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# International Review

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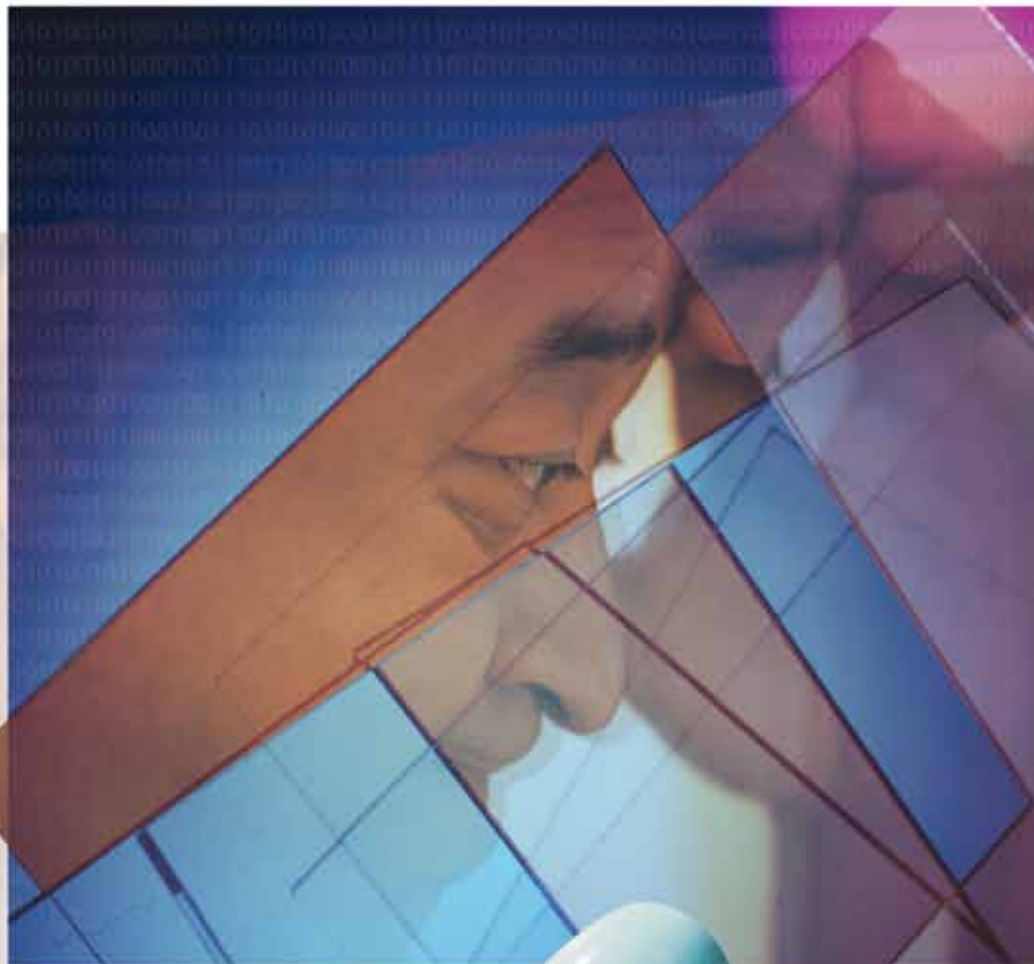
**THE SEEDS OF  
COMPETITIVE  
DISRUPTION**

**FIRM LEADERSHIP  
IS NOT  
FOR WIMPS!  
LEADERSHIP  
TRUTHS WE  
DON'T TALK  
ABOUT**

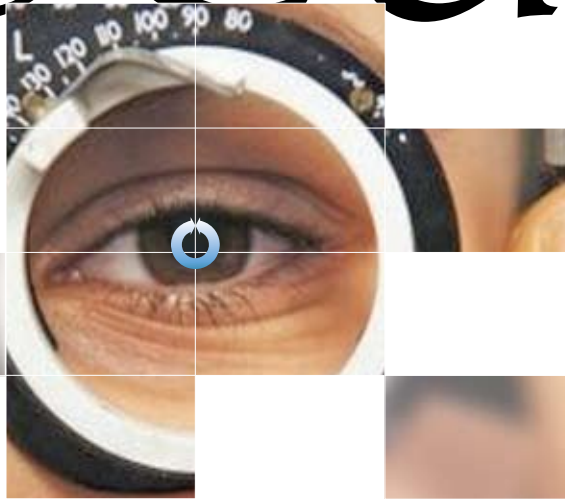
**SIX FACTORS  
THAT CAN IMPEDE  
EFFECTIVE FIRM  
LEADER-COO  
RELATIONSHIPS**

**A NOVEL  
APPROACH TO  
COMPENSATION**

**ARE YOU GETTING  
THE MINUTES  
FROM PRACTICE  
GROUP MEETINGS?**



# BRING YOUR FIRM INTO FOCUS



## BECOME THE LEADER IN YOUR FIELD

All law firms must have one major objective—be the leader in your field. Easy to say. Hard to do?

Achieving leadership demands superior legal performance complemented by savvy marketing—inside and outside the firm.

Begin by realizing your BRAND. Successful executives understand that clear, consistent marketing strengthens their firm's leadership position and their BRAND. However, they also know their attorney's are enrolled in the intellectual challenges of crafting successful and brilliant solutions for their clients. This, after all, is what attorneys do. But let's face it, most attorneys dislike marketing. Marketing steals billable hours. Grooming attorneys to embrace the firm's BRAND and adopt their role as

marketers requires guidance and a strong arsenal of support. Without this your BRAND becomes diluted and ineffective.

Intelligent marketing requires agility and focus in today's fast-paced, linked culture. Creating a consistent, clear BRAND connectivity is a "must" dynamic for success. If you are not proactive you will fall behind and perhaps fail.

Perpetuate your BRAND. Avoid looking stale and getting lost among your competition. Actively maintaining a current-looking web site is critical. Establish your site as a living breathing marketing tool which looks fresh and accurately portrays who you are. It should also acknowledge your attorney's accomplishments giving them a tasteful marketing BRAND. One they are proud to wear. One that

rewards performance and leadership.

However, what is most often misunderstood and neglected is making a commitment to optimize your search engine presence. This is a daily marketing process not an IT project. Paying attention to your site's details and BRAND encourages repeat connectivity and seamlessly translates that you will pay equal attention to your client's needs. This builds trust which, after all, is what legal leadership strives to achieve. Maximizing these necessary components is essential for securing your firm's leadership role.

Bring your FIRM into Focus with PROKELLSEO, an experienced search engine optimization resource, and it's talented web site designers.

PROKELLSEO

Dear Valued Clients and Friends:

**A**fter what in many parts of North America, has been one of the most brutal Winters on record, here's to Spring 2014. It seems a long time coming!

In a recent meeting I was taken back by how nearly every partner in the room was completely oblivious to the nature of some of the competitors making inroads into their marketplace. My first offering in this Spring issue is entitled **The Seeds of Competitive Disruption** and involves a number of hours of research in identifying 20 different US-based competitors that are growing and that your partners should be aware of. Part of the job of every firm leader is to neutralize complacency and so I'm hoping that this article might be worth you passing around.

In our First 100 Days program (see back cover) we introduce new firm leaders to the monumental task of taking the reins of leading their firms. **Firm Leadership Is Not For Wimps!** is an attempt to identify eight of the more challenging truths to being an effective firm leader, and I'm grateful to those who have provided valuable input into this piece (you know who you are – and thank you).

**Six Factors That Can Impede Effective Firm Leader-COO Relationships** had it's origins in a Webinar that I was privileged to conduct with John Michalik, retired executive director of the international Association of Legal Administrators; while **A Novel Approach To Compensation** grew out of an innovative ThinkTank event that I participated in earlier this year. Hopefully both of these offer some pragmatic advice to those interested in either subject.

Finally, **Are You Getting The Minutes From Practice Group Meetings?** is an article that I expect will seem to pose a rather unorthodox question, at first glance, but should be read by every firm leader . . . who has an interest in knowing what their practice groups are really doing.

As always, I sincerely hope that you find some practical ideas, tips and techniques here that you can put to use immediately. Please send me your observations, critiques, comments and suggestions with respect to any of these articles.

Patrick J. McKenna

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# THE SEEDS OF Competitive Disruption



**“Imagine that a complex legal problem can be mapped into a decision-tree with millions of “if this, then that” branches. Subject matter experts (lawyers) might be able to predict (or guess) the likely outcome . . . but would rather bill the client for watching the drama unfold. However, a computer, such as IBM’s Watson, can run all of the possibilities through many varied scenarios and predict the likely outcome. If the outcome is mathematically predictable, why wouldn’t the client use that information to resolve the dispute instead of paying their lawyers to play the game? Why indeed.”**

This is precisely the question a legal reporter raised concerning the unfolding intersection between law and technology. Coincidental to reading this I was attending a meeting with the Executive Committee and practice leaders at a major firm. The nature of our discussions caused me to cite IBM’s Watson together with a couple of

examples of disruptive competitors that may well be in a position to capture legal work that would otherwise have come their way. Absolutely no one in the room was conversant with the competitors I was identifying. In fact, this group’s collective knowledge of these kinds of competitive entities was shockingly limited.

Today there is a new reality in which increasing numbers of legal departments, constrained by tight budgets, are demanding cost concessions and predictability in their bills. That shift has brought with it a groundswell of new entrepreneurs who have responded to these changing demands by starting practices or businesses predicated on delivering services in the most cost-effective way possible and disrupting the traditional model of the larger law firm. What many find surprising is that these businesses are often financed and managed by non-lawyers.

There is a tendency in some firms to equate all of this to simply more attention on alternative fee arrangements. This tendency fails to comprehend that the ground is moving. It is particularly difficult to disrupt any industry

where there is a healthy active competition that drives a lot of change and innovation. The best target is a sector with large complacent firms resting on prosperous margins earned by firm leaders who feel safe, and are perhaps too secure to risk innovation.

According to Clayton Christensen's 1997 classic book, *"The Innovator's Dilemma,"* new competitors typically start wooing a firm's least profitable clients with a service offering that is cheaper or one that costs the same but boasts innovative features, or is more easily customized. They then gradually bite off bigger chunks of a market as their offerings become better known.

Suffice to say, the legal profession is changing in dramatic ways, including the creation of new legal businesses that rely upon technology and process design to solve legal problems that have traditionally been handled by lawyers. As one of my colleagues used to say, "the huge advantage that law firms have is that they only have to compete against . . . other law firms." But that is not the case anymore!

