

Is your firm led by an ostrich?

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13th January 2017

It may be a myth that the ostrich buries its head in the sand when confronted by danger but a worrying number of law firm leaders seem to adopt similar behaviour. They appear oblivious to the challenges their firm faces and unprepared to take any necessary remedial action.

In law we are relatively fortunate in that firms rarely suddenly collapse. Instead, firms tend to drift off the pace over a sustained period often exceeding five years. Towards the end the decline may accelerate and then a happy ending is unlikely. But if decisive action is taken when the firm still has options an acceptable outcome can usually be achieved.

To help identify an ostrich ask yourself the following questions:

Has our leadership developed a clear and coherent strategy which it is effectively implementing?

A strategy should not be a “sweeties for all” document but a hard-nosed and focused plan to enable the firm to develop its business in an increasingly demanding, dynamic and competitive market. It may necessitate targeted investments or the de-emphasising or disposal of some businesses that do not have a sustainably profitable future. Any strategy must be focused on client’s needs and how these are changing and properly address any profitability, market position and succession issues.

But preparing the strategy is one thing, executing it is another. Clear and decisive execution against measureable and timed targets is essential if any strategy is to have a beneficial impact on the firm’s performance.

Has your level of bank debt increased over the years for no apparent reason?

Bank debt if used properly is an appropriate tool to use. Especially when moving or renovating premises or upgrading IT systems it may be essential but if used for that purpose there should be a clear amortisation schedule. Just increasing bank debt to enable partner distributions to be paid, except on a very short term basis, will eventually spook your bankers who will inevitably stop the party at the most challenging time. Remember the old adage: revenue is vanity, profit is sanity but cash is king.

Does your remuneration system fairly reward partners and is long-term partner underperformance properly and consistently addressed?

No remuneration system will ever be perfect but, consistent with the culture and values of the firm, it needs to fairly reward partners. The profit pool is a zero sum game, if some partners are consistently overpaid, others must be underpaid. The underpaid partners may tolerate this for some time but if nothing changes they will become demotivated and potentially leave. Long-term partner under performance demotivates not just other partners but also associates who see their future career blocked by such under performers.

Are you keeping performing associates and partners and can you recruit good associates and partners and keep associates through to partnership?

One has to be realistic, some level of mobility is inevitable and probably desirable for a myriad of reasons. But if a firm is losing good people and finding it difficult to recruit replacements its gene pool is inevitably being degraded. This may not matter for a year or two but over time will relegate the firm to a lower market position. The loss of well-regarded partners starts to dissolve the glue that

binds a firm. Indeed, it not only gives others permission to examine their options but causes them to consider it to be a necessity. If not addressed quickly this can rapidly accelerate a firm's decline.

Do your leaders act in an open, consistent and coherent manner?

Leaders who are seen to protect their friends or force out partners due to personal animosity are sowing the seeds of the firm's destruction. Inconsistency, opacity and secret deals are always eventually exposed and when there is any trust in the leadership is destroyed.

Do your leaders regularly meet a wide range of the firm's clients and other contacts?

If they are not listening to the firm's clients and other contacts they will be insulated from the trends and concerns that are impacting your clients in the market. This detachment is especially dangerous in such a competitive market.

Not all of these issues are indicators of terminal decline. Any firm may encounter some of these issues from time to time. But if you answered "no" to three or more of these questions you should be concerned. If you answered "no" to five or more and they are not being addressed your choice is clear. Get rid of the ostrich or get out of the firm.

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