control or consensus?

Every law firm starts life with a flurry of entrepreneurial growth and creativity. But as the firm enters adolescence and adulthood, the unmet demands of strategic and managerial decision-making can cause the firm to plateau or even regress. Identifying the four phases of law firm development can be the key both to avoiding premature stagnation and to progressing toward institutional status.

By
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I have recently been involved with two mid-sized law firms, each structured and managed quite differently from the other. Both firms, however, are becoming stifled. They need to work out where they are in their growth cycles and, after mature reflections and discussion, develop some studies and make some decisions about their strategies, governance and decision-making processes for the future.

Firm A has around 60 partners of whom less than 20 are equity partners, and has just less than 200 lawyers in all. Firm B has around 40 partners, but only five (all founder partners) are equity and the firm has around 150 lawyers in all.

In Firm A, the managing partner has many responsibilities but seemingly little authority; all decisions of any size are made at monthly partners' meetings. Firm B has maintained a very tight equity circle,

What is clear in both cases is that the governance and management system that worked well five years ago does not work so well now.

and one of the equity partners has combined his fee-earning with a role as managing partner. He is trusted by the other equity partners and holds a great deal of decision-making authority.

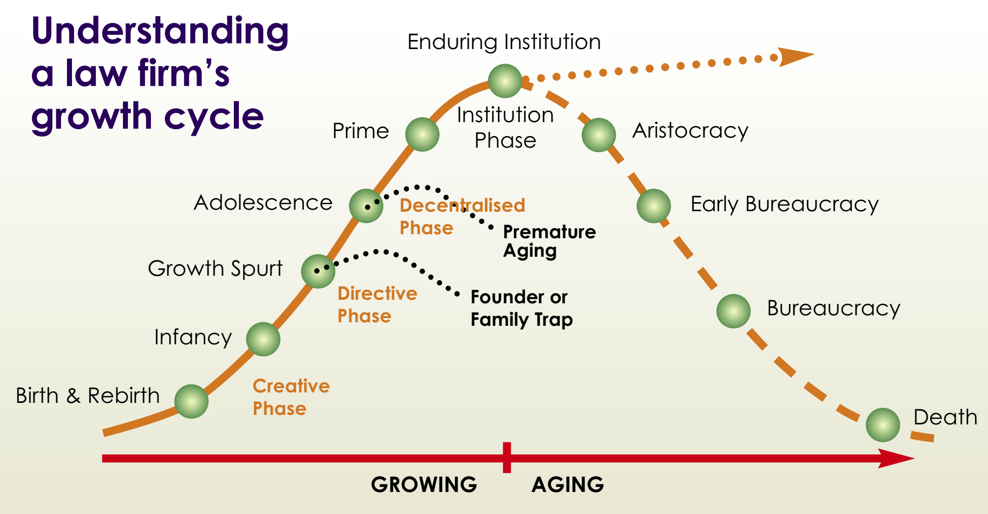
Interestingly, however, decision-making is equally slow in both firms. In Firm A, decisions are often deferred from one meeting to the next for lack of agenda time, with the result that even minor decisions can wait two to three months before being resolved. At Firm B, the managing partner has presided over a period of strong growth in which decisions used to be made nimbly and in an entrepreneurial fashion; but the size of the firm now means the managing partner is completely snowed under. Issues requiring a decision pile up on his desk to await his attention whenever he can get to them.

What is clear in both cases is that the governance and management system that worked well five years ago does not work so well now. Both firms require some degree of decentralization of power.

In Firm A, the equity partners need to recognize that they cannot be involved in all decisions and need to entrust some of the decision-making to a managing partner and management committee. In Firm B, the benevolent embrace of the founder partners has become an iron grip, and they need to consider what is needed to manage a firm which has grown considerably in size.

THE 4 PHASES OF LAW FIRM DEVELOPMENT

All law firms — all organizations, for that matter — go through a maturity cycle as they develop over time. The growth curve shown in the diagram illustrates how a firm can emerge, develop and then start to fade through its eventual lifetime. Firm A and those like it can find their development becoming stunted before they reach their prime; in some cases, premature aging sets in and the firm begins to go downhill. Firm B and its ilk can find their progress coming to a sudden halt as decision-making becomes paralyzed. Such firms may enter the "Founder Trap," in which their rapid emergence and growth turns into decline and sudden death.



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Adapted from "Corporte Lifestyles" by Ichak Adizes; "Evolution and Revolution as Organisations Grow" by Larry E Greiner

Not all firms are like Firms A and B. But it is important to understand that there are four phases of development for any firm to try to work through:

1. The creative phase
2. The directive phase
3. The decentralized phase
4. The institution phase

The last phase is the most highly prized, and the most difficult to attain.

CREATIVE PHASE

During this phase, a firm is born, emerges, or in some cases, becomes rejuvenated. Such firms are almost always very entrepreneurial at this stage of the growth cycle, generally driven by an individual or a small coalition. A strong work ethic powers the firm's momentum, and management activities tend to be *ad hoc*, flexible and uncodified. A random patchwork of decisions and processes often emerges as needed in response to the opportunities and demands that the firm faces. Policies, however, tend to focus on what not to do, rather than the enforcement of consistency and quality.

