



DavidMaister

[Home](#)[Books](#)[Resources](#)[Ask David](#)[How David Works](#)[Contact](#)

Articles by David

Select an Article

Page 1 2 of 2

[The Trusted Advisor \(2003\)](#)

[Advice to a Young Professional \(2003\)](#)

[Tips on Managing People \(2002\)](#)

[A List of David's Early Publications \(1975-1987\)](#)

[Management: Missing in Action \(2002\)](#)

[Q & A with The American Lawyer \(2002\)](#)

[There's a Better Way! \(2002\)](#)

[The Auditing Debate \(2002\)](#)

[Notes from an Interview \(2002\)](#)

[Whither the Global Law Firm? \(2002\)](#)

[The Key to Merger Integration: Managers who can Manage \(2002\)](#)

[Are Consulting Firms Compromising Their Integrity? \(2002\)](#)

[Restoring Optimism in a Down Period \(2002\)](#)

[The Arithmetic of Getting Revenues \(2002\)](#)

[Responding to Fee Pressure \(2002\)](#)

[The Problem of Standards \(2001\)](#)

Whither the Global Law Firm? (2002)

David H. Maister
5/17/2002



The events surrounding the collapse of Andersen Worldwide make this a good time to re-examine some issues surrounding the recent push of numerous prominent law firms in "going global." What these events illustrate is how fragile a reputation is in the professional service sector. As the saying goes, you are only as strong as your weakest link. The behaviour of your weakest partner can determine your future.

What is often overlooked in today's law firm fascination with branding is that your reputation is based on what you really are, not what you hope to be. Your brand is not what you claim to be, but what you actually are willing to enforce. You only get a reputation when the marketplace experiences the fact that you are, 100 percent of the time, what you say you are.

Reputations are a consequence of internal management control and not primarily about marketing. The question is: do you have in place the control systems that make sure all your people adhere to the principles you espouse.

I have always been a cynic about the ability of law firms to achieve the benefits of a global network. Managing a global network is rather like trying to do a doctorate in management when most law firms are still in kindergarten when it comes to management. Some of them are still fighting to introduce the concept of partner performance appraisals, and many resist the notion that partners should be subject to coaching. Resisting these things may be fair and wise, but without them, it's hard to see how a firm can credibly present to the market an ability to coordinate multidisciplinary engagements across multiple jurisdictions.

I do not think the well-managed global law firm is impossible in

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[Are you ready for Practice Group Leaders? \(1999\)](#)

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[How Clients Choose \(1991\)](#)

[How's your Asset? 1991](#)

[Charting Your Course 1986](#)

[The Psychology of Waiting Lines 1985](#)

[top](#)

principle, but I would bet against the ability of the majority of firms to introduce the culture and managerial processes to pull it off. It takes a level of managerial skill that the firms have not demonstrated domestically, never mind internationally.

I understand why law firms are pursuing this. Clearly, there are exciting clients who want to buy sophisticated legal services simultaneously on a multi-jurisdictional basis from the same firm. However, there is very little evidence that such clients constitute a large market segment. Notice, it is not a question of having a clients that has domestic work in Germany, France, UK or the US. Single jurisdictional firms can handle that. The global firm is only justified when clients have, on the same project, a need for German, French, British and American expertise. It is only the integrated project that justifies having a global network.

There are some clients that need this, but there are more law firms going this segment than the size of the segment justifies. There's enough work there for a few, truly stellar integrated firms, but the fact is there is a large stampede of firms, each thinking they will be one of the select few. Only a small fraction of them will succeed because the size of the market is currently small, and it has been made worse by the recession. This leaves firms putting the infrastructure in place ahead of demand, which is a very risky strategy.

There are benefits to being global such as knowledge sharing, real team work and collaboration, common values and standards. But first you have to prove that you can achieve these things domestically before you try them internationally.

The emphasis on ethics brought about by the Enron and Andersen scandal, the judgement of the European Court on MDP, a world-wide recession and the tightening of professional standards recommended by the American Bar Association has imposed a new order on the business world. The issues of conflicts will become even more pressing than they have already been.

In England, Holland and to a certain extent Germany and Spain, firms can outgrow their ability to generate decent profits for the partners because they find themselves conflicted out of the high margin work too often.