What follows is a brief profile of **20** of these competitors, with a major presence in the U.S. that are growing, disrupting traditional law firms and taking away work that they would normally have expected to handle. You may find it useful to pass this along to the partners in your firm such that they might begin to get a better appreciation of *some* of the forces at work in their marketplace.

**ADVANCELAW** is a privately held company that operates a closed community of legal departments who share information on law firms and individual lawyers in order to obtain better quality at a lower cost. AdvanceLaw was formed a few years ago by Firoz Dattu, a Harvard-trained lawyer who practiced at Paul Weiss. Firoz started

AdvanceLaw in response to perceptions by general counsel that they were being overcharged and underserved by large firms in the major markets. AdvanceLaw vets law firms and lawyers on behalf of legal departments; but also screens and selects firms and thus far has 12 mid-sized firms in the US and 11 in 7 other countries (Canada, UK, Brazil, etc). These firms service AdvanceLaw's over 90 major companies including: Google, Nike, Sherwin-Williams, Lenovo, Towers Watson, Mastercard, Panasonic, eBay, Deutsche Bank, McDonald's, Molson Coors, Nestle, Heinz, Clorox, Unilever, CSS, and Starwood Hotels.

This disruptor has positioned itself as a trusted advisor that can provide reliable guidance in shopping for value, outside the big brand-name firms.

**AXIOM LAW** is a 12-year old, 900-person legal services provider, serving half of the Fortune 100 from 10 offices around the world. Axiom has won work related to commercial contracts and anti-trust in the UK, US and Asia. At current growth rates some observers predict that by 2018 Axiom will be larger than today's largest global law firms.

In its early years, Axiom was described by many as a high-end "temp" service for legal departments. The temp-service model enabled larger firms to dismiss Axiom on the belief that only a small tranche of legal work might be siphoned away. And that work is lower margin and price sensitive – so-called "commodity" work. But, if brokering lawyer services was originally the core of Axiom's business, they subsequently expanded their offerings. The fastest growing part of Axiom's business is its "Managed Services" practice. Part of the managed services practice is analyzing and redesigning workflows so that in-house lawyers have the cost and quality information needed to make better sourcing decisions. Because Axiom is helping to redesign

the workflows, including the specifications for sourcing decisions, it is well-positioned to do much of the resulting work.

This disruptor claims that it is not a legal process outsourcer but it is also NOT a law firm. Yet it's been solely responsible for the legal work on more than 10 M&A transactions over the past year – the kind of work law firms once thought they alone could do. For example, on February 7, British Telecom appointed Axiom to handle their commercial and anti-trust matters.

**BLACK HILLS IP** is exclusively focused on specialized Intellectual Property work. The company appears to be growing, as it did a PR-blitz to commemorate its 100th client. The company was originally started in Rapids City, South Dakota but has since expanded to Minneapolis. Unlike traditional law firms, these types of legal vendors are growing rapidly. Their secret sauce appears to be combining high-quality processes with capable, motivated paraprofessional talent. Meanwhile, a sister company, Black Hills Technology, provides detailed metrics to help clients understand problems with their patent applications.

This disruptor is endeavoring to provide services at a lower cost than law firms or in-house departments, and to be cost-competitive with Indian outsourcing and more affordable than in-house paralegals.

**CLEARPATH IMMIGRATION** is a startup working within the immigration system to make the immigration process (for those who have a legal right to it) easier, cheaper, and more accessible. For now, it is focused on the 8 million or so people who file upwards of 100 million forms each year. When reform comes, the number of filings could easily double. This represents a significant opportunity for Clearpath. Given that the immigration process is a multi-step,

multi-year process, having a platform that guides, collects, and stores the vital information, while also processing the data to generate actual filings, is of substantial value to millions of immigrants in the US. Clearpath has built and recently beta-tested a platform that directs users through a series of questions to generate an accurate and complete form. This is more challenging than it sounds as many of the documents and questions call for specific answers that are often confusing or overlooked. Clearpath's team of former immigration officials and technology experts constantly update the application that monitors the filings to ensure that all errors are detected.

While Clearpath does not view itself as a "legal disruptor," it recognizes that its platform does provide a service that many lawyers offer. With Clearpath's pricing topping out at around \$200, it represents a significant cost savings for those applicants who do not want to engage a lawyer but want an efficient method of filing.

**CLEARSPIRE** is one part law firm and one part business entity. The Washington, D.C.-based Clearspire Law Co. is the ultimate virtual law firm and aims to expand its presence across the country with the addition of 50 to 100 BigLaw lawyers each year for the next five years. It is serviced by its sister business outsourcing company, Clearspire Services Co. The founders of Clearspire spent \$5 million to build their online platform (Coral), which connects lawyers and clients through virtual offices and high-end video-conferencing. Their efforts have garnered the attention of more than 200 General Counsel of Fortune 500 companies in the past two years. The two-company model, along with the cutting-edge technology of Coral, strips away many of the overhead costs of large law

*“Many of these competitive disruptors create innovative, differentiated services that solve problems for clients that can't otherwise be solved cost-efficiently.”*

firms, driving efficiency. It also allows for non-lawyer investment and revenue-sharing in Clearspire's business arm, which doesn't operate under the restrictions of ABA Model Rule 5.4: Professional Independence of a Lawyer. The company plans to raise a further \$3 million from outside investors and it is noteworthy that the law firm has an Advisory Board comprised of 6 external and distinguished business executives.

This disruptor promises to provide the same level of legal expertise but charge clients *“much less than an AmLaw 200 firm—probable about 50% less. This cost reduction is supported by the elimination of the partner profit model and all non-productive overhead.”*

**CPA GLOBAL** is one of the leaders in legal process outsourcing. Founded in 1969 in Jersey, Channel Islands, the company employs over 1700 people in 3 US locations, with offices in 18 international locales throughout Europe, Asia and Australia; and serving clients' needs in 200 jurisdictions. Roughly 80% of the firm's revenues come from IP-related legal outsourcing. As an example of the firm's clients – since 2005, Microsoft, a top 10 global patent filer, has partnered with CPA Global to develop a long-term outsourcing strategy that would optimize the company's IP management.

As a disruptor, they assist corporations and law firms in managing valuable IP Rights, such as patents, designs and trademarks, ensuring that IP portfolios are protected, maintained and regularly reviewed in order to optimize value.

**EXEMPLAR LAW** claims to be the first corporate law firm in the nation to abandon hourly billing in favor of a fixed, value-based pricing model, with professionals in Boston, LA, New Orleans, New York and DC. Their primary target is in serving high-growth mid-market companies. Exemplar is an integrated group of companies including Exemplar Law, LLC; Exemplar Business (a business execution firm); and Exemplar Capital (an Investment Bank specializing in middle-market representation). They were one of the first firms to offer clients a “Value Guarantee” such that *“if the value was less than the price you paid, call us and together we will determine a fair price.”*

As an example of their work, earlier this year Exemplar Law completed a \$4 Million Equity Raise for a leading LA-Based Superfoods company with a New York City based Private Equity Firm focused in the natural foods space. As General Counsel and deal counsel, Exemplar negotiated a successful equity round on favorable terms to leadership.

This disruptor is slowly moving up the food chain in securing legal work that would normally have gone to much larger firms.

**EXEMPLIFY** is a start-up company founded by Professor Robert Anderson at Pepperdine Law (and former associate at Sullivan & Cromwell). Rob found it frustrating that there was no alternative to spending countless hours comparing deal documents and often turning in a work product that still couldn't possibly reflect knowledge of the whole

market. After Rob left law practice and enrolled in a Ph.D. program at Stanford, he began doing what entrepreneurs do: Finding a better way to do the research associated with a transactional law practice. Beginning in 2003, Rob began the process of compiling the computational models that became Exemplify. The goal of the invention was simple to: find a way to determine market standard language while considering the entire market, making the desired outcome apparent at a glance. An early version of the product was shown at the LegalTech New York show in February 2012. After a successful beta program with attorneys at AmLaw 100 firms, Exemplify moved to a commercial phase, launching at the International Legal Technology Association (ILTA) show in August 2012.

Using super computer technology and inductive computational linguistics, Exemplify works on law firms' own repository of documents, automatically creating a standardized clause library and comparing an attorney's current document against the firm's standard work product. No prior filtering or document selection process is required. Exemplify automatically builds the firm's Exemplar library of standard clauses. If an attorney does not have a precedent with which to begin, Exemplar Search will find standardized clauses culled from the entire history of the firm's work product. The attorney will have the confidence that any language selected has been vetted against the firm's own internal work product, enabling quality control and increased efficiency while maintaining the firm's own best practices.

This disruptor claims to be transforming the transactional law practice by mitigating the risks associated with drafting complex agreements.

**EXIGENT** is a legal process outsourcing

“**W**hat many find surprising is that these businesses are often financed and managed by non-lawyers.”

(LPO) provider that has just expanded its business with the acquisition of Bangalore-based contract lifecycle technology company mLegal. Exigent's founder and CEO David Holme said the deal would provide a base from which Exigent could expand in North America and enhance its technology offerings to clients elsewhere. *“mLegal's operating center is in Bangalore but its client base is in the US, while Exigent operates out of Cape Town and Western Australia,”* said Holme. *“This deal adds 125 staff in Bangalore as well as the US market. From a purely commercial point of view it means we have more than 400 staff and a presence in every major market. It makes us one of the biggest players in the market and one of the most diverse in terms of operating centers.”*

This disruptor claims the deal, which sees it add mLegal's proprietary contract automation technology to its outsourcing offering, should result in cost savings for corporate legal departments of more than 50 per cent.

**FAIR OUTCOMES INC.** offers, via an interactive website, game theory solutions for a range of legal disputes, including those involving property division, business buyouts and reputational damage.

Four years ago James Ring wanted to eliminate the time lawyers spend bullying and bluffing their way through monetary disputes and other protracted negotiations. So the Boston-based trial lawyer and his

firm—Chu, Ring & Hazel—teamed up with academics to form Fair Outcomes Inc. They borrowed from the practice of game theory, the science behind conflict resolution, to introduce a series of online solutions that entice both sides to be truthful in their expectations.

As a disruptor this website purports to be a speedier and less costly resolution of legal skirmishes.

