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Key Contacts

London
Giles Rubens
Giles.Rubens@FairfaxAssociates.com

Washington DC
Lisa Smith
Lisa.Smith@FairfaxAssociates.com

California
Kristin Stark
Kristin.Stark@FairfaxAssociates.com

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COMBATING ORIGINATION COMPETITION

Credit for work originated by a partner has become the centerpiece of partner compensation in many firms, in particular but by no means exclusively among US firms. As the legal market has grown increasingly competitive, and client relationships have become more transactional than institutional, many firms have shifted towards a greater focus on rewarding business generation. Unfortunately, the unintended consequence of an increased emphasis on business generation has been internal competition over origination credit. Increased lateral movement has exacerbated the problem, by encouraging partners to keep a tight grip on clients to allow for easier movement from firm to firm. Numerous firms report scenarios of infighting over compensation and credits and wasted hours dealing with partners fixated on boosting origination credit but not necessarily generating more business. This unnecessary and disruptive competition over origination causes firms to ask the question… Isn't there a better way?

Common Approaches

The primary approaches to relieving the tensions brought on by origination competition have been to 1) not track origination, 2) reduce or eliminate the distribution of origination data, or 3) implement a clear definition of origination and sharing policy. Of course each of these approaches has pros and cons.

No tracking of origination: There are a number of firms that have opted to not track origination, based on the theory that client relationships are far too complex to boil them down to individual allocations of credits. For some firms, particularly those with large, institutional clients, a lockstep compensation approach, or other compensation system or practice structure which does not emphasize business generation, this approach has been highly successful. They effectively avoid the internal tensions that arise out of origination allocations, and due to the stability of a number of high revenue clients, there is less need to directly and overtly emphasize and reward entrepreneurial efforts to generate business.

By contrast though, other firms have found that not tracking origination has led to sleepiness in business generation and behavior which supports the theory 'you get what you measure.' Often times, these firms lack the large institutional corporate clients and therefore, revenue growth depends more heavily on partner efforts to drum up business. By not tracking origination, partners perceive that the compensation system places less value on origination, and thus, they tend to focus more heavily on personal production or other highly reported and/or culturally favored metrics.

Ironically, we often find that some firms that claim to not track origination still use a proxy for business generation such as billing attorney credit. Of course, these firms generally face the same challenges experienced by firms that track and report origination – changing the name of the metric has no real impact on behavior. In other instances, firms that claim to not track origination do in fact measure it behind closed doors. Unfortunately, however, we find that such an approach creates other problems, often leading to inappropriate compensation outcomes based on flawed management information – as origination statistics are not discussed with partners closest to the situation.

Success in not tracking origination requires a deep management understanding of partner contributions towards client generation, and for those firms lacking a large institutional client base, it also requires a strong business development emphasis.

Reduce or eliminate distribution of origination data: Another approach to reduce tensions around origination is to track origination in a 'closed' or 'semi-closed' manner. This entails eliminating or reducing the distribution of origination data. In a closed approach, origination is tracked, but partners do not know other partners' origination statistics. In a semi-closed approach, origination is tracked, but only select metrics are shared (e.g., ranking of an individual's origination collections) or the data is only available in certain scenarios (e.g., for viewing in a Compensation Committee member's office).

By limiting the publication of origination data, firms can reduce partner preoccupation with the metric, while still ensuring partners are able to track their own business generation contributions. While we do see a reduction in internal competitiveness with this approach, successful application requires significant partner confidence and trust in management's ability to establish fairness in origination allocations. If partners believe that credit is either unfairly or inconsistently allocated, firms may experience even greater levels of dissatisfaction and further distrust due to the closed reporting approach. Also, in a fully closed approach, having candid conversations with partners about credit (without creating internal comparisons and competition) can be challenging, which can lead to less communication and as a result, flawed management understanding of origination contributions.

Clear definition of origination and sharing policy: For a variety of reasons, not tracking origination or eliminating distribution of origination data tend to be less common approaches in law firms. Most firms do track and report origination data, and a common and effective approach to reduce competition is a robust definition of origination and a sharing policy. In most firms, we see origination tracked at the matter level. Key success factors in leveraging this approach include a clear and consistent definition of origination and any other related metrics (e.g., responsible attorney), sharing origination in material increments (e.g., 25%), and seeking to establish broad partner understanding of appropriate allocations and sharing through guidelines or examples.

In spite of well-intended policies, problems can persist. Oftentimes, policies are established but not enforced, and credit is allocated without consistency depending on the partners involved. In other situations, partners demonstrate overt hoarding behavior as a means to maintain credit and avoid sharing. Such challenges are fairly common in a number of firms today, and overcoming origination competition through sharing requires particularly effective leadership and zero tolerance of bad actors. Management must be fully committed to enforcing adherence to the firm's origination and sharing policies and making adjustments when required – even in situations where big practices and big egos are at stake. It only takes a few hoarders or regular misallocations among partners to disrupt partner confidence in the fairness of the system.

Alternatives, New Ideas and the Role of Management

While each of the three approaches described above offer some relief from origination tensions, none represent a panacea that works across all types or sizes of law firms. There are other more nuanced approaches that firms attempt in addition to these, including double counting origination, allowing team originations, or utilizing multiple categories of origination and in some cases, requiring that partners share a minimum amount of at least one origination category with others.

While not always simple or particularly straightforward, we often see firms having the most success in using origination as a measurement tool when they consider the data in light of a broader range of metrics with the aim of getting a more holistic sense of contributions to the client relationship. Too much emphasis on any one metric creates challenges, and by viewing and interpreting origination as part of a broader set of metrics, firms are better equipped to compensate appropriately.

Given the complexity of client relationships and the challenges firms face in quantifying them, perhaps it is time that law firms explore new approaches. For example, what if firms only reported individual partner origination credit in material ranges instead of specific amounts (e.g., $1,000,000 to $1,300,000, $1,300,000 to $1,600,000, etc.)? This approach would promote internal nomenclature about tiers of business generation, reducing fixation on immaterial origination allocations and communicating that origination is not a precise number to be squabbled over. It could also reinforce the notion that given the complexity of client relationships, origination is intended as more of a general proxy or estimate of business generation contributions – not something that must be boiled down to precise dollars. This type of approach aligns with the movement that firms are increasingly making towards compensating partners based on ranges of contribution levels, and reinforces the notion that material differences in origination are required in order to merit greater compensation.

A critical success factor in any of these efforts to alleviate origination competition is involved management. Management plays an essential role in ensuring that an origination system, in firms that require one, is implemented as fairly and consistently as possible. This requires that leadership invest time in getting behind the data, communicating with the partners involved, reallocating credit where necessary, and demonstrating intolerance of hoarding or credit manipulation efforts. Unfortunately, firms often adopt origination policies or approaches, but fail to see the need for supporting the system with effective management, clear communication, and tools to support internal teaming. Getting origination right and overcoming competition requires a variety of approaches, including clear definitions, sharing, and perhaps most importantly – clear communication and management of partners' behaviors around origination allocations and relationship sharing.

