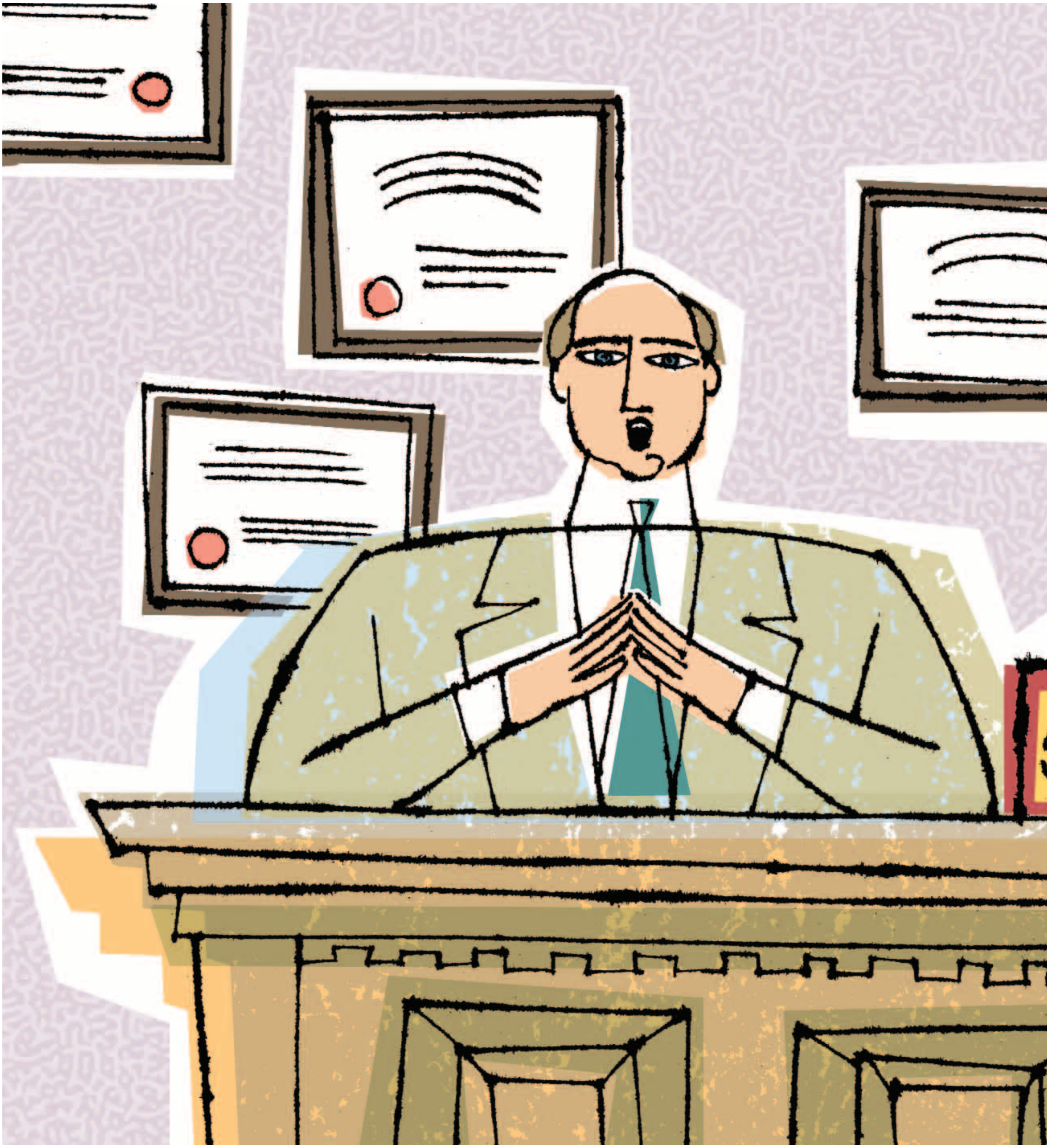
Law Firm Manag



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As the legal profession has moved to a more centralized, consolidated structure, the multispecialty law firm has come into vogue.

by Keith Simmons

When I was a little boy, there was a white, wood-plank building sitting about 50 feet from the little country church that our family attended. It sat in the gravel area that served as a parking lot for the church. It had no windows, and the door was always locked. I was told by my parents that the Masons met there and that I was never to try to see what was inside. I never understood what a Mason was or why I couldn't go inside that building. To this day, I would love to know what was in that building.

