

Coaching and Return on Investment

By Jonathan Middleburgh



While executive coaching has become popular in many law firms and corporate law departments, one of the reasons often given by senior management and HR for not taking advantage of this approach – or using it only to a limited extent – is the difficulty of measuring return on investment (ROI).

In reality, there is a relatively robust methodology to measure the ROI of coaching. As with other complex, multi-factor situations, it is important to be careful with the measure and to avoid a definitive attribution of success to one factor when multiple factors are at play. But coupled with other data, measurement of ROI can help build a powerful business case for the use of executive coaching.

Measuring Effectiveness of Coaching and ROI

After 20-plus years of published research, the methodology for measuring the ROI on coaching has become increasingly respectable.

Kirkpatrick (1977) proposed a now widely accepted four-level taxonomy for the evaluation of training programmes, which is regularly used to evaluate learning and development (L&D) interventions and has often been used to evaluate coaching programmes.

When applied to coaching, the four Kirkpatrick levels (see e.g. Phillips & Phillips, 2005) are:

- Reactions of the participant and the coach to the coaching engagement;
- Learning from the coaching engagement (new knowledge, skills and understandings);
- Behavioural changes as a result of coaching; and
- Business-impact measures (e.g. productivity, quality, costs, time, client satisfaction, job satisfaction).

To the Kirkpatrick taxonomy, Dr Jack Phillips, a well-known expert in ROI methodology, added a fifth level: calculation of ROI.

The formula for calculating ROI involves subtracting the costs of coaching from the estimated value of the outcomes of coaching, and expressing this as a percentage ($[(\text{estimated coaching benefits} - \text{costs of coaching}) / \text{costs of coaching}] \times 100\%$).

Grant (2012) points out that there has been a broad range of ROI figures for coaching, with published estimates in various

studies ranging from 221% to 545% to 788%, and a commonly reported ROI of 700% (for a typical study see McGovern et al. [2001]).

Inevitably, ROI will vary from coaching assignment to coaching assignment. The point is that there is a respectable source of evidence suggesting that 'effective' coaching offers a good return on investment, perhaps of up to 500%, maybe even more.

I put the word 'effective' in inverted commas deliberately, as the quality of the coaching and the choice of coach will obviously play a key role in determining the effectiveness of the coaching and hence ROI. I return to this point below.

Certainly in the law firm context, it should be relatively easy to generate a *prima facie* business case for coaching given, for example, salary costs and the differences in billing levels / work generation between a high-performing, productive, senior associate or partner.

A Note of Caution

Figures around ROI are often – and rightly – treated with scepticism because of the propensity of some practitioners to cite ROI figures as if they were holy writ. As always, the devil is in the detail and it is important to sound a note of caution before bandying around such figures.

A number of points are relevant in this context.

First, while asserting that a range of studies suggest a healthy ROI for coaching, it is important to be clear that not only is there a wide fluctuation in these figures, but also that several academics have questioned the rigour of these studies and some of the assumptions behind the calculations (see e.g. De Meuse et al. [2009]; also Grant [2012]). For example, the calculations sometimes ignore indirect costs of coaching; coachees often use a broad brush in assessing the monetary benefits of coaching; and it is often difficult to separate the effect of coaching from other factors (e.g. economic climate; chance) in order to establish that the coaching itself has caused the assumed or claimed positive results.

That said, and with some clear and honest caveats, it is reasonable in my view to assert that a range of evidence suggests that coaching can result in a healthy ROI.

Second, the figures from the ROI studies are at best an indication of possible ROI. To establish the actual ROI of a coaching intervention requires: (a) a clearly designed methodology for the capturing of the data that is needed to calculate ROI; (b) a commitment from both coach, coachee and the law firm or other organisation commissioning the coaching to gather and capture that data; and (c) the methodical capturing of that data during and at the end of the coaching process.

In practice, the law firm might not want to incur the costs associated with the design and implementation of a methodology. Capturing the data requires both coach and coachee to spend time during the coaching process gathering that data – for example the coachee might need to fill out a questionnaire rating the efficacy and benefits of the coaching process, and the coach might want to spend time gathering 360-type data towards the end of the coaching process. The more rigorous the evaluation, the more potentially costly. The organisation might feel that the costs associated with rigour outweigh the benefits of rigour of approach.

Third, as pointed out by Grant (2012), ROI might or might not be the right measure of success or failure. For sure, the key objective of the coaching **might** be to drive immediate financial results. However, often the goals of coaching are more diffuse – for example, they might concern managing client relationships more effectively or developing a more nuanced approach when communicating with peers or subordinates, rather than to increase profitability in the short term.

In the case of these latter goals, achievement of the goals will almost certainly be good for the business of the law firm. Greater effectiveness at managing client relationships, for example, will almost certainly increase client retention and 'stickiness' of client relationships. But this will not necessarily translate into causally identifiable financial results; indeed an overemphasis on ROI might be counterproductive to certain desired behaviours, such as building long-term client relationships, and more likely to encourage the chasing of short-term financial wins.

In these circumstances, the more appropriate approach to evaluating the effectiveness of the coaching might be a different measure or measures, such as focusing on tracking changes in the targeted behaviours – via repeat 360-degree feedback, for example.

A Practical Approach

A suggested approach to evaluating coaching is as follows:

1. Decide how much time and resource you want to invest in evaluating coaching – e.g., how important is it for senior management / the business to understand the ROI of coaching? Do you need to discuss this internally?
2. Think carefully about the purpose of evaluating coaching. What is the imperative? Is it one or more of the following: (a) to build a business case internally for coaching; (b) to assess the effectiveness of the coach or coaches you are using; (c) to assess impact on the individual coachee; (d) to demonstrate actual ROI of the coaching intervention or programme; (e) to understand common themes across a number of coaching interventions / to highlight systemic issues that might need to be addressed.
3. If the imperative is to build a business case for coaching internally, there is a wide range of available, respectable data as to the 'typical' ROI of coaching. This data can be presented internally, with the caveats set out above.
4. You can strengthen the business case by using other available internal data, e.g. retention rates, costs of losing key talent (recruitment costs, onboarding costs, estimated opportunity costs, etc.).
5. If the purpose of the evaluation is to assess the effectiveness of the coach and / or impact on the coachee, an evaluation might, for example, be one or more of: (a) pre- and post-coaching questionnaire; (b) formal or informal debrief with the coachee; (c) pre- and post- coaching 360 feedback
6. If the purpose of the evaluation is to demonstrate ROI, the evaluation will need to cover the following areas: (a) direct costs of coaching; (b) indirect costs of coaching (e.g., estimated loss of revenue, if any, due to coach being tied up with coaching sessions); (c) estimated financial benefits of coaching.
7. One way to estimate the financial benefits of coaching is to have the coachee fill out a questionnaire which gets the coachee to think about financial wins **as a result of the coaching** (e.g., increased productivity, new clients won, increased instructions from existing clients, etc.).
8. Identifying the estimated financial benefits of coaching requires careful thought and design. For example, a good questionnaire might ask the coachee the following questions: Did the particular financial win result from the coaching alone or from a mix of factors? If from a mix of factors, what percentage of the win is attributable to the coaching? Expressed as a percentage, how confident are you as to the accuracy of your figures?
9. Coupled with the questionnaire, you will need to design a defensible formula to turn the outputs of the questionnaire into an estimated financial benefit.

Conclusion

Lack of evidence of ROI and the difficulty of measuring ROI are often cited as reasons why law firms and corporate law departments do not use coaching.

Insofar as there is a need to generate a business case to justify the commissioning of coaching there is plenty of evidence available to suggest that effective coaching generates a decent level of ROI. That evidence needs to be contextualised, as suggested above.

