LARGE FIRMS

Balancing Act

Finding the right combination of management duties and an active practice is complicated, law firm leaders say. **By Robert Fortunato and Ron Beard**

Clint Stevenson became managing partner of Latham & Watkins in 1967, completely giving up his law practice to manage the Los Angeles-based firm full time. The move was revolutionary. Law firm leaders throughout the country were expected to manage their firm while maintaining an active practice.

Since Stevenson, the next two Latham & Watkins leaders, including current leader Robert Dell, have transferred their practices to other partners in order to focus exclusively on firm management. This focus on management has paid off: Latham & Watkins has grown from 35 attorneys at the start of Stevenson's tenure to one of the nation's largest and most-profitable law firms, with 1,550 attorneys and $906 million in annual revenues.

Despite Latham & Watkins' success, many U.S. law firms were slow to follow its lead. With few exceptions, leaders in the 1970s and 1980s maintained an active law practice in addition to their full-time management duties.

In the past 15 years, however, law firms have grown dramatically, both in the number of attorneys and in geographic reach. Moreover, the recession of the early 1990s forced law firms to behave more like traditional businesses by demonstrating a concern for costs as well as revenues. The result is that many large law firm leaders spend most, if not all, of their time managing.

But some leaders insist on practicing law, some devoting more than 50 percent of their time to their practice.

Why is the pull of the practice so strong when the responsibilities of running a large law firm warrant dedicated leadership?

Many firms believe that their leaders should have substantial client responsibilities. They want to ensure that their leaders do not become too far removed from the difficulties that their partners face every day.

One leader puts it this way: "Staying close to my practice, I can feel the economic pain my partners and clients are under."

In addition, status within any law firm generally is equated to the amount of business an attorney controls and number of hours he or she bills.

Given these realities, how much of a hard-earned practice should a leader shift in order to handle management responsibilities adequately?

To answer this question, we surveyed 62 current and former leaders of the 200 largest global and regional firms. In total, the group accounts for more than $16.4 billion in annual revenue and collectively is responsible for 32,000 attorneys.

The 2001 median revenue for the leaders' firms was $184 million, and the amounts ranged from $78 million to $1.4 billion. Median profits per equity partner were $540,000, with a low of $260,000 and a high of $1.67 million. The number of attorneys at each leader's firm varied from 130 to 3,531, with a median of 384.

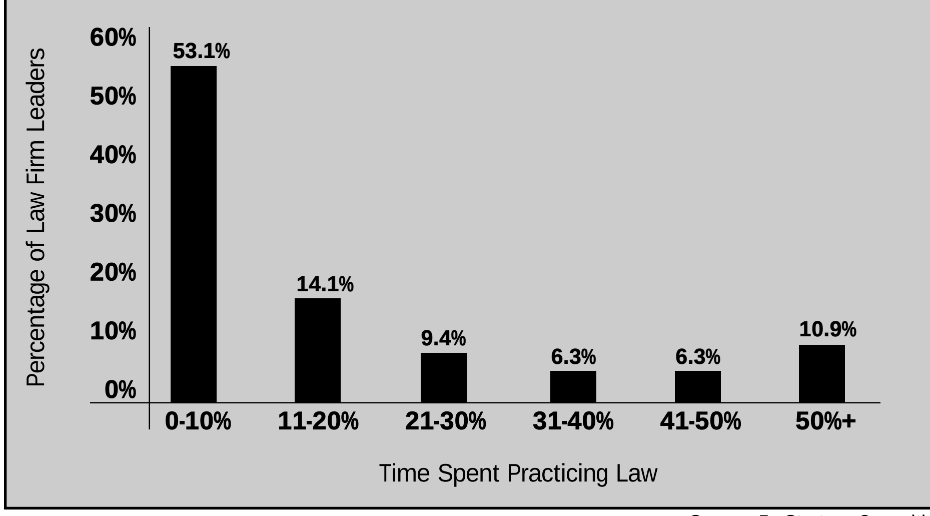
On average, they have been in their current leadership positions for 5.3 years.

We quote them throughout the article, but to ensure candid responses, we promised not to disclose their names or firms.

According to our research, 10 factors emerged that influence how much a leader is willing to give up his or her law practice to manage the firm.

The Big Squeeze

Management duties leave little time to practice law, according to a recent poll of 62 leaders of national and global law firms. A majority of leaders spend 10 percent or less of their time practicing law, devoting nearly all of their energy to management. Only 11 percent continue to dedicate at least half of their billable hours to active cases.



