

# Culture and Its Impact On Challenges Facing Law Firms

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This article discusses law firm culture, and key challenges facing firms today including attracting and retaining top professionals, the interaction of firm economics and lifestyle, satisfying clients, and managing successfully in a recession. Firm culture is a major factor in meeting these challenges.

## LAW FIRM CULTURE

Culture has been defined as the personality of the organization, or the “feel”, and includes shared values, customs and beliefs. Where common beliefs are widely held, we say it’s a strong culture. Culture places boundaries around behavior, and defines what is appropriate.

Culture can often be used to justify lack of management, such as in firms with unproductive partners. Also, firms often use culture as a way to justify decisions, as in, “She’s not a good cultural fit”. Culture places boundaries around behavior. It defines what is appropriate.

Law firm partners and managers often declare that they are proud of their culture. They talk about their firm’s culture to prospective employees, lateral partners and clients. But most of the time their descriptions do little to distinguish the firm from others- all firms aren’t collegial, community service oriented, and caring, yet during interviews and on websites those cultural labels are commonly used.

The following are attributes that distinguish culture:

- *External vs. internal focus*- Does the firm have a client and market orientation?
- *Teamwork vs. individual accomplishment* – How is work organized, what training is provided, is collaboration encouraged?
- *Is there a clear long-term direction?*
- *Are values articulated and enforced?*
- *Decision making process- Who makes decisions? Do partners and managers have a sense of empowerment to do their job?*

To analyze a firm's culture, identify some observable factors that shape culture:

1. *Size*: Larger firms are generally more bureaucratic.
2. *Location*: Cultural values vary between cities.
3. *Politics/Diversity*: Is the firm politically aligned with one political party? Does the firm have significant diversity?
4. *Associate/ Partner Ratio*: An indication of internal competition for eventual partnership. With a 1/1 associate to partner ratio, associates have a good chances of becoming a partner. With a 4/1 ratio, associates are competing for eventual partnership.
5. *Clients*: Firms with established clients such as banks are generally more conservative. Those with growth clients like tech firms are often more like their clients. Large, long term clients can have a significant impact on culture.
6. *How is the firm governed and managed?* The firm's business model often reveals core values. Does it have democratic or centralized management?
7. *Reaction to the business cycle*: What does the firm do in a good economy, and in an economic downturn?
8. *Compensation System*: Is it primarily a seniority or merit based compensation system for partners.
9. *Lifestyle Expectations*: Does the firm have minimum billable hour requirements? Is life outside the firm encouraged and accepted? What is the firm's turnover?

Professional happiness and success in a legal organization has more to do with cultural fit than any other factor.

## ATTRACTING AND RETAINING PROFESSIONALS

Attracting and retaining top professionals is one of the major challenges facing firms. What affects retention, whether for partners, associates or administrative talent? A *good work environment*, which consists of career prospects, satisfying work, skills training, a collegial culture and a powerful brand name.

Partners, associates and staff must feel that they have opportunities, and that compensation is fair. People tend to stay where they enjoy the work, so satisfying work is critical. Skills training and the ability to develop capabilities, improves retention.

A “powerful brand name” is especially important for attracting and retaining partners. It’s not enough for the firm to be good at a particular practice, but clients and potential clients need to know that they are good.

Finally, people stay in firms with a collegial culture and a place that gives them a sense of belonging.

## FIRM ECONOMICS AND LIFESTYLE

Law firm associate salaries jumped dramatically, by over 60% in some firms, in 1999. Gunderson Dettmer, a 100-attorney firm based in Silicon Valley was losing attorneys to start up clients and venture capital firms in 1999. So they decided to increase their associate salaries by over 60% at one time. Other Silicon Valley firms followed, the San Francisco firms followed Silicon Valley, and New York and L.A. were close behind. Then all the large firms in major financial centers joined in, and smaller cities and firms throughout the country followed. Almost overnight the economics of law practice had been changed dramatically.

What’s really interesting is comparing Gunderson’s business model and culture to more typical law firms. Gunderson represented high tech startup companies, and their business model was really a hybrid organization. Entrepreneurs came to the firm for help taking their companies public and all that entails. The associate salary increase made sense for their firm because the firm’s economics and culture were different than most firms. When traditional law firms increased associate salaries, they had to increase revenues and reduce other costs to maintain profitability goals. Administrators were running ragged looking for costs to cut, and it was difficult to make any meaningful impact as leasehold costs are virtually fixed, and salaries had just increased and those two items are most of your costs. Across the country, associates were making more money, but this dramatically impacted on lifestyle.

