

ON MANAGEMENT



Richard Gary

Business or Private Club:

Does your firm listen to its senior staff members?

Is your firm truly run on a corporate model, or are there still vestiges of a partnership that operates as a private club — where pivotal conversations take place behind closed doors? Which management culture produces the best results? A key barometer can be whether senior staff members are part of the decision-making process.

Many leading law firms are well-managed businesses that offer their “C-level” executives (that is, chief officers for operations/technology/finance/marketing/human resources, and the like) the opportunity to participate fully in operational decision-making and planning. These firms tend to have an inclusionary, non-hierarchical management culture, one with an absence of caste distinctions between the partners and senior staff.

However, some firms are managed like private clubs, where the C-level executives are excluded by partners from important discussions, under the rationale that non-lawyer administrators have no “skin in the game.” These firms, with an exclusionary, hierarchical management culture, underutilize senior administrators.

I’ve seen both kinds — inclusionary firms where senior staff members participate fully in key decisions, and exclusionary firms with rigid partner/staff hierarchies, where senior staff members have little or no say in

decision-making. Most inclusionary firms are not only far more successful than exclusionary firms but also more satisfying and enjoyable places to work.

Inclusionary or exclusionary? To determine which model your firm follows, you should start by asking these seven questions:

1. Do C-level executives participate in critical planning?

Here’s how planning works at two real-world Am Law 100 firms:

- At Firm A, a large firm with an inclusionary culture, a 40-member leadership group handles long-range planning. It includes partners elected to the firm’s governing board, as well as practice group and office leaders and non-lawyer senior staff, including the firm’s C-level administrators. The senior staff makes up about one-third of the group’s membership. The views of these executives are both sought and respected by the firm’s leading partners. They are an integral part of the management team.

This inclusionary firm is the leading firm in its market, with striking growth in

terms of both revenue and partner profitability in recent years.

- At Firm B, an exclusionary firm, C-level executives are excluded from the planning process. The governing board takes the position that discussions about the firm’s future should be reserved exclusively to partners. Members say the presence of even senior staff would inhibit candor.

Many partners at this firm believe that admission to the partnership confers an exclusive status, almost like admission to a private club. They also believe that because senior staff members don’t originate business, record hours, send bills to clients, or have an equity stake in the firm, their recommendations with respect to the firm’s future plans are somehow less credible or less valuable than the views of the firm’s partners.

This view is nothing less than archaic. C-level executives — and other administrators, for that matter — depend on the firm to put food on the table, pay the rent, provide health insurance, and educate children. I would argue that this “sweat equity” investment is, in many respects, more meaningful than partners’ capital accounts. It meets my test for “skin in the game.”

By contrast with Firm A, this exclusionary firm has been stagnant in recent years, with one of the weakest growth rates in its market, and partner profits have been flat. I can’t prove that Firm B’s performance is directly attributable to its systematic exclusion of senior staff members from the



decision-making process, but it's clear to me that the firm hasn't reached its potential — and one of the reasons is that it hasn't taken full advantage of the expertise of its highly-paid senior staff. If I were a partner at that firm, I'd be asking why.

2. Are C-level executives compensated, at least in part, on the basis of firm profitability?

Many inclusionary firms have incentive plans for senior staff that include a component — usually about 50 percent of the annual bonus opportunity — based on overall firm profitability or performance in relation to budget. These plans give C-level executives a direct stake in the firm's operating results and, to that extent, align their financial interests with those of the firm's partners.

3. Do C-level executives receive the same performance data that is distributed to the firm's partners?

In law firms, as in the corporate world, access to information reflects your status in the organization. Most C-level executives in firms with an inclusionary culture receive copies of monthly reports on financial performance, billable hours, collections and realization and other information distributed to partners. This practice not only keeps C-level executives in the loop and helps them to perform more effectively, but it also reflects the degree to which they are considered peers within the firm.

4. Do C-level executives attend partner meetings and retreats?

Most firms have partner meetings at least monthly, and almost all firms have annual partner retreats. C-level executives at inclusionary firms attend these events as a matter of course. At these meetings, they are able to develop close working relationships with partners and a better understanding of the firm's strategy and culture.

5. Is the COO a member of the firm's executive committee, management or policy committee, or compensation committee?

Law Firm executive committees generally handle day-to-day affairs, practice management, marketing, budget preparation and other operating functions. At most firms with an inclusionary culture, the chief executive officer is an ex officio voting member of the executive committee and is involved in every important operating decision that is taken by the firm.

MAKE YOUR VOICE HEARD

If you're a C-level executive who wants to have a seat at the decision-making table — here are some tips that will help make your voice be heard.

1. Don't be bashful. Express opinions clearly and succinctly. Because you're not a partner, you may feel apprehensive about speaking up, but don't let that stop you. Assume that you hold your position because partners value your judgment and expertise. Be respectful, but act as though you belong at the table.

2. Back up what you say with real-life examples taken from your experience. In the corporate world, senior managers usually advance through the ranks in line operations, finance, sales, or other business disciplines, gaining valuable experience along the way. But in the legal world, firm leaders often have no management experience. They end up learning needed skills, such as finance and planning, on the fly. By contrast, as a C-level executive, you are likely to have years of hard-earned experience in your chosen field. Use it to both your own and the firm's advantage.

3. Cite authorities whenever you can. Lawyers are, by nature, analytical people, and they respect authority. They'll listen more carefully to you if your comments are supported by academic experts or industry studies.

4. Know when to be quiet. As a C-level executive, you are compensated for expertise in your area of specialization. If the discussion turns to a subject where you have nothing to add, stay silent. Be careful not to dilute your impact by straying too far afield.

Law firm management or policy committees are like corporate boards of directors, with responsibility for major policy decisions and approval of the annual budget. COOs at inclusionary firms are almost always ex officio voting members of these committees.

Even at enlightened firms with an inclusionary culture, COOs generally do not play a role in partner compensation.

However, at an increasing number of these firms, COOs attend compensation committee meetings as non-voting contributors or observers. Moreover, some inclusionary firms even involve their human resources chief in discussions about partner compensation, eager to take advantage of his or her specialized expertise.

6. Do any C-level executives other than the COO play an important role on the firm committees?

At firms with an inclusionary culture, the chief marketing officer is a member of the marketing or business development committee, the chief information officer is a member of the technology committee, and the chief financial officer is a member of the finance committee and the 401(k) investment committee. The chief human resources officer frequently is a member of the 401(k) investment committee, too, and may also serve on the hiring committee.

7. Are C-level executives listed on the firm's Web site?

You may very well think this factor is unimportant, but it's an excellent litmus test of a firm's commitment to and respect for its senior staff members. For arguments why firms ought to list C-level executives on their Web sites, see *Dirty Little Secrets*, "Low Visibility," April/May 2004. **LFI**

This article is reprinted with permission from the March/April 2005 edition of LAW FIRM INC. © 2005 ALM Properties, Inc. All rights reserved. For information, contact American Lawyer Media, Reprint Department at 800-888-8300 x6111. #014-05-05-0003

GARY ADVISORS LLP

P.O. Box 1066, Tiburon, CA 94920
 415.381.0976 (office)
 415.381.8376 (fax)
 415.828.8997 (mobile)
 rngary@garyadvisors.com
 www.garyadvisors.com