Optimal law firm management – a moving target

By Emily Morrow

A law firm is optimally managed when the organisational and leadership needs of that firm are consistently well aligned with the resources the firm has to meet those needs. Full stop.

In all law firms, management needs and resources are in constant flux. A law firm never fully "arrives", nor is it ever completely deficient in its management needs and resources. That said, internal management issues rarely get sufficient attention because they involve non-billable time.

Most firms function reasonably well day to day with an organisational structure and leadership model based on what needs to be done and who is available to do it. Time gets billed, invoices are posted, employees and expenses get paid and dollars come in, with the excess being divided among the equity partners.

That is, until someone realises the firm's management, although adequate, is less than optimal. "Slippage" occurs, partners need financial and other information that is not available, lines of command get blurred and discord develops. A less than ideal alignment between the firm's management needs and resources becomes apparent.

Most firms only examine their management needs and resources when obvious problems surface. Many firms waste time, energy and ultimately money going through rough periods as they outgrow their current management resources. A few firms, however, review their management structure before the wheels start falling off the cart. A lot of organisational misery can be avoided with a bit of proactivity.

Assuming a firm wants to look critically and proactively at its internal management structure, what should it consider? What predictable stages do law firms go through from a management perspective as they grow in size and complexity? What management structures are appropriate for each such stage?

> "Assuming a firm wants to look critically and proactively at its internal management structure, what should it consider?

The formative management stage

Law firms are often founded by several lawyers who have practised together elsewhere or are professional friends and colleagues. Because new law firms have unpredictable cash flow and needs, relatively little management infrastructure is initially put in place. One or more partners, a legal secretary or legal executive might constitute the firm's management structure.

In the formative stage, roles are fluid, people take turns doing what needs to be done and there is little focus on consistency. The lawyer who takes the lead is typically the one with the greatest interest and inclination to do so and the others acquiesce. Beyond that, most decision-making is done by all the partners on a weekly or monthly basis.

Although the formative stage can continue indefinitely, the model begins to break down as a firm grows. As the number of lawyers and staff increase and the finances become more complex, collective decision making/management is inefficient. Friction and confusion can occur when multiple partners make inconsistent or unpredictable management decisions.

Morale suffers and disaffection increases. A firm in this position is ready to move into the next phase of internal management. Sadly, sometimes the partners are the last to pick up the distress signals. Entrenched thinking can create blind spots.

More formalised management – the initial phase

When I moved laterally from one firm to another as a partner, the firm I joined was on the cusp of needing a more sophisticated management structure. There were 10 partners, 10 or 15 other lawyers and about 15 staff. We had a de facto managing partner and a former secretary (who had learned "on the job"), did the bookkeeping and administrative work. Things went along from day to day, but the wheels were beginning to fall off the cart.

We hired an external consultant who recommended we do the following to increase profitability without significantly increasing overhead:

- Form a four-person management committee, delegate most decision making to the group with the managing partner as

an ex officio member of the committee.

- Encourage our ageing office administrator to retire and hire a "really qualified" general manager who would work closely with the managing partner. More about that later.
- Have the partners meet quarterly and hold an annual strategic planning retreat.
- Hire a full-time assistant for our general manager. We demurred on that because we were not ready to spend the money to do so. More about that later as well.

We thanked the external consultant, implemented some of her recommendations, paid her last invoice and decided we could handle the rest on our own.

We had entered the more formalised, institutionalised era of law firm internal management and it worked quite well for about five years. Our profitability and employee and client satisfaction levels improved. In retrospect, however, we realised our success was primarily due to the fact that we had a capable managing partner during those five years. What a blessing that was!

The (sometimes rocky) road to enhanced internal management

Firms that move out of the formative phase into a somewhat more institutionalised management phase often assume that initial modest changes will continue to be adequate. Although this can be true, over time the benefits of such changes diminish.

