

# SMOCK•STERLING

## *Strategic Management Consultants*

### **Confessions of a Law Firm Management Consultant – My Twenty Years Before the Mast**

**By John S. Smock, Partner**

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I was recently going through some old personal records and found reference to a consulting assignment I completed in May of 1984, the first in my career for a law firm. That strategic planning assignment for a then small, relatively unnoticed firm in a major legal market was very successful. The firm stated a strategic direction, completed a major merger, and today is a leading firm in its chosen segments in that marketplace. While they did not make this very positive transformation just because they hired us (in truth, that firm had, way ahead of most law firms, unusually insightful leadership), our assistance was a major catalyst to that change.

In recalling this assignment and in reflecting on my twenty years of serving law firm management, I felt it might be useful to point out the management environment that existed then, some key trends I see currently effecting the management of law firms (which, in most cases, would have been unthinkable in 1984), and to suggest some additional steps that can further positively impact law firm management effectiveness in 2004 and beyond.

#### **BUT FIRST, A LITTLE BACKGROUND**

I have been a strategic management consultant now for 34 years – three years with the then excellent general strategy firm of Cresap, McCormick & Paget (where they taught me how to consult), 16 years with Arthur Young (10 as a partner), and 15 years with what has now become Smock•Sterling Strategic Management Consultants. In fact, I believe (from the competitor information we have gathered), that I have been doing what I do (helping my clients develop and implement strategy) longer than all of even the most senior consultants serving the legal marketplace.

- I began working with the legal profession through the side door – conducting a wide range of assignments in the criminal justice system in the early 1970s – specifically beginning with statewide prosecutor systems, court systems, correction systems, and large city police departments. I learned about your profession and the way attorneys think and act.
- I was recruited away from Cresap to Arthur Young in 1973 and – as a young kid – headed AY’s national criminal justice consulting practice. I subsequently directed that firm’s Tampa and Florida consulting practices, was the first national (firmwide) director of marketing planning, was Managing Partner of the consulting practices in the Gulf Coast states, directed the Chicago office management consulting practice, and became the firm’s National Director of General Management Consulting. The Arthur Young experience taught me how to manage in a large professional service environment.

My first law firm consulting assignments were completed when I was with AY in Chicago. We had developed a very good legal consulting practice in our New York Metropolitan Office, including spinning off some of our consultants and accountants as Executive Directors of such firms as Skadden Arps, Fried Frank, and Winthrop Stimson. We wanted to expand that practice to the Midwest and I used my recent experience gained as AY’s National Director of Marketing Planning to leverage us into the Midwest legal market. At about that time, another partner of mine and I developed Arthur Young’s FOCUS strategic planning methodology and found that it was (and is) a unique and particularly effective fit for conducting strategic planning in a partnership environment.

While I spent most of my time directing the general management consulting practice in Chicago and nationally, and serving a wide range of commercial clients, I kept my hand in doing law firm strategic planning and strategic management assignments from 1984 until I went off to found my own firm (with John Sterling) in 1989. We did not do law firm management consulting until 1991, when two very good firms (one in Milwaukee and one in Cleveland) tracked us down for strategic planning and marketing assistance. With Smock•Sterling, my personal law firm work has expanded from just a few assignments in that 1991 timeframe to where it constitutes greater than 80% of my chargeable work today.

## WHAT WAS THE LEGAL CONSULTING MARKET LIKE IN THE 1980s?

I found that the translation from leading, marketing, and managing a large management consulting practice to consulting to the legal profession was relatively easy. Quite simply, the differences are considerably less pronounced than working in the electric utility industry one day and the food processing industry the next. But the marketplace differences were significant. Where virtually every other industry had used and worked with consultants, very few law firms had – and even fewer had done so effectively. Thus, there was little understanding of where (or where not) a consultant could add value – particularly in a strategic sense – to a law firm.