ENCOURAGING COLLABORATION THROUGH PARTNER COMPENSATION

While most law firms have emphasized teamwork as a core value for many years, we see a renewed interest from firms in prioritizing collaboration. Heidi Gardner's recent research* on collaboration demonstrates many benefits to collaboration at both the firm and partner levels, including increased revenue and profitability among partners and practices that collaborate. Her research, consistent with the analysis we have done with our clients and with what you would expect, shows that the more practices and offices that serve a client, the higher the revenue received from that client. Matters that require multiple practices and partners tend to be more complex, and thus often more profitable for the firm. Partners who collaborate with other lawyers grow their business base more quickly than those who are more insular in their approach to practice. And importantly, when firms bring partners from different offices and practices together to solve client problems, clients are less likely to leave because replicating that team in another firm is difficult, resulting in stickier partners as well. Of course the potential downside of larger client relationships is increased buyer power and the potential for discounts, which we have certainly seen in our work, but the benefits of collaboration outweigh the negatives.

Collaboration is more than simply cross selling and collegiality. Cross selling typically involves sending work to another partner or office whereas collaboration requires partners to work together on matters to integrate their geographic and/or practice expertise to address sophisticated client issues. Collegiality, which is about camaraderie and trust among colleagues and working towards a common purpose, is a prerequisite for collaboration, but it is not, by itself, the same as collaboration.

Despite the many benefits of collaboration, firms continue to struggle to make real progress in changing behavior. While partners are not motivated to collaborate solely by compensation, and much of the reward of collaborative behavior goes beyond pure economics, we believe that aligning the firm's partner compensation approach is a critical aspect of success.

Remove Barriers to Collaboration

While some firms are on the search for the perfect collaboration metric, it's important to also understand how the metrics you already have in place might discourage collaboration. It is not uncommon for firms to talk about wanting partners to collaborate, yet reward partners for individual behavior, employing metrics and incentives that go specifically against the goal of increased collaboration. Some of these include:

- *Origination credit that is client based, unshareable, and with lifetime credit*. To the extent that this origination credit drives a meaningful portion of compensation, partners have every incentive to get their own clients rather than work with other partners to build firm clients. In firms like this we often see client relationships hit an upper limit well below the potential because partners are acting as solos rather than as a team.

- *Overemphasis on working attorney revenue*. Similar to individual partner profitability, an overemphasis on working attorney revenue encourages partners to bill hours rather than build relationships.

- *Measuring individual partner profitability* (based on his/her performance as a working timekeeper). Profitability is important but it is better to focus on the profitability of the work managed, not simply the profitability of the work a partner has done. Individual profitability tends to lead to a focus on billable hours and not on relationship management and business generation beyond what a partner needs to do to fill his/her own plate.

On a related note, some firms have chosen not to track origination credit at all, in order to encourage partners to work together without regard to who is getting credit for a matter or client.

If collaboration is truly a priority, then eliminating or de-emphasizing these, and similar metrics, will help align the incentives with the goals.

Encouraging Collaboration Through Compensation Process and Metrics

Of course it is best to actually encourage collaboration in addition to removing the barriers. There are a range of approaches that firms have put in place to measure and reward collaborative efforts and behavior. Some of these involve aspects of the compensation process, and some involve the development or modification of specific metrics.

In the process area some interesting approaches include:

- *Emphasizing collaboration in partner year end self-evaluations*. We increasingly see firms asking questions about collaboration around client relationship management, business development activities and other areas. Typically, the focus is on both collaboration offered and collaboration received so that others can be recognized.

- *Using Peer Review interviews to capture collaboration information*. For firms who conduct year end interviews, we see an increase in the amount of time devoted to discussion around collaborative efforts and team work. One particularly collaborative firm requires the Peer Review interviews to be only about other partners, which serves to increase collaborative behavior throughout the year.

- *Limiting distribution of data*. More firms are choosing not to distribute individual partner performance statistics to all partners. These firms still track the statistics, and use them in the compensation process, but reduce the peer pressure and internal competition that can sometimes be created by distributing statistics.

- *Using a bonus pool to specifically recognize collaboration*. A bonus pool, or portion of a pool, which is specifically aimed at rewarding partners for collaborative behavior can highlight the firm's commitment to encouraging and recognizing collaboration.

Of course what a firm measures tends to send a message about what the firm values. Metrics are often perceived to carry more weight than they actually do in compensation. It is therefore important to ensure that your metrics encourage collaboration, and/or you add specific collaboration metrics. Some of the approaches include:

- *Allowing shared originations*. Many firms track origination at the matter level rather than simply the client level, and allow sharing of origination among partners. This sharing of credit can encourage partners to collaborate on building client relationships. Credit sharing works best when there are guidelines and oversight to ensure that sharing is done consistently and accurately represents each partner's contribution to the relationship.

- *Tracking originations at the team level*. A variation on origination sharing, team originations allows originations to be credited to a full team rather than individual partners.

- *Measuring client management or collaboration credit*. Client management credit is a companion to origination credit and in some firms the partner who is receiving the origination credit may not also receive the client management credit. This encourages partners to collaborate with other lawyers since they are not required to 'give up' credit.

- *Tracking time on specific collaboration initiatives*. While most firms track non billable or investment time, some firms specifically track time on particular collaboration initiatives. These initiatives might include participation in pitches to target clients, time spent working with partners to make introductions, and other collaborative efforts. Identifying and recognizing these activities can encourage partners to invest in collaborative efforts that may not have an immediate payoff.

Compensation systems, incentives and metrics will not magically change personalities and behavior, but when combined with the right strategic priorities, communication, leading by example and other collaboration levers, they can help enhance collaboration in the firm.

* *Why it Pays to Collaborate* by Heidi Gardner, American Lawyer, March 2015.

CLOSING THE GENDER PAY GAP

Much has been written recently weeks on the gender pay gap in law firm partnerships. A number of articles have cited the dependence on origination credit in setting partner compensation as a key culprit in the gender compensation gap. Indeed, based on analyses we have performed across US law firms, we agree that origination plays a central role in many firms' compensation determinations. Law firms are aligning compensation with the need to grow, or even simply maintain, market share – and it is hard to argue that the development, management and expansion of client relationships should not be a key determinant of compensation in many firms.

So how does one explain the pay gap which is garnering so much interest in law firms? One explanation is that in many law firms, male partners simply have higher performance statistics than the majority of female partners, resulting in higher compensation allocations. Indeed, the latest Major Lindsay & Africa compensation survey shows that men have both higher origination and production metrics than women. However, this explanation masks the shortcomings of the metrics themselves. Origination is a particular challenge here, and given its relative importance, it is worth exploring the nuance behind origination credit in firms. First, we should clarify that origination can mean different things in different firms, but for these purposes, we assume it means the revenue a lawyer brings in and actively maintains or keeps at the firm. In some firms, this is described as a lawyer's book of business. Unfortunately, the value of a book of business is not a straightforward number, particularly as books become larger and firms seek to create greater collaboration and crossover among partners across practices and offices.

