

# Lawyers and Law Firm Management:

Partnering for Success

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## **Lawyers and Law Firm Managers: Partnering for Success**

### **Law Firm Management**

“Good law firm management cannot be achieved until all the partners agree to subordinate some degree of independence to a managing partner or an executive managing committee.”<sup>1</sup> Perhaps a better alternative is having a professional law firm manager who understands what both a law firm and a business need in order to be successful. The role of the law firm manager can be broad. Following are just some of the areas the properly trained and educated law firm manager has the capacity to handle:

Economic performance of the firm;

Long-range planning and direction;

Establishing systems and appointing individuals responsible for all the areas of firm management;

Monitoring, making decisions and recommendations regarding lawyer compensation, billing rates, opening additional offices and entering new areas of specialization;

Coordinating firm-wide communications to take advantage of the views of other lawyers and insuring transparency of decisions and programs being proposed or adopted;

Overseeing the firm's financial matters and reporting system;

Overseeing lawyers' career development, including evaluation, training and general work assignments;

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<sup>1</sup> Joel A. Rose, *Dealing With the "Leadership Vacuum" in Law Firm Management*, ©1999-2012 Joel A. Rose & Associates, available at [http://www.joelarose.com/articles/leadership\\_vacuum.html](http://www.joelarose.com/articles/leadership_vacuum.html).

Overseeing legal assistants' career development, including evaluation, training and work assignments;

Investigating, evaluating and making recommendations regarding special projects;

Overseeing firm facilities; development and monitoring firm policies; and

Overall firm organization.<sup>2</sup>

Law firms have been elevating legal professionals other than lawyers to positions of financial and substantive management positions for years. After all, few lawyers went to business school. Fewer still are able to keep up with the rapidly advancing technology that is fast becoming necessary in any law firm that handles digital information. Many organizations exist to support the non-lawyer legal professional. Of interest to the law firm manager is Association of Legal Administrators (ALA). Nearly 10,000 legal management professionals are served by this national organization. ALA and other organizations like it are valuable networking avenues that provide continuing educational opportunities through programs, publications, and certification.<sup>3</sup> A law firm or legal department that initiates the position of Law Firm Manager is not only investing in the training, knowledge and education of the person holding the position. It is capitalizing on the ever-widening ripples of that person's network of encounters with fellow professionals, associations and extra-organizational involvements.

No law firm or legal department can stay stagnant and survive in today's economic and competitive environment. "Expenses are rising faster than revenue at the nation's largest law firms, and those in charge of running those firms are running out of ways to manage the

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<sup>2</sup> *Id.*

<sup>3</sup> *About ALA: Leadership & Governance, 2012-2013 ALA President Steven D. Wingert, CLM, Association of Legal Administrators, available at <http://www.alanet.org/about/leadership.aspx>*

imbalance...”<sup>4</sup> Controlling costs continues to be a major industry concern. "It's an environment where we're still expense-focused, and I think it'll stay that way for a while," according to Legal Specialty Group's national managing director Jeff Grossman.<sup>5</sup> The report quoted, *Law Firms Struggling to Keep Up with Rising Expenses*, states that among the responding firms, revenue rose 3 percent in the first half of 2012, compared to the first half of last year. Profits, though, fell 0.7 percent, due in large part to rising expenses.<sup>6</sup> So, what is the initiative to take on another expense by hiring a law firm manager?

### Economies of Scale

Just as with any business – and again, the reality of a law practice is that it is a business – production increases as the number of goods produced increases.<sup>7</sup> Law Firms are service-oriented businesses. Their goods are the special knowledge and intelligence the partners and associates bring to the firm. Lawyers depend on clients; clients, though, depend on the lawyers, too, to meet their needs. The client/lawyer relationship is – or needs to become -- a synergy.

Time is the scale lawyers – and clients – use to weigh the value of the legal services rendered. If the lawyer is pulled away from performing necessary and billable tasks for a client to tend to the management of the firm, the lawyer, the client, and the firm suffer.

There are, according to Investopedia, two types of economies of scale. They are external economies and internal economies. External economies dictate that the cost per unit depends on the size of the overall industry. Internal economies dictate that cost per unit depends on the size

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<sup>4</sup> *Report: Law Firms Struggling to Keep Up with Rising Expenses*, Connecticut LawTribune, September 17, 2012, available at <http://goo.gl/weUUL>.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Definition of 'Economies of Scale'*, Investopedia, available at <http://goo.gl/hSKGJ>.

of the firm.<sup>8</sup> More often than not, the unit for a lawyer is the billable hour. A firm's internal economies depend, for the most part, on the culture of the firm.