Once an organisation decides to use coaching, it is right and proper that coaching engagements are evaluated; indeed, such evaluation will generate confidence as to the efficacy of the coaching, inform decisions about levels of investment in coaching and potentially help the organisation to determine if certain coaches are less effective than others.

Using ROI as the **key** metric for evaluation is not necessarily the right decision, for the reasons discussed above. The correct approach to evaluation requires careful consideration as to the objectives of the coaching and how best to measure these in a way that will provide meaningful, robust and useful data for the organisation.

For further information or to discuss the issues in this article, please contact Jonathan Middleburgh at Middleburgh@edge-international.com or on +44(0)7973 836343

Edge Principal Jonathan Middleburgh coaches senior legal talent in both law firms and legal departments. An ex-lawyer who is also trained as an organisational psychologist, Jonathan has a wide range of experience helping law firms and legal departments to develop their senior legal talent so as to maximise business outcomes.

Digital Marketing for Law Firms: A Double-Edged Sword?

By Bithika Anand



In today's competitive landscape, legal-services providers can no longer rely only on word-of-mouth and referrals to generate new clients. With technology changing almost every aspect of our professional lives, marketing has also undergone a complete overhaul. Websites, blogs, search engines, e-mail, social media, e-books, mobile phone apps have seamlessly made their way into our lives in a such manner that today, any branding initiative is incomplete without digital marketing being a part of it. However, digital marketing doesn't come without its own share of potential risks. This article outlines possible cautionary best practices that lawyers should follow, to add gravitas to their marketing strategies and to avoid falling prey to risks associated with digital marketing and social media.

Access to Clients Comes with Responsibility

Perhaps the biggest advantage of having a digital presence is the access it provides to potential clients who may be looking for legal services. Online directory listings have allowed law firms to be discovered by those who are looking for assistance in particular service areas. Those firms with an online presence through social media profiles and websites that take advantage of search engine optimisation (SEO) tools.....

However, with greater access comes greater responsibility. Today, potential clients also approach firms with an expectation that they will respond almost on a real-time basis. An online presence, especially on social media, naturally gives birth to expectations of a quick turnaround time – and not just in the time frame of a nine-to-five work day. If you're not able to furnish the same in the expected time frame, you tend to lose business to competitors. This is not only because your competitors also have an online presence, but also because the potential client did not get relevant information from you when sought, and hence looked for alternatives.

Real-Time Feedback

A great advantage of digital marketing is the bi-directional approach it offers, in comparison to traditional marketing. Traditional promotional initiatives (like print directory listings) were based on a business-to-customer approach, where firms could provide information to potential clients without enabling a platform where those potential clients could also respond. But digital marketing has not only allowed a channel for potential clients to interact with firms, but also the opportunity for them to gain more trust in a firm's brand, as they can learn more about it and its lawyers. However, this comes with a red flag, too. A client who has had a bad experience in dealing with a firm may not shy away from sharing the experience publicly. While some of these risks could be mitigated by keeping checks on who can tag your online profiles in their posts or who can post on your profile pages, a significant loss of reputation can occur during the time elapsed in taking corrective action to remove negative feedback of this kind.

Wider Reach; Specific Approach

Another feature of digital marketing that makes it stand apart from traditional strategies is that it allows firms to reach a wider audience than ever before, at almost at the click of a button. However, the quality and quantity conundrum needs to be resolved wisely here. Your clients, both existing and potential, must connect with your branding or knowledge initiative. If you create a newsletter that is focussed on the real estate sector and legal issues surrounding real estate, construction, infrastructure, etc., and your clients are not all related to that sector, it would make no sense for you to send it out to everyone in your mailing list. A pharmaceutical client or FMCG company would be disappointed to go through a newsletter that contained absolutely nothing of

their interest: they might not even open your future newsletters. Therefore, firms must have a personalised and individualistic approach when utilising digital marketing. Firms must take stock of demographics and have a strategy to approach each kind of target client. Rather than reaching a broad audience, the goal should be to reach a specific or niche audience. Whether you're approaching a single person or a million, your targeted content must be relevant, engaging, timed well, and should offer value to the end-user.

Cost, Training and Expertise

The entire idea behind the creation of a brand is the opportunity it offers for a firm to stand out from peers and competitors, positioning itself as a 'thought leader' or 'expert' in certain areas. The reputation of being a 'premier' service provider who is well-equipped to achieve best results for clients will naturally make potential service-seekers gravitate towards you. However, to have a well-crafted digital presence, firms need to invest in developmental expertise; marketing for law firms requires a skill-set that comprises a unique combination of technical expertise and creativity. First, those in charge of developing a firm's brand strategy must be well-versed with any relevant legal restrictions in their jurisdiction. Second, law firms should focus on 'content marketing', i.e., blog posts, e-books, articles, research papers, newsletters, vlogs, case studies, podcasts, webinars, etc. 'Content' will help to address questions or queries of potential clients and make them buy into your expertise even without retaining you professionally. The only drawback with this, however, is the cost and effort. Once you start being active on social media, you can't subsequently choose to be intermittent with your posts. The social media presence has to be 'active' and your content has to be recent and relevant. These initiatives may take up otherwise billable time of lawyers. Hence, it is advisable to hand this kind of work over to experts recruited specially for the purpose, or to outsource it to those who are adept at handling such marketing campaigns. In both cases, the costs must be factored in and compared with return on investment.

Digital Marketing Can Leave a Trail

While digital marketing, including social media initiatives, come with pros that far outdo the cons, mistakes or lack of etiquette can be forgiven but not forgotten. Your profiles, as well as the content you post, is an extension of your image and must hence be handled with caution. Most digital platforms are public and firms should not post anything that current or potential clients may find offensive – endorsing a particular political view or party, for example. Similarly, grammatical errors will always be noticed (whether someone points them out or not). So before the firm website goes live, or before one presses the 'share' button on a social media post that represents the firm, it would be worthwhile to spend five minutes in proof-reading the content. Digital content leaves a footprint, so firms must ensure that theirs is not outdated or factually or legally wrong. It obviously goes without saying that the firms need to educate their lawyers and other staff members not to jeopardise their clients' interests by posting any confidential client or firm-related information on social media.

Summing Up

While 'word of mouth' networking and referrals have been the traditional ways of branding for lawyers, having an online presence is almost non-negotiable in today's world. However, both approaches must work together. With certain wise practices and cautious use, digital marketing can pave the way for traditional marketing, as after a referral, potential clients are likely to look for online brand perception and ranking before engaging a lawyer or law firm. Therefore, having a balanced marketing strategy that combines the elements of traditional as well as digital marketing will go a long way in building a sturdy reputation and reinforcing a brand that is seen in a positive light.

Leadership and Risk-Taking

By David Cruickshank



Election season has begun in the United States, far too early compared to most countries. The competition for leadership makes me think of leadership contests in law firms. Imagine that the term of your managing partner has expired and two candidates are standing for the post. Though campaigning is unseemly and brief, the contrasting positions of the candidates are clear. One promises to “continue to keep the firm profitable, with slow organic growth and little change.” The other says that she will “review all operations and practices, re-constitute a strategic-planning committee and take risks to innovate and grow.” Both candidates claim that their vision is essential to survive in the current market for legal services. Which candidate would win the leadership contest in your firm?

I have worked with firm leadership enough to see examples of both leadership candidates – the Hunker Down candidate and the Risk Taker. While many firms would be reluctant to elect the Risk Taker, there are some insights from research and objective leadership assessments that can help us understand that candidate.