**FLATLAW** is a legal marketplace where lawyers can set up an account — complete with a profile photo — and advertise their fixed rates alongside their peers. It spares clients from having to phone 10 lawyers just to find out how much each charges for specific services. The idea of FlatLaw isn't a race to the bottom on price. It's that people can specialize in what they're good at. There are currently over 60 ads on FlatLaw.ca. The web site filters lawyers by city and area of law. Listed lawyers include those in criminal law, corporate law, litigation, estate, immigration, and contracts. Through their accounts, they can track the number of page views they're getting.

This disruptor is all about costs – Incorporation goes for \$650 - \$750 on the website.

**INTEGREON**, founded in 1998, is a provider of integrated legal, research and business support solutions to law firms and corporate law departments, leading corporations, financial services organizations and professional service firms. This venture- and private equity-based LPO has tried to distinguish itself with its global platform and language capabilities. Their over 2,000 associates work globally in areas such as market and competitive intelligence, discovery, legal process outsourcing (LPO), operating model transformation and back office redesign. In October 2013, Integreon CEO Bob Gogel

shared the findings of an LPO survey of 77 US legal departments wherein the results show that the majority of US companies had tried legal outsourcing and were satisfied with their experiences. Meanwhile, UK-based law firm CMS Cameron McKenna outsourced the firms entire support staff in a 10-year deal worth more than \$500 million.

This disruptor's clients already include 7 of the 10 largest global law firms; 32 of the top 50 AmLaw firms; 3 of top 10 UK law firms; 9 of the top 10 investment banks and 11 of the top 50 global brands.

**LEGALZOOM** initially founded in 2001 and now employing over 500 employees, is a nationally recognized legal brand for small business and consumers in the United States providing an easy-to-use, online service that helps people create their own legal documents. Its cut-rate legal forms and plans fill a lucrative niche with penny-pinching individuals and small businesses. In January 2013 it sold a \$200 million controlling stake to private equity fund manager Permira.

The company has spent millions settling cases alleging unauthorized legal practices, and more could be on the horizon. LegalZoom credibly denies practicing law, and it offers third-party attorneys to customers seeking advice. But litigation still looms. Another threat is an explosion in competition. Dozens of companies, and even some states, offer basic documents comparable to LegalZoom's, often for free. Small private competitors like BizFilings, RocketLawyer and The Company Corp are also making inroads. What's more, Rozman Wills, LegalCarte and dozens of other law firms combine forms with legal advice at prices competitive with LegalZoom's. LegalZoom is expanding into the UK and other countries that, unlike the United States, allow non-attorneys to join with lawyers in

providing legal services.

As a disruptor LegalZoom enjoyed 2012 revenues estimated at \$200 million achieved while serving over 500,000 customers.

**MODRIA** is an online dispute resolution system that enables businesses and governments (mostly municipalities) to avoid costly, in-person legal proceedings to resolve a steady stream of similar disputes that are part of running a business or government. Many businesses could be drawn to Modria, but so could/would many smaller governmental units. Indeed, several (progressive) county governments have become clients (e.g., on property assessment appeals).

This player is disruptive because so many forums for resolving disputes, such as courts, repeat-player arbitrations, and various government boards, are not perceived as prompt, fair, and/or just, often times because costs of dispute resolution are so high. So even if the dispute is resolved correctly on the merits—for the subset who can pay the cost – there remains a large residue of dissatisfaction.

**MODRIA – DIVORCE MEDIATION CENTER** (a partnership with LegalZoom) promotes a 5-step divorce mediation process offering a free consultation and a flat-fee. The average cost of a contested divorce can range from \$15,000 to \$20,000—the majority being legal fees; and when taken through the courts can last 1.5 years on average.

This disruptor provides divorce mediation at an average cost is \$3000 or less and takes 90 days on average.

**NEOTA LOGIC** is a privately held company founded by former Davis Polk partner and CIO Michael Mills. The company spe-

cializes in the creation of expert systems that can improve the quality and efficiency of many transactional and compliance related activities. Neota Logic provides an integrated suite of tools with which to develop, test, maintain and deliver expert applications, which can be embedded in business systems or consulted interactively in a browser, on a computer or smartphone. It enables people who are not trained software developers to build, maintain and deploy very complex applications. Earlier this year, Seyfarth selected Neota Logic Server as a key component of the firm's technology toolkit for more effective and efficient service to clients.

This disruptor enables law firms to create innovative, differentiating services that, *first*, solve problems for clients that can't otherwise be solved cost-efficiently, and, *second*, leverage the firm's expertise more effectively than can be done via billable hours alone.

**NOVUS LAW** was formed in 2005, in Chicago as a legal services company by two PwC former executives and non-lawyers. The firm claims to be tripling its revenue year over year. It reviews, manages and analyzes documents for large-scale litigation, and is poised to focus its technology and resources on drafting briefs and motions. Client engagements are priced on a predictable budget, defect-free work product and timely delivery. The Novus One-Touch work process was part of the first-ever quality management system independently certified by the Underwriters Laboratories for use in the legal profession. In 2008, this resulted in Novus Law becoming the first non-law firm to win the InnovAction Award from the College of Law Practice Management (which I was instrumental in starting back in 2003).

Reports about this disruptor claims that nearly 80% of the work done by Novus Law attorneys



is work large law firms would otherwise do.

**PANGEA3** was founded in 2004, and now claims to be a global leader in legal outsourcing (LPO) with substantial operations in India (Mumbai and Delhi) and offices in New York and Dallas. Initially backed by venture capital, but subsequently sold to Thomas Reuters in 2010 the operation employs roughly 1,000 lawyers in the US and India. Since its inception, Pangea3 has grown at “40% to 60%” per year and was said to be “growing even faster” in 2012.

Now think about this: 1000 lawyers growing at 50% per year for five years is over 5000 lawyers - by 2017. And that is just one LPO. We look at flat revenues in BigLaw and draw the inference that we are in a prolonged recession. Meanwhile, the legal business is absolutely booming in India, thanks in substantial measure to its integration into the U.S. and U.K. legal supply chain. Play these trends forward for a few more years and it gets rather threatening for traditional law firms.

This disruptor is already serving more than 100 Fortune 1000 companies

**PRIORI LEGAL** is trying to transform how small businesses interact with lawyers. Every business needs trusted legal advisors. But finding the right lawyers can be time-consuming. Licensed in New York State with confirmed malpractice insurance, Priori believes “*finding the right lawyer for your business can protect you down the road, and we understand that hiring and working with a lawyer is the most personal kind of business investment. By bringing transparency and simplicity to how businesses find, hire and pay for legal services, we make sure you don’t make such an important investment in the dark.*”

As a disruptor, Priori offers an easy-to-use

platform that provides access to vetted, hand-selected lawyers with at least five years of experience at fixed fees and a 25% discount.

**RECOMMIND** is a privately held company, formed in 2000 with over 450 employees in 3 US and 3 International locations. Recommend specializes in predictive coding for use in document review and e-discovery. From the client perspective, predictive coding is at least as good as first-level human review (typically junior attorneys screening for relevance and privilege) but dramatically less expensive. Founders were graduate students in Artificial Intelligence programs at Stanford and UC Berkeley in early 1990s. Recommend has been rumored to be planning a public offering.

This disruptor enjoyed revenue of \$70 million in 2012 with a 95% growth from 2010 to 2011 proving that predictive coding trumps hiring expensive associates.

**UNITEDLEX** is a global company with a singular mission: to improve the performance of law departments, law firms and academic institutions. UnitedLex is the only full service LSO recognized by Chambers & Partners as a Tier One/Band One legal service provider. Founded in 2006 and now with more than 1,500 attorneys, engineers and consultants the company provides solutions to address areas of litigation, contracting, intellectual property, general legal and operations to the benefit of clients in North America, Europe and Asia. For example, in December, UnitedLex, announced its Cyber Security Risk Services practice with the appointment of two industry veterans. UnitedLex intends to help clients better understand their cyber risk profile, protect against actual threats to valuable data assets, and respond to security incidents with confidence, speed and accuracy.

Meanwhile, the national law firm of LeClair-

Ryan and UnitedLex, jointly announce the creation of the LeClairRyan Legal Solutions Center. This collaborative venture, effective November 1, 2013 provides a range of support services and incorporates technology and quality control processes into the law firm’s litigation and transactional practices. The LeClairRyan Legal Solutions Center is intended to assist clients with obtaining more comprehensive, value-based services at a lower and more predictable cost.

This listing of 20 competitive disruptors was compiled from hours of research, but it is not (let me repeat, NOT) intended to be comprehensive, but just an indication of how things are evolving. All of these examples are drawn from the US, and there are similar disruptors emerging in Canada, the UK, Australia and elsewhere.

You may also find it instructive to take a look at the list of legal startups (<https://angel.co/legal>) at Angel List. As of this writing, the list has 427 companies identified as legal startups. Companies listed here are trying to come up with better ways to do legal research, negotiate contracts, manage legal documents, match consumers with lawyers, search patents, manage a law office, track and bill time, and much more.

Competitive Disruption is, by definition, disruptive to our preconceived notions of how our world could and should be. Today’s client innovations will become tomorrow’s client expectations as technology and new approaches enable clients to obtain legal services cheaper, faster and better – year after year.

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# FIRM LEADERSHIP IS NOT FOR WIMPS!

## Leadership Truths We Don't Talk About



*The very concept of leadership is elusive and tricky. Every business-book author coins a new "type" which is then sold as the latest elixir to problems. We see these everywhere: authentic leadership, transformational leadership, charismatic leadership and other rubbish. It is hard to define leadership in a way that is satisfactory to everyone although most professionals tell me that they believe they know it, when they see it.*

*What these same professionals may not appreciate is how difficult the job of leading a firm can actually be. There are a number of truths that aren't identified in any guidebook; that experienced leaders only whisper about after having been in the role for some period of time and after having recognized that the art of leadership is always a work in progress.*

Here are eight truths that I know to be valid based upon anecdotal evidence gleaned from countless discussions and interviews with firm leaders much wiser than I:

### **1. Be prepared to become unpopular**

Many professionals become leaders by virtue of the fact that they have some popularity

amongst their peers. We take on leadership roles in the belief that we can make a difference and make our firms even better. Which most often means that we must make changes, hold people accountable and move forward with purpose and determination. We soon realize that making the changes and progress we were so excited about, all comes with a price.

One of your important tasks in being an effective firm leader is to make decisions. To make any decision requires that you review numerous options toward finally putting aside various possibilities in order to select just one. Decide is an interesting word. The root word *decidere* means to "cut off." Thus any leadership decision can be seen as cutting you off, separating you from all other possi-

bilities as you select just one course of action. And there are few easy decisions. The best understand which ones they can delegate and which they need to focus on, but ultimately you will need to decide certain things that will invariably go against the interests of certain of your partners. And every decision you make will serve to earn you the favor of some partners while simultaneously suffering the disfavor of others. Your decision blesses one while alienating another.