In practice, how does origination credit get allocated when multiple partners contribute to a significant relationship with a client? Often, there is a negotiation among partners that determines who gets what amount of credit. This is one of the points where the system can disadvantage women. In particular, there is a wealth of social science research that has demonstrated that women are more reluctant to advocate for themselves for pay. This reluctance is perhaps based on an uncomfortable reality for many women that when they do ask for more, they can be penalized for their behavior. So women may be left with a dilemma when it comes to negotiating for their fair share of credit: damned if you do, damned if you don't. Although many firms have adopted policies or guidelines around determining credit, there is often little oversight on how credit is actually allocated among partners. While many compensation committees do attempt to provide some check on egregious hoarding of credit, their ability to control for hoarding is often limited to extreme cases and can fail to address the more modest competitiveness which may be contributing to lower origination statistics for female partners.

To correct for this, firms would be well-served by spending more time getting behind origination allocations, exploring new approaches to tracking and allocating origination – including management oversight, addressing internal competitiveness, and implementing tools to incentivize collaboration. We have explored many of these issues in our recent Insights, Combating Origination Competition and Encouraging Collaboration Through Partner Compensation. We believe these tools and approaches can also help address the gender issues inherent in origination competition in law firms.

However, even in firms with best practice approaches to origination tracking and allocations and relatively higher levels of internal collaboration, women tend to have lower origination statistics on average relative to men. So, perhaps the bigger and harder question for law firms is not about getting behind the pay gap, but instead, getting behind the origination gap. Our experience indicates that sponsorship, or a lack thereof, is a root cause of the gender origination and pay gap in law firms.

Sponsorship involves a senior professional taking a promising young professional under his or her wing, actively cultivating his or her talents, and propelling him or her to professional success by creating significant opportunities and opening doors. Sponsorship goes well beyond the traditional law firm approach to mentoring. Mentorship tends to be a passive relationship, whereby mentors serve as guides, sounding boards and advisers. By contrast, sponsors serve as active promoters and champions. They intervene to identify and cultivate unique opportunities, improve internal perceptions, and proactively create meaningful connections for their protégé. Sponsorship requires personal advocacy and a much greater investment of time and energy.

Unfortunately, partnership commitment to providing sponsorship to young talent can be spotty as best. Some partners still love to say, "No one ever held my hand," despite the fact that they may very well have had sponsors who opened doors for them. Even partners more aware of the need for talent development investments are often so focused on the success of their personal practice that they fail to fully invest in developing others, or when they do invest time in talent development, it is largely focused on substantive guidance around legal work and reactive mentoring.

The limited number of law firm partners who actively engage in sponsorship represents a material impediment to developing future owners regardless of gender. However, we would argue that given the dynamics in law firms today, younger women lawyers may need more sponsorship than their male counterparts, and may be less likely to get it. To rise to the upper echelons within a partnership, a young female lawyer often contends with a greater number of hurdles than a young male lawyer, given the gender imbalance of most partnerships. Even if bias doesn't intentionally or unintentionally exist, integrating into a male dominated partnership can be challenging.

Another factor contributes to the sponsorship gap for women in law firms. For many organizations, sponsorship evolves naturally based on personal relationships, rather than through a formal program. This evolution of a professional relationship into sponsorship typically occurs when a sponsor identifies a young professional who resembles him or her at an earlier stage of their career. This means that men typically sponsor men, and women typically sponsor women. Unfortunately, since roughly half of associates but less than 25% of partners in law firms are women (and in many cases, relatively junior), the number of senior female partners available to 'sponsor' younger females is limited. There are too few female sponsors and too big a gap between senior male partners and younger female lawyers.

So, what can law firms do to more effectively sponsor women to become future owners, leaders, and major business generators?

1. Ensure partnership commitment to developing more women into the top tiers of the partnership

Overall success in effectively moving more women into the senior ranks of law firm partnerships will require a commitment from the partnership as a whole that this goal is a critical priority. Too often firms give lip service to the notion of creating diversity, including gender diversity, but then continue to operate the way they always have in the past. In addition to partnership agreement on this goal, firms will also need to adopt new approaches to developing women into leaders and rainmakers and invest resources into making this happen, along the lines of the strategies identified below.

2. Provide role models

The next step towards developing women into future owners and high performing equity partners involves showing a clear path for women to be successful in the firm, particularly as major rainmakers and leaders. This is best achieved in the form of role models that offer a visual demonstration to younger lawyers that the firm is a place where women can succeed, even when simultaneously raising children. If female leader and major rainmaker role models don't already exist, those individuals will need to be recruited or developed, quickly. A number of UK firms have gone public in setting targets for the percentage of female partners they aim to have in the next five or ten years, an important step forward to create better gender balance and also establish the female role models needed to grow and develop women lawyers over the longer term.

3. Develop a clear partnership understanding of sponsorship within the firm, and allocate partner time to sponsorship

This requires developing explicit definitions of sponsorship roles and expectations, and providing regular training to partners on how to be an effective sponsor. Once partners understand sponsorship, firms will need to specifically earmark partner time towards sponsoring female lawyers, and given the shortage of female partners, firms may also need to tap select male partners. The notion of assigning sponsorship relationships goes against the grain of much of the business school literature on this topic. However, in a law firm, allowing for the organic development of sponsorship relationships has led us to this juncture - too few high performing female partners.

4. Open doors

As previously discussed, sponsors open doors. Firms need to ensure that their sponsors are helping women get direct access to clients, and when those women step up and play a material role in the client relationship, they need to get corresponding relationship credit. In some instances, this is made possible when senior partners are looking to groom successors to maintain or inherit historic client relationship. Firms can play a pivotal role in a female lawyer's career by ensuring that she is considered for that successor spot – even though she may not have been the senior partner's first or most obvious choice given her gender.

5. Keep women engaged

Invest in approaches which enable women to remain fully engaged particularly during critical and formative practice development years. Too many women move into lesser roles in law firms or leave the practice, under the view that they may be able to return at some point when personal responsibilities are less demanding. Unfortunately, these decisions are often made at crucial times in a female lawyer's career – when she needs to be growing her network and future business base, and not stepping back. The move to a lesser role or leaving the practice inevitably makes a return to an equity partnership role, particularly one as a leader and major business generator, that much more challenging. To help ensure that high potential female lawyers remain fully engaged, a number of high performing firms have gone so far as to provide day care opportunities onsite. Others have focused on creating shorter-term flexibility to accommodate periods of intensive family obligations. Many others have invested in developing external networks to support the formation of relationships between female lawyers in the firm and female business leaders and outside counsel. Some have even sought to provide one on one coaching to female lawyers considering a move to an off-track position, to help them see that staying on-track is feasible.

There are a variety of approaches that firms can employ to help sponsor younger female lawyers and develop them into the high performing equity partners that many have the potential to become. Closing the origination gap and corresponding pay gap in law firm partnerships requires looking at the root causes associated with these differences, and addressing the need for more aggressive advocacy and support for young, high potential females.