- Many of the clients or firms that we initially talked to or served were slaves to the mantra that *“this is a profession, not a business.”* My first conclusion, then – as it is today – was that, no, a law firm is not a profession, it is very much a business that provides professional services – and has always been so.
- The other mantra that we often heard was *“all you have to do is very, very good work and the world will beat path to your door.”* That assertion had ceased to be true for the accounting profession in the 1970s and was ceasing to be true for law firms in the 80s. Many law firm managers did not recognize then, and some still do not recognize now, that the very, very good work (that is, the highest quality work) is the price of admission to market leadership and professional recognition. You have to be very good attorneys to succeed, but long term success in the legal marketplace takes a good bit more than just being a very good attorney. And, attorneys do not learn those additional things required for success in law school.
- There was almost an unhealthy aversion to marketing – described, then, as unprofessional – although every good firm had always marketed and marketed very effectively – they just did not call it that. In fact, one of our first assignments at Smock•Sterling was to review the marketing program of an excellent business law firm in the Midwest. While they were concerned that their marketing program was not effective, it became very evident, early on, that they were one of the most well marketed professional service firms we had seen – they just did not do much promotion (because they did not need to). It became evident that this aversion to marketing was more often caused by a fundamental misunderstanding of what marketing is and what it requires – which, unfortunately, persists to this day.
- Most firms that we dealt with in the 1980s had, either shortly before or shortly after, experienced their inevitable revolution – that is, they threw out the benevolent (or non-benevolent) dictator. This revolution usually ushered in an orgy of democracy (one firm we worked with even had a committee on committees), and, then when that did not work, it was followed by a more rational approach to management and development.
- There was also very little effective use of non-lawyers. While there were exceptions, most administrators were *“out of the loop”* in the management decision making process. I had a rule of thumb (which I still do) that you could tell that a firm’s management processes needed to be dramatically improved when the chief administrator had an interior office (i.e. – no windows), not an exterior one (windows were only for the attorneys).
- There were two reasons we were retained for law firm work when I was at Arthur Young – either because our client’s competitors had used consultants (*“let’s do what the other firms do”*) or there was the mistaken impression that using a management consultant from a then Big 8 firm would result in numerous client referrals. Neither reason was the basis for a valuable consultant/client relationship.
  - There was a suspicion of and an inherent bias against consultants by most firms – hiring a consultant was a perceived sign of managerial weakness.
  - Consultants were usually not attorneys and a non-lawyer was considered to be intellectually inferior – for instance, my MBA (from a top tier business school) was considered to be of less intellectual rigor than a JD from any law school.
- Finally, law firm management was just not very good – primarily, because it did not have to be. The accepted 1980s role of a law firm manager and, for that matter, of the firm itself, was to provide a platform for talented partners to practice law – often very individualistically and with little coordination and communication with fellow partners. Effective management was not seen as something that could differentiate one firm from another, or for that matter, positively impact partner income.

## WHAT HAPPENED TO THAT ENVIRONMENT?

Management in the legal profession has changed dramatically since the 1980s and clearly for the better. Law firm managers and leaders are considerably more effective, non-attorneys play pivotal and important roles in firm management (as they should), and, most significantly, the per partner income of most business law firms (not just the largest firms or the ones based in New York) has gone up dramatically. In virtually every city, the income of the good partners in good law firms has convincingly outpaced that of “*the executive class*” (those executives at the vice president level in reasonably sized businesses) and other professionals.

What are the reasons for this “*income gap?*” They are twofold. First, the services provided by business lawyers provide real value to their clients (whether clients like it or not – they need effective outside legal counsel in today’s business environment), so complaining aside, the dramatic rate increases of the past ten years have not been resisted (because the market generally feels good attorneys are worth it). And, perhaps more importantly, competition in the legal marketplace has made law firms better managed and more profitable.

## WHAT ARE THE TRENDS THAT ARE IMPROVING LAW FIRM MANAGEMENT?

While increased competition (which rewards effectively run law firms and puts poorly run law firms at risk) is and remains the most significant trend, there are a number of other positive law firm management trends including:

