tolerance, or considerable tolerance as long as their billings remain high? How many complaints about the partner need to be received before management takes action? Do they wait until the situation is critical, or do they confront the gorilla after the first hint of a grievance?

For this firm leader there were some clear red lines: no partner can ever upset a client. That would not be tolerated at all. But perhaps under certain circumstances management would overlook certain 'idiosyncrasies' if the gorilla partner limited their disruptive behaviour and kept performing very well.

Ultimately, this issue returns to culture and the question: what kind of law firm do you want to have as a partnership? In this regard a great deal of honesty is needed. There is no point telling your lateral hires that you will not tolerate gorillas if in fact it is evident that you do. There is no point explaining to young associates that you have a wonderful place to work when it is likely some unfortunate young lawyers will face an awful future under certain partners. A firm is its talent and if the message is that bad behaviour and disharmony is generally tolerated, rather than the rare exception, then some young partners and associates may feel driven to leave. Even worse, the firm may start to attract more gorillas who feel they will be 'at home' in such a climate with an eventual impact on the overall culture and performance of the firm.

Our view is that it is better to lose a few gorillas and some money in the short term and keep a positive culture for the long term. But, these are decisions only the partnership as a whole can make. A partnership may not be able to control its destiny, but it can decide what rules it wishes to live by.

Chapter Five: Responses for Law Firm Managers

We have considered some of the most difficult issues a management team may face in relation to today's organisational and cultural challenges. Below are some of the factors that management may need to consider as it seeks responses to these challenges.

Strategy and Organisation

It can be tempting to see strategic and organisational issues as far apart, perhaps as even entirely separate areas of interest, whereas they are in fact closely interlaced, if not symbiotic. One may also consider that strategy should follow the needs of the firm's organisational matrix and structure, whereas, how a firm is structured should be dependent upon the firm's strategic aims.

Let us consider some examples. Take a large international law firm that has a stated strategy of becoming a global law firm, operating in multiple markets and reaching a major scale in the short to medium term. There is a focus on rapid growth and expansion in part because management believes there is only going to be a narrow window of opportunity to become a 'global firm' and so it believes it needs to move quickly. It looks at multiple routes to achieve this and decides several mergers are its best strategic option, which it then executes. However, the firms it merges with are not immediately financially on a par, though they are culturally close and fit well in terms of practice and sector focus. Here we have a strategic fit, but operationally there is a barrier. Should the firm abandon the mergers?

The answer is: no. If the firm's current structure cannot support the strategic goals then the structure needs to change to help those goals to be met. In this example the use of a Swiss Verein structure is one possible logical organisational response. But, one also needs to ask whether the financial imbalances are short term or long term. If long term, then the likelihood of achieving the desired level of integration may be significantly reduced.

In another market segment is a national law firm that has decided its future will be based on gaining significant market share in the personal injury market. Its strategy is to grow market share while keeping its equity partnership small and recruiting large numbers of paralegals and junior lawyers to work in what will be a high volume, low margin business. It also wants to invest in the latest IT to speed processes and a series of expensive TV adverts to drive up the volume of cases. To fit this strategy the management chooses an organisational structure that is more corporate in culture, though it remains a partnership at its core. There is little expectation that the paralegals and junior lawyers will become partners and the partners are primarily focussed on systems management and retaining a core of clients. Remuneration is therefore based on several metrics with process management and team supervision as key factors. The firm also holds the organisational option open, as it is a UK firm, of taking external investment to help provide the capital for its expansion plans. These changes will be significant for what was a 'traditional' partnership, but the firm realises it must change structure and culture to fulfil its strategic goal.

There is no fundamentally 'right' answer here, there are only organisational structures and cultures that fit the strategy. The two examples above are at opposite ends of the same spectrum, but the same logic of adaptation applies to all firms. A firm has to keep asking: what is our primary strategic goal and what is the best structure and organisational culture that will help us to get there?

Hearts and Minds

Getting everyone in a large organisation to pull together is always a challenge. Though clichés such as 'herding cats' are attributed to organising law firm partners the reality is that most partners do not intentionally seek to be difficult or actively seek to move in the opposite direction that management wishes.

