

Management's Burning Issues

by Patrick J. McKenna

In July of this year, I posed a single question to about 100 managing partners. The question: "As someone responsible for helping chart your firm's future, what are your '*Burning Issues*' - those critical business issues concerning strategy, growth, practice management, professional development, or whatever subject(s) it is, that is currently occupying your leadership agenda?"

I was pleased to receive detailed responses from 43 firm leaders, representing firms from 100 to over 2000 lawyers in size. Those responses came either by way of written feedback or in many cases the opportunity to engage in some interesting and thought-provoking discussions.

What follows is a summary of what was learned, categorized by firm size (and with an obvious sensitivity to maintaining confidentialities):

• FROM FIRMS OF OVER 500 LAWYERS

Curiously, as if the outcome of some mysterious 'group-think' experiment, the highest ranking issues that large firm managing partners identified, all centered around three common themes.

The single most oft-cited topic was **globalization**. As law firms have grown the role of managing partner has become more strategic and the pressures more intense. For the largest firms, globalization demands far better integration between offices and departments.

Many firm leaders expressed their challenge as how to "managing across cultural differences" or "how to handle conflicts across different cultures." For others who had been in recent cross-border mergers, the predominant issue was how to "manage integration" while also maintaining those aspects of the firm's culture that are deemed important to protect.

The second most common topic picked up from the responses was that "in most jurisdictions the **competition** gets tougher every year." As one leader phrased it, "Consolidation within the profession continues. The big firms get bigger, the small disappear or at least move down-market and kid themselves." Later we'll see this same burning issue, perhaps labeled as marketing, positioning, or differentiation, but occupying a priority consideration for managing partners in firms of all sizes.

One of the related challenges for one managing partner in our large firm category was law firm pricing. This particular leader is questioning: "How it is we price our products. What kind of pricing models we employ. "A couple of others lamented that client promotion is tougher. "Exacerbated for me by the fact that the clients really can't distinguish between quality and mediocrity. Thus we invest in quality, which means investing in providing leading compensation packages, a commitment to diversity and pro bono, time spent on

professional development, and then few clients even know the difference. It's a funny business!" For yet another firm leader, the issue was how to "effectively partner with clients."

When you combine the two leading issues of globalization and hypercompetitive markets, one can just imagine the challenges associated to allocating resources given the different profit capability and partner expectations that may exist between U.S., UK, European or Australasian practices.

The third prominent issue was **leadership and management training** for lawyers. This topic was not surprising given the recent news where Wilmer Cutler, in conjunction with Harvard Business School, and Chicago's Seyfarth Shaw, with Northwestern's Kellogg School of Management, are now following Reed Smith and DLA Piper Rudnick in initiating formal long-term collaborative efforts to train their current and future leaders.

As with any business, running a law firm is about people skills first and foremost. Which means getting the best out of a highly talented group of individuals – and this remains a big challenge for managing partners. As one respondent commented: "Lawyers don't want to be lead or managed and as firms grow there are still those who think management is a waste of time."

A variation on this same training theme was the hiring, training, and nurturing of young associates out of law school. "Clients are not allowing firms to train associates on matters any more – so how do we do it?"

• FROM FIRMS OF BETWEEN 300 – 500 LAWYERS

The strongest subject matter to engage this group of managing partners can be reduced to one word: **marketing**. It was expressed in different ways and from various perspectives: "One issue with which we are grappling has to do with trying to trace the return on our investment in marketing. We now allocate marketing funds by industry segment and/or practice groups but it is not always easy to determine when and where the marketing investment is paying dividends." From another, "my big challenge is how to deal with the group of partners in the middle of the bell curve, and to maximize the effectiveness of their client relations abilities."

Some phrased their challenge as one of market positioning. "Two-thirds of the Am Law 200 firms already have a presence in New York and they all agree that you have to be there, both because it is the financial capital and because you will not likely be seen as a serious player unless you have an active presence in the city. For us, the challenge now becomes how to make it work." From yet another, "we are always considering the advantages and disadvantages of remaining regional. We like our brand, and think that trying to become just another national firm, which I think really means that you then have to go international, would dilute that brand. So my challenge is to figure out what this firm needs to do in light of what will happen to regional firms over the next 10 years."

Then there were those firm leaders who talked about their market challenge in terms of differentiation: "are we doing enough to differentiate ourselves in a world where we will not be one of the 20 *branded* firms?" And from another, "How do we distinguish ourselves in

such a way as to attract more star quality lawyers? “ And this one, I particularly liked, “we struggle with differentiating ourselves from several other firms who from the outside look an awful lot like we do. I think we have made some headway – but most people want to know the difference . . . in 10 words or less!”