INCREASING COMPETITIVENESS THROUGH ADAPTIVE STRATEGY

Over a decade ago, corporate and law firm strategists developed 5 and even 10 year strategic plans. Yet years of disruptive change have rendered stagnant 5-10 year plans ineffectual. Given the rapid pace of change impacting so many industries, including legal, firms cannot afford to settle on long term strategic plans without a built-in mechanism to re-evaluate and pivot strategy in the short term.

As a result, an increasing number of organizations are now focused on developing and implementing one year plans, in support of a clearly defined long term vision for the firm. Of course, the number of law firms with the resources, internal or external capability, and perhaps most importantly partnership appetite, to annually redevelop a strategic plan is limited at present. However, the idea is one worth real consideration for law firms. Why should firms be rethinking their strategies with increased frequency? How do firms go about developing short term plans which lead towards achievement of long term goals? How might such an approach might work within a law firm?

Benefits of an Adaptive Strategy

All too often, law firms develop multi-year plans which are based on the market and the firm's position at a given point in time, without a built-in method for adapting the plan as the firm, and the world around it, changes. By virtue of maintaining stagnant and out of date plans, firms reinforce status quo thinking among their partners. If leadership doesn't seem particularly concerned about re-evaluating a firm's strategic direction, partners will operate under the view that the current trajectory seems to be working just fine. These firms are quick to fall behind, as more aggressive competitors develop and identify opportunities allowing for superior practice expansion, increased market share and/or growth in profitability.

By contrast, firms that periodically step back to re-examine their strategy in light of market changes are better equipped to respond to, or even anticipate, market forces. This enables them to identify emerging and declining areas of demand, to win work and talent away from sleepier competitors, and to ensure that external forces at play - other law firms, substitutes in the form of LPOs, Axiom-type entities, AI, in-house departments, technological change, legal system reform, and clients, etc. - don't render their position less relevant or competitive tomorrow.

Characteristics of an Adaptive Strategy

An adaptive strategy is one that evolves as the organization evolves. This is not to say that it is amorphous, ill-defined or wishy-washy, and thus easily manipulated based on the whim of an individual or a group at any point in time. Instead, it is a living, breathing course of action, which is informed by a clear set of long-term goals or vision for the organization. This long-term vision outlines the firm's desired future market position and the difficult choices and prioritization of goals required to get there. What allows the strategy to be adaptive is the way in which the organization learns and re-evaluates its strategy over time. A look at strategically adaptive law firms reveals common themes:

Adaptive firms have a clearly defined long term vision. While these firms regularly re-evaluate and modify the shorter-term aspects of their strategic plan, near term strategies and actions are closely linked to a clear and compelling vision for the firm's long range goals and desired future market position. A clearly defined long term vision requires specificity around a set of goals for the entity and future competitive position. While these must be rooted in the reality of the firm's starting point, they should also reflect the evolution that the firm must undertake to get there. For most firms, these longer term goals provide constancy which binds the organization together and a steady course for the firm's long term direction. Shorter term, one year plans linked to the long term vision enable firms to take action in light of current market conditions to achieve longer term goals.

Adaptive firms are market focused. These firms educate their people on the client's perspective and changes in the external marketplace. Their leaders <u>and</u> their partners are also more forward looking, open to innovation, and willing to explore the implications of broader industry shifts on the practice.

Adaptive firms are not blinded by past success. Strategically adaptive firms are not victims of their own success. Much has been written about the risks to businesses that have become complacent due to past success. Firms that are effective at adapting their strategy and direction in response to market changes are not fixated on past victories or superior competitive and financial performance. Partners in these firms don't utter the phrase, "It has always worked for us in the past."

Adaptive firms are learning oriented. These firms recognize that strategy implementation must be treated as a learning process – often through trial and error - and they develop a 'learning habit.' Learning through strategy implementation requires monitoring the outcomes of strategic actions, measuring results, and candid reporting and dialogue about why certain actions were successful, or not. This enables the firm to take action to move the entity forward in a particular direction, while learning from mistakes and adapting the strategy accordingly.

Practical Approaches

So, how do firms go about shifting their thinking from a stagnant 5 year plan mentality, to one of a market adaptation? Migrating towards a more adaptive strategy starts with identifying a more regular and frequent process for strategy renewal and implementation planning.

Many firms seeking to become more adaptive utilize an annual renewal process at the start of each fiscal year. Through this process, they step back and evaluate their current market position relative to their long term goals and vision, and develop a 12 month plan which maps out the actions the firm will take to implement its strategy that year in support of the longer term goals.

This annual implementation planning and renewal process enables firms to better identify and respond to emerging areas for growth, as well as areas of likely decline. They are also able to focus on the recent competitor, client and other external player moves that are likely to impact the firm in the near term – all of which may have been otherwise noted, but not necessarily acted upon, without an annual renewal effort.

In addition to an annual planning process, adaptive strategy also requires a mechanism for following up on one year plans during the course of the year, and using those conversations to highlight longer term issues which may impact future strategy. We find that one of the most effective mechanisms for accountability and follow through in plan implementation is through quarterly leadership meetings to review progress in implementation, including a report out on actions taken that quarter relative to the plan. These meetings are an ideal forum for evaluating and learning from the results achieved by strategic actions, and cataloguing bigger picture market or strategy shifts for year-end consideration.

For example, in one of our client's recent strategic planning efforts, the firm identified a particular initiative and set of actions around using Legal Project Management (LPM) to enhance client service. At the time, LPM was a fairly untested concept within their partnership, and the plan included only a basic introduction and piloting of LPM. However, within months, the firm had experienced material success in educating partners about LPM and was ready for broader rollout. In this particular instance, the quarterly meetings were an ideal mechanism for ensuring follow-through on initial implementation, and then once progress had been made, identifying a second phase of actions.

Every organization's strategy must have the ability to adapt to changes in the marketplace in order to remain relevant and offer a successful pathway for 'winning' against competitors. An adaptive strategy is one which enables a firm to regularly review and revisit long term goals to ensure that they are appropriate and to identify the shorter term strategies and actions required to achieve those goals.

REINVIGORATING UNDERPERFORMING PRACTICE GROUPS

All firms have underperforming practice groups from time to time. Sometimes there are wholly understandable reasons – the unexpected loss of a large client or of a key partner. In other circumstances the state of the economy may be having a particularly adverse impact on a practice. Understanding the reasons for the underperformance is the first step to rectifying it, although there can be circumstances where the most appropriate action is essentially to 'hunker down' - the direction of the practice is valid, its strategy is sound and it is largely a case of waiting for the economy to pick up.

Much more troubling are the circumstances where the underperformance of a practice has continued for some time and there is no immediately clear reason for this. And while such underperformance may be apparent in terms of disappointing financial performance, it may be the case that the financial performance is steady but competitor practices in other firms are surging ahead and the practice is losing market share and reputation.

Partners within an underperforming practice can quickly become defensive and easily slip into the trap of expending energy trying to persuade others that the underperformance is due to factors quite outside their control. Lethargy, risk aversion and inactivity can easily take hold. Meanwhile, partners outside the underperforming practice can become increasingly critical of the practice. And a situation with the partners within the practice feeling highly defensive and sensitive and those on the outside 'circling the wagons' is not likely the most conducive for change.