The problem of managing conflicts has taken on great importance in the past five years or so as firms have become larger. By and large lawyers are noble and honourable people. The problem is not the ethical one about misleading clients or adhering to Bar rules. The overwhelming majority of firms do that with discipline.

The problem is the managerial issue. Conflicts cause disputes in partnerships when it becomes necessary to turn away either client A or client B. It's very difficult to make a firm-wide decision if you are very big. The result is that the cannons and nuclear bombs come out as one group of partners wage war on another group, particularly if the partner compensation is performance related. This is not just a big firm problem. It also occurs in smaller firms with so-called "merit systems" in place because there are vested interests with groups of partners.

If London tells Frankfurt that they have to turn away a transaction (or an entire client relationship) because of conflicts, how then can London complain if Frankfurt misses its financial targets? What temptations might Frankfurt have to find some way to represent this client and "hide" the conflict in order to meet these targets? To believe that law firm partners will not be so tempted (because we're all honourable) is to believe that no accounting firm partner would ever shred documents.

Law firms' obsession with size has always been a goose-chase. The secret of success is getting better, not getting bigger. What firms should be worried about is, are we becoming ever more valuable to our clients on things that they value (and will pay a premium for)? Are we giving better client service? Have we learned how to deliver excellence to our clients at an ever-decreasing cost. (i.e. become more efficient?)

For all of the talk about competition and client fee-sensitivity, the issue of costs remains a neglected one among law firms. I do a lot of work for in house counsel as well as law firms. No-one is worried about high fees for good work. What they are incredibly annoyed about is that they do not believe of the typical law firm that it is acting as an honourable agent, looking after the clients' money, working hard to minimize the bill. What annoys the client is paying for inefficiency such as partners doing things that associate lawyers could do, having three partners attend a meeting when one would do. Most of the pressure on fees we are seeing around the world today is because clients do not believe law firms are efficient in spending the client's money wisely.

Indeed the client perceives (accurately) that the incentives in most law firms are precisely the opposite! Because the average partner is rewarded (financially or otherwise) by the firm when he or she raises the number of personal billable hours, the client perceives that the partner (and the firm) has an incentive to charge as much as they can get away with. Hence, most clients feel the need to watch their legal bills like a hawk, and go over them with a fine tooth comb. The result is we have made the client profoundly cynical. It's actually point of professionalism.

Clients want someone that he or she can trust you to look after their interests and spend their money wisely.

There is also a lot of work to do in the area of client relationships. The goal of building multi-jurisdiction, multidisciplinary relationships is a fine one. But current behaviour in this area, even domestically, is pretty poor. Recently, I was at a meeting of a major Fortune 500 company which invited in all of its outside lawyers. They asked me to run a discussion on relationship building between the law firm and the client. I asked the in-house general counsel if any of the law firms present had volunteered, as a gesture of goodwill, to sit in on the legal department meetings to keep up in what was going on inside the corporation. The general counsel said it had never happened in all his experience of dealing with outside law firms, and that he would welcome such an investment in relationship building. An old idea, but few are doing it.

If I were running a law firm and had one of two things to work on: get bigger (say, by merging or opening an office in a new location) or persuade my partners to act as if they cared I am convinced the latter would increase profits and the chance of getting better transactions. But of course, that would require tackling the behaviour of partners, which is much harder than doing a merger or signing a new lease.

I think it *is* better to be multi-jurisdictional on the condition that you have the managerial capability. But there is no virtue in being multi-jurisdictional by having dots on the map. The issue is not about how many new offices you've got. The keys are extra levels of client service, efficiency, innovation, creativity and understanding your clients' business. All basic things on which most firms do competently. The issue then, is which firm is going to get the reputation for doing these things not just competently, but *superbly* - reliably, consistently, dependably, superbly.

The point about globalisation is that you can have a global reputation and a global business without actually being geographically global. Tom Peters or Charles Handy are internationally renowned management consultants. There are also lawyers in the City and on Wall Street (and elsewhere) who have global reputations. They charge extremely high fees (because they are worth it) but they don't have offices in every city in the world. They are just superb at what they do. If they subsequently decided to expand geographically, they could. But the time to do it is when you have the cultural or managerial ability to live up to the claims of excellence that you offer the marketplace.