In leadership training for law firms, I use a behavioral leadership assessment called the Leadership Practices Inventory (LPI). This thirty-question inventory allows leaders to assess themselves and allows others to assess their leadership. The LPI derives from international research across many industries, business types and professional services. The work is summarized in *The Leadership Challenge*, by Jim Kouzes and Barry Posner. In the original research, the business professors surveyed 75,000 respondents about the qualities that would inspire them to follow a leader willingly. The answers were then tested with many more observers of leadership, and the authors set out the Five Practices of Exemplary Leadership and developed the leadership assessment that I use today (the LPI). The LPI has been conducted for hundreds of thousands of leaders and it has high validity and strong correlations with effective leadership.

Of the Five Practices, I am going to comment on the third:

1. Model the Way
2. Inspire a Shared Vision
3. **Challenge the Process**
4. Enable Others to Act
5. Encourage the Heart

To “challenge the process” means that a leader will do two main things:

- Seek opportunities to innovate and grow, and
- Experiment and take risks.

While some would say that these leadership practices are irresponsible risk-taking in a law firm, I take a different view of the Kouzes and Posner research. I read it as measured risk-taking, not breaking all the china.

They advocate steps like bringing in outside ideas. For example, accountants and management consultants worked out fixed-fee pricing with sophisticated clients long before law firms turned in that direction. They call on leaders to promote innovation

and to support partners who seek to innovate – whether in business development, practice efficiency or client services. Effective leaders will challenge the status quo in quiet ways, by allowing new ideas to flow freely and providing regular forums for new ideas for growth and partner development.

When experimenting, the research suggests that small victories count. In the law firm context, this means that a leader will find, seek and support a variety of experiments. Some will fail; some will succeed and translate to the bottom line. Leaders talk constantly about the small victories and look for the next experiment. The Risk Taker in the Leadership Challenge model is not betting the firm. She is promoting incremental growth with trial-and-error innovation. I would add the counsel that this kind of innovation and experimentation has to be paired with strategic focus. Every opportunity to support innovation, every experiment, should be in pursuit of a specific strategic goal.

At Edge, I recommend the Leadership Practices Inventory over other assessments, such as personality assessments, because it addresses behaviors and practical skills. We can model and train for better management behaviors; we can't change personalities. In our training, we help leaders "challenge the process" in pursuit of strategic goals. If she were educated about the Leadership Challenge, I'd vote for the Risk Taker. In the U.S. election? Too soon to tell.

You are welcome to [contact the author](#) to talk about research-based leadership development workshops.

Edge Principal David Cruickshank advises firms on growth strategies and lateral integration programs. In addition to being a lawyer with a master's from Harvard Law School and an LLB from the University of Western Ontario, he is a trained mediator who has taught at the Straus Institute for Dispute Resolution at Pepperdine Law School.

Zero-Based Budgeting in the Legal Profession

By Yarman J Vachha



In my many years of managing law firms of all shapes and sizes, budgeting is often looked upon by the lawyers as a chore and a paper exercise which quite often, once prepared, sits in the bottom drawer of the desk and is only dusted off when it comes to looking at the next year's budget. Sound familiar? This apathy to use an important annual strategic financial tool effectively is an exercise in futility and frankly a waste of time for all concerned. It is also not a very smart way to run a financially savvy business.

There are three basic ways for a legal business to budget:

1. **Incremental Budgeting** – Taking the previous year's numbers and adding an incremental percentage factor (usually between 2% and 10%) to revenues and expenses. There is no real science or purpose to this and it is simply a yardstick of what the firm wants the Fee Earners to produce and the potential cost associated with this. In other words, it's a "production target" with attributable "production costs," with no real thought or strategic intent. Often this type of budgeting has very little accountability, and there is no real consequence if the targets are attained or not.
2. **Activity-based budgeting** – This is a very intricate and detailed way of budgeting whereby past activities are broken

down into their component parts and a profile is built for the nature of work/product in the coming year. In my experience, this is almost impossible to do accurately in a legal business (or any professional-services business, for that matter). This is because legal firms, in general, do not have any idea of the true unit cost per hour for individual lawyers; we are dealing with human capital and there are many variables involved – including poor time recording and time management.

3. **Zero-Based Budgeting (ZBB)** – This method is intended to create a budget for each fiscal period from scratch (hence the term “zero-based”), with little reference to the past period. Enabling ZBB requires the firm and its management to focus on a vision and strategy. This is then formalised in a simple business plan for the coming year(s), which is then broken down into revenue targets and the various activities of people, other resources and capital expenditure in order to deliver on the turnover, vision and strategy. This more strategic method of budgeting helps focus the mind of the stakeholders of the business in regard to what they are trying to achieve in the short and medium term, and to prioritise the business investments and opportunities accordingly.

There are a number of advantages to adopting the ZBB method:

- It promotes the creation of a vision and strategy for the firm;
- This then is filtered down into the various practice and industry groups;
- It requires accuracy rather than a broad-brush approach;
- It creates efficiencies by focusing on current and future aspirations and goals rather than on prior results. In other words, it's a forward-looking tool;
- Coming up with the budget requires significant co-ordination and consultation within groups.

There are also a few disadvantages:

- It can be time-consuming and rather involved;
- The firm may lack expertise in doing it well;
- It requires staff time.

Conclusion

The perceived thinking is that ZBB is just a cost-cutting exercise but this is an ill-advised and too simplistic view. If ZBB is used strategically, developing both the revenue targets and the costs associated with delivering those targets, it becomes a very powerful tool to grow a business.

It is my view that many law firms (especially small- and medium-sized firms) do not have much focus on what they are trying to achieve in the short and medium term as they are too caught up in their day-to-day activities. Adopting a ZBB approach forces the stakeholders to have a focused business plan outlining what they are trying to achieve in the next 12 months (and beyond). This “game plan” coupled with the ZBB becomes the “play-book” for the year.

Edge Principal [Yarman J. Vachha](#)'s nearly four decades of professional accounting and management work across Asia, Australia and the Middle East include senior leadership and executive roles with global law firms Allen & Overy and Baker McKenzie.

Ikigai: Some Personal Reflections on Raison d Être and Purpose in Professional Firms

By Nick Jarrett-Kerr



Introduction – Identity, Purpose and Vision for the

Professional Firm

I have often written of the imperative for a professional firm to develop an overall and shared “Strategic Intent” as a great starting point for the development of the central part of a firm’s strategy. Strategic Intent (Identity, Purpose and Vision) provides and communicates an unmistakable sense of direction, identity and destiny for every person in the firm and identifies clear purposes and objectives which will drive the firm beyond its current limitations and constraints. Every professional firm is made up of its members and needs a *raison d’être* which transcends the desire to make money. Why the partners/members of any firm stick together and choose to be part of a particular firm has a lot to do with the mutual motivations and shared values of its members.

The problem is that many firms are made up of partners with differing views of what they need from the firm. It is difficult to maintain unity of strategic purpose in a firm made up of widely different character types. Hence, the second part of Strategic Intent, and in many ways the most difficult, is to agree on the firm’s purpose: identifying why the partners are in business together and what seem to comprise the bonds – beyond the pursuit of profit – that drive the firm forward. A strong sense of purpose is necessary to give partners and staff good reasons for working late, going the extra mile, and investing their careers, money and resources in the firm. Strong values therefore form a large element in a firm’s sense of purpose – the issues and factors which are important to partners, which form the soul of the firm, and which help people to understand why the firm exists and what really matters to its stakeholders.

Sense of Purpose for a Firm Starts at the Individual Level

This higher purpose for a business needs to be built on developing and defining the sense of purpose that is important for its stakeholders. Businesses fail through lack of passion on the part of its stakeholders, and it is therefore important that the firm should be built or developed on the foundations of an agreed reason for being. Over the past two decades I have had the honour and pleasure of working with firms across the world with many different cultures, faiths and religious beliefs. In my engagements I often ask law firm members what gets them up in the morning, what motivates them and why they come to work. I have been astounded by the similarity between forward-thinking firms world-wide in the answers to these questions. I have, of course, come across a minority of firm members who are demotivated or bored and sadly treat their job or career as fulfilling no real purpose than the need to make a living. Most, however, feel passion for what they do.