Then there was the one comment that kind of summed it all up with respect to today’s market challenge: “We are a firm that prefers to grow organically. Our quality and culture are major assets for us. Our profitability growth has outpaced most of the AmLaw 200 over the past three years. Our turnover at the partner level is exceedingly low. In short, things are going well for us . . . but . . . is this a viable model going forward?”

A strong number of respondents worry about developing **effective practice groups**, variously expressed as improving leadership (similar to the large firms), ensuring accountability and leveraging partner buy-in.

As one managing partner framed it: “It is apparent to me that the practice group structure is both essential for the firm and working reasonably well. Not surprisingly, the progress is uneven. My burning issue is how to improve the leadership?” From another, “We have an abundance of terrific lawyers, but a real shortage of ‘leaders.’ I suspect that puts us in the same category as everyone else. The priority is to give some real focus now to the early identification, positioning and training of young partners with leadership traits.”

One firm leader focused in on the illusive accountability factor: “The issue for me has to do with the accountability of our practice group managers. In my opinion, we have yet to develop a meaningful way of measuring the value of our team leaders and then handle it appropriately during the compensation process.”

Yet another took us to the typical issue of partner buy-in: “A key challenge here is to convince the partners that the practice group approach is important -- needs their support and participation?”

An equally strong topic, that elicited numerous comments, was the challenge of **succession planning**, both for those stepping down from a position of leadership and for those retiring from the practice of law altogether.

According to one respondent, “I have been reading recently about a potential ‘brain drain’ that will affect organizations as the current generation of baby boomers reaches retirement age. If these articles are accurate, we will all be tested to make sure we have viable succession plans in place and that the knowledge held by partners at the senior levels is captured and transferred.” This same sentiment was reinforced by a couple of managing partners, “I’m giving some thought to how we can better utilize our more senior partners, people in their 60s whose practices are no longer robust but who are very good lawyers and have much to give by way of training younger lawyers.” And, “We need to do a better job of understanding and taking advantage of the contributions that some of our seniors are able - and more than willing - to make.”

Meanwhile, at the leadership level, “I have about 9 months left in my second (and, under our term limits, last) term as chair of our firm. We have a very strong successor in waiting, but we are working hard to figure out a model that will work for him. The challenge, as you will readily recognize, is that I have been happy to be a full time chair and, now nearing

retirement, don't need to rebuild a practice. But he is much younger and has a very active practice that he doesn't want to and shouldn't fully give up. So we need an infrastructure that will give him the right kind and measure of partner-level support, which of course means support that both he and the partners will respect and trust. It can be done and we have time to do it, but it is a challenge and highlights for us the importance of developing our future leaders on an ongoing basis.”

On a related note was the broader issue of **professional development**. According to one respondent, “a burning issue we continue to focus on is professional development. When a firm is taking in 40 to 50 or more new associates a year, what kinds of programs work to get them up-to-date in not only the area in which they are working, a lot of which they are going to learn by doing, but also in client development, participation in the community and the profession, pro bono, loss prevention, and so forth.”

From another, “we have noticed in several assessments of the things that are important to associates, in terms of retention and job satisfaction, how high training and professional development rank on the list. So, we’ve dramatically ratcheted up our training and professional development program. Each of our practice groups are or have developed practice area specific curricula. The programs we are offering are timely, well done, and most are at lunch for an hour or so. One would think that we would be getting an enthusiastic response. Instead, there is a fair amount of grumbling. So my challenge is to get my colleagues to embrace the importance of something that makes them better lawyers and helps to build the base for the future of the firm.”

One ever-present issue that was also raised by a couple of people was **partner mobility**. “My burning issue? I become increasingly concerned about what appears to be an explosion in what I call partner free agency. I think large firms should expect some degree of mobility among their partner ranks but the current comings and goings of partners around the country is unprecedented. One problem is that as firms continue to grow in both number of lawyers and number of offices, it becomes increasingly difficult to develop the deep-seated loyalty that will cause valuable partners to be willing to stay.”

And, of course, no discussion of managing partner challenges would be complete without some reference to: “the issue on my agenda is **diversity** as it is becoming increasingly important.”

• FROM FIRMS OF BETWEEN 100 – 300 LAWYERS

Again, like the largest firms, this size grouping clearly choose to label their top burning issue as **competition** – competition for clients and competition for talent – all of which probably speaks to the tectonic changes that are being taking place throughout the profession: “In an increasingly ‘immediate-bottom-line-oriented’ industry, how does one build a real law firm with an institutional client base, when every lawyer is a ‘franchise’ going to the highest bidder, and investment, at least for those in their 50s, is a bad word? (Can we put AmLaw 100 out of our misery?)”

