

## The recession: short term pain, long term opportunities

# Managing Partners: This is Your Moment!

*By Barend Blondé and Antoine Henry de Frahan*

The crisis is hitting and it's hitting harder every day. The so-called specialised legal press is reporting on law firm lay-off scores as if it were some kind of new sport. And since the recession strikes law firms with a slight delay, the gloomiest of times are probably still lying ahead of us. This is a good moment to go out on a limb for the managing partners of Europe's law firms. Despite the dreary challenges they are facing, we believe vast opportunities rise before them: they will finally be able to show how all this expensive and time-consuming 'management stuff' protects their firm against the woes of a deep crisis and, more importantly, they will dispose of the ammunition to do some true long term change management and further pilot their firms into a different 21st century.

### **Which firms will best withstand a recession?**

A managing partner of one of the leading global firms told us this summer that 'he wouldn't mind a bit of recession'. "Because", he said, "in proficient times, everybody is doing well. It's harder for the best run firms to mark the difference with the other firms and it's easier for the challengers to claim that they have bridged the gap with the market leaders. When times get tough, however, the difference between the leading firms and the firms that just benefited from the upturn, become apparent. Therefore, a recession helps us mark the difference again."

This reasoning applies to all industry sectors. "When the Going Gets Tough, the Tough Get Going!" The strength of organisations appears when the times get rough.

So, which firms will best withstand a severe recession? We see five decisive factors:

- *Strong, trustworthy brands:* A recession is marked by a lack of trust in the market. First consumers and then companies become highly risk averse. This also applies to law firms. Clients turn to 'safe brands', even if they are – and this might sound like a contradiction in times where 'cost reduction' is a key priority – more expensive. The proof is already there: in every country the major bank rescue deals are primarily handled by the bigwig firms.
- *Resilient partnerships:* The large majority of the foremost law firms has some kind of profit sharing system. When a recession hits the law firms' profits, the solidarity underpinning these systems comes under pressure. Partnerships where financial arrangements are the only cement that hold partners together are much more vulnerable than partnerships that are built on common values and shared objectives. A recession is a crash-test for partnerships: how collective can they think and act when pressure is on the individual? The next few months, it will be crucial for law firms to stay primarily focussed on clients

and on the market. Too much energy wasted on internal discussions and politics will inevitably worsen the already austere situation and lead to the loss of market share.

- *Diversified portfolios*: A law firm competence and client portfolio is like an investment portfolio. The more you focus - or speculate - exclusively on high margin products, the bigger the losses when things turn sour. Risk management involves paying a risk premium. Law firms that withstood the fast money pressure and continued to invest in a balanced, cycle-proof practice that delivers solutions in both booming and recession times, will better weather this storm.
- *Local strongholds*: This crisis will not stop globalisation, but it might very well induce a break. Risk-averse companies think twice before engaging in venturesome foreign investments or before engaging with uncertain contractors, acting in unfamiliar law systems. International transactions will drop. European, independent firms relying too much on referrals from second and third tier Anglo-Saxon firms will suffer. The same is true for local offices that depend too much on referrals from the network or from their headquarter office. In a recession, companies turn to their home markets. Law firms with strong local footprints, rooted in the economic tissue and with direct relationships with business decision makers will be able to keep their head above the water.
- *Lean management*: A recession requires ability to adapt to a changed market environment. Repositioning, reallocation of resources, reshuffling of competences and teams etc. demand strong leadership and a flexible attitude towards processes and structures. On top of that, pressure on fees will be unavoidable. To maintain profits, firms will have to become serious about efficiency: how can they offer the same services at a lesser cost? And how can they exchange information without wasting leads? Management and governance models will be stretched to their maximum.

The past five years were thriving. Consciously or unconsciously, law firms have placed their bets. Now, recession is knocking on the door and "rien ne va plus". The above characteristics take years to build. Law firms will face the crisis carrying the arms they have now. But is there nothing a managing partner can do more but saying "I told you!"? On the contrary, managing partners will finally hit upon the soil fit to grow a crop named 'change'.

### **The Formula for Change**

If "lawyers don't like change", is an understatement, what to say about lawyers and change when revenues and profits brake records year after year? The past few years, the *formula for change* was certainly not in favour of the managing partners preparing their firms for the future.

The *Formula for Change* was created by Richard Beckhard and David Gleicher. This formula provides a model to assess the relative strengths affecting the likely success or otherwise of organisational change. The formula goes as follows:

$$D \times V \times F > R$$

Three factors must be present for meaningful organizational change to take place. These factors are:

*D* = Dissatisfaction with how things are now;

*V* = Vision of what is possible;

*F* = First, concrete steps that can be taken towards the vision.

If the product of these three factors is greater than

*R* = Resistance,

then change is possible. If *D*, *V* or *F* is absent or low, then the product will be low and therefore not capable of overcoming the resistance.

Most lawyers have not felt any urgency to change their behaviour, their attitude or their way of working (unless maybe in the areas of human resources and recruitment). The factor *D* has been very low, certainly from a financial point of view. Therefore only firms with a very strong leadership have managed to achieve real change over the last few years.

If there is any good coming from this recession, it might be the sense of urgency that will slip into the partnership meetings. Managing partners and other law firm leaders can benefit from the uncertainty and anxiety to guide their firms through these tough times and to further transform their firms into modern, solid firms, built on the concepts and values of the 21st century, including collaboration, involvement, efficiency, ecology and responsibility.

But it's a double or nothing exercise. If the leadership fails to bundle the energy and forces unleashed by the crisis and align it behind a inspiring strategic vision and a clear guided path, the formula might become  $D \times V \times F = E + N$ , with *E* standing for *Endless debates* and '*N*' standing for *Navel-gazing*.

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