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Lessons on Governance

Effective management and governance of a firm's resources represent one of the most critical challenges encountered by law firms at repeated intersections in a firm's development cycle. Even established firms with well-developed governance structures are being tested in today's competitive market, and getting it right can make the difference between success and failure. While there is no single solution, perfect model or best practice that can be applied, there are certainly lessons learned across firms, regardless of size, geography or culture.

Critical Governance Lesson #1

Oftentimes firms think about governance, particularly the issue of selecting a next Chair or Managing Partner, as an isolated incident. However, in our work advising law firms, we see a critical link between law firm governance, management structure and firm strategy. A firm's governance structure needs to align with the firm's strategy and evolve as the firm's strategy evolves. For example, in early stages of a firm's development and life cycle, a more diffused and consensus based governance structure may sufficiently support relatively healthy growth. However, as firms expand their size and platform in more competitive markets, effective practice, industry and client team management will call for increased centralization and cross-office coordination (this often comes in the form of more empowered firm leadership and practice leadership). Thus, as firms grow and evolve, and as their strategies evolve, so too must their governance structures. Adapting governance structures or processes as often as every 3 to 5 years may be appropriate for firms pursuing more rapid change.

Critical Governance Lesson #2

The quality and skills of a firm's leadership team influence the firm's success or failure as much, or more, than the structure itself. We often find that great leadership can compensate for weaknesses in a firm's governance structure. However, great structures rarely solve the problem of weak leadership. As a result, a structure that works well in one firm or under one leader, may easily fail in another situation.

In contemplating the formation or adaptation of a firm's governance structure, it is important to recognize that one person may not have all the skills required. This observation often drives a temptation to spread leadership roles out among partners. Clearly, a governance model which is overly decentralized and uncoordinated creates challenges - misalignment, forum shopping, and competing priorities. However, large firms in particular must recognize that one person may not have all the skills required to oversee the various leadership functions within a firm. Oftentimes, the Chair is an externally facing role, the Managing Partner is a people management role, and the COO is an operational role. The skills required for such roles are different and sometimes are best handled by different people. Firms, particularly larger firms, set themselves up for failure by assuming that one person can do all of those things.

In addition to leadership skills, culture also heavily impacts the success of a governance structure, and may override the actual governance structure in some cases. For example, if a firm's culture values individual partner autonomy over the best interests of the firm as a whole, most governance structures will fail to provide for truly effective leadership. The key is to align the firm's culture and governance structure in support of the firm's strategy. For some firms, this alignment may necessitate changing both – culture and governance, to support strategy (by no means a small feat).

Critical Governance Lesson #3

Ultimately, firms must design their governance structure and leadership and management roles with a clear view as to the leadership aims of the partnership. What is the partnership asking of the leadership group? Do partners want leadership to drive and manage firm performance? To make progress towards and achieve firm strategy? To make difficult decisions and align people and resources with firm strategy? Or, is the partnership asking the leadership team to do far less – to simply carry the firm forward on its current path, preserving status quo whenever possible? Firms seeking more active direction or change clearly need a governance and management structure which will support that aim. Those firms seeking to maintain course require likely require less in terms of both the structure itself and the leadership roles.

For most firms, whether they are looking to achieve more aggressive change or simply maintain course, governance structures must also be designed with incentives and accountability in mind. Our experience teaches us that the ability to lead and influence behavior is derived from the ability to impact compensation. Effective governance structures ensure that leadership controls or, at a minimum, provides crucial input on compensation, as it is one of the primary tools available to leaders in aligning rewards with aims.

Effective Governance Structures

When firms stop to consider these lessons, clearly articulating their own governance aims, seeking to align those aims with their strategy and also reflecting on the broader implications of governance, they are more likely to implement effective governance structures.

Effective structures tend to be characterized by the following:

- Strong leadership skills/authority concentrated in an empowered firm wide leadership position
- A balance of both centralization and decentralization, often in the form of centralized firmwide leaders, and decentralized practice, industry, client or regional team leaders
- Clarity around the responsibilities that are delegated to leadership and those that are reserved to the partners
- Adoption of select, high value governance bodies or committees (versus forming a plethora of committees including those focused on lower value or administrative matters)
- Smaller governing committees, rather than larger ones (although these can be supplemented by larger advisory committees or Boards)
- Direct involvement/leadership of firm management in partner compensation
- Governing committees that are representative of the firm and not of parts of the firm, even though different views must be taken into account (i.e. firm representation vs. constituency representation)
- Clear understanding of the difference between governance/management and operations/administration with governance and management focused on the lawyers and clients
- Clear definition of roles, responsibilities, accountabilities and lines of communication throughout the structure

While no single solution or perfect model can be applied across firms, these lessons learned on governance in law firms offer a worthwhile opportunity for firms to test the health of their own structure, particularly in a market experiencing ongoing disruption and instability. Today, more than ever before, partnership sustainability requires effective governance. So, we challenge our clients and readers to step back and consider… How has your firm's governance learned and evolved over time? Is your structure aligned with the firm you aim to be in this competitive market, or simply a reflection of what worked for your firm years ago?

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