Most people, even the frequent consumers of sophisticated legal services, may look at a modern-day law firm much as I looked at that white, wood-plank Mason meeting hall, as a house without windows, an inscrutable monolith, the dark inner sanctum. When people ask me what I do for a living, or what kind of law I practice, I am proud to say I am the managing partner of the law firm Bass, Berry & Sims. The reactions that I get range from puzzlement to awe to pity to a blank stare. Most people simply cannot grasp the inner workings of a modern-day multispecialty law firm or the management of a group of lawyers.

Law firm management is simply one aspect of an evolving discipline of managing professional service organizations. Two or three decades ago our economy began a shift in earnest from a product-based to a service-based economy. Everyone talks about a service-based economy, but few of us really stop and think what that has meant in the way our jobs and professions have changed over the last quarter century. The careers we normally refer to as the professions—law, medicine, architecture, accounting, engineering, and others—have undergone radical change. The change in the way health care is delivered has been well documented. The country doctor has been supplanted by the preferred provider organization, the community or sectarian hospital has made room for the proprietary hospital, and third-party providers drive the whole process. Just as the medical profession has gone from a "mom and pop" structure to a more centralized, consolidated structure, the legal profession has moved in that direction as well, bringing into vogue the big multispecialty law firm.

The legal profession is far from consolidating into the "Big Five" or the "Final Four" of the accounting profession, but the pace of mergers and consolidations within our profession is staggering. According to Hildebrandt, Inc., one of the leading international law firm consultancy firms, in 1994 there were 14 mergers of law firms in which both merger partners had five or more lawyers. By calendar year 2001, that number had jumped to 82. During the last three calendar years, according to the Hildebrandt survey, there have been 206 mergers of law firms in which both firms had five or more lawyers in their respective groups.[1] The result is an explosion in the size of the major law firms in this country and around the world. As of the end of 2001, there were 22 law firms in the United States with 750 or more lawyers.[2] As of midyear 2002, the United Kingdom behemoth, Clifford Chance, had 3,322 lawyers practicing together in one firm, and 17 firms worldwide counted more than a thousand lawyers in their midst.[3] These organizations are big businesses. The largest American firm, Baker & McKenzie, had fiscal year 2001-02 revenues of a billion dollars and still finished a disappointing fourth in the world behind Clifford Chance, the

continued on page 4

continued from page 3

American firm Skadden Arps, and the British firm Freshfields. Clifford Chance had revenues in excess of $1.4 billion in fiscal year 2001-02.[4]

We have no billion-dollar law firms in Tennessee, but we have not been totally left out of the national trend toward bigger firms. Tennessee firms are not large by national standards. As of the end of 2001, the biggest Tennessee-based law firm had fewer than 250 lawyers.[5] Only three law firms in Nashville have more than 75 attorneys in their Nashville offices.[6] Our firm, Bass, Berry & Sims, is one of the larger firms in the state, with four offices in three cities, and we have 150 attorneys and 182 non-lawyer employees. Even though firms in Tennessee are small by national standards, management of a firm of even 150 attorneys and the staff necessary for their support presents a unique, complex set of challenges.

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The multispecialty law firm can usually be characterized as a group of lawyers organized as a partnership, a professional corporation, or a professional limited liability company delivering a variety of legal services to businesses and other institutional clients. Few firms are organized as partnerships anymore. The preferred organizational structure is the professional corporation or professional limited liability company. Each of these structures takes advantage of state laws that shield individual members of the firm from personal liability for acts of others in the firm.[7] The general partnership structure exposes all partners to liability for acts of others in the firm. Professional corporations and professional limited liability companies are treated as partnerships for most purposes under federal tax law, thereby achieving a liability shield but avoiding a tax on the distribution of profits to members. Even though the term "partner" is still used frequently, the equity owners of today's law firms are usually either shareholders, in the case of professional corporations, or members, in the case of professional limited liability companies. The principal management officer is variously referred to as the chief executive officer, chair of the management committee, president, or chief manager. Even though partnerships are rare in large firms, the chief management officer continues to be referred to frequently as the "managing partner."