As a practicing Christian I have found the answers to the really deep and difficult questions of higher purpose (for example “Why am I in the World?”) to be fairly straightforward conceptually, though less easy to put into practice in day-to-day life. My faith is based on knowing, growing and serving God, built on the fundamental premise that our higher purpose is to serve God “as the best and happiest thing in the world” – as one writer put it – and empowered with a desire and drive to work hard so as to try to bring more good into existence. Both Judaism and Islam have similar philosophies – the very name, Islam, means submission or obedience to God, and the Muslim is one who submits or surrenders to God and accepts that all created things fulfil their assigned purpose by serving God.

Other religions show a remarkable similarity of approach. The Hindus adhere to the concept of “*purusharthas*” which comprise the four proper goals or aims of a human life. These are Dharma (righteousness, moral values), Artha (prosperity, economic

values), Kama (pleasure, love, psychological values) and Moksha (liberation, spiritual values). Not entirely dissimilarly, for Buddhists, the path to enlightenment is attained by utilizing morality, meditation and wisdom.

Towards an Ikigai Sense of Purpose

Whether religious, agnostic or atheist, these “Higher Purpose” philosophies can be summed up by the Japanese concept of Ikigai as illustrated by the graphic at the head of this piece. Ikigai roughly means “the thing that you live for” or “the reason for which you wake up in the morning” and provides a way of discovering the delicate balance between pursuing your own passion, serving others and earning a living.

I feel Ikigai can provide the common ground here between religions, culture and business practices across the commercial world in order to root the motivations of stakeholders into the values and objectives of purposeful organisations.

Putting Ikigai into Practice

If the sense of purpose valued by individual stakeholders is to act in any way as the glue holding an enterprise together, it is axiomatic that sufficient numbers of firm members must think the same way and hold roughly the same core values even if their cultural norms or religious beliefs (if any) are somewhat different. Whatever the history and tradition of the firm, it is important to go right back to understand what motivates and drives individuals in the firm. The ultimate goal of Ikigai is not happiness – it’s about a life practice towards fulfilment.

Prospering by doing what you love, what you are good at, what you find most natural and easy, and then working towards the needs of the world all form good tests for career planning, business planning and creating the purposeful glue in a business enterprise. The decisions made by businesses and individuals need to align with these purposes which can then be anchored into a culture of conscious choices and decisions.

Edge Principal [Nick Jarrett-Kerr](#) is one of the leading UK and international advisers to law firms on business issues, strategy, leadership and management. In addition to matters of strategy, Nick has a particular interest in law firm governance, partner compensation, partnership performance criteria and partner development. He regularly leads or facilitates strategy days, retreats, partner conferences, practice group retreats and away days.

Jonathan Middleburgh and Leon Sacks Join Edge International

By Edge International



Leon Sacks
The Americas

Jonathan Middleburgh
London

Edge International are delighted to announce that two new principals have joined us effective July 1, 2019.

Leon Sacks, who is fluent in Portuguese and Spanish, will be focusing on our offering in the USA and Latin America. Originally

from England, Leon is a UK chartered accountant and has much experience in the professional services industry. He was for many years a partner with KPMG in Latin America, offering consulting services. Before joining Edge, Leon was the chief operating officer Latin America at Baker McKenzie, based out of Miami, Florida.

Jonathan Middleburgh is based in London UK, and is dual qualified as a lawyer and occupational psychologist. He has for many years specialised in assisting clients with leadership, career and organisational development. Jonathan was previously at Huron Legal, where he successfully set up a practice focused on the development of senior lawyer talent at the same time as deepening his particular expertise in individual, team and organisational behavioural change.

All of our principals work globally and locally within Edge, and Leon and Jonathan will be no exception to this. We are delighted to have them on board.

Splitting the Pie: Some Thoughts on Profit-sharing among Partners

By Neil Oakes



According to the great [David Maister](#), “Profit-sharing arrangements between partners are among the most difficult set of issues in professional service firm management”. The way partners share profit goes right to the heart of a firm, what it values, behaviours it seeks to foster and reward, the way it defines and recognises contribution, and the people it chooses to promote. There is no doubt about the difficulty of these issues, nor is there any about their importance.

Profit-sharing arrangements are inextricably linked to partner entry and exit, further complicating both complexity and importance.

First the facts. Contemporary alternatives

Individual sharing models vary from firm to firm. They can all work and they can all fail. Most models are a variation of the following:

Equity-based Sharing (Equal or Differential) with Valuable Goodwill

This model endures as the most popular model in the common law world. Although they garner little media attention, most law-firm partnerships have fewer than six partners. Partners are usually appointed internally from the ranks of associates. Firms are funded by partners. The volume of partner exit and entry transactions is relatively low and they are infrequent.

Under this model, a partner’s interest is valued – ideally using a formula based on sustainable profit, but usually by the firm’s accountant using a variety of methods that range from precedent to “using the force”. Profit is almost invariably shared equally, although some firms have differential ownership, allocating profit commensurate to ownership.

This is typically a small-firm model. It places strategic limitations on firms and, although it has endured for centuries, its appeal

to the next generation of partners remains to be seen.

The idea of valuable goodwill in law firms has received a boost in recent years with the advent of publically owned (both listed and non-listed) law firms. These firms are demonstrating growth by acquisition intent, paying multiples of profit to current owners. Although limited to a small number of transactions to date, it is difficult to argue that goodwill doesn't exist when there are people external to the firm paying for it.

Strengths

- an opportunity to build an asset
- tenure, security and "sovereignty"

Weaknesses

- tenure, security and "sovereignty"
- uncertainty of realisability of the asset
- limitation to merger
- limitation to lateral recruitment of partners
- difficulty experienced by incoming partners to fund purchase, usually at an expensive time of life

Lock-step to Equality

"Lock step" describes the means by which a new equity partner acquires his or her equity. A pure lock-step firm will typically admit new equity partners every year. New partners usually contribute capital equal to the amounts contributed by all equity partners.

In their first year of equity, new partners receive profits of an amount equal to 35% to 50% (depending on the firm) of those received by the full-parity partners. The timing of progression varies from firm to firm, although allocations are usually for a twelve-month period. In all firms of this type, partners progress in locked step with fellow entrants, acquiring an increasing proportional entitlement until they reach full parity. This progression takes five to eight years, depending on the firm. Full parity partners all share equally.

Equal sharing is rooted in the nature of partnership. Partners contribute capital equally and share business risk equally. Equal-sharing firms accept that, at times, some of their specialised services will enjoy greater or less demand than others. Equality offers highly specialised lawyers the opportunity to minimise longer-term risk by partnering with other specialist providers. As commercial advice – such as corporate merger and acquisition services – cycle with economic activity, litigation-based services – such as insolvency litigation – enjoy counter cyclical. Those committed to equality believe that such risk mitigation will provide better financial outcomes over sustained periods.

In large part, individual performance in such firms is regulated by social-control mechanisms. Performance is measured across a range of parameters. High performers are acknowledged by the partnership and enjoy high status among their colleagues. Sustained poor performers are usually counselled and on occasions sanctioned. In extreme situations, underperformers may be asked to leave the partnership or even the firm.

