Lawyer-to-Partner Gearing or Leverage. Yes or No?

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By Sean Larkan

The concept of lawyer-to-partner gearing or leverage – the number of lawyers a firm employs for every partner – continues to go through changes. It is not uncommon to hear partners say things like "My clients want partners on their jobs", "My type of work is too complex for non-partners", "I simply don’t have the time to manage lawyers; I have legal work to do", and so on. You’re equally as likely to hear partners in some firms speaking out very strongly in favour of gearing. In most jurisdictions it is common to find firms in both camps.

However, over the past ten years or so we have seen a steady decline in average gearing levels in the world’s largest legal market, the USA. At one point a few years back, the average gearing amongst AMLAW 200 firms dropped to .6 lawyers on average per partner. In a majority of these firms it appears that non-partner lawyers operate as an available pool of associates: i.e., they are not allocated to a particular partner. We understood the arguments of those law firms to be that due to high starting salaries of associates, it simply was not economically viable for them to gear up. Unfortunately, I believe this development in the US market has had a direct impact on the flow of traditional legal work away from traditional legal service providers to non-law firms. More on this, below.

By contrast, in the Australasian market, it is not uncommon to find average gearing figures of 4 to 6 lawyers per partner. More often than not, lawyers are also allocated to particular partners – albeit not exclusively so. Surveys of clients in these jurisdictions, and general counsel in large organisations in particular, point to a good level of client satisfaction as to the service they are getting from firms. Generally there has not been the move away from using law firms for legal work towards alternative suppliers.

So where does that leave us? There are arguments in favour of and against gearing, depending on the circumstances, the culture of a firm, and local market conditions. On balance, however, I would argue that the benefits of gearing, subject to some prerequisites, far outweigh the negatives. I would even go so far as to say it is a strategic necessity for the large majority of firms, save in absolutely exceptional circumstances.

First, what are some of the arguments against gearing?

- ‘Clients only want partners to do their work’;
• ‘Partners do not have time to train juniors’;
• ‘There is unyielding fee pressure on partners to meet partner budgets and hence they clutch clients and work to their chests’;
• ‘Typical law firm partner styles and attitudes do not encourage the building of a functional team under a partner which will be fed work in an effective manner’;
• ‘Due to client work and budget pressures, partners simply do not take enough time to train up their lawyers so that they progress to higher and higher levels of work’;
• ‘Partners are loath to introduce their key clients even to junior lawyers with the fear of losing those clients and thereby putting pressure on their ability to meet budgets’;
• ‘Partners argue that their particular work is not conducive to having more junior lawyers work on it’;
• ‘Given the asking price for associates or lawyers out of top law schools it becomes uneconomic for firms to employ them on a geared basis’.

Whatever the merits of these arguments, trends to lower gearing have limited the ability of law firms to service the needs of their clients. Take a simple example: picture a firm with a gearing of one lawyer per partner. What this means is that for that partner to service a wide range of client needs, he or she can only offer a support lawyer with one level of expertise, one level of experience, and at one charge-out rate. This limits the range of work that can be done for that client. Clients will be tempted to look elsewhere, even outside the traditional profession.

While it is clear that factors other than gearing have also played a part, clients have moved a large slice of their work (in the USA the shift is understood to be as high as 50%) to non-traditional legal services suppliers; i.e., non-law firms. These alternative suppliers have eagerly taken up this opportunity, supplying service at different experience-points and price-points.

Before considering some of the arguments in favour of gearing it is important to consider some prerequisites for qualitative gearing to work successfully:

• Gearing is not just about numeric ratios. It should be “qualitative” – that is, high-calibre lawyers, fully utilised, doing high-quality work for quality clients;
• Whichever way one structures one’s firm, it is important to look at this issue from clients’ perspective, not the firm’s or partners’ perspective;
• Partners need to be convinced of the benefits of such structures;
• Clients also need to be educated or coached as to the benefits of using lawyers at different levels of experience and price points to do different parts of their work assignments. Firms which have achieved qualitative gearing have done this well;
• These structures do not function optimally with a pool of lawyers accessed on a random basis by partners as they deem fit. Inevitably, the stars get the best work and late bloomers struggle to succeed, resulting in some under-utilisation and disillusionment, and poor engagement for some lawyers, with obvious impact on employment brands;
• A properly geared structure requires some form of structural and philosophical framework governing the behaviours, thinking and interaction styles of partners vis-à-vis lawyers allocated to them. To this end we have developed the Responsible Partner® program and philosophy which is a proven internal “engine” for these purposes. Even this, to succeed, needs to become part of the firm’s DNA;
• No question, running a qualitatively geared firm is an ongoing, challenging exercise, constantly requiring attention, monitoring and tweaking. The rewards however can be immense.

In considering the advantages of a qualitatively geared firm, let us assume a firm with average gearing of, say, three lawyers (junior, mid-level and senior) to one partner.

• Clients of that partner can be offered lawyers to do work assignments at different experience and price points depending on the nature of the task. Provided staff are trained and managed properly and tasks delegated appropriately, and the requisite relationship of trust exists between the client and partner, it becomes less likely such a client will look to alternative suppliers;
• Young lawyers can come through the ranks in such a partner team, learning and progressing as they go, steadily being exposed to more and more complex work and operating on a more independent basis. Their leadership and management skills can be developed under close monitoring by the partner concerned;
• Provided the pre-requisites mentioned above are met, lawyers in such environments are more engaged, which in turn strengthens the firm’s employment brand;
• Partners in such structures are generally responsible and accountable for the development of lawyers allocated to them. This requires them to take a personal interest in such matters, which ensures that nothing is left to chance in regard to the development of young lawyers, and no-one “falls through the cracks”;
• Within such teams, leadership development and succession management for the team and for the firm starts to happen naturally and organically;
There are numerous other benefits which flow from such arrangements, but what partners and such firms greatly appreciate is that not only do the strategies benefit clients but financial outcomes are unquestionably positive.

I have worked in, managed, run and worked with numerous firms over the past 30 years which have successfully converted from extremely low gearing levels to highly qualitatively geared structures –with success, including financial. I have no doubt that, properly done, this strategy can lead to significant benefits for a firm, for its clients, for partners and also for lawyers at their different stages of development.

Perhaps it is time to gear up!