Some of the best leaders I've met periodically engage in what I would call, "purposeful deferment." They operate on the principle of never making a decision today that can reasonably put off until tomorrow. And I'm not being uncomplimentary. Whenever requested to make a decision they would first ask, "How much time do I have?" In other words, is it essential that the decision be made now, in a day, next week or within the year? These leaders have wisely discerned that if a particular decision can be reasonably delayed for a short while than circumstances may change – an adversary may leave the firm, a competitor stumble, or an advantageous new development emerge.

Strategic decisions, budgetary decisions, compensation decisions, all involve the distribution of finite resources that are seldom distributed equally. Thus, every decision you make is "like surgery." It is an intervention into a body politic that carries with it the risk of "shock" to the system. To be a great leader, you need to have a strong will and an even stronger stomach.

Nevertheless, at the end of the day, you need to remind yourself that your job isn't to make everyone happy or even satisfy the interests of certain power partners, but rather

to progress the best interests of the firm as a whole. So eventually you will say no to many of your partners. It is to be expected that any good leader will make enough decisions to eventually . . . disappoint *everyone* at some point in time. And as it is impossible to lead partners who doubt or despise you, your constant anxiety will be in making those decisions that are the least offensive to the greatest number. As Harry Trueheart, the former Chairman of Nixon Peabody once told me, "You know your time is up, once you have had to say no to enough of your partners."

Thus, your job is to make decisions until eventually the decision is made – to get rid of you.

## 2. Be prepared to be afraid

Most leaders will go out of their way to hide their fears. In fact, there is a common myth that suggests that to be a good leader, you must be fearless. But that is not what some of the best leaders would quietly tell you.

Any leader professing that they have no fear may well be someone who lacks sound judgment. Any leader who refuses to admit their fears may well be imbued with hubris and self-importance. Fear does not make us weak, nor does it mean that you have a lack of faith in your capabilities. Fear is necessary, cannot be eliminated, and is a natural part of being a leader. You do not have to *overcome* your fears; but rather you need to know precisely *what* you are afraid of.

Consider the perspective of a widely regarded CEO Coach, Mike Myatt: "It has been my experience that the greatest fear most professionals struggle with is the fear of failure. In fact, it is often times this fear of failure that governs how much risk they will take on, and in turn how successful (or not) they are likely to become. Everyone reading this has failed with respect to some

*undertaking in the past. Life will become much easier to navigate when you learn to accept failure as healthy and normal. From my perspective, when my life is void of failures I'm not growing, developing, stretching, or pushing. Put simply, if I'm not failing then I'm not trying. I've experienced lots of failures and I'm better for them."*

Any leader who has ever launched a new initiative understands the inevitability of running into numerous hurdles over the life-cycle of their undertaking. The difference between those who succeed, and those who fall short, is their perspective on how to deal with those hurdles. As Mike says, fear of failure can be far more destructive than failure itself. It can paralyze any firm leader who holds the view that anything short of perfection is not even worth attempting. Over three decades of working with firms I have observed first hand, firm leaders, who but for being obstructed by fear of failure, could likely have been enormously successful.

Here's the thing – setbacks and difficulties are an inevitable part of leadership. If, as the firm leader, you don't ever fear that you are in way over your head, I would suggest you're not spending enough time in the water. It is how you learn to overcome your fears and manage risk that will determine how successful you will become.

## 3. Be prepared to always be on stage

Imagine yourself projected on a 50-foot screen by a video camera. That is precisely what is happening right now. Every move you make as a firm leader is subject to discussion, review and interpretation. That includes how early you arrive at the office, how you relate to certain people in the hallway, how you allocate your time, and how thoroughly you prepare for meetings.

Meetings are an interesting example. Every firm leader holds numerous meetings, and every meeting has an agenda, whether written or unwritten. The cumulative content of your agendas clearly signals your priorities and concerns. The conscious management of your agenda, and your input into meeting agendas, is a powerful signaling device.

And your presence must always be present. Your microphone is always on and every message, verbal or non-verbal, is open to misinterpretation. A study conducted by Harvard professor Daniel Gilbert estimated that 46.9% of the mind is spent “wandering.” Being present means simply having a moment-to-moment awareness of what’s happening. It means paying attention to what’s going on rather than being caught up in your thoughts. In the middle of a conversation, if your mind is somewhere else, your eyes will glaze over and you’ll start making facial expressions not typical of a person really listening. It is guaranteed that your partners will notice.

Leadership is basically a people business. You can’t let paperwork or deadlines create a barrier between you and the opportunity to touch your colleague’s lives. So here’s the key: Never see your colleagues as interruptions. If your partners conclude that your day-to-day tasks are more important, they come to the conclusion that you don’t care about them.

Finally, if you have ever whispered negatively about some aspect of your firm or about some partner you work with, you may have not realized how that can come back to bite you. People will not trust or build a meaningful relationship with anyone who gossips about others. Too often, leaders are oblivious to how quickly word of their conduct can spread throughout the firm. When it does,

their partners will start wondering what’s being said about them in private. Even if you don’t initiate the conversation, if you take a passive role and laugh while others are talking, you are still guilty of participating. Beware of ever rolling your eyes while someone is talking or discussed some partner’s

self-serving kind. History is rich in stories of leaders who decided that spin, omission or outright lies, whatever it took to get people to do what had to be done, would serve their constituencies better than the truth.

As stated earlier, leadership is like a theatre and the firm leader must often behave as an actor on the stage. Thus “being the face of the firm” and the image presented to the outside world is not the true self but an edited version. This edited self takes into account how one wishes to be seen by others. Quick show of hands: Who, then, wants to willingly reveal their inadequacies, errors or performance problems to the rest of the profession? So, while you endorse the belief that complete honesty is important, you will nevertheless conceal, deceive and

exaggerate to make a positive impression on others. In fact, many firm leaders attend seminars and conferences secretly hoping to discover that every other firm is as they are.

There is “spin” — statements that arrange the facts to paint the rosiest possible picture. The sin of exaggerating profitability here or puffing up firm statistics there will be outweighed by the great job I’ll do when I finally get this all worked out. You will spin your stories to make your firm (and by extension, yourself) look to be performing far better than you might otherwise be. You will, of course, justify your actions on the basis of needing to have your firm appear attractive to clients and to attractive lateral candidates.

If social honor, damage control and survival all can justify deception, the central task for any firm leader is this: distinguishing the situations where those motives do justify falsehood, from those where deception would still be wrong.

*“Eventually you will say no to many of your partners. It is to be expected that any good leader will make enough decisions to eventually . . . disappoint everyone at some point in time.”*

personal life. Someone is always watching.

No matter what you are dealing with, no matter who you are talking to, no matter where you are, you must never let your guard down. The job of being the firm leader means always being under a microscope.

#### **4. Be prepared to purposely mislead**

People frequently tell what might be called social lies. For example, in order to maintain a good working relationship with a fellow partner you pretend to be busy when he asks you for lunch rather than have to admit that you find this partner’s company boring and would rather not spend time with him.

Of course, firm leaders need to set an example of honesty and integrity for their firms. But part of the art of leadership is knowing when untruths have to be told, and being able to distinguish those deceptions —the ones created for unselfish reasons —from the purely

## 5. Be prepared to be kept in the dark.

From the day you take on the role of firm leader you are flooded with information, from those partners wanting to meet with you to those who want to let you know “*how things really work around here*” – but reliable information will be surprisingly scarce.

Much of the information that comes to you will be filtered, sometimes with good intentions, sometimes with not so pure intentions. As one managing partner phrased it for me, “The issue is, after you become the firm leader, how do you get a good grasp of people’s candid views when it seems like all of your partners, and indeed the whole firm, is conspiring to tell you what you want to hear?”

Accessing reliable information becomes even more difficult when immediately after you are elected as firm leader, all of your prior relationships change. Well-meaning partners edit themselves, your administrative staff are not naturally inclined to now disagree with you, and the truth becomes difficult to ferret out. Further, because you may be able to impact some partner’s compensation and their career, each partner’s agenda colors the way you perceive their truth.

Effective leaders tell me that you need to get out and about within your firms, hold informal gatherings to receive input, promote openness and show interest in your colleagues opinions, consciously promote diversity of opinion and be discrete in keeping the confidences of others.

Several firm leaders also pointed to important relationships they had with independent advisers who can tell them unvarnished truth and have license to criticize their thinking.

## 6. Be prepared to drive with your head out the window.

Time is your most precious resource. One mistake that some leaders make is spending far too much of their leadership time looking in the rearview mirror. You cannot obsess about what happened last year or over what actions your competitors have been taking. You need to look at the road ahead.

Look at the issues that are currently consuming your time. I often ask firm leaders a couple of questions that painfully illuminates where they spend their time. First: “*What proportion of your time is spent solving problems versus what proportion is spent on exploring new opportunities?*” After a rather awkward reflection period, the answer I usually elicit is about 80% solving problems and 20% on exploring opportunities.

I secretly suspect that it is really more like 95% on problems and 5% on opportunities, but let’s analyze what this division of time infers. This means that as the firm leader, you are spending 80% of your time and energy looking backwards and fixing things, while only 20% looking forward and creating things. Firms operating in this mode will never lead in their marketplace.

So why does this happen? Well, it should be obvious that most of us professionals are veteran problem solvers. We are trained to resolve the issues, put out the fire, correct the underperformance, and generally “fix” the problem. There is a powerful gravitational pull that unconsciously moves us toward fixing things instead of innovating; toward restoring instead of increasing and toward reacting rather than being proactive.

We need to understand that fixing things,

while however noble, simply restores the prior performance or condition, which is comfortable, but limits value. However, if your focus is on improving the condition, on inspiring entrepreneurial endeavors, on being innovative; then your intent is not on restoring the status quo, but on developing a level of performance that exceeds yesterday’s standards.

There is a follow-up question I then pose. “*Of the time you spend on exploring opportunities, (remember it was reported to be 20% of the total) how much of that time is directed toward pursuing billable production, winning the next big transaction or responding to a competitor, (the present) versus pursuing the development of entirely new skills, new services, new technologies, or new revenue streams (the future)?*”

Again, if I was generous in reporting what I’ve learned, the average firm leader spends about 60% of their (20%) time exploring present opportunities and 40% on future opportunities. That drives a point worth scrutiny: What kind of a future is likely to be created by a firm leader spending about 8% of his or her total leadership time and energy focused on that future? And this is in firms that have a full-time firm leader - someone who actually spends all of their available time on leadership and management matters. Those spending less than full-time usually have next to no time for the future . . . except of course, during that one-day, off-site annual planning retreat. (Is it any wonder why so many of these retreat-generated “strategic plans” are dead on arrival!)