Source: ForStrategy Consulting

Credibility. The leaders we interviewed mentioned credibility, both internal and external, as the prime reason for continuing their practice. Maintaining substantial client contact increases their understanding and ability to relate to the needs of both their colleagues within the firm and the clients. It gives other attorneys the feeling that, as one leader said, "you are still doing what we do; he is still one of us and understands what we do."

Credibility was also the reason that most leaders we interviewed believe that nonlawyers will never lead major law firms. Despite the opportunity cost of taking the best lawyers away from their practice in the prime of their careers, leaders believe that a nonlawyer is bound to fail in that position. They believe that the nonlawyer would never gain the partners' trust and respect because he or she could not understand the nuances of the practice.

The only qualification was that some thought that, in the truly megafirms with thousands of attorneys, the leadership structure may become more and more corporate in the future. This might allow a nonlawyer from a large professional-services firm to assume the top leadership position.

Although credibility drives many of the 62 leaders to maintain some portion of their practice, most see management as a full-time job. Thus, some risk losing credibility if they practice law beyond 10 percent or 15 percent of their total time.

"As there are 20 people lined up outside my office," one leader says, "it would have been very hard to tell them I had to write a brief and shut my door."

Leadership Tenure. Leaders we interviewed generally moved into their new position during the course of one or two years. Many were overly optimistic at the beginning of their terms about how much they could practice, given the demands of the leadership position.

When they started, many intended to maintain a practice-to-management ratio of 50-50 or 25-75. After juggling too much client work in their first year, they tended to reduce their practices significantly. The more years a leader had in his or her management position, the less the leader tended to practice.

Firm Size. Size and scale of a firm make a difference in a leader's decision on how much of his or her practice to transfer to partners.

The cutoff in firm size is 600 lawyers, after which it is no longer possible for a leader to maintain a practice. As the firm grows, more dedicated leadership is needed to deal with partner issues, strategy and recruiting clients.

It is also far easier in large firms to spread the opportunity cost of one of the firm's best lawyers investing several years in a nonpracticing role.

Managerial Support. In our survey, an average of seven lawyers per firm have given up some or all of their practices to focus on managerial duties. These duties include managing practice groups, chairing substantive committees such as those for recruiting and compensation, and overseeing financial matters within the firm.

Firms also have been building strong high-level executive management teams below the leader with nonlawyer staff. Both of these trends allow the leaders to distribute management responsibilities and increase the likelihood that leaders can continue to maintain some of their practice.

Although most of the managerial support is not full time, our conversations make clear that the battle to gain additional managerial support from the lawyers within the firm is hard-fought.

One leader echoed the sentiments of many we spoke with.

"If I could convince my partners of the value of the role of management, it would be a lot easier to move forward in allocating the appropriate time to the tasks that need to get done," he said. "It is hard to get my partners past the opportunity cost associated with taking partners away from their practice."

Law firm organizational structures put a lot of strain on practice-group leaders. These lawyers are under tremendous pressure to manage what are often very large business units, often with more than 100 lawyers, while at the same time maintaining a full practice of 1,600 to 2,200 billable hours each year. Many leaders expressed a need to address this issue by giving practice-group heads more authority, accountability and training in leadership and practice-group development skills.

Self-Satisfaction. We received many unsolicited comments about how difficult, undefined and lonely the leadership position is within a law firm. The challenges of the position are often daunting and may cause some to think about their practice as a safe haven because it is where they have had success in the past.

Several of the more interesting comments came on this subject:

- "Too many days, I enjoy getting out the time sheet because I want to get back to someone telling me I did a great job. That doesn't happen every day when I'm dealing with my partners."
- "This is a job with a lot of low lows and some highs. You have to have an overrefined sense of responsibility. You are subject to lots of criticism. It is relatively infrequent that you have someone tell you that you did a good job."
- "Someone has to have a high sense of honor or need to make a difference to take on this responsibility, but a rational human being would have to think twice, given the low level of satisfaction on a daily basis."
- "Management is regarded as a nuisance, and it is a nuisance to you to be the manager. Entering into a social contract with your partners is a difficult thing, and the ones who do it well will thrive."

These comments demonstrate how little management is respected within some firms. This lack of respect has consequences. Some great initiatives or opportunities for the firm may never be acted on because leaders continuously try to garner respect for their authority.

Term Length and Limits. Shorter terms and term limits directly and indirectly encourage leaders to maintain some portion of their practice.

Eighty percent of the leaders in our survey have a defined term. Their average period is 3.1 years. Meanwhile, 22 percent are subject to term limits, with the leader limited to holding the top position for an average of 2.6 consecutive terms.

Leaders think that a term of less than three years does not allow them to develop a plan and implement it effectively. Leaders with short terms feel like politicians, they say, continually campaigning without the ability to implement the difficult changes needed within the firm.

