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Johnathan Middleburgh and Leon Sacks Join Edge International

By Edge International

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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 cyclicality. 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 apparently every business owner wants to maximise their profit.

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

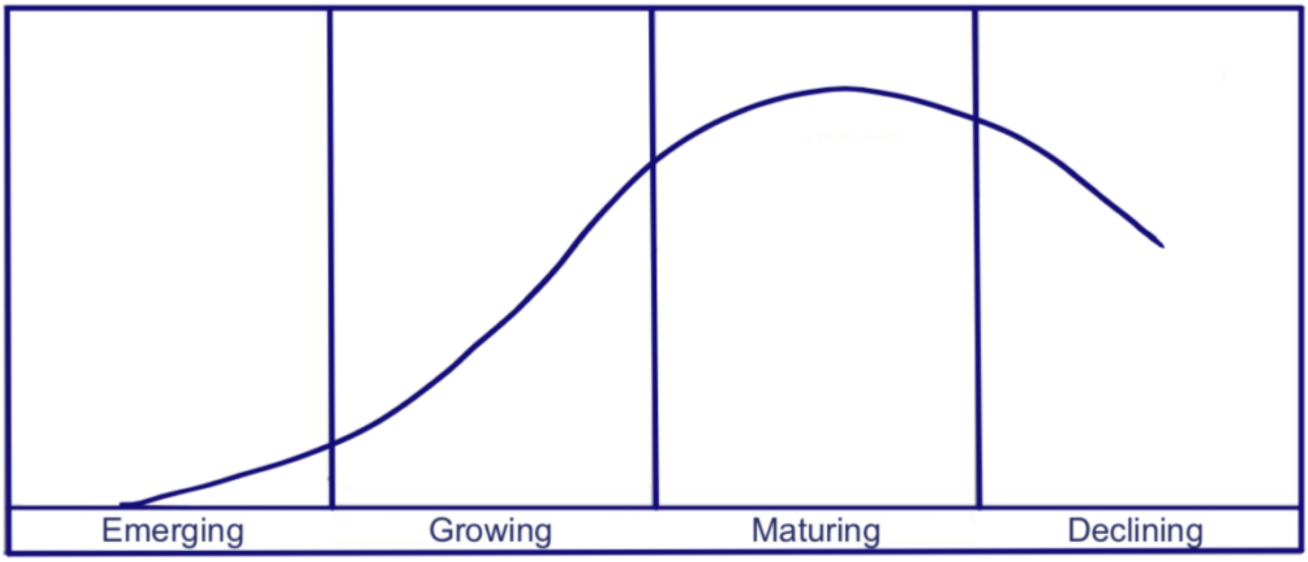
By Gerry Riskin

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.

A Tale of Two Sales

By Sam Coupland

The merger and acquisition market of law firms in Australia appears to have gathered pace this calendar year. Already I have undertaken 11 valuations – with five of these being used as a starting point for negotiations for mergers, or to guide a deal where a firm is being acquired. In conjunction with the increased valuation activity, I have been engaged to find purchasers for three rather significant firms as well as finding merger partners for another two firms.

This role of law-firm matchmaker gives me a front row seat to understand what acquirers are looking for and what makes a sale or merger happen seamlessly. None of this will be a surprise to those reading this article – if you sat down with a pen and a piece of paper, you would probably soon come up with a fairly comprehensive list of desirable attributes a firm should have to be considered an attractive proposition.

When I sit down with partners who want to sell their firm, one of the first questions they ask me is how long the process is going to take. The answer to this question is: if you have all the information required for a due diligence to hand, and a sensible asking price, then we should have someone on the hook within three months, and a deal concluded within six months.

Once I have a confirmed sell mandate, I do two things before even thinking of approaching the market. First, I provide the firm with a checklist of likely due-diligence information that will be sought, and make sure that information is in a data room, ready to go. Nothing turns off a prospective purchaser more than very slow responses to reasonable requests for basic information. Second, I use this information to determine what I think the value of the practice is, and work with the partners to agree on the asking price and terms of the sale. From there, it is a matter of approaching the market and finalising the deal.