Rebuilding partner enthusiasm and drive to improve things is a priority in such circumstances and this tends to revolve around changes in partner behavior and improvements in performance and competitiveness.

Sometimes a radical change in strategy is required but in our experience this is not that common: it is often more a case of refreshing the existing strategy to address the current and future challenges and re-building partner momentum and motivation.

Over the years we have worked with many practice groups that have found themselves in challenging positions, and based on this experience have found the following five steps are key to success in reinvigorating practice groups:

1. **Base the exercise on the data – not 'gut feel' and perceptions**

It is critical that any review have a sound foundation based on robust data. This needs to start with financial and client base analyses and generally all the data required is readily available from a firm's practice management systems. Such analyses are usually quick to undertake and tend to identify key areas requiring attention. (Usefully, such analyses also often identify achievements and improvements made in the past that can be helpful in convincing doubting partners that change is worthwhile and can deliver tangible benefits.)

The analyses may highlight the need to seek client input through client interviews. This can be particularly the case if there are indications that some clients are no longer instructing the practice group so regularly or perhaps at all. Or they are now mainly instructing the practice group on lower value, more routine matters compared to previously. Or that while the work instructed is largely the same there is an expectation of markedly lower rates. Understanding the reasons for these changes is critical. While such conversations can bring up uncomfortable findings, at least with them in the open the process of starting to address them can begin. And, of course, such research also provides the opportunity to explore demand trends in terms of the types of services clients anticipate requiring in the future. Most importantly in undertaking such research it is key to include both clients with whom the practice group continues to perform strongly and those with whom it seems to be faltering.

2. Develop a clear but concise and actionable plan to address current and future challenges

Establishing and agreeing the steps the practice group needs to take to adapt and bring about a return to its previous success is fundamental. Successful plans tend to be based on a mix of 'hope' of progress and 'fear' of competitor and client developments. The practice will have to do some things differently in response to changed circumstances (the reactive/defensive); it also has opportunities to take the initiative, to develop its strengths and to become more competitive (the active/offensive).

At this point developing a sense of urgency is key and there are advantages to be gained through speed of response. Demonstrating a clear rationale for change is vital. It is equally as important to ensure that where proposed actions are similar to historic actions these are justified – why they failed in the past (often but not always down to ineffective implementation), why they are still relevant, and why and how they can succeed this time.

3. Build momentum and motivation as rapidly as possible

Focusing on smaller, attainable objectives – at least in the early stages of implementation – tends to be a highly effective way of building partner confidence and overall momentum early on. Evidence of change achieved is often more motivating than 'grand ambition' - the benefit of action over planning is significant as is getting partners doing something quickly.

Of course an overall framework will be necessary – not least to coordinate certain activities and to manage and monitor progress. But the production of a comprehensive plan should not be an excuse for delay nor its weight be a morale sapping impediment to action. What is critical is that there are clear priorities for the first quarter (100 days), 12 months and two years – concrete steps in the short and medium term that will take partners in the desired direction (even if not resulting in reaching the ultimate goal).

4. Define success using a range of measures

Inevitably there will be a natural and historic focus on the size, income and profitability of the practice. Including additional measures, however, tends to be helpful. Framing progress relative to competitors, and in other terms such as: achieving partners' aspirations for the practice; in technical and operational improvements; and in client wins can all be helpful.

It is important that partners should recognize that the practice is moving forward and has progressed on some dimensions even if not yet on others.

5. Build partner commitment

Partners and firm management need to work together to formulate a refreshed plan – possibly bringing in some external assistance: to provide objectivity, neutrality and a broader market perspective; to challenge the 'status quo'; and to take at least some of the burden of the work away from partners and firm management.

Partners working alone tend not to have the required objectivity when analyzing their own performance. Nor will they likely have a particularly broad overview of market and client trends. In contrast an 'imposed' plan by management has a high risk of failure because partners are unlikely to feel it reflects the reality of the situation or their aspirations. And neither are they likely to be particularly committed to it.

It is critical that partners have a clear feeling of purpose rebuilt and along with this both ownership of the plan and a strong sense of obligation – both to their partners within the practice and the wider partnership. Involving them in the review is critical and ensuring they feel that their views have been heard and understood and that the plan emerging reflects their aims and ambitions are all vital. Providing 'space' for bottom-up initiatives is important as is encouraging partner entrepreneurialism.

And underpinning this is reinforcing partners' confidence in the practice's (and firm's) capabilities. Providing a strong, clear message about 'getting it done' and how implementation, action and progress will be achieved are key messages to repeat.

Conclusion

Of course there are some practices that face profound challenges that require radical changes in direction and strategy. But in our experience most underperforming practices do not require this and with certain changes can successfully continue to follow their current course. What they do require is reinvigoration and motivation and a rebuilding of partners' confidence, energy and enthusiasm along with a clear set of actions which both address the shortcomings in the practice and take advantage of the opportunities in the market.

USING EXPERIENCE CURVES TO GAIN COMPETITIVE ADVANTAGE

We sometimes hear firms express surprise that competitors are able to offer similar services at significantly lower prices than they are able to offer. Often they assume that the competitor is discounting, or trying to 'buy' the work. But it's more likely that the competitor is benefiting from substantial experience in similar matters that gives them a competitive advantage.

The experience curve is a simple, but powerful, model of the common sense phenomenon that processes become more efficient with repetition: A task completed once is done a little more efficiently the second time, even better the third, and so on. The effect was noticed and quantified in business in relation to the production of airplanes and ships during the Second World War. The manpower required to complete a unit was seen to fall at a fairly steady rate of 10-15% for every doubling of cumulative production. Assuming a ten percent reduction per doubling of experience, a task that takes 100 hours to complete the first time requires only 90 hours the second time, 81 hours the 4th time, 73 hours the 8th time, and so on. After a task has been repeated around 100 times the time taken to complete it has reduced to approximately 50% of the initial level.

The Boston Consulting Group popularized the application of the theory by studying, and successfully applying the curve in a large number of different industries. The effect has also been demonstrated in professional services: In a study of consulting engineers a 12% reduction in the time taken to complete a project was found with every doubling in the number of similar projects completed. The effect is curiously similar in impact regardless of industry or activity. In almost all instances the rate of improvement falls within the range of 10-15% for every doubling of experience. On the assumption that this effect exists in professional services such as law there are important implications in terms of both the nature of competition and firm strategy.

Profitability and Experience

Imagine an experienced firm has completed an initially one-hundred-hour project on one hundred occasions and so that it is now able to complete such projects in 50 hours. When asked to submit a proposal for a similar project the firm could quote a price for such work at 50 hours. At this level it may assume that this work will be profitable (50 hours at 100% realization). For an inexperienced firm to match this it would need to price at a similar level (100 hours at 50% realization) for a reasonable chance, all else being equal, of winning the work. Alternatively, the experienced firm could decide to price its proposal at 100 hours, or somewhere else above the 50 hours required to complete the work. At this level it can make a healthy profit and still price the service at or below the level of competitor firms.

