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INSIGHTS

Managing Instability

While some law firms have reported strong financial results over the last several years, others have struggled to the point of instability. For many leaders we speak to, the most startling feature of these recent declines is how rapidly they seem to come about. Sometimes within months, a firm previously perceived to be doing fine is rapidly losing partners and looking for a white knight. Even the leadership seems caught off-guard by the rapid turnaround in fortunes. How does this happen? How can it be prevented? What can leaders do to effectively manage through tough times?

Partner Confidence

At the root of unstable firms is a decline of financial performance. For some firms, a poor financial result is seen as a short-term bump in the road, while at other firms, it is a death knell. The level of resiliency in the partnership is one determining factor of how a firm reacts in the face of bad news. Partners in firms with a healthy amount of partner confidence are more willing to give leadership their support when the firm is facing challenges. Underlying this confidence is a sense of trust that the leaders are capable of steering the firm through the challenges ahead and will take actions that are in the best interest of the firm as a whole.

How can leaders engender this type of trust when things get rough? Transparency is certainly one avenue. While complete transparency on all issues is not always feasible or desirable, partners need to be aware of key financial obligations facing the partnership. Communicating clearly and openly about financial issues, and the plans to address them, is important. Do not assume that just because it appeared in a memo or is buried deep in a set of financial reports that a message about financial obligations has been internalized by the partnership.

Another way to build trust is for key leaders and rainmakers to visibly forgo some of their compensation (or other perks for that matter) when the firm encounters financial challenges. When done well, it is obvious to everyone that senior influential partners in the firm are investing in the firm’s future. By leaving money on the table, firm leaders can demonstrate a willingness to put the firm’s interests over their own, and leaders can foster trust in the partnership and build confidence.

When firms hit tough times, gauging the level of partner confidence is crucial. How? Effective leaders are open to hearing other points of view and listen carefully for subtle changes in partner sentiment. This means you need to be able to distinguish between the run-of-the-mill skepticism that is so common in law firms and real concern on the part of the partners. Keeping in close touch with key practice leaders is essential; for they often hold significant positions of influence and partners look to them for clues about firm stability. If key practice group leaders voice serious concern about the health and future of the firm, these are complaints to be taken very seriously. One high profile departure of a long-time practice leader and rainmaker can shake the confidence of even the most loyal partners.

Leadership

The same healthy partnership confidence that gives leaders some leeway in their handling of obstacles can have a potential downside. It can lead to overconfidence on the part of the leaders, which can cause them to become somewhat isolated in their decision-making. These leaders stop hearing the multiple voices and perspectives that enable them to have a nuanced view of the health of the firm. It is not unusual for leaders in troubled firms to become out of touch with the pulse of the partnership and in denial about the realities in the firm, both internally and externally.

In dealing with challenging issues, leaders can also become isolated because they are seeking psychological shelter from complaints among the partnership. While the desire to shield oneself from a barrage of negativity is natural, retreating into one’s own office or suddenly becoming wrapped up in client matters while partners’ concerns worsen will only provide fuel for the fire.

Even if a leader is fully aware of the challenges facing the firm and is actively communicating with partners, the tone and content of the communications is also important. Putting an overly rosy spin on negative news is a tactic that rarely works. Leaders must walk a fine line between optimism and realism, telling it like it is without conveying only "doom and gloom."

One tactic leaders can employ is to show real action and progress in times of crisis, which starts with a viable, executable plan for moving forward. The plan must be specific about action steps and show the potential outcome from the actions. While revenue is a driver of success, a turnaround plan cannot be dependent on simply hoping for new revenue, or being able to hire a savior lateral. It needs to also depend on the revenue generating abilities of the current lawyers and clients. A plan can't ignore rightsizing as a solution to revenue challenges. Partners, particularly partners whose practices continue to thrive even as the firm is suffering, are watching leadership carefully for the ability to make tough decisions. Needless to say, disappointing them can be especially problematic.

Being visible to partners, spending time listening to their concerns, and demonstrating personal responsibility for the role of the leader are particularly critical actions when a firm encounters rough waters. In times of uncertainty, people naturally look carefully for clues as to what might happen, so the actions of leadership can have an outsized impact. Leaders bear a huge burden in challenging times and the role needs to be approached deliberately and mindfully.

Integration

Cross-office and cross-practice integration and collaboration represent a third and often underappreciated aspect of managing during instability, particularly in light of ongoing law firm consolidation and geographic expansion. While firms often give lip service to the notion of collaboration, those firms that have developed the greatest interdependency among practices and offices benefit from enhanced stability and true partnership glue. Lawyers are connected to one another through shared clients, cross-staffing and sharing of internal resources, and the benefit of a collective practice and firm reputations. The individual members see a material benefit from being part of the firm's platform, and moving to another firm entails "switching costs." Clients are also more likely to be connected to the firm through multiple touch points, enhancing the stability of the client base, and often the profitability of the firm's work as well.

And yet for many firms, poor financial performance drives deeper wedges between groups, just when firms most need partners to pull closer together. At the very least, leaders need to rise above the politics of the "blame game" by calling out bad behavior and actively rewarding those who look out for others. But they can go further by pursuing a strategy of actively focusing on cross-servicing the firm's client base across multiple practice areas and offices. A collaborative approach to client targeting, client service, and practice all contribute to this interconnectedness. The strength of lawyer connections across the firm is ultimately what enables firms to stick together during difficult times.

Firm destabilization doesn't arise out of the blue. But when multiple partnership aspects essential to stability are tested, it often feels like a "perfect storm." While these challenges may take on different shapes and sizes, enhancing partner confidence, demonstrating leadership, and encouraging integration form a common base for weathering the squalls that may lie ahead.

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