

Legal Week

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International relations

The management of an international law firm is a delicate matter, particularly in a partnership structure. How can the management of multinational law firms retain control and provide strategic direction while remaining sensitive to local cultures and issues? Tony Williams explains

When looking at international law firms and in particular international mergers, two issues spring to mind: the management structure and the remuneration system. Although these are important issues in many respects they are a proxy for the wider issue; what do the partners expect to contribute to and get out of being part of an international firm?

Understanding the different cultures and approaches to the practice of law which exist in an international firm is essential to delivering effective and sustainable management structures and remuneration systems. Unfortunately, all too often the parties only examine these issues from their own perspective. As in any transaction it is important to know what you want to get out of having an international scope, but it is just as important that one must understand what the various groups of partners consider important and what motivates them. In relation to potential mergers, stories of misunderstanding and miscommunication are legion.

All too often UK or US firms assume that their way of operating is the best and that the lawyers in other countries will 'see the light' and embrace their way of practice without question. This is to fundamentally misunderstand the factors that drive partners in different countries and what prompts them to link with an international firm. When considering management structures there are two key issues: the make-up and role of the central decision-making bodies and operational responsibility for the local operation. In relation to operational responsibility the answer is relatively straightforward. If a firm is to operate effectively it is key that as many decisions as possible are made locally and take full account of local conditions.

The local management, once it has agreed its overall strategy and budget with the firm's management, must be left to manage their operation. To micro-manage from the centre enables local management to abdicate all responsibility for the local operations and to blame any tough decisions on 'central management'. In turn this places an unsustainable burden on the central management team, engenders a sense of alienation in the local office and undermines the authority and status of the local management. If the local management is responsible and accountable for local decisions, action can be taken on a timely basis with proper regard to the local market conditions.

Certain worldwide policies will be necessary, especially in relation to the servicing of the firm's core clients and compatible IT and accounting systems and conflict checking. However, uniformity for the sake of it is not usually desirable. One question always has to be asked when seeking to impose a firm-wide policy; does this provide a better service to the client, reduce legal or reputational risk or appreciably increase the profitability of the firm? Too many central policies risk increasing the rigidity of the firm and add to its bureaucracy and alienate the partners from the business even further. This may result in local active resistance or more

probably passive resistance whereby partners nominally accept the policies, but ignore or circumvent them in practice. The frustration this engenders can be out of proportion to the perceived benefits of the policy.

With effective and accountable local management in place one can consider the firm's overall management structure. It is understandable, especially at the time of a merger, for management roles and structures to be devised by reference to the personalities involved. This approach is rarely sustainable, especially as the personalities change and it becomes necessary to devise a more coherent and clearly defined management structure.

A relatively small, focused and accountable management team is essential. There must be a clear point at which the buck stops or decisions will never be made or once made will constantly be reconsidered. Those with the management responsibilities need the authority to do their job and the respect of the partners and staff to enable them to lead.

A single management board may be sufficient, but for a large and diverse firm it may be necessary to have a management team and a board which is more akin to a corporate governance structure. Whatever approach is taken the bodies must have clearly defined roles and responsibilities. Lawyers are notorious for refusing to look at longer term strategic issues and take comfort in short-term issues and minutiae. Too many times I have encountered a group of partners when reviewing a strategic paper failing to address the key issues, but instead finding the typo on page 18!

If there are two bodies, the board should hold the management accountable, but not revisit every management decision. They should take a longer view and ensure concerns that exist in the firm are properly addressed. The board will need to be in close touch with the partners and staff and have the courage to challenge the management when it is appropriate to do so. The selection of those for membership of the management bodies is crucial. They may be appointed by virtue of leadership roles they have in offices, practice groups or be directly elected by partners or groups of partners. However selected they must be capable of looking at the interests of the firm as a whole. Far too often firms are driven by the needs of one key practice group irrespective of the overall benefit to the firm. Such an approach risks alienating large parts of the firm.

Lawyers often do not make good managers. Partner time should be devoted to areas of real significance and as much so-called 'management' as possible delegated to competent professionals who are properly supported by the lawyers. This will give the management the capacity to focus on the issues of strategic importance to the firm. However, as this often involves taking difficult decisions, the temptation to revert to the security blanket of the mundane is ever present and needs to be resisted. It is important that all those in management positions maintain close and regular direct contact with clients, even if not in a fee earning role, in order to retain their credibility with the partners.

Inevitably one of the key issues management have to consider is how the profits of the firm can be grown sustainably and how they should be divided. The question of remuneration systems often degenerates into a rather sterile debate of 'pure lockstep' versus 'eat what you kill'. The reality is far more complex, especially for an international firm.

Lockstep, if applied properly, is a very hard and intolerant system. It works on the basis of equality of effort (if not financial performance) and is very inflexible. It does rely on management being strong and able to enforce what is in effect, for partners, an 'up or out' system. Eat what you kill, meanwhile, is unlikely to encourage a 'we' rather than 'I' culture.

Any remuneration system needs to answer the following:

- Does it motivate your best performers to perform?;
- Does it encourage partners to develop existing clients and to locate new ones?;
- Does it encourage partners to involve other partners outside their group or office?;
- Does it encourage the right behaviour in the firm to partners and ALL staff?;
- Does it enable you to keep partners in areas of significance to the firm which may be inherently less profitable than the rest of the firm?;
- Does it facilitate lateral hires?;
- Do partners think it fair?; and
- How much management time does it take to run?

For an international firm this evaluation is even more complex. Lawyers in different countries will have different approaches to money, differing tax regimes (including the tax effectiveness of pension provision) and different approaches to their retirement date. A single worldwide system has the benefit of simplicity, but it may be too rigid. Accordingly the issue may be fudged by using local or salaried partnership status or super lockstep. These may cure the local issue, but can have profound implications for the culture of the firm worldwide. It has to be remembered that the cash amount of the remuneration is generally less significant than the relative amount compared to one's peers in the firm and in the local market.

A measure in one country may not be appropriate in another. In a US firm, 2,000 chargeable hours may be the norm, but in other countries higher charge-out rates may produce the same profitability on, say, 1,700 chargeable hours. Different salary rates and property costs will distort the picture further. I never cease to be surprised by the naivety of partners on international remuneration issues. Following a recent merger with a US firm which resulted in a substantial increase in the European partner remuneration (which was guaranteed for a few years), the partners complained that the US partners expected the Europeans to be available during and indeed after normal New York working hours and were demanding a more tightly run operation. Did they really think the US firm was participating in a 21st century Marshall plan to support European lawyers?

As always, understanding your partners approach, ambition and commitment is essential. Running an international law firm has always been complex; with the current economic uncertainties it is much more so.

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