Advantages

- affordable for incoming partners
- consistent with joint and several liability
- all partners benefit from referring clients and delegating files
- recognises that senior partners will contribute differently to younger partners
- minimises risk as some services experience less demand than others
- everyone benefits equally from the firm's brand equity

Disadvantages

- possibility of shirking
- any dissatisfaction is usually felt by the best performers
- offers no financial benefit to partners who wish to do more
- relies on social control to prevent agency problems

Performance-based Sharing

Performance-based sharing models vary from firm to firm. Generally, individual partners are assessed against a set of performance criteria. These criteria usually include financial performance factors, leadership, business-development activity and other strategic considerations relevant to individual firms. Individual firms attach different weightings or significance to each of these generic performance considerations.

New partners usually contribute capital equal to the amount contributed by all partners, thereafter sharing according to their relative performance. Under this system, any partner – new or senior – may receive the maximum profit allocation, subject to performance.

Some firms assess performance and adjust compensation annually. Individuals are usually assessed by a remuneration committee. The assessment process usually involves a submission by the partner under review and is often open to appeal. Other firms require sustained high performance over a number of years before compensation is increased. In these firms, they prefer not to assess the entire partnership annually, instead making adjustments to relative shares as needs dictate: they cite the significant monitoring costs inherent in annual assessment as the primary reason for their chosen model.

Performance-based models have enabled aspiring mid-tier firms to grow their partnership through lateral recruitment, introducing partners from outside the firm. These partners are usually attracted to a profit-share system that maximises their return for their perceived effort. This phenomenon has enabled some mid-tier firms to grow at annual rates in excess of 50% for the last three years.

Advantages

- recognises over and under achievement
- provides the incentive of direct financial benefit
- attractive to hard working, young partners
- partners can earn bigger incomes earlier
- attractive to lateral recruits who feel disadvantaged under different models

Disadvantages

- introduces risk to specialisation
- requires close monitoring
- assessment may not be seen as equitable by all partners
- delays profit distribution until profit is allocated
- can encourage hoarding of clients and files as relativities become more important than absolute performance
- no formula can capture all aspects of performance
- any formula selected will necessarily prioritise aspects of performance which may cause neglect of others
- erodes collegiate culture

Hybrid Lock-Step Schemes

While the skeletal framework of the lock step remains, in this model progression is no longer dependent on time alone. Many hitherto pure lock-step firms have introduced the possibility of advancement ahead of time for high performance, and regression for poor performance. Performance gates have been introduced at intervals along the traditional lock steps. This has the effect of ensuring that partners do not progress beyond a certain step unless they meet performance criteria, effectively “parking” partners for a period of time or permanently, and individualizing the process —

Some firms create a bonus pool that operates in conjunction with the traditional lock step. The relative size of the pool differs from firm to firm. The bonus is allocated annually, usually by a committee of partners that considers both the relative subjective and objective contribution of all profit-sharing partners.

Lock step has at its core the concept of entering partners all progressing in unison over time. It could be argued that any hybrid lock steps are in fact not lock steps at all, but are instead a differential sharing arrangement that includes time in partnership as a major performance measure.

Advantages

- recognises that all partners are not equal
- provides for recognition of outstanding performance
- allows for differing levels of contribution
- affordable for incoming partners

- provides for “slow down”, part-time contribution, and greater flexibility
- provides flexibility while maintaining culture of equality

Disadvantages

- all partners must be regularly assessed
- recognises contribution that is less than equal but not greater than equal
- requires the majority of partners to progress to full parity (if everyone elected to stay at 60 points out of 100 and worked less, all would suffer)
- sometimes used to manage parenting or special leave; seen as punitive and harsh

Discussion. (Not advice.)

What Are We Seeking to Achieve – Fashion or Strategy?

There is little doubt that as firms commercialised, evolving from collegiate fraternities to professionally managed businesses, most embraced some form of performance-based compensation for partners.

Many commentators, advisors and academics maintain that performance-based sharing is consistent with modern management and motivation theory: “Give ‘em an incentive, a reason to perform and stand back.” Theoretically we all respond to financial incentive by changing behaviours and improving performance. Oddly enough, many firms that share profits equally outperform those that do not, and many don’t. In fact there is a poor correlation both nationally and globally between profit-sharing methodology and firm performance.

Profit share (and partner entry/exit) should be strategic. It should have as its *raison d’être* a set of aims and objectives. I often encounter firms whose sharing methodology has morphed over time – not to achieve strategic business goals but to placate this year’s angry over-achievers. Similarly I encounter firms who plough on with equity-based sharing (cutting the pie relative to ownership) or equality, regardless of prolonged performance differences within the firm.

There is a stack of learned literature that details workplace motivation, and explores the issue of what drives us to succeed. Motivation varies from person to person, and I suspect that people are not born with a set of motivators but rather that these motivators are conditioned. The desire to rise, for instance, is probably significantly stronger for someone who spent their childhood in poverty than it is in someone who enjoyed a comfortable existence on Sydney’s North Shore. Sure, parental pressure can whip up a desire to rise, as can many other phenomena, but my point is that motivation is conditioned rather than innate. Of course, conditioning can occur over short time frames. In my experience, partners who earn seven-figure incomes become conditioned to them phenomenally quickly!

Despite this, most professional-service firms do not offer performance incentives to employees. We usually pay a salary, negotiated annually in a performance review that reflects market worth and internal relativity more than individual performance. To complicate this, in recent years the direct consequence of not achieving budget performance has been a pay rise.

We take employed practitioners who have never before encountered performance-based pay, and have never previously been directly compared to their peers, and expect them to thrive in a performance-based partnership. Strangely, many do. But sadly, many do not.

If we sampled a group of law firm partners and asked them why they became lawyers in the first place, I bet that few would say, “to make heaps of money”. The answers would vary but they would include altruistic reasons, prestige, the never-ending challenge, ego, love of the law, and so on. For many, promotion to partnership is more about perceived career achievement than money. How else could one explain the commercially fascinating construct of non-equity partnership, a position that encompasses joint and several liability with your employers.

We all know that objectives and motivators change over time; money becomes important to most at some stage in life. We become partners so we can be business owners, and _____

I would contend that professional-service firms are quite different to other types of businesses and that generalising industry theory into the world of professional-service firms could be both wrong and dangerous. There are even differences among professionals: nobody likes a complicated formula more than an engineer; accountants don’t understand why anyone would be motivated by anything other than money; dentists actually aren’t motivated by anything other than money; doctors have been “done over” by the government and have forgotten what money looked like years ago; and the vagaries of patent attorneys remain the best kept secret in the country.

Maximising the performance of partners is likely to involve offering them what they were seeking when they became lawyers and subsequently partners, not just considering pay as a function of their monetary performance. This necessitates a wide definition of performance and a necessarily complex system of monitors and rewards.

Firms that have enjoyed great success with performance-based pay usually introduce this approach at the commencement of a career. In other words, they condition their potential partners to thrive, long before they become partners.

Perhaps you should determine what you want to achieve as a partnership. I would counsel against changing from equality to something else simply on the basis that "everyone's doing it". Determine answers to such questions as what you want your culture to become, what behaviours you want partners to exhibit and staff to learn, how you are going to choose the next group of partners and, of course, how much money you want to make. You should then build your profit-sharing methodology around these aims so it helps to create success, and tells your staff what you value and what you seek to reward. You should then tailor a similar approach to professional-staff compensation. Those who don't fit will have left long before they are considered for partnership.

Leaving aside the top-tier law firms, in my experience there is little doubt that performance-based sharing is usually implemented defensively, as a retention tool. "We need to pay Barry more or he'll go and we can't afford to lose him". In some cases it may be catastrophic to lose Barry but it usually isn't. Barry may go as a result of quantum but rarely as a consequence of methodology (unless the firm's current methodology is unequivocally unfair). There may also be a good reason to recognise and reward Barry, but this can be done within the framework of a lock-step. There is nothing wrong with one-off or regular prizes and rewards: these make good sense to me.

