

**LAW FIRM MANAGEMENT ISSUES
ON THE CUSP OF 2003**

THE MANAGING PARTNERS' PERSPECTIVE

**A SYNOPSIS OF THE SMOCK•STERLING
CEO ROUNDTABLE**

SMOCK•STERLING
Strategic Management Consultants

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Smock•Sterling Strategic Management Consultants recently hosted a day-long roundtable discussion of a diverse group of managing partners and firm CEOs focused on the critical management issues facing law firms on the cusp of 2003. The discussion was informed by the results of a special qualitative research project conducted by Smock•Sterling in the fall of 2002 that identified the management issues consuming significant top management time at large and mid-sized law firms.

This paper summarizes the most valuable insights and ideas shared by the participants with regard to the major issues confronting law firm managers – practice group organization and management; firm combinations and mergers; marketing and business development; management structure; and attorney recruitment, development and retention.

PRACTICE GROUP MANAGEMENT AND ORGANIZATION

Every firm represented at the roundtable had evolved to more formal practice group management. It was agreed that practice groups are a logical means of organization and that their people are settling into this way of managing the firm. The best practices/most valuable ideas offered included:

- **Developing plans and budgets for practice groups and tracking performance against those plans** – using a variety of measures that fit the systems and culture of the firm including capacity utilization, contribution to profit (i.e. – controllable revenues less controllable expenses), and allocated profit and loss statements; tracking performance that pits the practice against its plan, not against other practices (n.b. – internal competition should be discouraged at every turn); and ensuring practice group leaders discuss their plans and results with other practice group and firm leaders
- **Holding regular meetings among practice group leaders** – talking about results and opportunities; discussing plans, budgets and assumptions for the future; focusing time on clients' inter-disciplinary needs and opportunities; and sharing best common practices
- **Allowing for diversity in how lawyers are grouped into practices** – recognizing that some groups must be skill-based, traditional departments, while others should be industry focused (n.b. – industry focused groups tend to have the best marketing results) and requiring lawyers to choose one group, but allowing them to participate in any group in which they have a legitimate professional interest
- **Investing in leadership and management training for practice group leaders** – Edge Group's CD series considered a reasonable primer and worth the cost; Hildebrandt's three day conferences and Smock•Sterling's one day session add value, especially if those attending can bring lessons back to other practice group managers; and Executive Leadership and Executive MBA programs are considered worthwhile for those practice group leaders who are likely to hold management and leadership roles in the future
- **Recognizing that managing multi-office practice groups effectively requires practice group leaders to travel** – making it logistically easy for practice group leaders to travel to and stay in cities in which they do not live (e.g., firm apartment, visitors offices, technology, etc.) and ensuring the whole group meets at least once per year.

FIRM COMBINATIONS AND MERGERS

Every managing partner in attendance had experience with mergers and combinations – some on a fairly large scale, others with smaller platforms. Their insights follow.

- **A thorough self examination is absolutely imperative to the merger process.**
 - It is good to go through the self assessment aspects of the merger process even if you never merge – because of what you learn about your strengths, your leaders, and the gaps in your firm.
 - Mergers bring everything out into the light – culture, compensation, clients, practice group organization, etc. – reviewing it is a healthy process for any firm.
- **Firms need to be very clear what they want to achieve from mergers and combinations.**
 - A regional vision is easier to achieve and manage – assuming conflicts can be overcome and “*new firm*” economics align well with that regional market.
 - Bi-coastal visions are more challenging – but appropriate and strategic for those firms that have the necessary practice strengths and economics.
 - International visions are considered the most difficult to achieve and fit relatively few firms – including some firms who are significantly invested in such a vision.
 - Multi-regional visions are illogical in most instances – with clear exceptions driven by specific practice strengths.
- **Involving more people in merger and combination analysis pays off in the long run.**
 - It makes the possibility of combining with other firms sink in as a real option, not just a hypothetical idea.
 - Looking at and discussing options and specific opportunities helps partners develop a stronger understanding of the issues and implications of a merger – in ways that hypothetical discussions do not.
 - Involving people should not include group “*voting*” on which firms to approach.
 - Firms that clearly include mergers in their strategic plan may still encounter surprise and resistance from some internal quarters when a live merger opportunity is presented to the partnership.
- **Mergers and combinations generally cost more than expected.**
 - Professionals and practice groups that were expected to thrive in the merged environment sometimes do not.
 - Real estate and other infrastructure issues generate unanticipated costs.
 - People who were expected to stay with the firm leave, due to their discomfort with the merger.
 - Yet, adversity in the early going – assuming it is overcome as a team – can make the new firm stronger and enhance subsequent integration.