Contrasting Examples

In late 2018, I was engaged by two different firms to find buyers for their practices. On paper these firms appeared very similar, but in fact the ease of sale was vastly different. Revenue of both firms was about the same, all partners wanted to sell (there was no internal conflict about the desired outcome), both had specialisations that the market was seeking, and both were equally profitable. What could possibly go wrong?

In fact, in the case of the first firm, nothing did go wrong. The sale process was as smooth as could be, and they were the model client. At the first meeting, the partners spelled out their asking price and their (very reasonable) justification for it. On receiving my due-diligence checklist, they provided all the information within a week. By the time I had given them a target list of likely purchasers, we were all as confident as one could be. Of the five likely acquirers we approached, two were interested in exploring further, with one agreeing to the vendor's sale price and proceeding to due diligence within three weeks of hearing of the opportunity. A Heads of Agreement was signed within two months and the whole deal concluded within five months. Quick, tidy and all parties were happy.

The process with the second firm could not have been more different. When I asked the partners for their sale price and terms, they said they wanted to see what the market would offer, based on a somewhat convoluted and subjective revenue-share model. When I pressed for a ball park they obfuscated and kept turning the conversation back to the revenue-share model. In a moment of weakness, or exhaustion, I went along with this.

When it came to due-diligence information, at the first meeting I was told this was already at hand as they had been contemplating a sale for some time. I accepted this, and went to the market with the opportunity. At this point the wheels fell off.

Meetings with interested acquirers became convoluted when they raised the question of price. Examination of the revenue-share model by some acquirers quickly fell apart when its lack of transparency was exposed. Any confidence in the vendor was further eroded when, pushed for a purchase price, they put forward a wildly optimistic number which could only be described as commercially insane.

A handful of potential acquirers that were prepared to talk further (once some sense around price had been accepted by the vendors) then sought the most basic due-diligence information. After waiting more than six weeks for information that should have been produceable within five minutes, these firms lost all confidence in anything that was put forward.

Now after almost eight months, we are really at the beginning of the process. The vendors have a reasonable price in mind and are open to terms. All due-diligence information is in a data room. My thinned out target list of potential acquirers provides some hope for success. However, I know that in future I will stick to my guns with a process that I know works, or I will walk away from the engagement.

Thought you might enjoy this story.

Edge Principal Sam Coupland is considered the foremost authority on law firm valuations in Australia, offering firms a robust valuation methodology to help them calculate accurate capitalization rates and assess the risk profile, cash flow and profitability of their firms. He is a frequent presenter on practice-management-related topics, delivering dynamic presentations to hundreds of lawyers every year in the areas of financial management, business development, succession planning, strategy, and people management.

Simplicity

By Sean Larkan

There is one thing I have learned over many years helping run large law firms and since then consulting to professional service firms: keeping things simple and as brief as possible is the essence of achieving success. That means ‘easy to understand and to apply’.

The reasons are simple too. Professionals, in particular those in ownership or senior roles, simply don’t have the time, motivation or gas-power to take on yet more complex, lengthy systems or processes to get things done, especially when it is outside their comfort, practice or client-zones.

I have spent most of my time figuring out how to deal with relatively complex issues and challenges, but in a way that is easy for busy professionals to understand and apply. Put another way, I learned early on not to put anything on the table that was too complex or time-consuming. People simply switch off or don’t give it the attention it deserves. Also, philosophies, concepts or approaches have to be simple enough to able to ‘*walk around in peoples’ heads*’. Then they don’t need to consult a lengthy document or manual to remember the essence, or need a new dose of discipline to get these things done.

One rider to this; simple approaches and ways of doing things take a lot of thought, dedication and effort to identify, work out, test and prove in the field. This is sometimes not so simple! So, this is one of those things that is easy to talk about, but tricky to achieve in practice.