Redesigning the profit-share system to attempt retention is likely to be unsuccessful. Historic figures compiled by FMRC show voluntary attrition numbers are no better among the performance-based sharers; in fact they are worse, for both partners and staff.

I am neither for nor against any particular sharing methodology, I know they all work and they all don't work; there is no best method. I also know that the success of any chosen method will largely depend on a firm's culture, history and relative success.

I would encourage partners to hasten slowly, and to design a system for all the right reasons. A friend of mine told me an anecdote when he was the chairman of his firm – a major New Zealand law firm. He had recently attended an international managing partners' forum in the USA. He recounted the envy with which he and his New Zealand colleagues were regarded there because many had stuck with lock-step to equality. "All of the Americans", he said "had changed to performance-based sharing. They now longed for the simplicity of equality, but they knew they couldn't go back".

When Does Lock-step to Equality Work?

Equality is not easy. To succeed, it requires understood social-control mechanisms, good leadership, and institutionalised collegiality. Overachievers need to be acknowledged, and underperformers managed. If either are neglected or ignored, partnerships can develop conflicting factions. Partners like to know that someone is in control of these issues.

Successful partnerships that share equally have often literally grown up together. They usually recruit graduate solicitors, promoting them to associate and, ultimately, partner. These firms effectively operate an up-or-out tournament to success. Employed solicitors compete for limited partnership positions. They are successful or they leave. This sounds harsh but it is common to all of the world's great professional-service firms.

The great majority of partners were employees of the firm for many years before they became partners. This has an obvious impact on culture: culture is rusted on.

In smaller firms, tournaments to success are not always practical. Often smaller firms need to recruit laterally at associate and partner level, sometimes recruiting over long-serving employees. In this circumstance, equality will succeed if cultural fit is the primary recruitment test. Many laterals find it hard to succeed in a well-established firm, equality or otherwise. They are, however, more likely to succeed if they quickly become recognised as "family members".

It is also true to say that, in my experience, the higher the profit, the more likely partners are to be satisfied with equal sharing. Sounds cynical, but nevertheless it's true.

The role of managing partner is critical to success in equal-sharing firms. In my view, managing partners should manage partners. It has been my experience that this is seldom satisfactorily done by employed practice managers, no matter their title. Evidence of this can be found in the recent history of the top tier of the Australian legal profession. Not one firm has retained a non-lawyer CEO. Although their profit-sharing arrangements may differ, they all have a partner as their senior executive. In the

most successful of these elite firms the managing partner has been a partner of the firm for many years.

When Does Performance-based Sharing Work?

Performance-based sharing often works well in circumstances similar to the above, but that's the easy way out.

Performance-based systems are more common among top- and mid-tier firms than are lock-step approaches, significantly. Interestingly though, of the four most successful large firms in Australia, two share profits with a lock-step to equality, and two have performance-based sharing. The same is true in New Zealand and in the United Kingdom.

Most but not all successful smaller performance-based firms are first-generation firms (i.e., the partners that put them together are still there); others have experienced significant growth in recent years. They are often a product of a merger, and growth has been achieved over a short timeframe by employing lateral recruits. There are of course exceptions to this but many firms have followed this path, expanding into multi-location firms, sometimes internationally.

Large performance-based firms see their profit-share system as an important tool, and have evolved to performance from equality to take advantage of the flexibility inherent in performance relative to equality.

The most successful performance-based sharers have either a totally transparent measurement and reward system, or (a) trusted arbiter(s) sitting in judgement. Nearly all of these firms have an appeals process as a part of the system.

I have heard of a partner who turned up for his performance discussion with his wife because "She's a better negotiator than I am" and another who includes in his annual written submission, among other achievements, that he is "chief fire warden of the building." It isn't an easy process and it requires excellent leadership.

Measurement and Monitoring: What to Measure and When

A short time ago, I had lunch with a successful family-law lawyer who had been booted out of his partnership when his legal offerings had been deemed inconsistent with the corporate aspirations of his firm of 30 years. This lawyer had recently established a new boutique law firm with his fellow bootees.

As is often my experience, his initial bitterness soon turned to joy. "I've never been happier, Neil," he said. "Do you know why?" Then, enthusiastically answering his own question in the manner of the truly enlightened, he said, "Sovereignty!" Don't let anyone tell you that it's not good to be the king.

The utopia of true freedom, the state of being left alone to do what you want to do when you want to do it, is rarely realised by professionals – let alone sovereignty: clients see to that long before partners interfere. That said, as partners we do enjoy a high degree of independence and relatively low levels of accountability. We don't have to ask permission to duck off early, come in late, go and get a haircut, take the kids to their sports carnival and so on. Similarly we seldom have people looking over our shoulders, questioning our advice, workload, pricing or communication style. It's not quite sovereignty, but it is good.

A good partner-performance monitoring system should not intrude on the freedom we can enjoy as partners. I would go as far as to say that it should foster it. Peer review is a coaching process. It should bring out the best in partners, not crunch them. In a good system, partners look forward to the process and enjoy it.

In my view a good system is a balanced system that applies equal weighting to a range of performance criteria. Some criteria will pertain to the management and leadership of staff, some to the management of clients, and some to financial management and performance. In a performance-sharing system, this should occur at least annually. In a lock-step system, it can occur by exception. In other words if partners are performing at expectation, leave them alone unless they request a review. Those who exceed expectation should be acknowledged publically, and those who fail to meet expectation should be subject to prompt review. Many firms, however, recognise the importance of maintaining the performance of the average so all partners are involved in annual reviews regardless of their relative performance.

Sanction for underperformance needs to be managed. Partners who have been reduced from equality or had their profit-entitlement downgraded usually feel it deeply. Sanction is often as cathartic as expulsion. In good firms sanction occurs with the consent of the partner concerned.

Some Comments on Diversity

For over twenty years the majority of law school graduates have been female. Female, full-parity equity partners are, however, a

scant minority in most partnerships. In recent years the gender balance of graduates has been disproportionately tipped in favour of females. If firms are to continue prospering, partnership structures will need to take into account the needs of women lawyers.

By virtue of their employment brand, top-tier firms will, more than likely, always find graduates to fit their requirements. Other firms that compete for the rest of the graduating class and early career lawyers will have to develop their systems to suit the changing needs of future generations of partners, the majority of whom are likely to be women.

As I move around the profession I hear tell of the quality of recent graduates – no baggage, prepared to work hard, prepared to work long hours when clients require it, and so on. That said, smart firms are still moving to meet the needs of younger lawyers: money, flexibility, egalitarian cultures and so on. Partnership structures and sharing arrangements should reflect this.

In my opinion one of the mistakes that we made as an industry was lengthening the progression from employed solicitor to partner. Thirty years ago people became partners in their late 20s, now it's in their early 40s. I think that firms are missing out on youthful innovative contributions that could be captured were they to evolve their sharing model to build more inclusive partnerships with greater diversity in age and gender.

This week, I've been engaged by the 50th anniversary of the moon landing. The average age of the flight controllers that made this great achievement possible was 26. Flight director Gene Kranz demanded that they be 'tough and competent' and they responded. Many firms could benefit from enthusiastic, well paid young partners. I suggest modifying your sharing model and letting them in.

Dr. Neil Oakes has served the Australasian legal profession since 1989. Neil lives on the mid north coast of NSW near the small coastal town of Scott's Head and enjoys all of the pleasures of coastal life. He has a large garden in which he tries to grow vegetables organically, battling every bug in Christendom. His interests include art, cooking, eating and the odd glass of wine.