- **The advent of very good leadership** – most of the country’s major law firms are run by effective leaders. In fact, most law firm leaders do not suffer from the same problems as many of the leaders of major companies (a malady Smock•Sterling has titled in our commercial practice as “*terminal CEO’s disease*”), because their compensation is more in line with their fellow partners and they recognize a true need to serve those fellow partners. We see very, very few greedy, self-absorbed, and arrogant law firm CEOs.
- Strategic planning and – more importantly – **strategic management**, in response to an agreed upon strategic direction, **has dramatically improved**. While we selfishly feel we have helped our law firm clients do that (at the end of the day, our primary focus is improved strategic management), we grudgingly recognize that it has been improving across the profession, not just in those firms we serve.
- **Law firms are now acting like businesses and managing themselves as businesses** – activities are measured, objectives are set, and accountability is considerably more fixed.
- Slowly but surely, **law firm practice groups are becoming better and better** – both professionally and as managed business units. Leading and directing practice groups well is not a process that can be fully implemented overnight, but law firms are learning (through the necessary crucible of trial and error) how to do it well, right, and consistently – and the results have been quite dramatic.
- The really good firms are **taking advantage of talented, cost effective non-attorney management** – not just in the primary chief operating officer role, but also in the other key functions of marketing, finance, human resources, technology, and knowledge management. Also and perhaps more importantly, talented non-attorneys are aiding in managing and carrying forward the firm’s development through its practice groups.
- Another very positive trend – not written or talked about very much – is that **law firm partners are behaving and functioning both as true owners of the enterprise and members of the team**. Any large firm will always have its outliers, but teamwork, cooperation, and engagement have become reinforced (and enforced and rewarded) values in many firms.
- Also, **law firms are using consultants much more effectively** than they did in the 1980s or, for that matter, in the 1990s. We are blessed (and I assume that our competitors are too) with having very intelligent, committed, and responsible clients, who view consulting fees as an investment in the future and who take the results of our assignments very, very seriously. We are impressed with the level of implementation accomplished and, gratifyingly, the level of success achieved.

From the point of view of this law firm management consultant in 2004 – our work right now for your profession is very challenging, demanding, and becoming very sophisticated. More importantly, it is both fun and satisfying – I am ready for twenty more years.

## WHERE CAN FURTHER IMPROVEMENTS CAN BE MADE?

I applaud the above improvements in law firm management – they are significant and producing results. They are not short term fixes, they are long term trends. We think there are some additional key things that law firms can do to improve their management effectiveness – resulting in better services to their clients and better income to their partners. These follow:

- **Advisory boards** – while a few law firms do this, most do not. Law firms are large privately held corporations and they can use solid, continuing, and objective outside advice. While the governance of a law firm needs to respond to the needs of the partners, we think most large law firms would do very well to establish advisory boards whose members bring experienced insight and perspective to the types of issues that law firm managements face. Also, it is good to have the continuing, respected voice of the devil’s advocate. We also suggest similar advisory boards for specific practices – particularly the more specialized ones (e.g. – health care, energy, etc.).
- **More responsive partner compensation schemes** – it has been our experience that partner compensation systems in most firms still fall well short of recognizing and rewarding both current and cumulative performance and incentivizing activities and results that ensure the long term health of the firm. Attorneys, probably more than any other profession, respond to “*report cards*” and what is required to get A’s on report cards – the closer the relationship between expected performance and rewards, the better the performance. While there are a number of recent compensation system innovations (post decision interviews, “*hero memos*,” creative use of data, etc.) that can help improve partner compensation systems, most of these systems are still not aligned with the strategic direction of their firms – probably their greatest drawback. Law firm partner compensation needs to directly and visibly reward what is important to the firm.
- **Partner peer reviews and 360° evaluations** – an area where there is still strong resistance, but an evident need. If a man or woman makes partner in their mid to late thirties, they have about 25 to 30 years left of legal practice. To assume that they arrive at partner status fully developed (as a highly competent professional, client handler, marketer, and people developer) is fallacious – the maturing of partners over their career is very, very important to a firm, the partner, and the clients of the firm and the partner. We believe two effective tools for doing this are partner peer review (where fellow partners help evaluate a partner’s performance and, more importantly, help him/her improve that performance) and 360° evaluations (where a partner is reviewed by those who work with and for him/her). These tools are strongly resisted by the “*lone rangers*” in many firms (because they are threatened by them), but the “*knee jerk excuse*” that such activities are unprofessional, smacks of the same arguments made against marketing 20 years ago.
- **Results-oriented marketing** – or, simply put, taking marketing to the next level. The objective of all marketing is to do one of two things – either increase the work for present clients or secure new work for new clients. While Smock•Sterling has been accused by the collective marketing director group of being anti-marketing, this is just plain wrong. **We are very, very strongly pro-marketing.** We believe, however, it ought to be done right.

What must be done in the future is that law firm marketing must be refocused on achieving both long and short term results (in truth, increased name recognition is of little good, unless it brings in new work). This implies measurement, evaluation, and continuation of best practices – and it means consistently bringing in more work.

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Smock•Sterling Strategic Management Consultants is based in Lake Forest, Illinois and focuses its law firm management consulting practice on four key areas – firm and practice strategic planning and management, practice group management, mergers and combinations, and strategic management issue resolution. We invite your inquiries.

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