This also tends to be a phase of heavy investment, with the partners or members sacrificing immediate income in order to see the firm develop. During this phase, the baby firm heads into infancy, usually accompanied by a growth spurt. A tipping point occurs when the firm realizes that it needs a measure of discipline, coordination and systems in order to control the growing organization.

DIRECTIVE PHASE

The firm next enters a directive phase, in which its leaders (usually the founding coalition) impose some structure and order. At this stage, the founders are unwilling to relinquish control and (like Firm B) concentrate power into the central control of a managing partner or the equity group itself.

However, these leaders now have a dilemma. The firm has developed largely through their entrepreneurial and client-facing efforts, since they are the ones with the client relationships and the specialist reputations. In the larger firm, however, the leading partners steadily become obliged to spend more and more time on management rather than on fee-earning, a shift they find hard to assimilate.

For a while, hard work and long hours allow the founding partners to continue both their client-facing and management activities. Niche or boutique firms often decide, at this stage in the cycle, to remain the same size. In this case, the founder partners can continue successfully to direct operations for long periods of time; their crisis point may come later, when the founders grow old or tired and wish to retire.

Some growing firms acquire professional management staff to assist with the increasing burden of management. But generally, the founders only allow managers to make those decisions they themselves would have made, which leads to frustration, duplication of effort, and very little saving of time for the founders. This creates further issues, as the strategies first employed by the firm to get it to its current state may not be sufficient to enable it to grow further.

Not only does the firm need a grown-up governance system, it may also need a more advanced and mature strategy. It is at this stage that the firm also risks losing its good people, as profits start to plateau or slip. In essence, this directive phase can tip from a period of adolescence (in which the firm's body seems constantly to be outgrowing its clothes) to a period of stagnation and decline.

DECENTRALIZED PHASE

If a growing firm is to move out of adolescence into adulthood, some decentralization of management becomes necessary. In Firm A, for example, the tight-knit band of equity partners needs to loosen some of its iron grip on the firm and entrust management powers and authority to others. This can sometimes be an emotional period for a firm, during which there is a struggle for power and direction between the firm's old guard and the firm's "young Turks."

An executive group often emerges here, with a decentralized structure of office heads and practice group leaders, accompanied by the development of a more empowered "C-Suite" with a COO, a CFO, and directors of HR, marketing and IT. Some autonomies remain at local, practice group and individual levels, but the firm starts to develop a greater consistency of service and specialist capability. Partner responsibilities and accountabilities become more defined and focused. The founders often begin to take a back seat, but many find this hard to do.

At the same time, the firm struggles to retain its partnership ethos. Partners remain insistent on the retention of ownership rights over significant matters like mergers and the admission or expulsion of partners, but more and more of the key decisions are now made by the managing partner and the executive group. As the firm's profitability and success become more reliant on the collective effort of the firm and its groups and teams, and less reliant on the performance of key individuals, the whole issue of partner rewards becomes extremely sensitive. Partners come to terms with the notion that compensation decisions may be decided by their peers.

It is at this stage that so-called "lockstep firms" (where partners share equally after a period of progression to equality) come under challenge. Unless great care is taken, burgeoning bureaucracy can also start to stifle enterprise;

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partners no longer have their previous entrepreneurial liberty to take hiring and financial decisions themselves or on the run.

The future of the decentralized firm depends greatly on the quality and competence of its executive group. In previous phases, management and leadership tasks have been driven more by people's availability than by their competence. The group of professional managers hired a few years earlier might not have the ability to take the firm to the next level. Whatever governance structure has been agreed upon, the danger is that firms in this phase can easily plateau or go into a period of decline and premature aging.

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Even firms with strong and capable leadership, excellent decision-making processes, and compelling competitive strategies find it hard to ensure lasting success for the firm as an enduring institution. Hence, some firms remain as mature firms in their prime for many years, without ever managing to take on a degree of permanence that will enable the firm to outlive its current generation of partners.

INSTITUTION PHASE

The holy grail of organizational success is to become an enduring institution — a firm with a set of traditions and time-honoured structures and norms, with a distinctive way of life, a stable and reputable brand, and a long-term client base. These firms are more like clubs than commercial organizations, but a pronounced passion for excellence has become part of the firm's DNA.

These firms are often governed and managed with a light touch. The management structures have become less formal, and partner discipline is self-imposed by the firm's culture rather than driven by performance management regimes. Leadership is statesmanlike rather than authoritarian. Membership in the firm is more of a psychological contract than a commercial agreement. Roles are flexible and contextual rather than rigid and contractual. Long-term success becomes sustained rather than episodic. Very few law firms manage to achieve this status.

CONCLUSION

These issues are not confined to just Firm A and Firm B. During any firm's creative phase, there is a danger that the founding group's loving embrace becomes a stranglehold that stifles continued growth. The sudden departure of a founder, even temporarily, can cause paralysis. The firm at this stage can become ensnared in the "Founder Trap" and decline. During the firm's directive phase, delays caused by the constant need for consensus or that result from the need for a decision from a leading coalition can easily stifle the firm. During the decentralized phase, firms can become equally stifled by a burgeoning bureaucracy or by the needs of the firm advancing beyond the level of competence of its managers.

Which phase best describes your firm today? How close are you to the arrival of the next phase? Very few firms reach the final phase and become institutions — but there is no reason your firm cannot be the exception.

(This article has been updated from the original article which first appeared in Managing Partner Magazine in March 2011. Republished with permission.) •

Positioning to compete

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