On Law Firm Leadership and Accountability

By Edwin Reeser

BigLaw has witnessed significant shortfalls in budgeted net operating income for many firms. This has led to stagnant or reduced distributable income to partners in 2007, unprecedented cost-cutting and further reduced distributable income in 2008, and, in 2009, attorney and staff dismissals, revoked job offers, deferred start dates for new associates, canceled summer programs, and reconfigured partner positions. And it doesn't end there. Further widespread reductions in distributable income as compared to the initial budgets presented to partners for 2009 should be anticipated.

Is anybody keeping copies of annual budget and forecast income memos, taking notes, and comparing management's promises to actual results?

There have been rousing statements by law firm leaders associated with the initiatives adopted and strategic plans implemented these past three years, but whatever the firm or structure of decision, the "buy- in" of hardworking, revenue producing partners is premised on two fundamental expectations.

The first expectation: Implementation of initiatives and plans—including many painful ones, such as partner deequitizations and associate / staff layoffs--would lead to stabilized or higher income. Budgets associated with the plans and initiatives presented by management to partners were realistically achievable in 2007, 2008, and 2009.

The second expectation: Eventually, there must be accountability of leadership for the results delivered.

The first expectation has not transpired for many, maybe even most, big law firms. Given the continuing failure to satisfy the first expectation, the partners should demand action with respect to the second expectation. Confidence in the viability of business plans and budgets for 2010 rests on accountability of the individuals who are responsible for achieving those plans and meeting the budgets. The firms that do not redirect a sharp downward direction in performance, as contrasted with consistently overstated and unrealized targets for budgeting, are going to wind up exactly where they are headed. Oblivion.

The challenge to leaders, and to the lawyers they lead, starts this October. That's when: 1) projections for 2009 results will become accurate; 2) banks reset loan line amounts and conditions for 2010; 3) calls for capital are made; 4) partner compensation for 2010 is set; and 5) greater cost cutting may be proposed. How can the leaders rally support for this investment?

In a word, accountability. Firm leaders must demonstrate their own confidence in their budgets and business plans by holding themselves directly accountable for the outcomes.

The partners, including leaders, should respectfully require ALL persons in positions of leadership at the firm, as a group, to proportionally reduce their compensation in 2009, and again in 2010, by enough to bring all other capital partners to projected partner compensation levels announced at the end of 2008 / beginning of 2009, should operating performance not be sufficient to reach those income levels, up to a maximum reduction of 20 percent of compensation for Leadership Partners. A lesser percentage doesn't have enough incentive, and more seems too great a disincentive to good leaders to step up. Build in incentives for superior performance if necessary...but survival of your firm should be enough for true leaders.

It is time for the "talk" to take a back seat to the "walk" that will instill confidence in Leadership Partners who are tasked to look after and promote the best interests of their firm. Those "leaders" who are unwilling to do so can resign and be replaced with persons who take the responsibility of leadership seriously. Anything less is not credible, and may lead to the accelerated loss of partners whose work and contribution to the firm are superb, but who are increasingly undercompensated. Partners must rally together to protect the institution of the firm and its culture with simple steps that demonstrate character, resolve, courage, and competence as managers. If Leadership Partners cannot, or will not, it tells all of the partners something they are better off knowing now, and not later: Whether the leadership of the firm exists to promote the betterment of the firm and the partners, or whether the firm and partners exist to promote the betterment of the Leadership Partners. The process will deliver a budget that will finally confront reality, the first step in developing a business plan that works, and a budget everyone can believe in!

Partners are not getting the performance that, as shareholders, they deserve, and have been promised. Leadership Partners, it is time to lead your people, by walking behind them. This may be the last chance for leaders in many firms to make the right decision.

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