Let’s take a brief look at a few areas where these principles can be applied in practice to good effect. Coincidentally, they happen to be the areas where I do and enjoy most of my work.

Strategy

Strategy is one. This principle applies equally to strategy for the whole of the firm or for a department or individual: only include the essentials, use a practical, proven framework that gets results, and which can be summarised in six to ten pages or less. Break the exercise down into pre-strategy essentials that need to be settled, actual strategy formulation and then post-strategy implementation and stress-testing. Be able to summarise the key aspects on one ‘strategy snapshot’ page – ideal to hand out to new recruits or even existing and potential clients so that they know what you are about.

Finances

We can never move too far away from the finances when discussing anything to do with firm practice in professional services. In this area, after dealing with many firms internationally, it has struck me how often partners and staff are drowned in reams of lengthy financial reports and analyses. It soon becomes clear that very little of this material gets absorbed and truly serves any purpose.

All of the excess material might keep a certain type of management happy – those who like to think, ‘*At least they can’t say they didn’t have the information’*. But that of course is not the point. The point should be to help everyone get results.

In this area, I have found a key is to produce a monthly (or on-demand) one- or two-page financial snapshot or dashboard report that is colour-coded, and summarises partner, partner-team, department and firm standards for performance and actual performance on key financial variables. If one needs to dig deeper in relation to a key variable – e.g., total lock-up days – one can always request that detail from the finance or accounts team.

Following the earlier point, it took us about three years of formulation and testing until we got this right, and working to our complete satisfaction. Then it was a case of refining it each year.

People

I long ago came to the conclusion that the key to results in the management of people is ensuring a truly *genuine interest* is taken in anyone for whom one is responsible. We developed a new philosophy, system and approach to ensure this took place throughout a firm – the *Responsible Partner and Development Discussion* system. With this system, most people at every level reached something like their full potential, they were happy, partners attracted good staff who stayed longer, and our employment brand and engagement levels grew stronger.

Again, this was kept as simple as possible. That is a key reason why it works.

Succession Planning

The system we developed for the management of people has a number of off-shoot benefits. One is addressing the hardy annual issue of succession planning. So many firms struggle with this. Some introduce quite complex monitoring and management systems to address it, but with limited results.

As in other areas, succession planning can be kept quite simple. If something like the Responsible Partner philosophy mentioned above is adopted and applied rigorously, over time it *automatically* builds succession throughout a firm, and it has the benefit of being organic. Let me expand on this a bit. If a partner uses the approach successfully and builds a high calibre team of professionals at different experience and competency levels over time, she or he will find successors start to pop up within that partner team. It takes a good few years, but it is guaranteed to happen: this has been proven time and again.

Achieving success in practice today undoubtedly takes high levels of competence and performance in a number of different areas. It used to be that working like a dog and looking after clients was it. The rest could more or less take care of itself. Those days are long past.

Contribution Criteria

Practice and client needs have become much more sophisticated and challenging. Trouble is, in many firms, partners and staff still don't really know what they should be expecting of themselves or one another. It is important to spell this out in summary in a positive, constructive way which propels the firm forward and acts as a motivating guide to individuals to contribute in various key areas. These will include hardy annuals like financials, business development, people and support for the firm, but also things like building the capital fabric of the firm, building succession and active support for the brand, and raising each of these to exemplary levels through innovative approaches.

Brand

Finally, brand is another key area which can get attention. Everyone in the firm should understand what the firm's understanding of brand is. 'Brand,' as I teach it, is the aggregate of what other individuals think and feel about the firm as a practice, as an employer, its services and the key individuals within it. Everything brand-related flows from this simple framework and makes it easy for everyone in a firm to grasp the nuances, concepts and necessary support systems to strengthen a firm's brand, its employment brand and the brands of individuals within it.