- **Synergies are often achieved more quickly than anticipated.**
 - Smart and dedicated lawyers can integrate very quickly and effectively when they realize they need to.
 - The sooner the merging firms begin talking about the “*New Firm*” – describe it and understand it – the better and faster the integration will be.
 - Failures stem from two sources – a failure to integrate (and having failed to integrate, firms have no reason to stay together) and a failure of vision (pursuing a merger strategy that is illogical economically, geographically, or strategically).
 - The perfect match – in practices, clientele, etc. – does not exist. However, the clientele and economics have to be compatible or integration will be nearly impossible.
 - Move people around after the merger to help capture the synergies. But, recognize that it is logistically and financially more difficult to live and work in the larger cities in any region.
- **Firms need to be open to inquiries and, more importantly, must be willing to make the initial phone call to a firm they believe is a good potential partner.**

MARKETING AND BUSINESS DEVELOPMENT

The Roundtable participants shared their thoughts on what marketing investments appear to be working and which appear to have little value.

- **The effectiveness and value of branding efforts received decidedly mixed reviews from the managing partners.**
 - Overall firm branding efforts were largely considered a poor investment.
 - First, they are extraordinarily expensive to run on a large scale across a region or nationally – particularly on a per partner basis.
 - Second, short of significant levels of frequency and reach, they are ineffective in building awareness and name recognition.
 - Third, for firms that are already “*first tier*” in their home city, a general image and awareness campaign is a waste of resources, since decision makers already know the firm.
 - Conversely, branding campaigns that highlight areas of genuine practice strength, extraordinary individuals, and/or uniquely positive client relationships were considered to be worthwhile.
 - Branding ads that highlight genuine practice strengths are more productive than purely image ads – but, they have a political cost within the firm (i.e., “*why wasn’t my practice featured in those ads?*”).
 - Ads that break from the mainstream focus on the breadth, depth, and history of the firm – whether they focus on individual attorneys, unique client relationships, or other novel insights on the firm – are also considered more valuable than general image advertising.

- Branding efforts that lead to consistent application of design standards across all firm marketing materials (e.g., brochures, letterhead, web site, invitations, etc.) do have value in ensuring the firm maintains a high level of marketing professionalism across all offices and practices.
- **Several roundtable participants were highly complementary of the leaders of their in-house marketing departments.** Among the factors identified as keys to having a good in-house marketing department were:
 - A clear preference for high energy, positive thinkers, and self starters – people who generate ideas, but do not become too attached to any single idea or program
 - A widespread agreement that a firm is better served by spending more on a few good people – get better people, pay them more, yet have fewer people overall
 - A realization that the first marketing director (and often the second and third) in a firm are likely to fail – which is more a reflection of the firm’s inability to understand what it needs/wants than it is on the marketing directors themselves
 - A recognition that professional marketing people can only help lawyers who want and can use the help – some lawyers simply do not want the help and others cannot make valuable use of marketing support
 - A recognition that firms need a “*concierge for marketing,*” but that such a person should be a more junior member of the staff – organizing parties, seminars, and social events is necessary, but not integral to marketing
 - Finally, a realization that experience in classical product marketing organizations is often a barrier to success for a law firm marketing director – the same rules and principles that work in classical marketing are difficult to apply in a law firm environment (i.e. – professional marketing people cannot direct product development, pricing, or distribution channels – lawyers must do these things).
- There was widespread enthusiasm for client visits (by the managing partner or others not handling the relationship day-to-day) and for client service planning. The clients generally appreciate the investment of time and effort in improving the relationship and the long-term outcome is almost always growth of quality work for good clients.
- Finally, there was also agreement that involvement in industry trade groups and industry meetings and shows are highly valuable investments of marketing resources and efforts. Sponsorships at industry conferences, booths at trade shows, and speaking at industry meetings all yield positive results to practice groups that have genuine expertise and experience in the industry.