If a firm finds that its partners seem to be on a different page to that of the management it may be because management has not worked hard enough at winning 'hearts and minds'. Though managers may feel the partners are deliberately being obtuse and refusing to behave as desired the reality may simply be that they have either not understood what is wanted from them or that the case for the importance of change has not been made well enough. Conversely, management can also often assume partners are in agreement with a new policy because there is no obvious and immediate push back, such as at an annual partners meeting where new ideas are proposed. However, in a profession where conflict between partners is generally avoided silence cannot be seen as agreement, as management often later finds out.

However, management cannot order behavioural change in a partnership without triggering negative responses. In this respect management may feel trapped. It cannot 'order' change, yet the partners may not appear to be interested in changing of their own volition. How does one engineer change in such circumstances?

One way to do this is to focus the partners' attention on the values of the firm. Rather than express behaviour or organisational change as something entirely new, show how it actually conforms to the values of the firm. For example, the firm feels pressure to improve cross selling, but many partners are wary as they fear weakening their personal client relationships. The management chooses to focus their attention on the firm's declared values, which are: always to be highly collegiate and to always offer the best possible service to clients. If the clients value cross selling and it will generate increased income, how can the partners oppose it? Cross selling must surely be in line with their stated values? This is a far harder proposition to argue against or ignore than a statement from management that they 'must' change because 'management has decided' it.

When such arguments are supported with appropriate incentives, e.g. a modified remuneration system, as well as detailed and deeply researched data to back-up the conclusions, which sometimes can be provided by a third party consultant, the results are very often positive.

Those in leadership roles need to accept that considering the firm's future and strategy is part of their 'day job', whereas the partners' day job is satisfying their clients. Accordingly, sensitising partners to an issue, proposing options, encouraging discussion and achieving a reasonable outcome is a process that cannot easily be circumvented by management. The best leaders appreciate that in a law firm the quickest way from A to B often necessitates detours to G and L, and even to Z.

Communication

Directly connected to the hearts and minds factor is communication. Partners understand they cannot be privy to every leadership consideration, nor perhaps would they want to be, but they do want to be included when it matters. Associates and staff also appreciate they cannot know the inner workings of the management committee, but they also want, and need, to know about matters that affect them. And above all, a firm must always think of its internal audience first before considering the external impact of any news or decision. No partner or senior staff member wants to see news of a redundancy programme announced in the legal press and then receive an email from management the next day telling them less about the details of the job losses than the journalists know.

Unfortunately some firms are better at internal communication than others, though in times of stress and business difficulty it can be very hard for management to think clearly about communication when they are grappling with critical issues. But, as a general rule of thumb it should be accepted that:

- Strategic decisions must be communicated and explained to everyone in the firm once made. This may mean delegating the task to 'middle managers' to spread the message, but from the partners to the most junior support staff everyone needs to know what the aims of the firm are, why they are doing it and how they are going to do it. Naturally, the degree of detail may be different for various levels of the firm, but certainly no one should be considered below knowing what the firm is doing.
- Departures must be internally announced first. Firms are far better at this than they used to be, but sometimes staff read the details of a redundancy round or team departure in the legal press before it has been explained internally. Nothing erodes morale and a sense of value faster than the appearance that the partners don't feel associates or staff are worth speaking to first.
- Consistency of message is paramount, but easily blurred. Consider the firm that announces that profits have risen by 10% then that afternoon sends out a terse, one paragraph announcement that they intend to close an office. The two events are not mutually exclusive, but the message is confusing when combined and can be destabilising to those who do not know the inner workings of the firm. In this regard management needs to think carefully about the timing of communications and the order of the matters that are announced. As a general rule try to avoid announcements that appear to be directly contradictory, this generates cynicism and even the belief management does not know what it is doing.

Nurturing Talent

Nurturing talent is clearly vital to the healthy continuation of any organisation. There are three main areas of focus: the nurturing of the next generation of leaders and managers; the training of associates to be more than just 'technical' lawyers; and the development of skilled support staff.