Dare I say it? I believe that adopting this 'simple' approach to everything relating to leadership and management also makes this part of practice fun. More practitioners and staff will want to participate in and contribute to these initiatives as they will feel they 'get it' and don't need a course in management to get results and get things done. This in turn grows future leaders and managers internally.

Edge Principal Sean Larkan is a former corporate/tax lawyer with extensive experience in conference and retreat presentation and facilitation. As an Accredited Practitioner of Human Synergistics International ***and a certified Master Coach, he offers Edge clients knowledge and experience in such areas as leader, group and organisational behavioural and cultural diagnostics and coaching, and serves as a critical adjunct to firms' strategy implementation. He is the author of*** Brand Strategy & Management for Law Firms***.***

May 6-7, 2020: Gerry Riskin, Atlanta, Georgia (The Managing Partner

Forum)

By Gerry Riskin

Panelist and Break Out Group Facilitator. [Check for more information.]

Operational Reviews in Law and Professional Services Firms

By Yarman J Vachha


Drawing on my two decades of experience in managing and consulting with international and local law firms across the Asia-Pacific region and the Middle East, I have created a three-part video to provide insights into the nature of independent operational reviews, explaining why all firms should consider embarking on these periodically, and pointing out some of their potential benefits.

What Is an Operational Review?

An operational review (OR) is a full scope "audit" of a firm's operations and its operational strategy, and an examination of how this interacts with the firm's overall strategy. The purpose of an OR is to determine if a firm's operations are "fit for purpose" for the existing business, and is also a stress test to determine if the operations are fit to support future growth – or, in some cases, future contraction.

Why Is It Important to Perform Periodic ORs?

An independent and full scope OR provides a firm with a "Report Card" showing where its operations currently stand and what is required in terms of investment and resources to ensure it future-proofs itself.

What Are the Benefits of an OR?

An OR provides an independent checklist of what remedial actions are required and recommendations on how the firm should go about undertaking them. The other advantage is that it is independent, hence there are no political or hidden agendas.

Edge Principal Yarman J. Vac

Building and Leveraging Relationships: The True Essence of Business Development

By Bithika Anand

The concept of ‘business development’ is often over-rated when it comes to law firms. The phrase may resonate with such metrics as ‘financial targets,’ ‘meeting new contacts,’ ‘cold-calling,’ ‘attending events at relevant forums,’ ‘undertaking activities that contribute to the revenues and profitability of the firm,’ etc. Most firms like their partners to be ‘rainmakers’, the ones with the right personality type to go out, speak to the clients and ensure a perennial flow of work.

However, how we define ‘business development’ is undergoing a change with time. This article aims to focus upon what constitutes the true essence of business development.

Sector-specific Awareness and Commercial Viability

Law firms are increasingly aware of the importance of the longevity of relationships, and they are encouraging their partners to get into the deeper realms of what makes a difference to their clients. Most partners today are choosing to become well versed with the sector-specific challenges their clients’ industries may be going through. With in-house general counsels also playing larger roles in shaping businesses, law firms are extending the horizon of their advice to include commercial viability, rather just confining themselves to legal issues at hand.

Consistency and an Innovative Approach

Most successful partners today are guided by a commitment to making a difference in the lives of their clients or business prospects. If you are able to convince a prospective business contact about your ability to turn their life around, there is a fair degree of chance that work will make its way towards you. This principle, however, does not diminish the fact that business development requires patience, and there will always be a gestation period before your contacts turn into work for your firm. During this gestation period, your essential virtue is ‘consistency’. One needs constantly to take the initiative to stay in touch with prospects and clients. Instead of leaving the ground when there is no response from your prospective contact, figure out ways to connect with them on non-work issues as well.

Forward-thinking partners these days create well-articulated business-development strategies whereby they keep professional relationships warm by circulating legal updates or disseminating knowledge and awareness about the latest developments in laws and court matters, etc. Some take an even more personal touch, congratulating their contacts on their personal achievements and the achievements of their organizations. You may devise your own innovative measures, such as offering to conduct a training session, hold a help-desk, or undertake similar initiatives for the team or employees of your prospect or client.

