

Law Firms' Political Systems Are a Key Factor of Strategic Success (or Failure)

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The winds of changes are blowing on the legal market. The current financial and economic crisis of course, but also the underlying trends of globalisation, technology, and increased competition are some of the irresistible forces sweeping through the landscape. These forces will not fade, quite the opposite: even more substantial, structural changes are looming on the horizon. How law firms are coping with this fast-changing environment is a life and death question, and the game is reshuffling the cards among winners and losers. The main challenge for law firms is to be able to change themselves, at best to anticipate and lead, at least to follow and adapt. Firms with a "political system" able to produce and implement firm-wide decisions to effect this change have a clear competitive advantage. Firms handicapped by a powerless political system are incapable of changing and, in this environment, may rapidly pale into irrelevance.

We have identified six political systems in law firms. We don't believe that all are equals. Some are receipts for disaster. Others give a powerful competitive advantage. Here is an overview of the existing systems, and an assessment of their strategic impact.

Absolute monarchy

Some firms look like France under Louis XIV. The managing partner is the ruler, and even the absolute ruler. There may be committees, partnership meetings, and other similar get-togethers but, ultimately, the managing partner is the one who calls the shots, and none dare challenging him.

Where does this authority come from? History, often. The managing partner is the founding father of the firm, and was already a highly regarded attorney when his current partners, by then baby lawyers, started as junior associates under his mentorship. Early perceptions die hard, and years or decades later, the partners feel the same respect as they did as first-year associates. Another source of authority can be outstanding turnover. Some firms appoint as managing partner the top rainmaker whom everyone will respect because he feeds the firm and looks like knowing how to successfully run a legal practice. When the founding father is also the top rainmaker, his grip on power is even stronger.

Are these firms able to adapt to change? In law firms as in government, some absolute rules are visionaries and innovators, other are *status quo* orthodox. So, we might think

that for these firms, success in a changing environment depends on the personality of the monarch, but actually we believe that in most cases, these firms are in a strategic disadvantage. Even when it works in the short-term, with the absolute ruler making right strategic decisions, these firms hardly flourish when Louis XIV goes into retirement. “*Le Roi est mort. Vive le Roi*” does not seem to work so well for law firms. Interestingly, we have often observed in absolute monarchy-type law firms that the main worry for leaders with a long-term vision is precisely to change the internal political system. They realise that absolute monarchy is not a viable option in the long-term, and want to delegate more powers to other partners or to practice groups and to involve them in strategy and management. The absolute-monarchy firms that have a chance to succeed in the future are those that will move to another political system.

Feudalism

A political system doomed to fail in the emerging legal market is feudalism, although it remains quite widespread among law firms. When the king is weak, the barons seize the opportunity to claim back or gain more autonomy. In these firms, being the managing partner is all about coalition building and reaching compromises and a *modus vivendi* with independent-minded individuals who jealously guard their territory. This power struggle (most of the time highly civilised, fortunately) has left more than one managing partner exhausted and cynical, and backing off into a *de facto* job of office manager. In these firms, making important strategic decision for the entire firm is of course very difficult, and ensuring implementation and compliance comes close to wishful thinking. This is why we think that these firms, unless they change their political system, will inevitably slip down and eventually disappear from the rankings that matter. And yet, it can even get worse...

Anarchy

The political system in some firms is completely chaotic. Decisions of the managing partner are most of the time challenged, overruled or simply ignored. No matter what the managing partner has “decided”, partners will make whatever they, and none else, have decided. Eventually the managing partner stops trying to make any decisions at all. Each partner does what he wants, how, when, and where he feels like. Reporting lines and chains of command, if any, are systematically by-passed. The position of managing partner is the one that nobody wants. The question of long-term strategic success of these firms is not even relevant. The firm is already dead (but with leadership, perseverance and skills, it can sometimes be resuscitated).

Direct democracy

Fortunately, political systems in some law firms can look more uplifting. A good example is direct democracy, where all partners make decisions together on a consensus-basis. This highly collaborative and consensual management style is a natural by-product of partnerships where, at least in theory, all partners are equals. It is also what makes the

partnership experience so rich: a magic mix of being your own boss and yet being part of a team.

Because decisions are participative and consensual, there is far less resistance to implementing them. Therefore, direct democracy can be a very effective governance in the new market conditions.

The problem, of course, is to maintain this system as the firm grows. Reaching a consensus on all key strategic issues between a handful of partners is within reach, but circumstances like a rapidly increasing number of partners, relocation to a multi-floor office, opening of regional and overseas offices (not to mention time pressure from client work) make it ever more difficult to discuss and reach a consensus on all issues. The danger therefore is simply to avoid the touchy subjects, or to settle for compromises and half measures. In both cases, the firm will not make the important, and sometimes difficult, decisions required by the challenges of a changing environment.