Today's multispecialty firm primarily caters to the business community. Most firms also represent governmental entities, nonprofit entities, educational institutions, and other institutional clients. Typically a multispecialty firm does not undertake criminal defense, personal injury, or divorce and family law representations. Within the business world, these firms try to develop the full complement of legal services that their business clients might need.

Most law firms are managed by a committee of lawyers variously referred to as the management committee, the executive committee, the board of directors, or any number of other marginally descriptive names that only lawyers could contrive. Usually, one lawyer occupies the position of CEO, or, as previously mentioned, "managing partner." In firms of roughly a hundred or more, the managing partner may spend most or all of his or her time managing the firm. In very large firms, there may be several lawyers who devote most of their time to firm management.

The managing partner is usually a practicing lawyer who is tapped by his colleagues to shelve his or her practice for a few years and manage the firm. However, this brave person almost never has management training. I have been privileged to meet a large number of law firm managing partners. I have yet to meet one who has been to formal business school or who has any management training beyond a few daylong seminars. All firms employ professional managers to perform the myriad functions of law firm life, but the buck always stops with a lawyer with meager or no managerial expertise. Likewise, the management committee members have little or no management training, and, to compound the problem, these people are engaged in full-time legal practice. In a "mom and pop" world, this structure works fine. In the world of law firms as big businesses, it is hard to imagine that law firms are managed particularly well.

The good news for us amateur managers is that the business of a law firm is pretty simple. We don't go public, we don't manufacture our product in China, we don't hedge our risks in the derivatives market, and we don't have absentee owners. Basically, we do the work, deliver the service, send the bill, get paid (we hope), and distribute the money to the ownership. Along the way, we have to worry about sending timely and correct bills and controlling receivables. It is a fee-for-services business. Some have been able to convert it to a more entrepreneurial enterprise, but most legal services are delivered the same way they were delivered 100 years ago—fee for services. This is particularly true in the large multispecialty firm.

A law firm has most of the same issues as any business organization. We employ a lot of people. We deal with vacations, sick leave, pregnancies, family and personal crises, and, once in a great while, theft or other seriously inappropriate behavior. We lease or own office space. We have sophisticated technology. We employ electronic and print research techniques that leave no scrap of relevant information beyond our reach. We use increasingly sophisticated methods of developing and maintaining relationships with clients, potential clients, referral sources, and other people who influence our access to the consumers of our services. Marketing, or client relations, has become a very important law firm function. We employ cadres of talented people, professionals in their own right, to perform and supervise these functions. Our firm employs a CPA who is our controller and who supervises a staff of 11, a director of information technology who supervises a staff of 12, a director of marketing who supervises a staff of four, a director of human resources, a director of research services who supervises a staff of three, and a director of professional recruiting. Coordinating all these activities and overseeing a myriad of other essential non-lawyering functions of the firm is an executive director, who is a trained manager.

The cost structure of a law firm is pretty simple also. The biggest cost of running a law firm is the people cost. None of the other expenses remotely rival expenditures a firm will typically make on its people. Salaries of non-owner lawyers, paraprofessionals, and other support and senior administrative staff account for about 63 percent of the operating expenses of our law firm. Rent or other non-capitalized occupancy costs and office operations costs amount to about 19 percent of total costs. Insurance (including professional liability insurance), research and library costs, and business development costs make up most of the remaining expenses. The biggest capital costs are technology and leasehold improvement costs. As with any business, cost control is extremely important, but most of the costs are fixed and are not susceptible to short-term engineering that materially affects the bottom line. The real driver of law firm success is revenue generation, which is a function of the talent of the lawyers and the responsiveness and efficiency with which they deliver services.

The essence of law firm management is talent management. Talent in this context is astute mastery of the law, high ethical standards, good judgment, exceptional interpersonal skills, depth of experience, a high degree of motivation, and the ability to work miracles. Attracting, training, organizing, motivating, and retaining talent is a large part of what law firm management is all about.