Partner with Clients on Business Vision

Connecting with your clients to keep the professional tie warm and generate work from them is still a micro-level step. Partners also need to reflect on how many times they connect with their clients at a macro level – for example, holding discussions with respect to clients’ larger business visions. Are you being included/consulted at the time of major business decisions, such as a client’s decision to open an office in a new city, to launch a new product or service line, or to undertake organizational re-structuring? A successful business-development effort will lead you to become deeply entrenched in your clients’ businesses.

This will not only help you in evaluating your own service offerings to them, but will also make you more aligned with their business vision, rendering your advice more relevant and commercially sound.

Knowledge Dissemination and Thought Leadership

The ecosystem to which lawyers belong is person-oriented. Any service sector that undertakes the role of a consultancy thrives on relationships and ties, as the relationships once built usually tend to be long-lasting (unless other factors like performance and costs are impactful enough to permeate and disrupt the attorney-client relationship!). With pressure mounting on in-house legal departments to play a larger role in growing an organization (while keeping the costs at bay), businesses are also much more informed about the facets of legal work today than they were a few years ago. While they seek value for money, money isn't always the sole criterion in the selection or rejection of a law firm if the value proposition is robust.

Law firms, as well as their partners, must understand the potential of investing in professional relationships, and must move from being merely 'lawyers' to also being 'thought leaders' or 'visionaries'. Your firm's partners must utilize various available platforms to extensively disseminate knowledge and write about the fields in which they practice. This should be done not only to spread awareness of issues among your clients, but also to ensure that they know how and when to seek your assistance in moving towards suitable legal recourse.

The Journey from 'Contacts' to 'Conversion'

Disseminating information is especially important in economies where the regulatory environment is constantly changing, and new developments occur frequently. For firms that are moving into new and emerging areas, partners must strive to make in-roads to participate in macro factors affecting the industry as a whole: policy-making, for example, and engaging with relevant forums/organizations pertaining to their areas of practice. While your 'brand' may be your ability to be reckoned as a 'specialist' or 'thought leader', the way to ensure a steady flow of work is to invest time and energy in establishing and leveraging your professional relationships. Establishing a connection on its own will be of no use until it reaches the stage of conversion into client mandates. The journey from 'contacts' to 'conversion' requires promptness in submitting proposals and fee quotes, and consistent follow-up. The rate of conversion from contacts to clients may be low, but efforts need to be sustained. Once your contact becomes a client, partners need to work towards successful closure of the new mandate by delivering quality service.

More than 'Networking'

'Business development' is often used synonymously with the word 'networking', which has, in fact, far more raw and commercial connotations. The essential difference between 'business development' and 'networking' is the spirit of building relationships. Conducting business meetings to obtain immediate work or short-term professional fulfilment, for example, represents a myopic view of business development. However, such events also offer opportunities that partners may miss out on by ignoring the 'human' element to these meetings and contacts. One may meet people who may not be immediately inclined to give you work, but meeting them with a long-term view could benefit your firm when you cross paths with them again someday. Besides the direct commercial benefit (immediate or otherwise), each meeting or contact can give lawyers a different perspective about a prospective client's life, their management style, their driving force, their success mantra and many other aspects of their personality.

To sum up, business development is much more than the 'procedural' or 'operational' aspects of writing e-mails, connecting over professional networks and following-up. Fostering deep-rooted relationships, with a genuine intent to partner with clients at the macro level and to contribute to the growth of the economy, will actually set a strong foundation on which one can sustain business development efforts far into the future.

Edge International Principal Bithika Anand advises on India-specific growth and business initiatives. She is an honourary consultant to the Society of Indian Law Firms (SILF), where she works with the organisation and its members advising and assisting in complying with best-industry practices. Nipun Bhatia, who contributed to the article, is Vice-President, Strategic Management & Process Redesigning at Legal League Consulting.