The debate over whether leaders are made or born is mostly academic for law firms as they will almost certainly vote in a current partner to be the 'leader' and not go to the external recruitment market to find a managing partner. The potential candidates for this role will also be very small in number. In many cases the majority of partners will not have experienced the leadership skills of the candidates, even if that person was a practice leader. In short, the firm may have little idea if the partner putting themselves forward will become a great leader or not. As to whether they are a 'born leader' or just someone who has tried to learn how to be one will therefore remain an unknown until they start to lead. It therefore makes sense for firms to think ahead and identify leadership material and then train them several years ahead of when potential candidates will be required.

In a partnership where a managing partner (or chairman or CEO) can have multiple terms as head of the firm, preparing for the next leader is even more important as to not do so is likely to lead to a power vacuum and perhaps even a period of instability. How proto-leaders are found will depend very much on the culture of the firm. Some partnerships may stress the need for management skills in the strict sense of the word, while some will demand people who are charismatic and will be able to drive change. Others may primarily be looking for someone who can maintain internal calm rather than 'lead' the partners in a new direction.

That said, many firms tend to fall back on the 'tournament' idea that the leader of the firm must necessarily be a top rainmaker regardless of other characteristics. The challenge here is that a rainmaker is by no means automatically a good leader, or manager of operational matters, even if the clients love them and they have generated plenty of work for a number of appreciative associates and junior partners. The cause of this tendency is that law firms are heavily based on the idea of progression and hierarchy. Though it is not explicitly said, it can appear logical to some partnerships that someone who has progressed through the ranks to be a leading fee earner should naturally at some point take the most senior role in the firm. It may prove to be the right choice, but equally it may not.

It therefore seems sensible for the management team to set out the values and qualities they would like to see in the firm managers of the future. If the young partners identified as leaders of the future are lacking skills then the firm should assist them to develop the necessary skills. This may take the form of a reduced MBA course or a series of short courses on management. Inevitably some of the 'chosen ones' will either leave the firm or not prove to be leadership material, but given the small and internal pool of talent a law firm may choose from careful preparation now may be well rewarded at a later date.

The next area is associate training. Increasingly, the larger firms have developed their own 'academies' as well as co-designing courses with business schools to teach young lawyers about wider economic issues that their clients may be facing. What also appears to be increasingly important is that associates are trained in areas such as business processes and lean systems as well as pricing. Organising such training within smaller firms may be difficult but today there are a number of training providers that can help in this regard.

Despite making up a significant proportion of any firm, support staff are an area of talent that is sometimes overlooked by law firms. Given their importance to the successful operation of the firm and strategic execution it may be an oversight not to devote significant resources to training and developing support staff. After all there is little point in having highly trained associates and partners if the key staff in BD, marketing, IT and finance all appear to be behind the curve in terms of the latest thinking in their fields. A weak or under-skilled support function will only hold back the performance of the fee earners.

There has been a temptation in some firms to see an undertrained staff member as someone who needs to be replaced. However, this can be wasteful of talent. It may make more sense to train current staff than bring in new employees who do not know the firm or its culture.

Another issue is ensuring that current staff are given the option to move from one area of support function to another. For example, a firm may have a skilled PR executive who perhaps could be an equally useful, if not better, BD adviser, but lacks the right skills and training.

Firms will also need to be increasingly aware of the need for multi-skilled support staff. For example, as marketing and BD becomes increasingly IT-led and knowing how to tap ‘big data’ becomes an essential part of any leading firm’s CRM strategy, there will be the need to develop staff who are both IT and marketing literate. In this respect firms may need to ensure support staff are able to move between the support lines to widen their capabilities.

Market and Competitor Intelligence

Finally, any organisation needs to be continually updated as to whether it is responding to market or competitor changes. Most law firms today already do a good job of keeping track of developments in relation to their key clients, especially legislative change and new case law. But, many firms may find they can improve in terms of their wider market and competitor intelligence.

Understandably some firms do not feel that keeping track of competitors is their job. But, it may prove to be as useful as maintaining a quality CRM system. No firm operates in isolation. Each partner is in competition with partners from other firms for the same limited group of clients. It therefore makes sense to pool competitor intelligence from around the firm. Or, if devoting permanent resources to this is seen as onerous, then instead to commission an annual competitor intelligence survey.