MANAGEMENT STRUCTURE

There were a great deal of diversity of management and governance structures represented. Yet, there were a few common themes regarding what is working and where law firms are headed in this area.

- **The managing partner role has expanded at all but the smallest firms to a virtually full time job.**
 - Managing partners are often significant business generators – thus, transitioning client relationships and allocating time to continuing business development are critical success factors for effective managing partners.

- Having transitioned most key client relationships, managing partners are more vulnerable than they were in the past when their term of service as managing partner expires.
 - Some view the managing partner role as the last full time involvement they will have in their firm.
 - Others expect to spend two to three years rebuilding a practice after stepping down from the managing partner role.
- **More day-to-day management responsibility and accountability is being handed to practice group leaders.** In some firms, practice group leaders (together with office managing partners) have taken on considerable day-to-day management responsibility.
- **Managing partners and their senior (typically non-lawyer) direct reports are generally being asked to assume more day-to-day authority and accountability for the firm level operational management,** as opposed to committees retaining that day-to-day authority.
- **Elected Boards and Management Committees in turn are taking more policy oriented roles** – removing themselves from the day-to-day issues and focusing on strategy and policy issues. Compensation determinations are the sole exception to this trend – elected bodies still take an active role in setting partner compensation.

ATTORNEY RECRUITMENT, DEVELOPMENT AND RETENTION

Toward the end of the roundtable discussion, the managing partners shared their observations regarding a topic that could easily have filled the entire day – recruitment, development, and retention of attorneys.

- **There is a wide spread recognition that the definition of a well-rounded lawyer has changed and will continue to change.**
 - There is no longer an upward path for just “*being really bright.*”
 - Productive lawyers still need intelligence and technical competence, but also must be able to build and maintain strong working relationships with their clients and fellow lawyers.
 - They must be able to market the firm and themselves – whether they like it or not.
- **Attracting laterals – individually and in smaller groups – is driven largely by a firm’s ability to provide the right platform to those recruits to build their practices.** It is less a function of direct compensation and more a function of the broader resources a firm can bring to bear.
- **Younger partners are most likely to seek a change of firms when “a senior fat head” refuses to share credit and acknowledge the contributions of the younger attorneys on projects or in a practice.** This has implications both for retention – reigning in the so-called “*fat heads*” – and for recruitment – recognizing the vulnerability of highly capable younger partners struggling behind enormous egos at other firms.
- **Compensation disputes often boil down to differences of \$5,000 or less.**
 - Having relatively few compensation bands – in which everyone earns the same base draw – can overcome and prevent many partner compensation disputes.

- Confidential compensation systems – in which only the compensation committee members’ draws are known – are preferred over open systems. However, once compensation has been open, it is very difficult to go to a confidential system (i.e. – once out, it is difficult to put the genie back in the bottle).
- A discretionary bonus pool – in which a third or less of the partnership participates in any given year – is considered a solid method for rewarding extraordinary performance and results in the near term.
- **Roundtable participants chastised themselves for driving associate salaries up – particularly at the end of an economic expansion.** At the same time, all participants agreed that new associates are an important element in a firm’s growth and overall health and that firms need to be competitive vis-à-vis associate salaries.
- **Finally, it was generally agreed that a major challenge facing nearly every firm is the need to develop strong leaders.** While there are a range of opportunities for leadership and management training to lawyers growing into leadership roles, the notion of managing and/or leading practice groups or the firm runs counter to the motivations that initially led them to practice law.

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While this short synopsis pales next to the richness of the discussion and interaction among managing partners at the roundtable, we trust the above summary provides you with a glimpse into the ideas and knowledge that emerged at the roundtable.

For more information about the roundtable, future seminars and roundtable discussions, or the research results that informed the roundtable, please call **John Smock or John Sterling** at (800) 809-0542 or visit us at www.smocksterling.com.