

## Governance in a Law Firm: Poisoned Chalice or Opportunity?

Featured in the February 2020 edition of the [Edge International Communiqué](#)

By Yarman J Vachha



I have recently done much work in assisting law firms to develop their governance structures. What I see are many common traits and misconceptions. It is no wonder that law firms are, more often than not, poorly managed, failing to maximise their potential due to poor governance or lack thereof. Many of the larger international law firms have recognised the opportunity to maximise efficiencies and have built sound structures, strategies and teams to improve governance. Small- and medium-sized practices are still grappling with this, though some are more advanced than others in recognising that a strong governance structure will make them much more efficient and profitable in the long run.

The most common trait that I see is that lawyers want to be professional managers but are generally ill-equipped and inexperienced to perform these functions without proper guidance. There is also often a tendency, partly driven by ego and/or lack of trust, of not being willing to let go. There is often an ill-conceived view that the operational and administrative functions of running a legal business “can’t be that difficult!” so why spend money on these activities? This is false logic in my view, as the time spent by lawyers inefficiently muddling through these functions detracts from fee-earning work which adds much more to the bottom line of the firm than do operational activities.

Let’s briefly examine the common traits that I have seen in setting up governance structures within law firms:

1. Often there is no clear distinction between the responsibility of a management committee (MC) and an executive committee (EC). In firms where there are two committees, there is often confusion and much overlap between the day-to-day management of the firm and the strategic direction of the firm.
2. In firms where there is only an MC, all members of the MC want to get involved in every single decision the firm makes, and often there is a tendency to second-guess the decisions of the managing partner (MP). Even some of the smallest decisions which have no significant impact on the direction of the firm are discussed to the minutest details. This is just a “time suck” for everyone concerned, as every decision ends up being made “by committee”. This is highly inefficient and reflects a lack of long-term vision and sound governance structure.
3. Partner egos often play a big part in running the firm. As most firms are partnerships, the management of the firm is only as strong as the support received from its partners. Hence, at times senior management positions become “popularity contests” rather than being based on what is right for the firm. Often the elected or appointed MP or MC is not left to get on with what they have been appointed to do, as the entire partnership wants a “say” in every decision. Again, in my

view, this culture is partially due to a lack of established governance structures.

4. Competing interests of the various practice / industry sectors often have a significant bearing on the strategy and direction of the firm. For example, if there is a particularly strong individual in a practice group who is a rainmaker, it often means that the direction of the firm will gravitate towards the needs of that practice group. This is not future-building, as personnel and markets change; hence, there is no long-term plan or stability being built into the direction of the firm. Again, this is reflective of poor governance.
5. I believe many firms are not sufficiently focused on what they are trying to achieve. They have a vague idea of the direction they would like to take but often this is akin to having a scatter-gun approach to a wide target, with no clear direction or purpose. Therefore, I always stress to my clients that they need to have a “laser-like focus” on what they’re trying to achieve, and this focus needs to be directional, with alternatives for changing markets, clear budgetary strategies and a clear succession plan.

What firms should be doing with governance structures to set and achieve their strategies and manage on a day-to-day basis.

1. The very first thing the firm should consider is to separate the supervisory and high-level direction of the firm from the day-to-day management. If the firm is big enough, it should have an executive committee (EC) that looks at the high-level strategic aspects of the firm, and the committee should be client-facing rather than internally focused. The day-to-day operational management of the firm should be entirely the responsibility of an MC and/or the chief operating officer (COO) and their team. The MC, in my opinion, should be headed by the COO, should be a sub-committee of the EC and should report to the EC periodically on the operational aspects of running the firm.
2. There is not much that can be done about the egos of partners and the fact that rainmakers often forge the direction of a firm. However, this does not future-proof the firm. It is important that the EC work to change the culture so that it is all-inclusive and takes into account changing markets and economies, and has an eye on succession planning. Many firms are vulnerable to losing teams to competitors. Such eventualities should feature in the strategic planning of the firm, and ample safeguards should be instituted to protect the goodwill that has been built and safeguard the legacy of the firm for the future. This is only achieved through a strong governance structure that includes appropriate checks and balances.
3. Finally, it is very important that a particular focus of the firm’s governance be to establish a very clear vision of what it is trying to achieve and how it is going to get there. A great way of doing this is by doing periodic [SWOT analysis](#) and continual evaluation to determine whether the direction of the firm is still relevant. This is particularly important in the current disruptive market environment. In my view, a governance structure that is nimble is of paramount importance in this day and age. Firms can no longer make decisions by “committee” and “compromise” to try and appease requirements of all the partners in the business, as this utopian dream is not applicable in a very fast-paced market and industry.

In conclusion, what I have said above is not only applicable to large- and medium-sized firms: it applies to small practitioners as well. The advice that I have provided needs to be adapted to suit the purpose of the individual firm, no matter what its size. The bottom line for good governance is a clear separation between “church and state” – i.e., a distinction between what is strategic and what is operational, a focused vision for what is best for the firm and a structure that is nimble in its decision-making.

To answer the question as to whether governance of a law firm is a “poisoned chalice” or an “opportunity”? Well, it all depends on whether the firm is willing to run itself as a well-managed business or wants to be a collection of independent contractors pulling in different directions. I believe the future of successful law firms lies in the former approach.

***Edge Principal Yarman J. Vachha is based in Singapore with four decades of experience in the professional services industry globally. He has run global legal business across Asia, Australia and the Middle East. He is a subject-matter expert in improving profitability, operations, remuneration structures and governance within law firms.***