This low level of satisfaction leads them to want to continue to maintain their law practice for their own security and satisfaction.

Compensation Guarantees. When the time comes for a leader to rebuild his or her practice, a compensation guarantee eases the transition by maintaining income at an

Change Agents

To be effective managers, law firm leaders must scale back some or all of their practice. Here is how leaders we interviewed successfully transition their clients to other attorneys within the firm:

■ They target and prioritize clients (both existing and future) that are willing to be transitioned.

■ They start and maintain great relationships with their clients. When the leaders are in good standing with their clients, the transition is always much easier.

■ They give the work to the best talent available. Clients must know that the leaders put them in capable hands. The leaders introduce this talent early and allow these lawyers to gain responsibility and trust with the clients.

■ They structure the compensation system to reward the lawyers who take on their work.

■ They communicate. The leaders make sure the clients know up front how the service relationship will work and what the leaders' new responsibilities mean for the clients and their firms. They also stay involved until the clients are comfortable with their new lawyers and the work product provided.

■ They maintain high-level relationships with key clients. The leaders visit key clients on behalf of the firm. They understand service levels, ensure client satisfaction and solidify and grow the relationships. In these visits, one leader we interviewed always asks clients: "What should I be thinking about as the chairman of the firm. What do we need to do to better serve you?" He believes he obtains better information through this process than if he directly managed the client matter.

agreed-on level for a specified time.

Formal compensation guarantees ranging from one year to five years after the leader's term ends are becoming more common and often are written into the partnership agreement. Thirty-one percent of our survey respondents have a compensation guarantee for some period after their leadership responsibilities are completed, and many more have an informal arrangement that acts as a compensation guarantee. Among those having a formal guarantee, the average length of the guarantee is 2.8 years.

Why are compensation guarantees becoming more prevalent?

The patrician older leader who retires at the end of his or her term is becoming less common. More often, firms are giving leadership opportunities to the best available talent. Sometimes, this means younger talent who will not retire following that position. These leaders will have to transition back into their practices, and this is spurring concerns about transitional compensation.

In too many instances, leaders have accepted their position when the economy was hot and stepped down six years later when it was not so good.

One leader says, "It is hard to know how your partners may feel in five to seven years."

Of those who do not have a guarantee, 60 percent believe that they should have one, although many felt uncomfortable putting forth such a request to their executive committees. Some also believed that such a request could be interpreted as a lack of self-confidence.

History and Culture. The success or popularity of a predecessor can set the tone for how much a leader will practice. If a successful predecessor limited his or her law practice to, say, 10 percent of billable time, then the partnership is more likely to allow a current leader to limit his or her law practice similarly.

Practice Type. The focus and attention required by certain practices mandate that firm leaders reduce their practices. Litigation, for example, is seen as too consuming to balance with management responsibilities.

One leader whose practice was overly consuming early in his tenure finds this particularly true: "The travel and the three-month commitments that would often be required left my partners wanting to re-evaluate my leadership arrangement every time I returned."

Bottom line: Managing a large firm is seen as inconsistent with trying large lawsuits.

In addition, shifting clients is more difficult if the leader is a "hired gun" as opposed to a relationship manager. Clients expect performance from a hired gun personally, thereby limiting how much work a leader can shift to others within the firm.

Irrespective of type of practice, most leaders who maintain law practices aspire to limit the nature of those practices to doing only high-level relationship counseling with their best clients.

Ability to Rebuild. The prospect of rebuilding a practice after leaving management depends on several factors. These factors include how much of the practice was shifted to other lawyers, how long the leader has been away from the practice, and his or her track record and credibility with clients.

In addition, practices that require an up-to-the-minute, detailed understanding of changes in the law, like specialized litigation and tax expertise, render shifting much more difficult.

Finally, rebuilding was seen to be easier if the practices that the leader left behind had an internal audience, one where his or her own partners send them business because of their proficiency. Litigation expertise was one example.

The rate of change and consolidation within the legal profession is staggering. Last year alone, more than 50 significant law firm mergers occurred in the United States and Europe. As these changes occur, the need for dedicated leadership within the firm becomes more acute. Law firms are responding to these changes by tapping both lawyers and nonlawyers to build unified management teams.

Given these changes, how much should leaders practice? There is no one right answer. Leaders must choose a mix that works best for them.

Leaders, with their executive committees, should look for disconnects between what they would like to achieve through their leadership structure and how the allocation of time is affecting the leaders' ability to perform.

If they find a disconnect, the 10 factors above can help diagnose the problem and set a course for correction.

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