Attention is your most powerful tool. So if you want your partners to focus on innovation or business development or client service – nothing speaks louder about what is of bedrock importance than where and how you choose to spend your time. Where a firm leader spends their time is not a mat-

ter of chance. Choices are made daily about what to do and with whom.

The best firm leaders are compulsively attuned to their external environment and always looking to identify how, or how fast, the competitive game may be changing. They seem to have a sixth sense toward detecting trends, early warning signs and snippets of emerging opportunity. One firm leader I know gets his office managing partners together on a quarterly basis to discuss what's new and what's going on in their area of the country. They examine their world from multiple angles, look for unstoppable trends and share their best thinking on which signs of change may matter the most to the firm and how each could play out. This firm leader then goes to his monthly partners meeting and throws out a bunch of hand grenades to shake up his partner's thinking.

Favor the future over the past and focus on opportunities not problems.

### 7. Be prepared to dispense tough love.

I've heard all the various excuses: "This isn't the right time." "There's nothing I can do." But someone needs to decide, advocate, and take ownership. It isn't enough to simply ask for more data. It is usually obvious who needs to go and most of the time I see how firm leaders know it in their gut, but are still reluctant to take remedial action.

Sometimes, being courageous requires that you have to confront friends, the ones who've furthered your career and know your secrets. It can be hard to admit that there is a problem when you have a long-term working relationship with a particular partner or think that if only you could spend some time coaching your administrative director, everything could work out. The best leaders

know that it is all about helping professionals take charge of their own careers. This can be orchestrated through encouragement, giving direction, and sometimes offering really tough advice. Candid advice is the best counsel you can give, as opposed to letting someone continue to operate in a rut.

Sometimes it can mean letting a top performer go – suggesting that some partner who has been a brute to his colleagues would be better suited finding another firm to take his practice to; or reducing the compensation of a star who doesn't share clients with her partners in the practice group.

It's damn hard. And yet if you're the firm leader, this is one situation you cannot avoid. It requires courage.

### 8. Be prepared to be forgotten.

One of the tragedies of anyone in a leadership position is making some decision or taking a course of action based on a belief that this will be your legacy – you will be remembered by this brilliant initiative. Can an obsession with recognition and being memorialized cause one to focus on short-term gain at the expense of the longer-term? Here's the cold hard truth: much of what you do will not be remembered a year after you step down from office . . . unless, perhaps, you really screw up!

Some years back, I received a gift from a managing partner for the strategy work I had done with his firm. The gift was an inscribed hard-covered book entitled *The History of Wilde Sapte*. This was from a prestigious British law firm that could trace its ancestry back to 1785 when Thomas Wilde first founded the firm. And where is Wilde Sapte today? Someone who bothered to trace its history would find it was absorbed

by a series of mergers that has since become the global firm called Dentons. And amongst all those mergers, which firm leader's legacy is remembered?

What will your legacy look like, a year from now? A decade from now? If you think it will be a physical book or something else that can be held, you are likely mistaken. If you think it may be a place or a plaque with your name on it, you may end up shocked to discover what happens as your firm merges, over time, with other firms.

I'm constantly reminded by those who have traveled this road already that – Leadership is not about you, your ego, your pride, or your personal legacy – it's about caring for and serving your partners. I've learned that the best leaders believe that what really lasts is not the bricks and mortar or grand strategies, but rather what is intriguing to those of us that had the good fortune to come into contact with them. What lives beyond is likely to be your career-shaping ideas, inspiration, guidance, and character that stays with me after you have left the room? What of your influence and attitudes continues to shape my actions in small ways, even decades later? Hidden in tiny exchanges but profound in how it shaped people's lives. That is the real essence of a leadership legacy.

So, what do you want to be remembered for?

That all said, as one firm leader disclosed to me many years ago, "*This job ain't for wimps. You can't live in the short term, put off painful action; allow problems to fester; and pray the day of reckoning will arrive . . . after you have left!*"

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## FACTORS THAT CAN IMPEDE EFFECTIVE FIRM LEADER-COO RELATIONSHIPS

*I had the opportunity to participate in presenting at a Webinar entitled *The Firm Leader-COO Team: A Sensitive Balancing Act in Shared Responsibility*. A question asked by one of the registrants was this:*

*What are the danger signs and which factors greatly impede the development of an effective Firm Leader-COO working relationship?*

HERE WAS MY RESPONSE.

One needs to keep in mind that the Firm Leader-COO team, in a sense, is two people who have been forced to work together – rather than having chosen the arrangement voluntarily. That is not intended to be pejorative, but the reality is that a COO inevitably finds him or herself with a brand new boss while at the same time, some new Firm Leader realizes that they now have to work closely with an individual whom they may not even know very well. We shouldn't lose sight of that.

So there are any number of factors that can make this "forced marriage" rather challenging, if they are not conscientiously addressed.

From my observations and in speaking with Managing Partners and COOs whom I have a great deal of regard for, at the top of my list would be:

- **RESPECT**

There is always a tension between two strong individuals. So, these two individuals not having great respect for one another is deadly. And what I specifically mean by the term "respect" is:

Firstly, giving each other the benefit of the doubt; especially during those "why did he or she do that?" moments. No matter how well you choose to communicate with one another, there are going to be those times when something goes side-ways and you didn't have the chance to forewarn your colleague. Those are the times when you don't jump to judgment, but extend the benefit of the doubt.

Secondly, respect is appreciating each other's contributions. I sometimes hear from the COO who works through the night and tells me, "no one ever says thanks." The tragedy is that management / leadership is a thankless job and especially challenging for the attorney who becomes the Firm Leader but is used to seeing results at the end of the day based on progressing their individual client matters. Now you are in some management role and at the end of the day, you go home and your spouse says, "so, what did you accomplish today?" And you quickly realize that in day-to-day management work, you don't always have a lot to report, because some of your most important initiatives take weeks, maybe months to progress. So helping each other find ways to hear 'thank you' becomes intensely appreciated.

Finally, respect is being committed to helping each other's careers or making each other look good. A case in point happened about a year back, when Law360 announced the winners of their Most Innovative Managing Partners Award, naming ten firm leaders from across the U.S. That announcement was followed by sequential interviews with each of those individuals. One of the firm leaders identified was Ben Adams from Baker Donelson in Memphis. Now anyone who knows that firm, knows the leadership team of Ben & Jerry. And as I would have expected, and was not surprised, Ben did not feature in this interview without multiple references to the work and contribution that Jerry makes. And so it is and should be when the leadership duo truly respects one another.

Others have used the metaphor of having one's back. Alternatively, if the firm leader is perceived by the partners to be negative about the COO, and the COO then goes out to take action on some issue (let's say, tightening controls), partners may simply choose to ignore the COO because the individual has lost some credibility in their eyes.



**“T**he tragedy is that management / leadership is a thankless job and especially challenging for the attorney who becomes the Firm Leader but is used to seeing results at the end of the day based on progressing their individual client matters.”

#### • ROLE CLARITY

In my experience, one of the greatest sources of stress between the Firm Leader and COO is role clarity – ambiguity about who is in charge of what.

For example, which of the duo should take the lead with respect to:

- translating firm strategy into organizational policies and procedures?
- setting performance targets?
- helping the practice groups develop their annual business plans?
- resolving critical shared-resources issues?
- handling interpersonal conflicts between partners and staff?
- and so forth.

The greater the overlap, the greater the likelihood of friction in the relationship between the duo. The Firm Leader may feel that the COO is sticking his nose into areas where it doesn't belong; and the COO feels that the Firm Leader is micro-managing his every move.

There needs to be very explicit and reasonable lines of demarcation between the Firm Leader and COO's responsibilities. Both members of this duo need to figure out who is going to be doing what and who needs to check in with whom on key decisions.

And that all sounds like a no-brainer – except for one small problem. My research clearly indicates that only 27% of Firm Leaders, from firms of every size, have a formal written job description. Meanwhile, I have confirmed, for myself at least (repeatedly) that most partners haven't the foggiest idea of the enormity of the Firm Leader's job – and so we shouldn't

be surprised if they know about as much concerning the enormity of the COO's responsibilities.

#### • ABILITY TO COMPROMISE

The real glue that sustains the team and can be torn to tatters is – the inability or willingness to reach a compromise in cases when the Firm Leader and COO have differences of opinion; where they have divergent views.

I believe you definitely need some pre-agreed process, protocols or ground rules in place that allows for open debate and collaborative decision-making. It is critical that you both talk through and determine how to listen and entertain views contrary to your own and how to resolve any disagreements when they arise.

What I heard from one firm leader who claimed to have addressed this situation was: “If one of us feels very passionate about the issue, more so than the other one, we'll say, “Fine, you want to do it that way; then I'll go along.”

Sometimes, such yielding is uncharacteristic of the personality that occupies the firm leader's office – so you have to figure out how you are going to handle it if that is the case.

#### • CANDID FEEDBACK

The relationship can be impeded when the COOs does not serve the role of truth teller.

The relationship will eventually run into problems if the COO does not tell the Firm Leader the “unvarnished” truth about what is working and what isn't working and what issues are looming. The COO must also be allowed and encouraged to push back on the Firm Leader by testing assumptions and disagreeing when necessary.

I recently heard from one Managing Partner who gave his COO two playing cards – one was a Joker (which he called the imagination card) and the other the Ace of Hearts (a trump card). He told the COO to play the imagination card if “this is something that you (the COO) know that I am not really going to be that fond of, but you really want to do.” Then he told his COO to play the other card to trump something that “I (the Firm Leader) am set on doing, but where you (the COO) strongly feel that I would be making a mistake.”

That all said, a leadership duo may disagree behind closed doors, but in front of the partnership . . . you must always present a unified front.

#### • DIVIDE-AND-CONQUER

The relationship can be impeded when you allow yourselves to be divided-and-conquered. In other words, there needs to be a purposeful effort to ensure that no administrative professional (your CFO, CMO, HR Director, and so forth) ever reports to both the Firm Leader and the COO. It is important to avoid any potential for confusion.