Does that mean that direct democracy has no future? Certainly not. It can work, and it often does, sometimes with outstanding success as several examples of large, international law firms (often US based) show. But it requires a very strong and shared firm culture among partners. There must be a fundamental agreement among partners on core values and on the vision of what they want the firm to be. Consensus is possible, even on critical, strategic issues, because at a more fundamental level, all the partners are genuinely committed to the same values and idea of what their firm stand for.

To succeed in the future, these firms must have a very strong culture. They must constantly strengthen and energise the shared vision and the commitment to common values. In practice, some firms achieve this unifying culture by preferring home-grown talents and avoiding lateral hires. The successful managing partner here is not a decision-maker: he must above all incarnate and promote the shared vision and values of the firm and be a skilful facilitator of dialogue among peers.

Republic

Partners, however, may reach the conclusion that consensus is too long and difficult to achieve, and that the pace of changes in the market demand quicker, bolder decisions. They elect a managing partner and explicitly entrust him with real decision-making powers and with the mandate to use them, and they accept to play by the rules.

These managing partners are not necessarily the founding fathers or the biggest rainmaking stars in their firms. Their real authority does not primarily stem from heroic entrepreneurship or 7-digit turnover, but from a collective, explicit decision by the partners to delegate management powers. But let's be realistic: they must demonstrate some personal strength as well in the traditional field of business development. To be credible as a managing partner, a partner must have earned the respect of his peers also by being, and to a certain extent remaining, successful in his practice. This is one of the reasons why so many managing partners keep one foot in legal practice, although managing a 100-people organisation would certainly justify full-time care and attention. When the post of managing partner goes to the underperformers, they don't usually do

more than office management because they do not have the credibility to lead on strategic issues.

There is another area where elected managing partners must earn their credibility: leadership talent and management skills. This is quite different from the skills it takes to be a successful lawyer. It does not mean of course that elected managing partners should turn autocratic. The ability to convince and to create consensus will always remain a fundamental attribute of law firm leaders.

There are remarkable examples of law firms' come-backs: once losing ground in the midst of internal disputes, tribal politics, and collective inertia, some firms have been able to claim back their first-tier status thanks to a change of their political system: delegation of true executive powers to the managing partner. When the managing partner has, on top of an explicit mandate from his peers, enough credibility, talent and skills to get his authority respected, the result may be spectacular. Some firms are moving fast along a clear, coherent direction, and most probably securing a leading position in the fast-changing legal market. This political system works.

Technocracy

When you hear that some firms have several dozens of professionals in their marketing department, not to mention the legions in IT, HR and finance, you get the signal that something is definitely happening in terms of law firm governance.

These big, international, often London-based firms, have indeed developed a technocratic style of management. Decisions can't be traced back to a particular individual like the managing partner, but are the offspring of a web of committees, support departments, and other groups that interact with each other along an elaborated system of processes and reporting lines. In short, management decisions are generated by "the system".

In these firms, some partners with full-time or at least substantial management duties constitute an emerging ruling class (above the rank and file of "fee earners"), and the managing partner holds the yellow jersey. The system is managing the firm, and the CEO is managing the system that manages the firm. His job is very much similar to the job of a CEO in a big corporation, with the same responsibilities, challenges, rewards, and risks. It's a full time job (at least potentially), it requires a breadth of leadership and management skills, there is much competition to get it, it offers visibility, prestige and financial rewards, and it does not always last for very long.

Is it a successful political system to deal with the new legal market? Obviously, some firms organized along those lines are doing very well, and there is no doubt that highly professional strategy setting and management is a requirement for large organisations.

But you have to like working in a place like that. There is a growing feeling of alienation among many partners in these firms. The very special thing about being a partner is to be your own boss. But this happy feeling is vanishing when the techno-structure is setting mandatory objectives and financial targets, imposing strict reporting procedures, centralising all management decisions, and maximizing pressure on results. Partners are

reduced to “fee-earner” status and those with a more romantic idea of what the word “partnership” means may be tempted to export their talents elsewhere.

In conclusion, we are convinced that the way law firms are governing themselves (or failing to) is becoming a decisive, strategic issue with a huge impact on long-term success, or lack of it. Direct democracy, republic and technocracy, however different they may look, are three forms of government with potential, although each form has its own risks, but they can be managed. The odds are not so good for the firms based on absolute monarchy, feudalism, or anarchy. But there is hope: regime change, in law firms at least, can work. ■

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