Regardless of its decision the experienced firm is at a significant advantage to the newcomer. It has the choice: To price down to reflect its experience so as to dissuade the newcomer from entering the market; or, pricing up with a view to making additional profits until the newcomer has developed the experience to become competitive.

Knowledge Management and Experience

Progression down the experience curve depends upon the application of previous experience and knowledge. What has been learned may not be retained, not be shared, or professionals may neglect to apply it in the next instance. The wheel may be reinvented time after time. In order to make progress the experience of previous projects and the lessons learned need to inform both the content of future professional advice and how it is delivered (e.g., project management).

A firm that is habitually better at capturing its experience and using its knowledge to inform future work will be more competitive than a firm that fails to do so. The better a firm is at learning from its experiences, codifying the knowledge and then applying the lessons learned in its work, the steeper the gradient of their experience curve. A well-managed firm captures its knowledge, mobilizes its experience, reduces its costs, improves its efficiency and moves faster down the experience curve than its competitors.

Strength-in-Depth and Experience

It is common in professional firms to talk about the strategic advantage of a practice with strength-in-depth. The reason that practice scale confers competitive advantage may be explained in a large part by the experience curve. Greater practice size is related to high volumes of work which results in the rapid accumulation of experience. Experienced practices develop knowledge of the professional discipline and its application and they also become more efficient. These are all sources of competitive advantage and once the practice has established a leadership position it is difficult and expensive for competitors – especially smaller ones – to catch up.

Strategic Implications

A handful of firms in any professional market stake their competitive positioning at the top of the experience curve based primarily on professional technical prowess and intellect. These firms claim to start every project afresh, that they are 'Plain Paper Thinkers'. Their strategy assumes that the practice will focus on novel projects, and perhaps repeat them a few times, but it will not invest in high levels of leverage, or the knowledge capture and systematization necessary to be competitive lower down the curve.

An alternative strategy is to compete on the basis of the efficient application of existing knowledge, on the types of projects that have been run many hundreds or thousands of times. At this point the experience curve has reduced the hours required to complete the work, and the price clients are prepared to pay for it, to a fraction of the original. Firms following this strategy compete on the basis of their process knowledge (i.e., how to run the work efficiently) and their ability to codify and systematize the advisory process so as to reduce the professional time and costs involved. The firms make large investments in the information technology and professional infrastructure required to reduce their costs per project still further. Extremely high leverage is used to minimize costly partner time.

There are a number of firms that follow one or the other of these strategies in many markets. For those following the first strategy the concept of experience curves may not be particularly relevant while for those following the second it is highly relevant. Most firms in reality follow neither strategy exclusively. And, of course, even single client matters have some elements that are not subject to the impact of the experience curve and others that are.

In our view there is significantly more work in many firms that is subject to the impact of experience curves than is acknowledged and that firms are losing a potential source of competitive advantage when they do not recognize this and adapt sufficiently urgently to remain competitive. The experience curve does not provide universal answers but understanding its impact and considering its implications does provide a useful perspective from which to address a range of issues such as defining the limits of a firm's focus (including potentially no longer offering certain services), investing appropriately, managing pricing and profitability, ensuring the scale to compete effectively and addressing the complexity of internal and external issues that result.

MERGER DISCUSSIONS: A BALANCING ACT

Managing merger discussions between two law firms can be tricky. Recently we have seen firms struggle with getting the right balance between discussing the business case for merger and delving into some of the deal terms of the combination. The business case – including the benefits to clients and partners of the merger – must be robust and genuine. The business case is the rationale for the combination. But while the best business case can motivate firms to overcome thorny deal issues, it cannot overcome deal breakers. Therefore, genuine deal breakers need to be identified early enough in the discussions so that the two firms aren't investing valuable time in discussions that won't result in a combination.

Firms who kick off with and focus on the deal terms risk losing the focus on the bigger picture. They are likely to lose enthusiasm when faced with challenging issues because the negotiations end up being the focus without the context of the benefits that the combination can deliver. And without an articulated business case, skeptical partners are more likely to find fault in a potential combination.

By contrast, firms who focus myopically on the business case often involve many of the firm's lawyers, and invest very significant amounts of time. This investment is critical of course, but needs to be sequenced appropriately. Getting broad partner engagement too early has some risks. Some partners may not be fully on board with a transaction and look for other options. And as the number of people involved increases, the likelihood of the discussions becoming public increases. While the latter may be manageable, the former can leave the firm in a weaker position should the discussions not go forward.

Getting the balance right is critical. In our experience there are several steps that can help the discussions move along, keeping the development of the business case and deal terms in step with each other.

Know Thyself

Before embarking on merger discussions it is important to look introspectively and think about what is important to the firm and the partners in the context of a merger. While it is easy to say that the firm would be flexible for the right deal, the reality is that this is not always the case. Partners, who ultimately hold the power to vote a merger up or down, often do have strongly held views about structural aspects of the firm that are important to them. Spending time up front identifying potential deal breakers and determining which are seen to be non-negotiable helps raise these issues early and before extended discussions with another firm occur.

While of course conflicts, profitability differences, and cultural differences are all more obvious potential deal breakers, there are often other issues that are more firm specific. One that can raise strong opinion is that of governance and decision-making. Some firms, and indeed some firm leaders, feel strongly about holding key leadership roles, while others do not. Sometimes these leadership positions are seen as a signal to the partners that the combination is a merger rather than an acquisition.

Another deal breaker is the existence of a significant unfunded partner retirement plan. Emotions run surprisingly high around unfunded retirement plans. Firms who don't have them can view them as a tax on partnership profits, or that they are paying for benefits that they will never receive. Firms who do have them may feel they have paid into the plan for years, and aren't willing to give up their benefits. Long frozen plans are easier to manage than currently active or recently frozen plans where not only the obligations will be higher but there will be seen to be two classes of partners.

The key is to identify the issues that your partners care about before discussions start, and not six months into the discussions.

Follow a Plan

Merger discussions can sometimes meander along from meeting to meeting without a clear direction or plan. While plans don't need to be rigid, it is helpful for the leadership of the two firms to have a conversation about the pace and focus of discussions. The plan should map out the dual tracks for exploring the business case and discussing key potential deal terms. There should be key milestones at which each firm steps back to make a go/no-go decision. Each firm needs to give some thought to how and when to broaden the group involved in the discussions and what information they need about both the business case and the possible deal structure in order to take the step of broadening the group.

Structure the Deal Discussions

Deal discussions can also meander if not appropriately structured and led. We find that an early discussion around each key structural issue is an important step. The two firms don't need to reach a resolution on each issue at this stage but they do need to feel comfortable that a viable resolution can be reached. It is important that the key deal breakers that each firm has identified (as described earlier) are discussed at this point. Once the firms have had the high level discussions they can map out a plan for working through both the thorny and the more routine deal issues.