Administrative professionals should not be seen “shopping” their pet projects around, and they should never be allowed to play you off against one another by asking the Firm Leader for something after the COO has already said no.

#### • POOR PERFORMANCE

Finally, poor performance results – tend to strain even the strongest relationships and easily break the weak ones as the pressure increases.

One important element of your communications protocol is that you should never be ‘surprised’ by news; particularly bad news. It must be the desire of both to keep the other fully informed of issues and potential issues that relate to your firm's performance and leadership.

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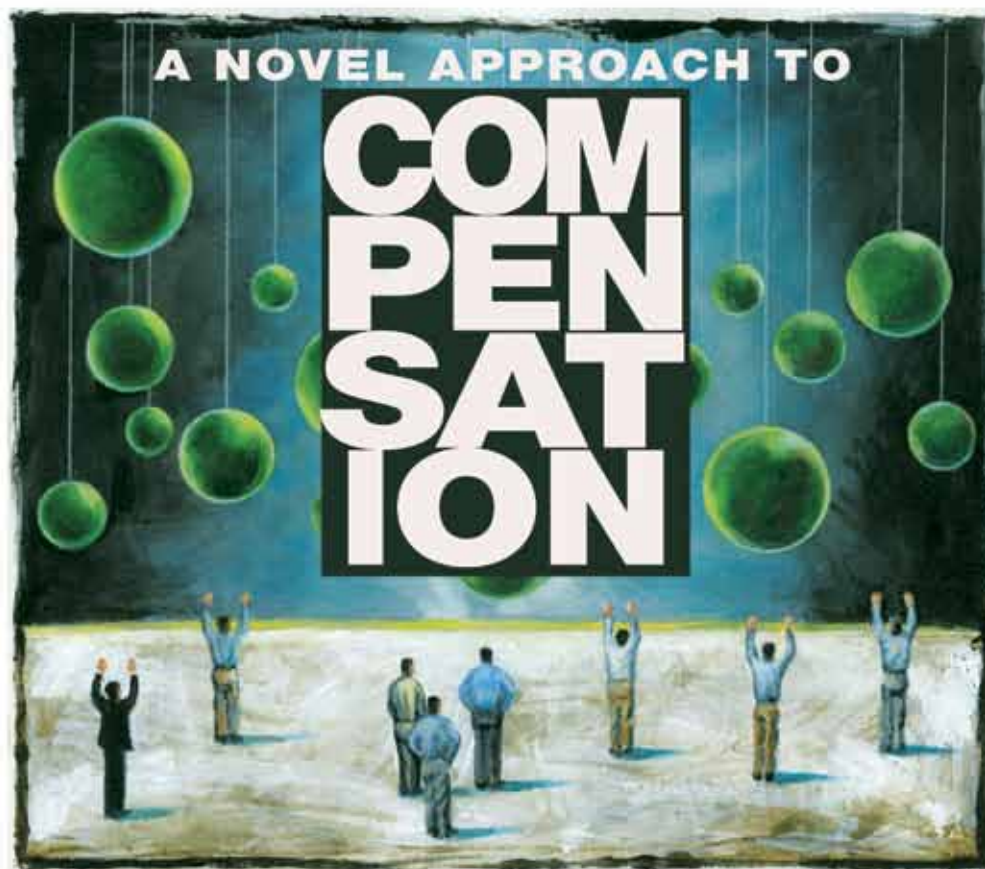
At a “Compensation ThinkTank” I attended at the end of January in New York with some 50 firm leaders, one of my fellow speakers spoke eloquently and presented insightful statistics on the degree of excess capacity, stagnant demand

and suicidal pricing pressures that firms are currently facing. At the conclusion of his talk he offered “a five-step program for your partners.”

His five steps consisted of:

- **DENIAL:** Snap out of it; understand the world has changed. We’re not all going back to 2006;
- **ANGER:** Is fruitless. Your clients have done nothing wrong;
- **BARGAINING:** With the managing partner, the compensation committee, and your friendly local headhunter will get you nowhere;
- **DEPRESSION:** Let us know when you feel like behaving as an adult again; and
- **ACCEPTANCE:** You’ve had an insanely great 25-year run, how about a little gratitude?

When the request for questions arose, I could not contain myself from offering an observation: *These five steps all assume one thing – that when dealing with your partners on money issues, you are dealing with RATIONAL people! I would respectfully submit that that may NOT always be the case.*



#### EXHIBIT ONE.

At a time when many firms concluded 2013 with flat revenues (at best) and fairly flat profitability, one of the common stories that I’m hearing from managing partners is about having to confront the partner with the big book of business who wants more money this year.

When told that the firm’s revenues and profits are flat and indeed that even this partner’s billings and performance are on only par with last year, the response the firm leader gets is that the partner still feels they deserve more. When asked why they feel that way given the facts, the demanding partner informs you that their book of business is obviously **worth even more** to the firm now than it was last year.

“**W**e’ve created a reward system that empowers group leaders, and we’ve structured compensation in such a way that everyone has a reason to be more bottom-line oriented, and more conscious of cost efficiency; than is usually the case at most law firms.”

#### EXHIBIT TWO.

Conventional wisdom, as well as economic theory, tells us that the more of something we have, the less of it we want . . . but that is not the case with money! According to some brand new research released in January by Jeffrey Pfeffer (professor of organizational behavior at Stanford’s Business School), money earned through our individual labors is more important to us than money that comes from other sources like investments. And the more money paid for each hour of work, the more important that money becomes.

According to Jeffrey’s research paper, “*When Does Money Make Money More Important*” money is like an addictive substance in that it raises the bar and leaves people always wanting more. We generally believe that our compensation communicates our

self-worth. The higher the compensation, the **more importance** the person places on money.

Now I don't know what the answer is and we certainly did not get any magic bullets from the five steps suggested above, but it would seem that leaders who focus on money as THE reward are going to have to give more and more of it to have any motivational impact. So perhaps it's time to explore some innovative alternatives to the ways in which we have traditionally approached partner compensation.

On that note, what follows is a discussion with one AmLaw managing partner (who will remain anonymous) who has taken a completely different route from most other firms. The transcript of this discussion is provided *only* to stimulate your thoughts about how we have usually approached partner compensation in many firms.

*Question: Tell us about how you have approached partner compensation?*

I think it was a combination of luck, remarkable support by the firm's principals, and fundamental institutional changes within the firm. Turning the departments into practice groups was a crucial first step. But even more important than creating the groups were the steps we took to empower the group leaders and especially, to encourage a focus on the bottom line.

Key elements have included a great emphasis on delivering client service responsively and efficiently. But a lot of firms at least pay lip service in that area. So I think that there has been another major contributor. That is the firm's unique compensation scheme that directly affects the practice groups as groups. **Both bonuses and equity participation are determined substantially by group performance.**

We've created a reward system that empowers group leaders, and we've structured compensation in such a way that everyone has a reason to be more bottom-line oriented, and more conscious of cost efficiency, than is usually the case at most law firms. And it's all based on the practice group, which is the fundamental entity for delivering and developing legal services. They must be self-managed.

*Question: What kind of behavior does your compensation system encourage, and how does it do that?*

Let me begin by fessing up to one thing: no system devised by mere mortals can work flawlessly to encourage only good behavior. We are talking about incremental change facilitated by a system that still needs an overlay of management judgment and flexibility. Lawyers are still lawyers; they tend to react to any system by seeking out the wrinkles that advantage themselves most directly. But having said that, the system is designed to discourage the worst excesses of the self-aggrandizing "stars" and to cause a focus on group performance, specifically, including the group's bottom line.

As is well known, at many law firms a partner gets paid for the revenues off a book of business, end of story. Some major rainmakers may be tempted to extort the money. Pay me x because the United World Enterprises is my client, and if you don't pay me, I'm going to another law firm and taking it with me.

Unpleasant as that is, it might still be a logical way to run a business if that partner were actually helping the firm. But here, and, I imagine at other firms as well, we were actually losing money on some of our rainmakers. For example, the first time we looked at group and office profitability we learned that the unit in the firm which had three of our top four billers was our only unit losing money! Why? Because a system of awarding "stars" based primarily on their revenues did not encourage these capable lawyers to be concerned about the success of others in their group. The others were effectively their "competitors" instead of potential contributors who could benefit from some mentoring.

So we started profitability analyses on a practice group and office basis and we allocated compensation in part on the results.

*Question: How could you get away with it? At most firms, you'd have been hung out to dry, or the guys with the big books would have left. Your revenues would then have plummeted, not increased as yours have.*

I was in a more fortunate position than my predecessors. When I took the job, the principals were committed to the idea that great deference should be given to the CEO's decisions, who could be removed if over time they turned out to be ill-advised. By the time I came up with a new compensation scheme, there was a clear recognition that significant change was needed. There was limited opposition.

Previously, we hadn't even looked at unit profitability. In fact, our failure to understand which of our units were profitable was itself divisive because the absence of objective data certainly didn't prevent finger pointing based on myth and rumor when things weren't going well. The new system has the benefit of eliminating griping by some units that they're "carrying" other units. The data showed often that their gripes were completely unfounded.

And there was a related benefit. Once we allocated compensation to groups based on the group performance, we could **empower the group leader to allocate that compensation to the members of the group** rather than have compensation allocated by an independent compensation committee, the system previously in place. Of course, without the discipline of a group's compensation pool being based on its productivity, it would be impractical to allow group leaders to determine compensation. They would always seek to maximize the compensation of their own group's members at the expense of other groups. Someone would have to referee the wrestling match.

That "someone" for us was an independent compensation committee whose

members were usually not in firm management positions. I think a lot of firms operate this way. But there are a lot of problems with an independent committee, particularly in a fairly large multi-office firm like ours. It is difficult for the committee members to really know of the various contributions of all of the attorneys in the firm. So they're forced to rely on data and things like self-evaluations. This leads to a lot of self-promotion and decisions by hearsay. It also denies the practice group leaders one of their most effective tools: the ability to assure the members of their group that their actions, for better or for worse, will be recognized by the group leader. Finally, with a separate committee, compensation decisions may not reflect, or may actually be contrary to, the goals of management.

So we went out and did the opposite.

*Question: And who determines how much the practice group leader gets paid?*

He or she determines what he or she gets paid.

*Question: That is unique! How can you ensure that something like that will be fair?*

The extraordinary fact of the matter is that most of the decisions over the years have been just about on target from my viewpoint. The group leaders don't want to lose credibility with their people. They realize that they have to practice what they preach. If a group is doing well, the members of the group do not begrudge the leader's compensation. Conversely, if a group is not doing well, the group leader must use the group's limited funds to fairly reward those in the group who are performing.