Expressed slightly differently by one managing partner, “I’ll tell you what keeps me awake at nights is wondering whether this convergence is for real? Can the focused boutique practice with ‘A’ work survive the next 5-10 years?” And this from another, “a number of

practice areas are increasingly being perceived as commodities by clients. We are exploring a number of issues: Can we make money competing for this type of work? Does taking it on enhance our ability to get the full range of a client's work or does it lead to the perception that we're only good for commodities work? If we stick to the high-end stuff, how do we keep everyone deployed or do we plan on strategic shrinkage?"

Among the competition issues were those managing partners who expressed the challenge as one of market location: "how does a firm our size get larger when you are faced with pretty good profits but not a desirable geographic base." There were also those who questioned the security of their client base. "Many firms have been hurt by consolidation among their clients cannibalizing each other. Meanwhile globalization and the outsourcing trend has definitely hurt the manufacturing sector. So, our burning issue becomes how can we continue to take a growing slice of a declining pie?"

There were firms who identified their competitive struggle as one of obtaining the best talent. "We are constantly competing with much larger firms for talent. We are actually more profitable than most large firms and historically have provided a far better platform for business development, but ironically, as we have become more successful and better known this has become a harder sell. I don't think it has as much to do with us as with the demise of so many firms lately combined with the innate conservatism of lawyers. In any event, positioning ourselves to continue to get world-class lawyers is always an issue." And from another: "can an 1800-hour firm be profitable enough to attract top talent -- put another way, are there enough top lawyers out there to populate a firm in which the marginal hour is worth more than the marginal dollar (honestly -- how much money do you need??)"

There were those who questioned the future of the mid-size, middle market firm: "I think there's a lemming mentality out there right now. We've been approached twice in the last year by regional firms whose espoused strategy is 'to be the best between point a and point b. What sense does that make absent a client relationship confined to that geographical region?"

Not surprisingly, these firms also shared exactly the same sentiments as the firms in the other size ranges by identifying **leadership and practice group management** as one of their primary issues.

As one leader rather bluntly put it, "One of our more important burning issues is internal. Our practice groups and practice group management sucks. Unfortunately, we've never held them accountable. Our Chief Financial Officer claims that they are fat, rich and happy. This issue definitely needs some work." Another put it slightly more diplomatically, "The issue that we are attempting to address is our practice group structure. I'm not comfortable that we have organized ourselves appropriately, and these groups operate at quite different levels of efficiency. We are presently undertaking a review to determine what we should be doing." And from yet another, "I spend a lot of my time these days managing business conflicts within the firm. This is an increasing issue for managing partners when one is trying to retain and nurture one's stars."

There were a number of diverse views concerning the leadership of the firm. From one respondent, "Generally busy lawyers are happy lawyers. Happy lawyers see no reason to change and lawyers, by nature and training, are risk adverse advocates who have a remarkable facility to find something wrong with any idea they don't like. My challenge is

how to rally the troops.” And from another this reaction, “How does the managing partner really have his or her hand on the pulse of the clients and partners, if they don't practice or business develop?” Then there was this contrary reaction: “My burning issues include figuring out how much management is too much management, once you go beyond the managing partner and the COO and CFO in a firm of 150 lawyers.”

From one managing partner was the issue of whether leadership should have a term limit. “I marvel at managing partners who remain in that position for decades, and wonder whether that's really good for the institution. On the one hand, the political base required to perform the job doesn't get built overnight and, once built, can provide an almost self-perpetuating platform from which to lead. On the other, the institution changes over time, the demographics demand a different type of leader, and fresh ideas become critical to positioning yourself for future changes.”

The topic of **succession planning** was also on the list for this group. As one expressed it, “the overall demographics are aging. The lions share of the producers in this firm are in there 50's and early 60's with little strength below that level. So, the firm suffers a succession issue.” As was the issue of **maintaining culture**, “Our firm, like most firms our size, has expanded primarily through the hiring of lateral attorneys. Although we attempt to vent each hire pretty carefully, there is always a struggle to incorporate them into our firm's culture. Not an easy issue.”

Finally, amongst the various burning issues was some speculation on how the future of the profession was evolving: “The Financial Times this week published an editorial positing the notion that law firms will have to allow non-lawyer ownership if they are ever to install the professional management that is critical to a large, multinational organization. Obviously, that proposition is foreign to American firms. Yet, the consolidation within our industry, as previously experienced by the accounting industry and English law firms, along with the "globalization of services," may indicate that this is a very realistic proposition.”

IN SUMMARY

While these may be viewed as a basket full of thorny, deeply challenging issues facing firms today, many of these firm leaders spoke of having the persistence to face their burning issues and create strategies to give themselves a decided advantage.

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