It is also critical to get the right people involved in the deal discussions. Occasionally firm leaders will delegate these discussions to a 'deal team', who may not have the same vision for the combination as the leaders. They are more likely to be representing their 'client' (the firm), and focus on 'winning' the negotiations, rather than maximizing the competitiveness of the combined firm.

Structure the Business Case Discussions

Firms are very good at talking about their own firm, practice strengths and clients. But the business case is ultimately about how the two firms/practices will be more competitive together and the conversation and analysis must address how the combined firm will be more competitive in the market and can better service existing clients and/or win new clients and work that neither firm could attract independently.

Two firms which are able to achieve or solidify a market leading position in a particular area of practice have a strong case for merger. Or which are able to combine complementary practices with compatible client bases and a high likelihood of being able to cross-service. Or which share key clients or have compatible industry strengths that create a market leading position. The business case must address not only the current position of the combined firm, but the position they seek to reach in the rapidly evolving market. For a merger to drive real long term value, the business case must reflect a strategy defining how the firm will outcompete the market, both in the near and longer term. Having a framework for the overall business case can help structure the discussions and the thinking of the two firms so that the business case can be effectively articulated to the partners, and ultimately to clients and the market.

It is particularly important once practice groups start meeting independently to ensure that they come out of their meetings with a strong sense of the business case and not just a catalogue of each firm's practice. A structured agenda and a clear framework for the output can help guide the practice groups.

Many merger discussions do not result in a combination of two firms, often for the right reasons. The key is to make sure that you structure the discussions appropriately and get key issues on the table early so that you don't invest scarce time and resources in a deal that isn't going to happen. Getting the balance right can make the difference.

MANAGING SHRINKAGE

When we think about the forces reshaping the legal industry, we focus primarily on forces such as the impact of changing client demand trends and innovation in legal service delivery. Much less attention has been given to the internal demographic forces likely to reshape law firms in the coming decade. Our analysis of the aging of many U.S. based law firm partnerships leads us to believe that internal forces within law firms will have just as much - if not more - of an impact on the traditional law firm model over the next 10 years. Partner demographics in many U.S. firms will cause a major reshaping and restructuring of the business, and for those firms intent on maintaining a more traditional model, long term sustainability may require planning and managing for shrinkage of the partnership and ultimately the firm.

What is the risk of shrinkage?

Based on 2016 data, 16 percent of partners will retire in the next five years and 38 percent will retire in the next decade.[1] While this data sounds only mildly disconcerting, our experience indicates that the averages smooth over the more alarming retirement trends impacting some firms. We regularly see firms where the average equity partner age is approaching 60 years old. The risk of shrinkage of the partnership is greatest for firms focused on a more traditional and lower growth model, and particularly those whose partner compensation approach emphasizes partner personal productivity and under-values teaming and development of next generation lawyers. Firms of all sizes have historically struggled with this balance, although small and mid-size partnerships will be disproportionately impacted by the wave of baby boomer retirements. This is particularly true of firms in more competitive legal markets, where lateral activity and competition is high, making it harder to retain high performing younger partners.

In spite of demographics, too many firms appear intent on maintaining their current course. We often hear law firm partners explicitly defend the status quo in terms of external positioning and client service delivery, as well as internal structure, hiring, leverage, and firm composition. Many of these partners are themselves senior, are experiencing peak compensation and are loathe to adjust a model which they believe will serve them well for the few remaining years of their career. Yet regardless of the magnitude of industry change driven by external forces, the reality of partner retirements in the coming decade will force many firms to confront a different looking future. A shrinkage in the number of equity partners will present a number of strategic and organizational changes which if not appropriately planned and managed for could lead to a material decline in a law firm's market position and competitiveness, and potentially even threaten long-term survival.

Can firms avoid shrinkage through succession planning?

For most firms facing a wave of baby boomer retirements, the firm's initial focus should be on succession planning - addressing the broad range of strategic and organizational implications of retirements. Effective succession planning requires that firms evaluate their own specific risks associated with the generational transition of clients, revenue generation, leadership, financial obligations, market profile, referral network, expertise and operational management. While the level of risk in each of these succession categories will vary by firm, there are two core issues which impact nearly every firm with an aging equity partnership – client and rainmaker transition.

Both client transition and business generation or rainmaker capability present outsized implications for the firm's future sustainability. Client relationships represent the core of every law firm's current and future competitiveness, and as a result, transitioning client relationships from senior partners to next generation partners is a critical challenge that must be addressed by any firm with an aging partnership. Those firms pursuing a strategy of opening up client relationships and building teams around clients will be the ones most likely to overcome this particular succession obstacle.

An additional strategy for firms with a high concentration of partners over 55 is the investment in developing and/or replacing senior rainmakers. This will require careful hiring and focused professional development and retention of young lawyer talent (assuming time horizons allow for this longer-term option), or robust lateral partner recruitment. Lateral growth and larger scale partner additions via merger offer the potential to more rapidly shore up the partnership and reduce demographic risk. However, for some firms, lateral growth or merger is a less viable option, due to the firm's geographic locations, a lack of partner support, or the sheer cost and uncertainty of external partnership growth.

For nearly every firm, organic development of young lawyers into equity partners represents a critical path to long term sustainability. Investing in professional development for lawyers across a range of substantive, client development, project management, delegation and leadership skills is essential to helping young lawyers matriculate to equity status. And retaining them through the duration of their careers requires communicating a commitment to their career progress and appropriately compensating their efforts to generate new clients and manage work from existing clients.

Unfortunately, without proper planning and investment, succession efforts often yield mixed results. Client transition is often challenged by the nature of personal relationships and clients' repeated statements that they hire lawyers and not law firms. Also, law firms often wait too long to sufficiently augment aging rainmakers, failing to develop and promote future equities or seek out external growth options. These realities, coupled with a tendency of many partnerships to want to preserve the status quo, demonstrate the likelihood that in future years, traditional law firms may not have invested heavily enough in succession planning. These firms will be forced to confront shrinkage, necessitating careful planning and management of the firm's downsizing over time.

Planning for and managing shrinkage

While shrinkage represents both risks and hurdles, carefully planned and managed downsizing doesn't have to equate to reduced competitiveness, poor performance or even failure. Firms forecasting a decline in partnership and overall firm size will find that shifting from a defensive posture to an offensive strategy is key to preserving profits and maintaining the confidence of the firm membership. This requires careful analysis and planning around the likely changes in the firm model as senior partners retire and the firm's revenue and business base gets smaller, including:

- **Size, staffing model and structure:** With lower revenue, firms will need to align the number of timekeepers and administrative and business staff to support a smaller model. They will also need to evaluate more cost effective and efficient ways to handle certain types of work, including secretarial, research, marketing and business development support, and other non-billable functions. Leadership and management models will also need to be re-constituted, with fewer available leaders and fewer lawyers and staff to be led.

- **Physical space requirements and other overhead:** In light of a reduced size, firms will need to conduct careful and long term planning of space requirements and other operational contracts. Shorter terms on leases will become a business imperative, bearing in mind forecasts of reduced headcount and lower revenue projections.