Wider market studies also have their place. While most partners will be abreast of the most immediate economic forces facing their clients the firm may not have put in place resources to consider the longer term and macro-economic picture that will shape their key markets. As firms grow more dependent upon a group of very large key clients, and hence are highly susceptible to changes among these clients, it also makes sense to consider future economic scenarios across its main industry sectors over the short, medium and long term.

Conclusion

In the rational world of economics no business would choose to do something that reduced its gains or held it back relative to its peers. Yet, many law firms are clearly not making the best choices when it comes to their internal organisation. Whether it is not delegating management duties to practice heads and sector leaders, to failing to cross-sell, to supporting counter-productive incentives, to under-using their BD and marketing talent, to permitting gorillas to damage morale, law firms can sometimes make poor choices, or in some cases no choices at all.

As opposed to corporates with external shareholders who are constantly pushing for higher short term returns, a law firm partnership answers only to its partners. This is both the great benefit of a partnership and also occasionally a weakness. While strategy is regularly reviewed the inner workings of a firm, such as its governance, organisational matrix and even its culture, are far less regularly put under the microscope.

There is a good reason for this. While a partnership can objectively see how a strategy might work in relation to the market or a certain group of clients, when it comes to objectively analysing one's own culture there is a natural challenge. The biggest challenge is often that 'this is how we have always done things' dominates any internal view. Moreover, truly knowing yourself is by no means an easy proposition for a person or a law firm.

And yet, in this new post-Great Recession era of rapid growth and consolidation, as well as increasing pressure on fees and push back from clients, the status quo may no longer be right for your strategy or your organisational structure and culture. But, convincing a law firm that it needs to change something fundamental about how it operates or is structured, especially when profits and revenues are starting to see improvement, is a difficult task for any management team.

Managers may need to draw their partners' attention to the relative performance of their peers. Under analysis they may find that peers in the same segment, often with generally the same strategy, are out-performing their firm. Further analysis may reveal that what is setting the higher performers apart from the rest is great organisational structure, smart governance and a culture that is perfectly aligned with the firm's strategic aims and client base.

We firmly believe there is a time and a place for bold strategic steps and these must always be kept under review. But, in today's increasingly competitive and complex market one factor that can change firms for the better is improved internal organisation and culture. Getting these internal issues right may in the long term be the most positive and transformative changes a management team ever makes to the performance of their firm.

Appendices:

Appendix A: Major US Law firm Collapses Since 2000

Name of AmLaw 100 Firm		Date of Collapse
1	Graham & James	2000
2	Brobeck	2003
3	Arter & Hadden	2003
4	Coudert Brothers	2005
5	Testa Hurwitz	2005
6	Jenkins & Gilchrist	2007
7	Thelen	2008
8	Thacher Proffitt	2008
9	Heller Ehrman	2008
10	Howrey	2011
11	Dewey LeBoeuf	2012
12	?	2014/15

It is sobering to consider that on average one AmLaw 100 firm[28] has collapsed just under once every year from 2000 to 2012. In that regard we are now overdue at least one more, though it is possible we have moved to a new period where US firm collapses are rare because of improved management and organisational culture. We certainly hope that is the case.

As noted earlier, in the UK it is a different picture. Large UK law firms tend not to fall apart very rapidly. Instead the weakest firms tend to underperform until they receive a rescue merger. However, in recent years, though still rare, there have been a handful of examples of firms that if not for the 'pre-pack' administrations they underwent before being taken over by rivals would have exploded. Recent examples of collapsing firms in the UK Top 100 include: Cobbetts in 2013, Manches in 2013 and Halliwells in 2010.

28 Notable US firm Altheimer & Gray also collapsed in 2003, however, despite its international coverage it was not in the AmLaw100. At the time of its collapse it was ranked 145 by revenue.

Jomati Consultants LLP
3 Amen Lodge
Warwick Lane
London
EC4M 7BY

Tel: +44 (0) 20 7248 1045

www.jomati.com

jomati
consultants LLP