But for external economies, lawyers and law firms review various studies<sup>9</sup> of their industry to see what other firms are charging per hour, such as TyMetrix Legal Analytics, which is part of Wolters Kluwer Corporate Legal Services.<sup>10</sup> The TyMetrix report that came out on April 16, 2012, "2012 Real Rate Report," indicates, in general, that hourly rates rose in the reporting period ending in December 2011.<sup>11</sup> But as we saw in the Connecticut LawTribune article, profits actually dropped. This isn't a law firm's goal. Lawyers do not want to raise their rates to make less. In response to the recession, though, law firms acted predictably. They lowered costs to maintain profits.<sup>12</sup> Costs, however, can only be lowered so much before production is negatively affected.

The answer to increasing profits lies in the efficient use of time and resources, while continuing to provide high-quality legal work. Such efficiency is accomplished by a coherent system of management. "If the firm is to establish a form of governance that will satisfy all of its members, the attorneys must first acknowledge the need for leadership. The designated leader, whether an individual or a management or executive committee, will not succeed until all attorneys in the firm recognize that the impetus for successful management is derived from the willingness of all firm members to be governed. The partners must also recognize that managing a firm, either as the managing partner or a member of a committee, is just as important and as difficult as performing client work." (Emphasis added.)<sup>13</sup> There are three root causes of (and

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<sup>8</sup> *Id.*

<sup>9</sup> A review of one such study is covered in the online article, Posted by Sara Randazzo, *When It Comes to Billing, Latest Rate Report Shows the Rich Keep Getting Richer*, The AmLawDaily, available at <http://goo.gl/RCRPy>.

<sup>10</sup> Press Releases, TyMetrix, April 16, 2012, available at <http://goo.gl/bPJeI>.

<sup>11</sup> *Id.*

<sup>12</sup> Corcoran, *supra*.

<sup>13</sup> Rose, *supra*.

consequential challenges to) law firm dysfunction. The first is financial, the second is process, and the third is organizational. The 21<sup>st</sup> century law firm must find new ways to accomplish things, especially if it is steeped in a culture of individuality and inertia.<sup>14</sup> I think that the first (financial) and the second (process) are best approached through concentration on the third (organizational). That is to say, get your organizational house in order and the process and financial challenges facing the firm will fall into lock-step.

### **Process and Financial Challenges**

Because of tight economic times, some large law firms are employing business process outsourcing and some are even outsourcing their legal process duties.<sup>15</sup> This may prove less economically efficient than it at first sounds. First of all, outsourcing any of the process that relates to a client's matter will probably become an ethical consideration requiring the client's fully informed agreement. Clients usually hire lawyers, not just the firm. They come to trust the individual who represents them. Trust cannot be outsourced; trying to do that may cost the lawyer and the firm more than it saves.

The real challenges of the process and financial imperatives are for the firm to understand where it is and where it wants to go. If these questions – Where are we? Where do we want to go? -- are not explored, reviewed on a regular basis, altered or confirmed, and implemented, then the firm has no navigation system in place. A firm needs to establish its values, its “core concepts that describe distinctive behaviors fundamental to the firm.”<sup>16</sup> These core concepts should be expressed in the firm's mission statement. This mission statement forms “a collective compass that guides organizational behavior, development and strategic planning, which are

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<sup>14</sup> Corcoran, *supra*.

<sup>15</sup> *Id.*

<sup>16</sup> BARRY E. JACKSON, CLM, CPA & KIMBERLY A. SWETLAND, BEST PRACTICES IN LEGAL MANAGEMENT: A COMPREHENSIVE GUIDE, 4, Roseann S. Lentin, et al, eds., 2010.

subscribed to by the firm's leaders and emulated throughout the firm from the top down."<sup>17</sup> Once this compass is established, the firm can develop its strategic plan. To establish such a plan, the firm's Strengths, Weaknesses, Opportunities, and Threats need to be honestly analyzed. This SWOT analysis, preceded by interviews of partners, associates, staff and management, allows for the firm leader to summarize the results and "begin analyzing (1) which strengths/opportunities should be enhanced or taken advantage of to realize the firm's vision, (2) which weaknesses/threats must be addressed to overcome difficulties and barriers that impede the firm's vision and growth and (3) which areas the firm's strategic goals should address."<sup>18</sup>

## Legitimacy

The process described should give the reader pause to consider, "Who is the leader that is going to do all of this?" Will it be a managing partner, an associate? If it is a managing partner, are clients going to suffer lack of attention? How many billable hours are we talking about here that will not get billed? The most efficient lawyers are those who use their resources to the best advantage. Resources include their particular area of expertise, of course. But resources are also staff, time and material. The most efficient lawyers use their staff, time and material to their maximum advantage. They don't do that by abdicating being lawyers, though. They do that by realizing their business – their law business – depends on a management system that is reasonable, sensible, and that is based on a body of knowledge they simply do not have the time to acquire. There are legal professionals who do have the expertise modern law firm need. These professionals have learned their skills in law schools, in programs like the MSLA at Denver University. Law firm managers understand the special requirements of law firms. They

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<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 5.

comfortable straddle the two worlds of the imperatives of legal considerations and business considerations. But as we have seen, those really aren't two worlds anymore.