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2017 Check-Up: Is Your Law Firm Positioned For Success?

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Over the next few weeks, a slow trickle of news about one measure of law firm success — law firm financial results — will gradually become a flood as more firms open up about their performance in 2016. Naturally, there will be “winners” and “losers” — some firms that enjoyed great success, others that did reasonably well and some that underperformed. As leaders reflect on their firms’ performance vis-à-vis others, it makes good sense to focus on what differentiates the more successful firms.

Over the course of my career, I have had the opportunity to work with firms of all sizes — from one-partner boutiques to the largest megafirms and virtually everything in between. Some of the firms were struggling and I worked to help the business set a new course; others were already incredibly successful and we focused on ensuring that competitors did not catch up. Other firms fell between these extremes and needed both course corrections and more “wind in the sails” to pull away from competitors. When I think about what differentiates the success levels of the various firms, I recognize that history plays some role. Often, a firm’s current position is tied to institutional client relationships and strategic initiatives begun many years ago. And, naturally, it is impossible to succeed long-term without loyal clients to whom the firm provides exceptional client service. But, I also find that fundamental differences today in how a firm operates and is structured help determine success.

These success drivers fit together like pieces of a puzzle. When all of the pieces come together, the puzzle looks complete, is structurally sound and tells an interesting story. Damage or take away one part of the puzzle and the picture becomes less clear, there is an obvious flaw and something important is missing. Take away more than one piece and the puzzle looks a mess. So, in the context of a law firm, what are the puzzle pieces — those operational and structural determinants of success? I believe they include:

- **External focus.** In a competitive industry, successful firms function with a clear strategy geared toward creating a distinct image within the market. Weak firms often lack a strategy or have one that is so plain vanilla it is impossible to differentiate the firm from any other. Not surprisingly, firms with weak strategies tend to compete based on price, often in a never-ending spiral toward underperformance and mediocrity.

- **Willingness to make longer-term, strategic investments.** Successful firms do not achieve success overnight. Instead, they get there over a period of time, often accepting lower short-term rewards in order to achieve long-term gains. Partners in these firms agree to make long-term investments (e.g., opening a strategically important office) even though the startup costs may limit current profitability. Naturally, partners who are willing to make such investments also tend to focus on making the initiatives a success, doing everything they can to support the new endeavors. Partners in less successful firms typically focus on short-term results, ignoring even the most logical investments in order to protect current (often declining) income.

- **High partnership standards, uniformly applied.** It almost goes without saying that the most successful firms have uniformly high partnership standards. For those firms with two tiers of partnership, the standards are high for both. Weaker, less successful firms tend to have modest barriers to enter the partnership group and, not surprisingly, uneven performance and commitment to the firm by partners.

- **Effective, proactive leaders.** At a time when competition for work is at an all-time high and firms are increasingly focused on strategic differentiation, proactive leadership and a strong governing body are requirements for success. In any business, the job of a leader is far from easy — those who do it well and successfully push their organization to a higher level of performance are an inspiration. In less successful firms, leadership is rarely valued, leaders are often discouraged and, as a result, strategies fail as the business drifts.

- **Open, frequent communication.** To behave like owners, partners need to be treated like owners. This means that each partner needs to have a solid understanding of the firm's goals and strategies, knowledge of its operations and finances, and full recognition of how they, as individuals, fit into making the firm more successful. Each of these things hinges on communication. In firms that are struggling, leadership rarely communicates (and, too often, any communication comes down like an edict … that is summarily dismissed by others), partners have a weak sense of the firm's goals and strategies, and communication takes place behind closed doors often stoking a rumor mill.

- **High levels of trust.** A successful "partnership," whether a business relationship or something as common as a personal friendship, requires trust and shared philosophies. In strong firms, partners trust that the firm's leaders have the organization's best interests in focus and that leaders treat all partners fairly (particularly with respect to compensation). Similarly, partners need to trust one another — including for purposes of cross-selling a client, performing high-quality legal work and operating with an ownership mentality. In my experience, it is nearly impossible for a firm to succeed — particularly over the long-term — if partners do not trust leadership and trust one another. In weak firms and in once-successful firms that are now suffering, a lack of trust is nearly always present.

- **Consistent work ethic geared toward individual strengths.** Successful firms tend to have stated or implicit performance standards, including an expectation of how many hours each partner should contribute to the firm's success (e.g., a partner is expected to devote at least 2,200 productive hours to the firm). Naturally, the type of contribution varies from person to person — some contributing primarily through their own billable hours, others contributing primarily through business generation, and some contributing primarily through leadership. Nearly all partners contribute via a blend of each — personal production, origination, leadership and other, more subjective ways. As disparate as the contributions may be, one thing that is consistent in successful firms is that the contributions will be made at the highest level of performance and the level of performance will be similar from person to person.

- **Team-focused.** The most successful firms are highly collaborative, with partners operating at all times with a “firm-first” mindset. In these firms, every partner understands that what is good for the firm benefits all, so there is an incentive to help others become more successful. A good way to test whether a firm is team-focused is to look at the organization’s partner compensation system. Stronger firms tend to compensate based on each partner’s “total contribution” to the firm, determined based on objective as well as subjective factors. Partners in weaker firms often operate with a solo mentality, frequently looking for opportunities to increase their results first and the results of the firm second. Weaker firms typically compensate based solely on individual performance, ignoring value that benefits the firm as a whole and that does not appear in a partner’s “column.”

- **Clean financials.** Finally, the most successful firms display significant financial hygiene. These firms have appropriate leverage, solid productivity at all levels, above-market realization, managed expenses, minimal debt and a diverse client base aligned with strategic goals. Stronger firms also tend to be quite transparent regarding the firm’s financial performance, ensuring that all partners understand fully the drivers of firm financials as well as the firm’s financial results. Weaker firms fall short in multiple hygiene areas and financial transparency is murky, at best.

As firm leaders take stock of their firms’ performance in 2016 and prospects for this year, I suggest they think about what is making the organization successful and also what is limiting performance. Take a close look at the various components of the firm’s puzzle, identify which pieces are damaged and need to be fixed and which are missing altogether. There is no time like the present to embark on a program to enhance the firm’s position and to help ensure that, a year from now, the firm is substantially more successful than today.

—By William G. Johnston, W. Johnston Associates Inc.

William G. Johnston is founder and president of W. Johnston Associates Inc., a law firm management consulting firm. For nearly 20 years, he has served as an adviser to clients ranging from focused boutiques and regional firms to AmLaw 100 firms with national and international networks. Prior to establishing W. Johnston Associates, he served for eight years as the director of strategic planning at Cravath Swaine & Moore LLP. Prior to that, he was vice president of Hildebrandt International, where he spent 12 years assisting law firms with strategy development and implementation, mergers and achieving peak financial performance.