Lifestyle expectations, refers to the balance between work and personal priorities. As with other cultural aspects, law firms differ in this regard. Law firm economics plays a crucial role, especially in medium and large size firms.

With expenses rapidly increasing because of the higher salaries, revenues had to be increased to maintain firm profitability. Law firm revenues can be increased by increasing billing rates, or increasing billable hour requirements. Because firms were already under substantial pressure to hold rates, increasing billable hours targets and requirements resulted. This led to pressure to work longer hours and bill more

During the same period, some firms started to reduce the number of new partners being admitted. This put further pressure on associates to work more, and increased associate competition.

The word used to discuss the attorney's choice of work vs. personal and family priorities is commitment. Many law firms expect associates to place the firm ahead of all non-work obligations as a symbol of their commitment. This not only makes balancing of personal and professional obligations difficult, but it can result in costly attrition.

Anytime a firm is considering a major cost increase like an increase in associate salaries, management needs to consider who will pay for it:

- Attorneys through working more hours,
- Clients through higher rates, or
- Partners through reduced profits.

## SATISFYING CLIENTS

Client satisfaction can be dramatically influenced by firm culture. When you talk about satisfying clients, most attorneys think that equates to doing good work. However, it's critical to recognize that everyone in the firm is involved in client satisfaction, and that the firm needs to focus on the client's perceptions.

In 1984, David Maister, a former professor at the Harvard Business School, wrote an article which included the following formula regarding customer satisfaction:

$$\text{SATISFACTION} = \text{PERCEPTIONS} - \text{EXPECTATIONS}$$

In other words, you don't get satisfied clients just by doing the best legal work. While good work is obviously important, satisfied clients are the result of client perceptions that exceed to their expectations. This is why everyone in the firm needs to be involved in client satisfaction, and it's an important cultural factor for successful law firms.

Firms that focus on creating positive client perceptions understand the importance of:

- The attorney that keeps the client informed.
- The attorney that under promises and over delivers.
- The receptionist that answers the phone quickly and pleasantly greets clients.
- The billing assistant who immediately corrects an error, and is empowered to do so.

So when your firm thinks about marketing strategy, don't forget about what the people in your firm are doing and how the client perceives their actions and words. Make total client satisfaction an important part of your firm's culture.

## MANAGING SUCCESSFULLY IN A RECESSION

A firm's response to an economic slowdown depends to some extent upon its culture. Some of the management issues that the firm needs to address in an economic downturn are as follows:

- *Manage the impact.* Whenever possible, the firm's resources should be redeployed to practices with more work.
- *Business Development.* There is still business out there and your firm needs a larger piece of the pie. This is particularly important for strong practices in the firms that are hit the hardest by the downturn. These practices should attempt to help themselves in the short term, with the additional benefit of being well positioned to receive more work in the long run. Alternative billing methodologies, such as flat fee arrangements, can be particularly attractive to clients seeking predictability and certainty.
- Ask yourself, *what can we do to help our clients?* Clients are also suffering. In the 1990's, a firm in New York provided offices to investment bankers who had been laid off. When the economy came back, those bankers didn't forget who helped them in tough times.
- When *reductions* of staff are necessary, consider reductions of hours rather than the elimination of positions after marginal performers have been eliminated and where this will work. Major layoffs are an indication of firm culture that are understood in the market and remembered for a long time, as are efforts to keep people employed.

Above all, keep focused on the firm's long-term goals and strategies and be consistent with the firm's culture. Law firms that address cultural issues will be successful in the long run.

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John Boyd is a management and strategy consultant to law firms. He has been Administrative Partner and Chief Operating Officer for large law firms including Winthrop Stimson, a New York based global firm, and Andrews Kurth, a Houston based national firm. A graduate of the University of Michigan Law School, he has practiced antitrust and business law, and served as Deputy Attorney General for the State of Colorado.

In his consulting practice, he advises clients on strategy development and implementation, law practice management, mergers, changes in the legal market, and management issue resolution. He is an Adjunct Professor at the University of Denver Law School where he teaches *The Legal Practice Seminar*, and *Strategic Business Development*, and at the University of Colorado Law School where he teaches *Law Practice Management*.