It certainly sharpens the concentration of everyone in the group on the subject of how well the group is performing! I rarely, if ever, see a group leader paying him- or herself too much. I have seen group leaders, in the interest of effective leadership take less than their fair share.

*Question: How is the total pool of dollars for each practice group determined?*

We have a sophisticated system to determine revenues and expenses for each group and office. Central costs, like accounting and information systems, are allocated pro rata, and actual costs attributable to a group, like salaries and practice development expenses, are allocated accordingly. Revenue is based on dollars collected, not billed, and there's a special twist.

We base revenues on a composite number which is roughly designed to reward the four basic roles which a lawyer performs in generating firm revenue: originating work; supervising work; client responsibility (or billing); and, last but not least, performing work.

The groups' composite revenues are the combined composite revenues of its

members. The composite revenue for an individual is composed or weighted as follows: 65 percent from the individual's working revenues; 25 percent from the individual's origination revenues; 5 percent from the individual's matter-supervising revenues; and 5 percent from the individual's client billing numbers.

*Question: Voila, a profitability determination! How then is compensation related to that determination?*

Fifteen percent of each principal's share of firm profits is put into a bonus pool. That pool is allocated among the practice groups in two ways. One half, or 7.5 percent of firm revenues, is automatically allocated back to the group in accordance with its members' contribution to the pool. Remember, one half of the individual's contribution is not allocated back to the individual, but to the group for allocation among its members by the leader.

The other 7.5 percent is distributed among the groups in accordance with their profitability. A group must reach a certain level of profitability to receive any of this 7.5 percent. The most profitable groups benefit accordingly.

It's worked so well that I call it the "7.5 percent solution." The allocation of this relatively small percentage of firm income on the basis of profitability has caused groups and offices to pay keen attention to the bottom line. That under-utilized paralegal that nobody used to care about is suddenly either utilized or gone.

And the effect on associate management, which is such a problem profession-wide, is most salutary. Half of first-year compensation is charged to the group and three-quarters of second year compensation. By the third year, however, the practice group pays for the lawyer entirely. So there is a substantial incentive to either mentor an associate to success or outplace them if they are not succeeding. Lawyers are notoriously shy on both counts.

The system also permits the group leader, who is presumably knowledgeable about the non-quantitative contributions of their charges (certainly more than a distant compensation committee), to recognize qualitative contributions. While the group's bonus pool is based on its economic performance, the group leader is free to allocate among members of the group on the basis of other factors. The group leader can reward someone whose billables are low for some reason, or who hasn't developed a major new client, if that lawyer has, in whatever other way, made a great contribution to the group.

*Question: You said before that equity distribution is also determined at the practice group level. That seems to be a particularly significant development.*

A principal's share of firm profits (or "step level") is determined every two years. Again, this share is determined by reference to the group's performance. We look at a group's average step level and compare it to the net income generated

by the average principal at that step level. If the firm average principal at that step level generated more net income, then the group is “over-stepped” and we reduce its total steps by one half of the reduction necessary to bring its average steps in line with its net income.

The adjustment is only one-half because we realize that economic performance is cyclical and we are not an ‘eat what you kill’ firm, even by groups. Similarly, if the group’s performance is better than its average step, the group is “under-stepped” and one half of the steps necessary to bring it in line with its performance is allocated to the group.

The steps (or shares of profit) are then allocated among the group members by the group leaders in accordance with their evaluation of relative contribution. Again, the compensation committee oversees this process, but by and large it defers to the judgment of the group leaders.

*Question: The group leader determines the equity status of the partners in his or her own group? And the group leader then allocates his or her own points as well?*

Yes.

*Question: Your firm may have the most powerful practice group leaders in the profession.*

Maybe.

*Question: I understand the incentive strategy here, as well as the unique empowerment your practice group leaders enjoy by having their hands on the lever come payday. But isn't there a concomitant danger of too much competition between practice groups as they struggle for larger and larger shares of that 7.5 percent?*

Absolutely. This is something that presents a continuing challenge. To some degree, we’ve shifted the maneuvering among individuals to maneuvering among groups. But we encourage cooperation among groups in at least three ways: One: Exhortation and appeals to enlightened self-interest (since at least 92 percent of the revenues of any group become firm income to be shared in accordance with the groups’ relative points).

Two: An annual anonymous survey designed to elicit commendations for cooperation and examples of non-cooperation, followed by special bonuses for the good examples.

Three: The origination portion of the composite number automatically encourages collaboration and cross-marketing.

The conflict point is when we open a file, because that’s when we determine how we allocate that file’s revenues among principals. Working and, generally, matter-

supervision present few problems, of course, because it’s obvious who’s doing what. But billing supervision can present a problem, because some clients are very particular about how they get billed, and lawyers who originate their business or supervise their matters or log the hours may not be the ones to entrust with the billing.

And, of course, origination is always a minefield, no matter how you look at it, because it’s hard to determine who did what and who should get the glory. But we allow the 25 percent origination credit to be shared among up to five people, so in the vast majority of cases these issues are resolved without dispute or my intervention.

Theoretically, you could also have a situation where a group is so busy, and so profitable, that it won’t take on work referred by another group unless it gets what amounts to a premium, such as the credit for origination. Generally, though, the system produces civility. It’s in everybody’s interest to collaborate because, obviously, it adds to their own origination credits when they do.

*Question: Doesn't your system mitigate against healthy, even necessary levels of risk in the sense that revenues could go down, or costs could go up, if a practice group is charting some new practice specialty or exploring some new industry target?*

All significant practice development effort requires a reasoned risk/reward judgment, whether by the firm, the practice group, or an individual. I would like to think that the system does not stifle initiative but, rather, encourages prudence and a wise allocation of resources. We can also make “equity adjustments” to the compensation pools and award administrative bonuses for contributions that benefit the firm at large rather than a particular group.

*Question: How did you come up with this whole idea? You seem to think more in terms of group dynamics than most managing partners, and more in terms of collective action and collective incentives.*

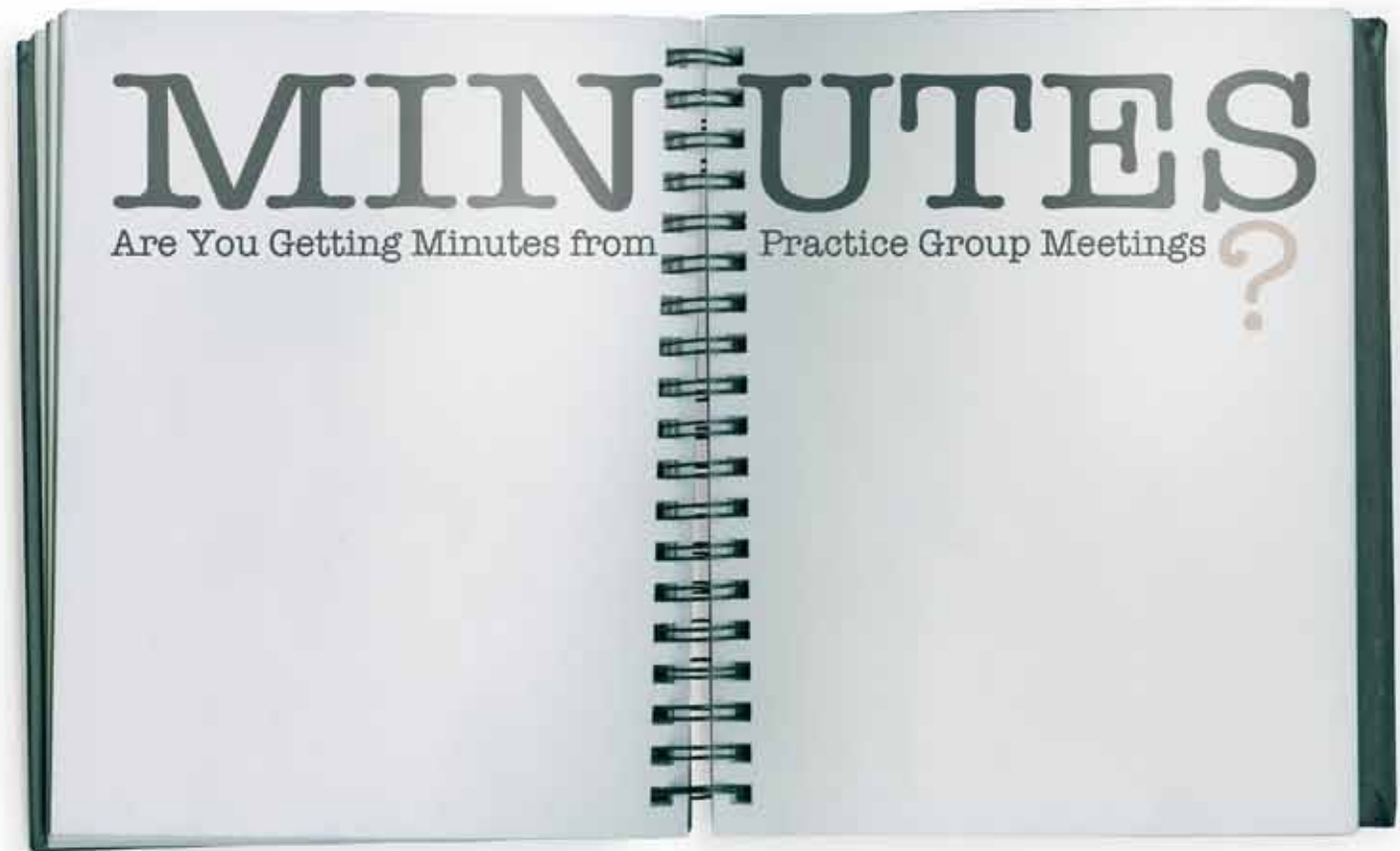
Actually, if I do think a lot in terms of groups. It may simply be because of my own sense, when I was running one of our offices, that the power of positive group dynamics was undervalued. From that experience, I began to naturally think more about incentives in general, and how incentives work and should work.

The problem is, for lawyers, words are action. Lawyers make their living uttering or writing words; that’s their stock in trade. But in management, action is action, and you have to overcome the tendency, reinforced by years of education and training, of most lawyers to substitute words for action..

My challenge, therefore, is to get the practice groups to do something!