The Focus Challenge – Part I: Your Practice

By Gerry Riskin



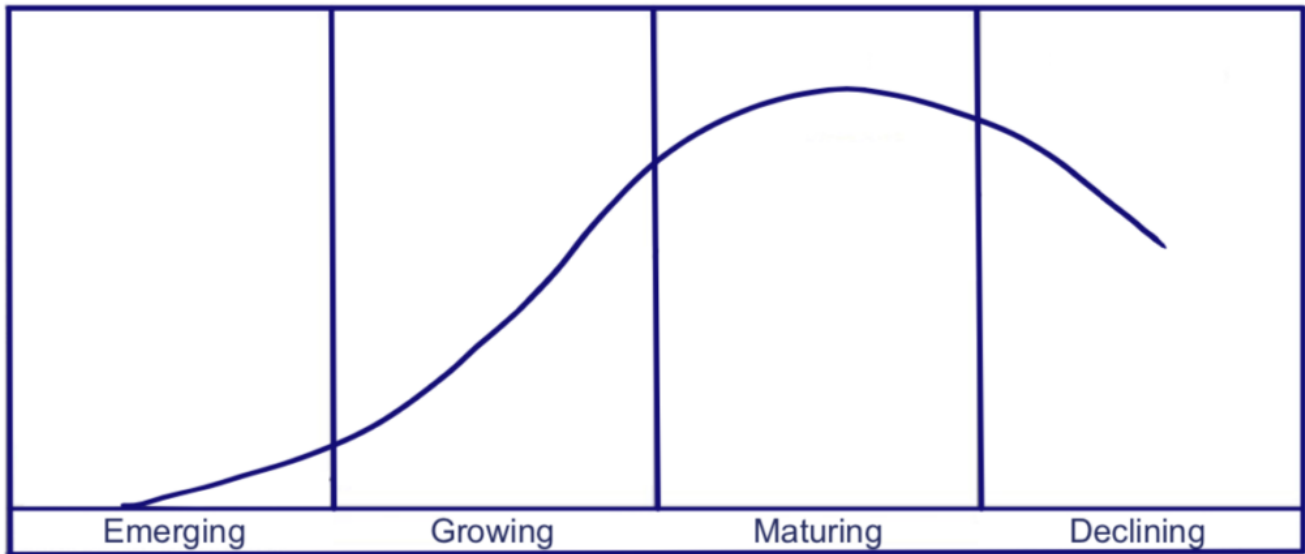
1. Substantive Practice

Gone are the days when some level of specialization in an area could sustain a practice over a lawyer's lifetime. Things are changing too fast and new competitors will emerge – some of them not even law firms.

In the meantime, what you can do is think about the future of both your practice area and the clients you serve.

We've been using this life cycle S-curve for a long time. It was borrowed from industry and the legal profession has embraced it gradually over the last number of decades. The graph applies to both your substantive practice, and the client you serve within

it.



The S-curve may be applied to your practice, your firm, your practice area, your client, an industry, or all of the above. Most work gravitates to the right side of the curve where rates are low and competition is high, as opposed to the left where exciting emerging areas afford major strategic opportunities with few competitors and low resistance to fees. Therefore, it is necessary to be forward-thinking.

2. The Business of Law in a Digital World

I am asked by people at international associations of law firms, and sometimes by those at individual firms, “How is the practice of law changing? What do I need to know, and how do I keep up?”

The oldest members of your firm might remember when firms began to use computers for data-processing. All lawyers will remember the accelerating change of technology — from how word-processing is done to how documents are generated.

Today, with machine learning and what is commonly referenced as “artificial intelligence,” the quality of documentation is ever-enhanced, while the cost of generating it decreases.

Many firms seem unaware that they now exist in a digital environment that needs to be nurtured. Firms are now rated on-line whether they like it or not, and enlightened firms are fostering more positive reviews.

This is not the place for a deep dive on the subject, but it is a caution that firms that are not making a considerable effort to learn the changing technology around them – and to embrace it – will soon be left behind.

3. The Firm

Well-managed firms outcompete poorly managed firms. Firms with a business plan outcompete firms without a business plan. Why then, at conferences where managing partners gather, do we see by the use of anonymous voting machines that the vast majority of firms don't have a business plan? (I'm referring to a sample across a wide spectrum of firm sizes. If you're thinking that the top 25 firms in the world likely have a plan, you are correct.) Firms that do not see the benefit of managing the business of law are being left behind.

The better firms train their leaders on how to get improved performance from their people. The better firms train their individual lawyers on client-relations skills so they can give greater satisfaction to their clients and attract more desirable work, both in traditional ways (via personal relationships) and in digital ones (through an online presence).

I'd be happy to discuss any of the component pieces of this article in greater depth as a courtesy to my readers. Contact me at edge.ai or at my blog, gerryriskin.com.

In the next two parts of this series of articles, I will be touching on:

The Focus Challenge – Part 2: Your Clients

The Focus Challenge – Part 3: Your Family

*Gerry Riskin, B. Com, LLB, P. Admin, is an internationally recognized lawyer, author and management consultant and founder of Edge International. He was managing partner of a law firm in Canada and Hong Kong, and is the author of [The Successful Lawyer](#), *Creating The Marketing Mindset*, *Herding Cats* and beyond KNOWING. Gerry resides in Anguilla BWI and serves law firm clients globally.*

Client Relationship Reviews

By Leon Sacks



The highly competitive nature of the legal sector provides an unprecedented number of choices to clients. Investing in existing client relationships can generate growth at less cost than developing new clients. Why then is there a reluctance on the part of many lawyers to invest time listening to their clients?

Common retorts include the following:

- External surveys and internal feedback show that our clients are truly satisfied with our services and our rate of retention of clients is high; and
- Partners obtain adequate client feedback through their relationships and frequent communication with clients.

However, surveys have limitations – often because they either require that questionnaires be completed (Who loves completing these?) or because questions are generic in nature. Furthermore, feedback to partners may have limitations because it is not necessarily aggregated at the practice or firm level to determine common issues. Often resulting actions, if any, depend on individual partners and are not institutionalized.

In my experience, even where client relationships are very strong, a face-to-face relationship review or client-feedback review can prove to be very effective. It can achieve the following (examples of client comments received during relationship reviews in italics):

- **Elevate the image of the firm with the client**

“This initiative is excellent and it is the first time that I have been visited by a law firm to conduct such a process. Congratulations! Now it is important that this not be an isolated action and that there be continuity and appropriate follow-up.”

- **Identify actions that should be taken to improve service**

“You need to always be solution-oriented. On one occasion your X office presented the problems on a particular issue without stating solutions – this frustrated our commercial area.”

- **Discover opportunities for expanding/improving the relationship**

“We are going to hold a meeting of our internal counsel in each office to identify and discuss our top compliance issues across the region. Yes, we would welcome a presentation from your Compliance group on current legal trends and such issues at the meeting.”

A relationship review consists of an interview with the client representative who has the most knowledge of the relationship. It provides the opportunity to explore issues to allow for appropriate follow-up and action.

The interview should be conducted by a person who does not have direct involvement with the client, both to demonstrate that this is an initiative of the firm as a whole but also to put the client at ease and not feel constrained. The interviewee could be another partner, a high-level executive officer or an external party.

Clients will usually be willing to participate in a relationship review if it is not overly burdensome (maximum one-hour duration, conducted at the client’s premises, and not repeated more than once a year), and if they value the relationship. Clients selected for a relationship review would typically include:

- recurring clients of significant size (e.g., threshold of fees);
- clients that are key targets and for which significant engagements have been conducted;
- key clients where performance or relationship issues have arisen; and
- clients where there are opportunities for diversifying service offerings.

The focus of reviews is to:

- gather information to better understand client expectations and satisfaction;
- uncover real strengths and weaknesses in client relationships;
- identify new business opportunities.