In my opinion, lawyers, by nature, are lone-wolf personalities. I believe many, many people go to law school so they can control their own fate and function above the normal clutter that controls most of our lives. Further, the method of instruction in law school emphasizes self-reliance. Law school is an intellectual boot camp. The goal of law school is to break down its young scholars intellectually and then rebuild them in the traditional law school mold. When the ordeal is over, the final product is road-tested to be totally self-reliant, totally self-confident, and able to stand up to every challenge, the harshest judge, and the most demanding client. The problem with this approach is that most cases and transactions are large and require a high degree of teamwork. The successful law firm functions as an integrated whole, combining all its legal talent to further the goals of the enterprise rather than the personal interests of each lawyer. Molding these independent, self-confident, self-reliant people into a team, whether at the client level or the firm level, is key to building a successful law firm.

With the lawyer personality in mind, it is my view that the modern multispecialty firm is not really managed but pointed. Most people in our society are more likely to embrace an idea if they think it originated with them. Lawyers carry this concept to the extreme. I am sure that somewhere there is a firm so autocratically controlled that a dictator gives the orders and everyone jumps. I think the more usual and more healthy firm is one where goals are clearly communicated, understood, and embraced (or, at least, accepted); strong culture and tradition consistent with those goals exist; the people who are invited into the organization and suffered to remain are compatible with the goals and culture; and the lawyers are allowed to structure their individual practices as they please or as the client base dictates, within these goals and culture. It is the job of law firm management to communicate expectations and culture and deal with the outliers.

As in any organization, good management requires division of the enterprise into manageable units. In law firms, those units are usually the practice groups. Practice groups may be organized around functional specialties (litigation, commercial transactions, or government regulation), substantive specialties (environmental law, public securities law, or banking law), or client teams. Sometimes practice groups are organized in all three ways within the same firm. In our firm we have eight practice groups. They are litigation, labor and employment, commercial transactions, corporate and securities, entertainment, tax, health care, and environmental. These groups form our organizational core for purposes of quality control, associate training, work evaluation, work allocation, staffing, and other basic functions.

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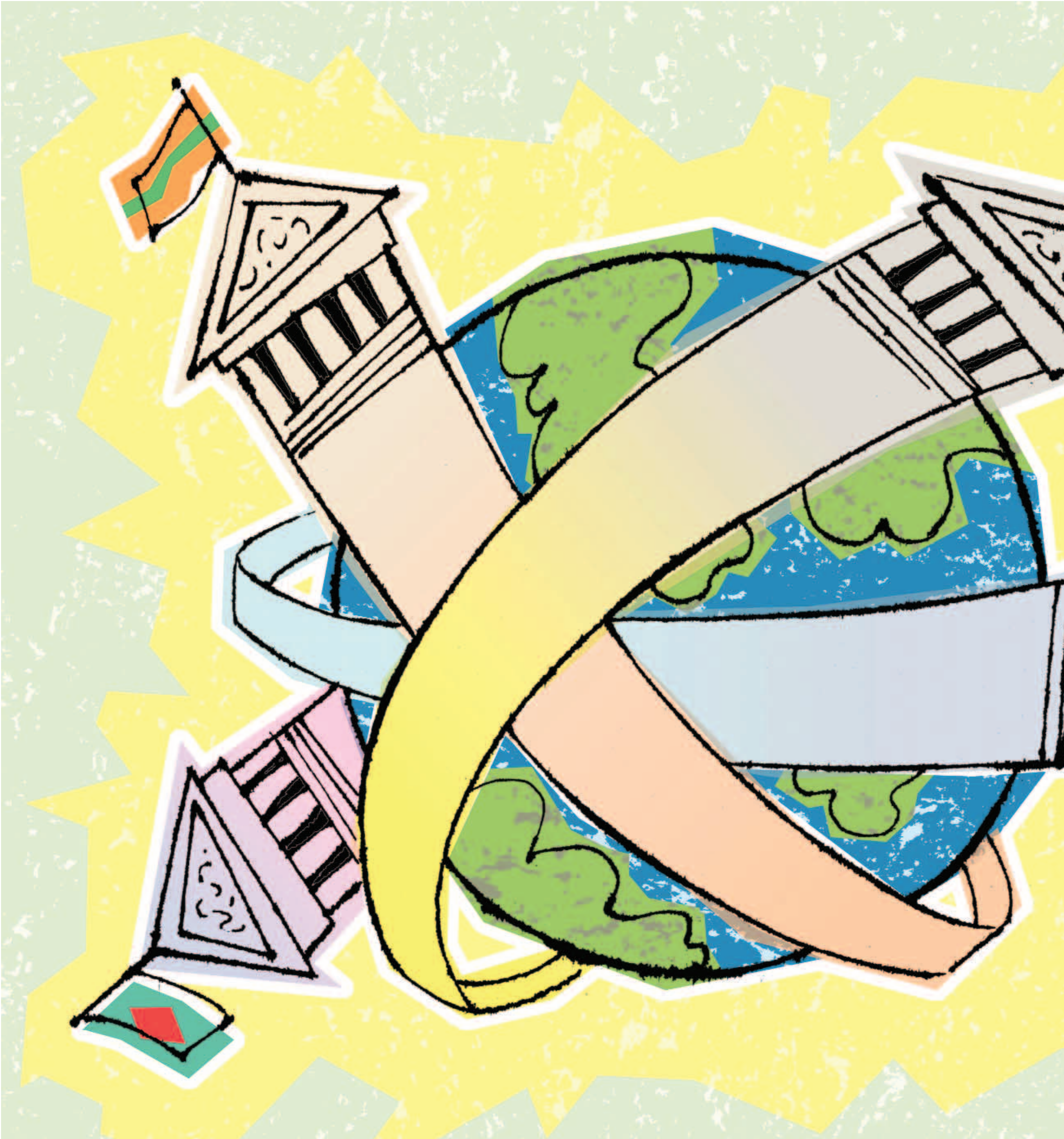