#### Related Articles on [patrickmckenna.com](http://patrickmckenna.com)

- *Low Return: The Unintended Consequences of Financial Incentives*
- *Sliced Too Thin: The Danger of Wide Partner Compensation Spreads*



Whenever I've been called in to work with a firm's practice group, some group that needs remedial attention, one of my first questions of firm leadership is to please send me copies of the groups' meeting *minutes*. The response I usually elicit is . . . "*Minutes? What do you mean by minutes?*" Which tells me everything I need to know!

I find that too many practice group meetings (if your practice groups are meeting at all) are simply a convenient excuse to have lunch and find out what everyone has been up to lately. Many groups may spend time talking about workloads and about what's new in their particular area of practice – but few actually engage in collaborating on projects that could advance the group's ambitions.

What I've learned and observed first hand is that the most effective practice groups, the ones that are bringing in good client work and striving to dominate in their chosen markets, actually spend their time **action planning**, determining some joint projects that the group would benefit from working on and then having partners volunteer to implement certain tasks.

The acid test is: Are your groups really doing anything meaningful?

The only way for you, as the firm leader, to determine the answer is to get the group's minutes and see whether there are specific tasks and projects identified and underway with specific partners committed to implementing those projects – and ideally those projects should line up with the written, strategic business plan that each group created and submitted to firm management. (and Yes, I'm talking about a real "**strategic**" plan, not one of those silly three page templates that the marketing department handed out to each practice group leader to complete at the beginning of January).

**“**The most effective practice groups, the ones that are bringing in good client work and striving to dominate in their chosen markets, actually spend their time action planning.”

As the firm leader if you are receiving the monthly minutes from each of your practice groups, you can fairly easily determine who's being effective and who is off track, who's working on implementing their group's plan and who is not; and which practice leaders you might need to spend some time coaching and which you need only send a "good work" note to. Alternatively, without regular minutes you will not likely find out how any of

your groups are progressing until . . . perhaps the end of the year, if then.

Attached is an *excerpt* from a typical, written report that was compiled following a meeting of the partners within a Products Litigation Group:

This is typical of the type of written report that, if I were the Managing Partner, I would want to receive every month from each and every one of my Practice Group Leaders.

The report is simply one page, listing each “core” member of the practice group by name, with a specific project (or not) that that individual had volunteered to complete by the next monthly meeting date.

At a glance, I can then see what is going on in each of the practice groups and who is working on what.

I can also begin to identify if the same project appears each month next to the same partner’s name - which may indicate that that partner isn’t following through on whatever task they promised the group they would execute.

# MINUTES

## PRODUCTS LITIGATION GROUP MEETING

January 21, 2014

**Joanne** - will compile and present a list of the (niche) manufacturing companies that we have represented (both in our group and across the firm) with an indication of who our main contact is and the relationship we have with each contact.

**Chris** - will provide a report on what other competitive firms are doing in the (niche) manufacturing industry, what specific industry groups are active, and what some of the timely issues are that populate the agendas of these industry groups.

**Geoffrey** - will conduct some research into a new federal act that is just being introduced and prepare a written summary of the regulatory implication for the group to review.

**Allison** - is going to research government contacts in the economic development department, visit/interview them to determine their views on selective industry issues and report back to the next meeting.

**Brady** - will review our experience and provide a summary on how we have been performing in doing this work using alternative fee arrangements.

**Andrew** - will work on developing the first draft of a specific template for conducting a litigation post mortem.

I can also see whether certain partners aren’t attending meetings or contributing.

I can see whether the projects that are getting implemented are in concert with the practice group’s written strategic plan or simply ‘make busy’ work that isn’t really advancing the group’s ambitions.

And finally, I can distribute each practice group’s one-page action planning summary to any other group’s where there is any areas of potential overlap - and also post all of the reports online so that any practice group leader (or any partner) may review what other groups are working on.

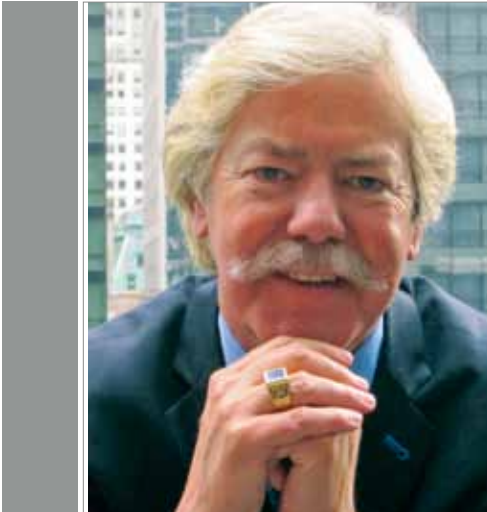
Sounds simple? And it actually is. It requires that firm leadership set out some expectations of what practice groups need to be doing and then hold the practice leaders accountable. One of those expectations involves every practice group having action planning meetings that focus in on specific tasks and projects that advance the group’s strategy - rather than convenient excuses to have lunch and chat about

what’s been going on.

So, are you getting the minutes from your practice group’s meetings and do you know what each practice group is actually doing?

### Related Articles on [patrickmckenna.com](http://patrickmckenna.com)

- > [Practice Group Leadership 2.0](#)
- > [When Needing To Replace A Practice Leader](#)



## PATRICK J. MCKENNA

### P R O F E S S I O N A L P R O F I L E

An internationally recognized authority on practice management, McKenna has, since 1983, worked with leaders of premier firms globally to discuss, challenge and escalate their thinking on how to manage and compete effectively.

He is author of a pioneering text on law firm marketing, *Practice Development: Creating a Marketing Mindset* (Butterworths, 1989), recognized by an international journal as being “among the top ten books that any professional services marketer should have.” His subsequent work includes *Herd-ing Cats: A Handbook for Managing Partners and Practice Leaders* (IBMP, 1995); and *Beyond Knowing: 16 Cage-Rattling Questions To Jump-Start Your Practice Team* (IBMP, 2000).

A prolific writer on the challenges of firm leadership, his book (co-authored with David Maister), *First Among Equals: How to Manage a Group of Professionals*, (The Free Press, 2002) topped business bestseller lists in the United States, Canada and Australia; was translated into nine languages; is currently in its sixth printing; and received an award for being one of the best business books of 2002; while the book *Management Skills* (John Wiley, 2005) named McKenna among the “leading thinkers in the field” together with Peter Drucker and Warren Bennis.

In 2006, McKenna’s e-book *First 100 Days: Transitioning A New Managing Partner* (NXT-Book) earned glowing reviews and has been read by leaders in 63 countries. This publication culminated in Patrick being asked to conduct a one-day master class for new managing partners, currently held at

the University of Chicago. Thus far over 60 new firm leaders from legal, accounting and consulting firms have graduated from the program.

His published articles have appeared in over 50 leading professional journals, newsletters, and online sources; and his work has been featured in *Fast Company*, *Business Week*, *The Globe and Mail*, *The Economist*, *Investor’s Business Daily* and *The Financial Times*.

Always obsessed with innovation, he was instrumental in introducing the first global (InnovAction) awards initiative in 2003 in conjunction with the College of Law Practice Management to identify and celebrate law firm innovation.

McKenna did his MBA graduate work at the Canadian School of Management, is among the first alumni at Harvard’s Leadership in Professional Service Firms program, and holds professional certifications in management. He has served at least one of the top ten largest law firms in each of over a dozen different countries and his work with North American law firms has evidenced him serving 62 of the largest NLJ 250 firms.

His expertise was acknowledged in 2008 when he was identified through independent research compiled and published by Lawdragon as “one of the most trusted names in legal consulting” and his three decades of experience in consulting led to his being the subject of a Harvard Law School Case Study entitled: *Innovations In Legal Consulting* (2011).



## FIRST 100 DAYS

### Master Class for the New Firm Leader

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**"I** was struck by the synthesis of the issues you presented. It was amazingly clear and comprehensive, given the breadth of the topic and the short time available. I was delighted to attend the event and I learned a lot from it."

*Hugh Verrier, Chairman*  
**WHITE & CASE**

**T**he First 100 Days Masterclass was concise and insightful. I quickly learned the difference between being a practitioner and a Firm Leader. I was thoroughly impressed with the scope of the topics discussed.

ONE YEAR LATER: *I continually refer to that one day class as the best thing I did to prepare for my new role."*

*Vincent A. Cino, Chairman*  
**JACKSON LEWIS**

**T**his Seminar was precisely tailored to the new managing partner and I left with specific strategies to help my transition into my new role. You can expect to get a call or two over the next 100 days . . . I made notes of 15 items I want to act on sooner rather than later. And I expect to borrow heavily from your slides in assigning tasks to a half-dozen people.

*Michael P. McGee, CEO*  
**MILLER CANFIELD**

For more details, a copy of the day's agenda or to register, please visit:  
[www.first100daysmasterclass.com](http://www.first100daysmasterclass.com)

#### WHY A MASTERCLASS FOR NEW FIRM LEADERS?

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It may not be fair, but it's true: Your first few months as Managing Partner or Firm Chair — the time when you are just starting to grasp the dimensions of your new job — may well turn out to be the most crucial in setting the stage for a tenure that hopefully should last for years.

While these first 100 days will present a unique window of opportunity, they also hold potential for others to misunderstand you. How quickly you swing into action as the new leader, for example, might provide a basis for your peers to characterize your management style as rash, purposeful, or indecisive. Your selection of colleagues within the firm for consultation on your early decisions will fuel others' notions that you're inclusive, authoritarian, or even playing favorites. Some partners might rush to label you as fair or arbitrary; a visionary or a cautious bureaucrat. Some are even likely to try to test your composure in the early going.

This one-day intensive masterclass is designed to help you hone critical skills and develop a plan for a successful transition as you move into your role as your firm's new leader.

**WHEN:** Thursday  
August 14, 2014  
**TIME:** 8:30 am - 4:30 pm  
**WHERE:** Glecher Center  
University of Chicago

#### YOUR MASTERCLASS MATERIALS

- **24-PAGE MONOGRAPH** — "FIRST 100 DAYS: TRANSITIONING A NEW MANAGING PARTNER"
- **200-PAGE HARDCOVER** — "SERVING AT THE PLEASURE OF MY PARTNERS: ADVICE FOR THE NEW FIRM LEADER"
- **75-PAGE WORKBOOK** INCLUDES CASE STUDIES, EXERCISES AND DISCUSSION MATERIALS
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#### YOUR MASTERCLASS FACULTY:

**Patrick J. McKenna** is an internationally recognized authority on law practice management; and

**Brian K. Burke** is the former Chair Emeritus at Baker & Daniels with over 20 years in law firm leadership positions.