Reviews can also be finalized by obtaining quantitative ratings against different performance criteria (e.g. “understand your business”, “highly responsive”). This would enable comparison with other reviews, and also accompany progress at the same client in future reviews.

Internal counsel can easily adapt this review process to obtain valuable information from internal clients.

I strongly recommend that you consider listening to your clients in this way. While there will likely be both tangible benefits (e.g. new business) and intangible benefits (e.g. strengthening competitive position), at a minimum you will create a positive impression and the client will know that you are willing to invest in the relationship.

Leon Sacks is a trusted international executive of 30 years’ experience, noted for growing revenues and managing transformation projects for professional service firms in the management consulting and legal industries. He has worked extensively in Latin America and is fluent in Portuguese and Spanish.

Building a Unitary Merged Firm: Dynamic Teaming & Abe Maslow!

By Mike White



What does it take to make an integration process of two law firms really “sing”? Why are many mergers so challenged at realizing synergies, building a unitary operating model and culture, and acting upon a single set of external priorities?

In fairness, all firms have problems with these issues: fulfilling their commitment to autonomy tends to trump their efforts to have everyone rowing in the same direction toward shared goals.

A few table-setting observations can be made about law-firm combinations:

- This stuff is hard
- Results have been “choppy”
- As between “human beings” and “operating systems & processes,” I’ll put my money any day on human beings to drive improved performance and integration in any flat, professional-services environment (e.g., law firms). **Query: How do we activate those human beings?**
- Integration teams of business, IT, and operations analysts are impressively professionalized nowadays. Internal teams do a pretty good job of bolting two firms together – functions and operational processes are rationalized and key-cost inefficiencies are wrung out. Nonetheless, these areas are not the powerful, revenue-driving growth levers that should be the poster children of a high-performing combination.

The truth is, integration can be a head-scratcher. Law firms deliver system/process/product-enabled “artistry” **rather than** “artistry”-enabled systems/processes/products (i.e., the “human being” query above). People are your revenue; people are your products; people are your assets. While integration tends to focus on “process,” if your integration plan gets the “people” equation right, you’re accomplishing a lot.

Core “people-related” key-performance indicators (KPIs) for integration might focus on these goals:

- Retaining your best people
- Helping your best people perform better and contribute even more in the future
- Hiring both proven and high-potential contributors from other firms

How can we support the above three KPIs? One way to look at the “people issue” is through the lens of that legal industry sage . . . human psychologist Abe Maslow!

Maslow’s Hierarchy of Needs

Maslow defined a hierarchy of needs that explained each person’s path to fulfillment and happiness – i.e., self-actualization. He came up with three general levels of motivation:

1. Basic – physiological (food, water, safety)
2. Psychological – belongingness, relationships, esteem & accomplishment

3. Self-fulfillment – self-actualization (achieving full potential)

He concluded that all humans have higher-level, less mercenary, less self-oriented paths to fulfillment that become important once the most basic and self-centered individual needs are met. Our needs become different in kind, not just in degree. Moreover, meeting our higher-order, self-actualized needs is more fulfilling than meeting our first-level, most basic needs.

“Level 1 needs” represent the most self-focused, and can be closely tied to more individual – dare I say hedonistic – desires. For our analytical purposes with law firms, Level 1 needs point us in a single direction: \$. Already well-compensated “over contributors” generally support combinations because leadership will make sure to do everything it can to retain these “people assets” – they are simply too critical to the combined firm’s success to treat differently. But what about the other highly valued, high-potential partners who today place only a modest imprint on firm revenue? **These latter partners are a flight risk because they likely won’t be happy with their new compensation.** Firms don’t want to lose these people.

An Optimal Approach

Question: What should firms do to retain these valuable partners? Answer: Focus on Level 2 and Level 3 needs!

Translating Maslow’s hierarchy into practical integration strategies can help a combined firm create a differentiated, non-mercenary, culturally cohesive professional platform to which highly valued assets (human beings) can commit over an entire career.

At Edge, we help integrating firms put together a potent portfolio of adaptable teams to achieve important “one-firm” integration priorities. By borrowing from the really great work of organizational behaviorist [Aaron Dignan](#) as well as from Maslow, your integrating teams should be able to support certain concepts and have good answers to the questions implied in these bullets:

- **Inclusion** – Can I choose to support the integration process by collaborating with my peers through a teaming structure with which I can engage voluntarily?
- **Purpose** – Is my team’s mission objectively important to the health of the firm?
- **Alignment** – Will I benefit individually from what I’m building through my team?
- **Self-Determination** – Is my involvement elective, and is our team’s mission something we crafted from the ground up, rather than succeeded at from the top down?
- **Contribution/Impact** – Will our team’s impact, if achieved, be valued by firm leadership (for example, generating near- and mid-term revenue)?
- **Agency** – Do I have the freedom to determine how and when I will spend time with my team, and to experiment with new approaches that will help fulfill me and/or enhance the health of our firm?
- **Creativity** – Can our team create new objectives, and new means of meeting those new objectives, if in good faith we feel we can support our overarching mission?
- **Transparency** – Do I have ready access to all the information I’ll need to help our team be informed and be more effective?
- **Contextual** – Will the teaming structure and mission be mindful of my core responsibilities, which I need to support outside of my contribution to the integration effort?
- **Support** – Does my firm provide our team with the tools we believe will help us be successful?
- **Service Scaling: Conferring Collective Benefit** – I want to see my team’s impact radiate across the firm and benefit many others. Is my team capable of helping many people, and are those benefits perceptible to my team members?
- **Recognition/Validation** – I want to be validated and experience recognition through my team experience. Will the firm celebrate our successes?

I don’t mean to suggest that integration efforts activated through adaptable small teams are rudderless, “Woodstockian,” feel-good exercises. Participating partners and team members will need to benefit from the strategic vision and goals of leadership, and know about the priorities being acted upon by firm leadership in a more structured way.

Note: Team goals can be informed by objectives associated with increasing revenue and acquiring more clients, **and** they can also be informed by the “inputs” that lead to those objectives – e.g., “If our team establishes a relationship with two executive recruiting firms, our bankruptcy group could become the law firm of choice for the ‘change agent’ CFOs they place during a search engagement.”

Once the table is set properly and larger goals **and** related inputs are understood, get out of the way and let your teams run!

Bonus Bullets on Merger Integration and “Teaming”

- Partnerships! Partnerships!: High-performing business-services companies put in place a dizzying array of external partnerships with other complementary firms and product companies: venture partners (to enter new markets); product partners (to extend offering capabilities); revenue partners; innovation partners (to create whole new capabilities); technology partners; etc.
- Focus Teams on “Hybridization”: Law firms whose offerings bleed into other disciplines gain differentiation, gain relevance, and gain standing to have more diagnostic discussions with prospects. Examples are law-firm M&A shops that get their hands very dirty with post-acquisition business-integration issues (normally the province of Big Four firms, IT consultants, internal business analysts, etc.), or law-firm commercial litigators who sit down with risk-management consultants (think Marsh, Aon) and the client CFO to map out risk-mitigation strategies during an enterprise risk-assessment process.
- Insinuate Your Firm into Thought Leadership Discussions: Assign one of your teams to hang out with McKinsey, Bain, BCG or other disruptive-innovation consultants like Innosight. These consulting firms will tell you what innovation is taking place and how it will create new revenue categories. These new growth categories create new legal needs, and – more importantly for today – give law firms great content to serve as conversation-starting subject-matter currency.

Edge Principal Mike White, an expert in the field of law-firm growth, works with firms and practice groups in two primary areas: client experience innovation & differentiation, and strategic planning for growth. He also advises firms on business-development skills training/planning/coaching, law-firm succession planning, lateral-partner integration, and partner-compensation restructuring.