Consider the following predictable "growing pains":

- A firm gives inadequate thought to choosing its initial GM, the GM's job description, the relationship between the managing partner, the GM and the the partnership etc. The first GM lasts about a year, becomes a "sacrificial lamb", and the partners waste time, energy and resources trying to retrofit a bad fit. If, instead, a firm is realistic about what it needs, there will be fewer false starts.
- Although the partners initially delegate considerable decision-making authority to the managing partner and GM, some partners become uncomfortable with the arrangement. Lines of authority become unclear, personality and other differences emerge and firm management/leadership suffers.
- The new GM lacks the experience, qualifications, temperament or "mana" to manage the firm. However, to hire what the firm really needs will cost considerably more. There is dissension in the ranks about this.
- The partners expect the GM to provide leadership on business development, strategic planning, personnel matters etc without themselves relinquishing control over the process. Ambivalence, confusion and resentment develop.

These "symptoms" often indicate a firm's current management structure is less than optimally aligned with its needs. Invariably, while some partners will begin advocating for change, the majority will be ambivalent and a smaller group will actively oppose new ideas. This is perfectly normal and healthy, but not necessarily easy.

At my prior firm, after working with our external consultant, we decided we could handle things on our own until we began to experience some of these predictable growing pains. We probably could have avoided some costly traps for the unwary had we continued to seek professional advice.

We tried to be "experiential learners" and we paid a price for that. For example, we went through three GMs before we finally got the right one and friction developed because we had unclear lines of command among the partners, the management committee and the GM.

The professionally managed law firm

Some firms, because of their size and complexity, are truly professionally managed by a CEO or CFO or both and an administrative support staff. These are complex organisations and considerable financial and other resources go into the care and feeding of the management structure. So long as the benefits outweigh the costs, professional management can have real advantages for a firm.

Most law firms in New Zealand have some level of professional management without being truly professionally managed, and do quite well with that, tweaking it from time to time. The best firms continually evaluate how they are doing by checking in with their staff, clients, each other and if appropriate, seeking external advice. They take nothing for granted. Without that, a certain amount of inertia and hubris can settle in.

There will always be law firms that do this management thing really well and get more than their fair share of the work and the clients. Their revenue, employees, degree of specialisation, geographical footprint, internal morale and the like keep improving. However, if they don't continually fine tune their internal management structure, they will stunt their future success.

The next steps

Sometimes during a partners' retreat the partners begin to realise the firm is outgrowing its current management structure. When facilitating such a discussion, I ask the partners to articulate exactly where they want to see the firm in the next five to 10 years. What would success look like? We then drill down into the details of what the partners need to do collectively and individually to get there. Such a discussion often highlights the lack of alignment between the firm's management needs and current resources.

Sometimes the firm administrator or GM organises such a retreat at the behest of the partners. However, if the role of the existing firm administrator or GM might be an agenda item, the partners should carefully consider who should attend the retreat. Should it be all the partners including both equity and salary partners? Should the firm administrator or GM attend?

I typically ask the managing partner or management committee, or both: "What are the optimal outcomes you want from this retreat?" If they can answer this question clearly, then I can make some well-informed recommendations about who should attend the retreat, what topics should be discussed and so forth.

When a law firms decides it needs a more developed management structure, the following often occurs:

A highly qualified GM or CEO is hired after a rigorous hiring process informed by a carefully crafted job description.

Decisions about who should serve as managing partner and/or on the management committee become highly strategic. Typically, there are formal nominations and voting.

An adequate support staff structure is hired for the GM or CEO so they can function primarily at the strategic, rather than administrative level. The CEO begins to play a key role in articulating and implementing the firm's objectives. The best CEOs have excellent influencing and executive capabilities – when herding cats, influence is much more effective than authority!

If there is not already a full-time HR manager, one gets hired. The HR manager typically works closely with the CEO and has input into the firm's strategic vision and the staffing needs to achieve it.

As with many things in life, no one size fits everyone in terms of law firm management. Optimally managed law firms understand that management requires as much attention and focus as the practice of law. Firms that get this right avoid unnecessary headaches, move forward more consistently and are the high achievers. It pays to invest in this process and get it right the first time. ■

Emily Morrow was a lawyer and senior partner with a large firm in Vermont, where she built a trusts, estates and tax practice. Emily now resides in Auckland and provides tailored consulting services for lawyers, barristers, in-house counsel, law firms and barristers' chambers focusing on non-technical skills that correlate with professional success; business development, communication, delegation, self presentation, leadership, team building/management and strategic planning. She can be reached at *www.emilymorrow.com*.