- **Capital and debt:** As partnership and firm size declines, detailed financial planning around capital repayments, payments associated with unfunded obligations, and debt levels will need to be conducted in order to preserve profitability. To manage capital outflow, firms should evaluate capital repayment policies and timelines to protect cash flow and profitability during retirement waves. Conservative management of both short and long term debt is also critical as partnerships decline in size, in order to avoid further downward pressure on profitability and the perception that future generations have been 'saddled' with past spending.

- **Strategy, practice focus and client base:** In addition to core structural and financial issues, firms facing shrinkage will likely need to rethink where they compete in the marketplace, the services they will provide, and the clients they want to dedicate their more limited resources to serving.

Above all, the remaining partners need to be confident that the downsized firm does have a viable future and is not entering a downward spiral from which there is little realistic likelihood of reversal. How, for example, will internal confidence be maintained? How will clients be reassured and convinced that the firm is not in decline? How will the firm manage the next wave of senior partner retirements? If the remaining partners are confident that challenges such as these can be effectively managed, downsizing may be an option. If doubts exist, they may be better off considering more immediate alternatives rather than from a less favorable position at some point in the future.

The aging of law firm partnerships is likely to result in material change in the legal industry, and for firms that are currently operating under a 'business as usual' strategy, a wave of retirements could create a need for significant restructuring. Effective succession planning offers an opportunity to address the risks of transition and limit the impact of retirements, however, if succession efforts fail, long term sustainability will require planning and managing for shrinkage.

1 Major, Lindsey & Africa's 2016 Partner Compensation Survey

TIME FOR LAW FIRMS TO LEARN FROM MILLENNIALS

Differences between generations are an age-old problem, and certainly one that law firms have struggled with for decades. Today it is the millennial generation (generally those between 20 and 35 years old) that is confounding senior lawyers. While some firms are slowly adapting, if reluctantly, others are digging in their heels and resisting change.

While law firms tend to be senior heavy, the proportion of millennial employees will continue to grow (some estimates put millennials at half the workforce by 2020), so it may be time to take a fresh look at the value that millennials can bring to the firm. The differences between baby boomers (the youngest of whom are now in their 50's) and millennials in some areas are stark but ultimately firms can benefit from adapting to some of the traits of millennials. While not all millennials will necessarily exhibit the full range of millennial traits, there is a risk that if law firms aren't able to attract and retain the best talent from the current generation it will create talent gaps in the future.

Based on our work with firms we see opportunities in five key areas: increased collaboration and enhanced social networks, taking advantage of a flat organization, enhanced feedback and mentoring, increased productivity through agile working, and commitment to service.

Collaboration and Networks

Law firms today are intensely focused on collaboration. They are adapting compensation systems, developing new metrics, and talking about it at every opportunity. The good news is that millennials prefer working in teams and want to collaborate. The key for firms is to capitalize on this energy and adapt internal working norms to take advantage of the natural work styles of millennials. It is important to recognize that the meaning of team today may not fit the traditional law firm definition. Giving an associate a discrete assignment which they then work on independently is not really teamwork, even if they are technically a member of a larger working group. Millennials want to be active members of teams, do meaningful work and understand how their work contributes to the overall goals for the effort. Client team, practice group and initiative leaders will need to adapt the way that they lead and structure teams to create more integrated groups with enhanced communication across the team.

Millennials' high degree of connectedness and networks present a major opportunity for law firms. This generation is far more networked than previous generations and they tend to gather massive information and contacts due to their access to and use of supporting technologies. Leveraging their networks and connectedness could allow millennials to be far more effective in generating work and solving client problems, particularly if firms can harness these skills/assets through their own supporting technologies. These tools can also be used to support and enhance internal collaboration efforts.

Flat Organization

Related to the preference for working in teams, millennials are more likely to prefer a flat organization. While law firms are theoretically relatively flat, the reality is that there is often an internal hierarchy based in part on title but more often on book of business. Perhaps as a result of the more informal relationships that millennials have had with educators, coaches and other adults throughout their schooling years, they are less likely to be influenced by this hierarchy and more likely to see themselves as equals. The positives are that they are more willing to be active participants, to speak up and to take initiative. Unfortunately, senior lawyers often perceive this mentality as one of entitlement, and thus, a firm's ability to leverage the positive aspects of millennials' high levels of engagement will require a shift in mindset. Senior lawyers will need to be open to listening to and considering the contributions of the younger lawyers. Firms will need to move away from the traditional law firm hierarchy and adapt their view of their relationships and communications with junior lawyers.

Feedback and Mentoring

Millennials want frequent feedback, although cynics might argue that what they really mean is that they want frequent **positive** feedback. Setting that aside, frequent informal feedback can be far more effective than formal annual review processes. Frequent feedback can be more specific because it is typically about a specific matter or task. And more effective because changes can be made more quickly if required and the feedback is not tied directly to promotion or compensation. This will require a willingness and discipline on the part of the supervising lawyers to provide constructive feedback, both positive and negative in a timely and balanced manner. Not only will firms need to train partners and senior lawyers in effective feedback and communication styles, they will also have to define expectations around the timeliness of feedback and prioritize it relative to billable commitments which often take priority.

Beyond feedback, millennials are also eager to seek out mentoring relationships and guidance from other lawyers. While senior lawyers often subscribe to the sink or swim method of career development, millennials want more guidance. Just as they might prefer positive feedback, they also don't want to make mistakes and therefore look to senior lawyers for the playbook. Much like the informal feedback, there is a real opportunity for firms to provide frequent, informal training and career guidance for younger lawyers. This creates a unique opportunity for firms to align junior lawyer contributions with the firm's longer term strategy and goals at an earlier stage in their careers, which is likely to increase their future success and ability to matriculate to partner.

Agile Working

While Gen Xers were the first to push the idea of work-life balance, which firms often interpreted, correctly, to mean 'less work', millennials tend to look at work-life balance in a different way. They often prefer flexibility both in timing and location of work. They are willing to work hard but on their own terms. Working at home periodically, or working different hours, may be appealing to them. Outside the law firm world companies are providing employees extra time during the work day for activities like fitness and community service, along with periodic or regular remote working opportunities. More and more law firms are looking at agile or flexible work environments, which ultimately may improve morale and productivity.

Service and Social Consciousness

Finally, one area where law firms and millennials are naturally aligned is in social consciousness and service. Many millennials seek service opportunities and look for meaning in their work. Law firms have long committed to pro bono and other service and community activities. Millennials can bring renewed vigor to firms' pro bono commitments, which in turn provides them with some of the experience and responsibility that they are looking for.

While retaining millennials, who are often eager to change jobs frequently, may be an ongoing challenge for firms, there are certainly traits of the millennial generation that firms can learn from and capitalize on. It is sometimes hard to embrace change, particularly when the old model worked well for so many of us. But instead of trying to make millennials look just like us, perhaps we need to think about how to take advantage of the traits that are uniquely theirs.

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Our consultants have advised firms in the US, UK, Continental Europe, the Middle East, Africa and Asia. Our clients include the largest international and national firms and leading firms of all sizes.

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