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However, the lawyers within these groups may also be members of interdisciplinary teams, such as the intellectual property/technology team, or client teams that cater to the needs of a particular client. The result is a grid of sorts with lawyers within the basic practice groups interrelating at various levels.

The unsung heroes of a successfully integrated multispecialty firm are the heads of the practice groups. Good practice group heads

allow the firm to break down into small, more manageable units. I believe the smaller the unit the greater the quality and efficiency of the work product. The practice group heads are mini-managing partners in touch with the work and needs of their groups. Except in very large firms, these people do not have the luxury of laying their practices aside in favor of management. For them to function effectively, they need to be engaged in practice. They are the people who know what is going on within the practice group on a day-to-day, intimate basis. Control of costs, workflow, service quality, service responsiveness, and training begin with the practice heads.

A huge challenge for law firm management today is strategic planning and devising a strategic path for the firm. The manner in which legal services are made available has changed drastically over the past several decades and will continue to change. The character of the marketplace has also changed and will continue to change. Some of the meat and potatoes of the legal practice of 25 years ago can now be duplicated by accessing the right Internet site. Many of the big consumers of legal services, large corporations, have decided they can service their legal needs more efficiently through in-house legal departments, some of which are larger than most law firms. Accountants, auditors, and actuaries now perform services traditionally performed by lawyers. Large national or global law firms seem to be the trend, and even small and mid-cap businesses see the need to tap into the expertise a huge law firm can offer. Devising a model that anticipates future trends so the firm can continue to provide the client expert advice and service and the lawyers within the firm the professional and financial rewards they seek may be the most demanding role of law firm management.

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I wonder if the inside of the Masons' meeting hall was half as interesting as the inside of a law firm. The inside of a law firm is all about really smart, motivated, opinionated, hard-working people. Maybe the Masons' meeting hall is as well. Giving these people a platform to do their best work and pointing them in the same direction is the job of law firm management. It is as simple as that. As an inscrutable monolith and dark inner sanctum, the Masons' meeting hall wins hands down. ■

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[1] Hildebrandt, Inc., *Completed Mergers and Acquisitions, 1994-1998 and 1998-2002*.
[2] *The American Lawyer*, July 2002.
[3] *The American Lawyer*, November 2002.
[4] Id.
[5] *The American Lawyer*, August 2002.
[6] Nashville Business Journal, *2003 Book of Lists*.
[7] Sections 48-101-601 *et seq*. and 48-248-101 *et seq*., *Tennessee Code Annotated*.