

Practice Management

Changing Market for Legal Services Places New Focus on Practice Management

Law firms are recognizing that the days of operating like a regulated industry are fading fast. Like the airline, telecom, and rail businesses in prior years, forward-thinking law firms understand that they are operating in an increasingly competitive marketplace and that they must transform themselves in order to thrive. Practice management is one of the key components in this transformation for law firms to be successful in the long term. Today's law firms face significant internal and external challenges as they strive to increase net income per partner and compete for both clients and lawyers in the legal marketplace. Traditional models for law firm success that are outdated and law firms are realizing the need to reinvent themselves in order to survive.

Common pressures facing law firms and law firm management today include:

[Associate salaries that have escalated, while their willingness to work harder--within the current structure and motivational system common to most law firms--has not escalated on pace with their salaries.](#)

[Clients demanding increasing levels of service from all of their suppliers at the same or lower price.](#)

[New providers delivering legal services and information are carving off pieces of the legal services' "value chain" from traditional law firms.](#)

[Law firm clients who are experiencing their profit margins squeezed by the Internet and global competition.](#)

Partners who are working harder than associates (counting the total of billable and nonbillable time) and are increasingly frustrated and approaching burnout.

All of these market developments indicate that traditional law firms must rethink not only how they provide services, but also how they are managed, if they intend to be successful and profitable. The increases in associate salaries in 2000 and the resulting need for increased associate productivity has precipitated the most profound changes in the attitudes toward real practice management of any trend in the last decade.

In addition, many firms grew dramatically over the last few years of the booming economy through 2000. In fact, the average size of the top 20 firms in the country grew from 715 lawyers six years ago to more than 1,200 this year. Many firms more than doubled in size in this period. This was often accompanied by a significant increase in the number of offices within the firm.

Practice Management--A Key to Capitalizing Upon Size and Resources

[It is critical to recognize that the management of the law firm must evolve as it grows.](#) What worked when the firm had 150 lawyers in two offices most likely won't work with 400 lawyers in five offices or 800 lawyers in ten offices. [While there are certainly elements of good management that are consistent across firms of any size, the degree of application of these management principles, and the time that is required to put them in place, will usually increase as firm size and scope increases.](#) Practice management is critical to any firm that hopes to compete in the Profits Per Partner war or simply wants to capitalize on its growth.

Why have firms grown so much? The most common reasons are to enhance their services to clients, to increase critical mass in certain practice areas or offices, to continue to increase their profits per partner or to enhance their position as a key provider of **legal services** to their clients and prospects. However, many firms have not truly capitalized upon the growth they have undertaken. In some instances, their competitive position has been weakened rather than strengthened by the investments they made in growth and lawyers have correctly concluded that growth for growth's sake does not make a better firm. Management challenges grow geometrically as firms become larger and more complex.

[It is critical, whether you are in a firm of 100 or 1000 lawyers, to really take advantage of your firm's platform.](#) The larger and more diverse and dispersed a firm becomes, the more attention must be focused on effectively managing the firm. Growing a firm requires a significant investment, in both time and actual dollars

(for recruiting, for ramp-up time, for marketing activities, etc.). The investment in effective management, especially practice management, will help ensure that the firm gets a significant return on the investment in growth. This return can be measured by increased profitability, but it can also be measured by factors such as the firm's market position, acquisition of new clients and retention of key lawyers.

What Does It Mean to Have Strong Practice Management?

In the broadest perspective, practice management means managing the legal work, managing clients and managing the professionals (lawyers and other fee earners). Currently, firms use many different models of practice management. In most firms, this function is typically handled in practice groups organized by substantive area such as labor and employment, corporate, tax, securities, M & A, product liability and so on. In others, it is the responsibility of industry or client groups such as securities, financial institutions, media, telecommunications or health care. In many firms, practice groups include a mix of substantive areas of law groupings and industry or client segment groupings.

Having a strong practice group management means that your firm has established firm-wide (not office by office) practice groups, each with a practice group leader. Practice groups are narrowly focused on and of manageable size, usually 15 to 50 professionals (though they can be significantly larger in megafirms). To be effective, the Practice Group Leader (PGL) must have significant input into the compensation of the members of his or her group and receive significant compensation for doing an effective job as a PGL.

Strong practice group management also means that the groups meet regularly and that there are group activities such as development of new services, training sessions, creation of business plans, knowledge management initiatives and more. It means that lawyers feel a sense of commitment to, even ownership of, the group and act like group members, rather than functioning purely like autonomous lawyers under a firm "umbrella" (the traditional "hotel for lawyers" model). Group members are expected to spend much of their non-billable or "investment" time working to achieve group goals, not simply building their personal practice. In fact, if group members focus on their personal practices and do not contribute to (or worse, undermine) group activities, they are often penalized in compensation in those firms striving to fully support strong practice management and to achieve the benefits of it.

The primary functions of practice management should include:

- Leadership and direction, including development of a vision and business plan for the group

- Lawyer motivation and morale

- Work intake, assignment and workload monitoring

- Supervision of work, service and specialization standards

- Training, mentoring and professional development for all levels of lawyers and staff

- Development of systems and procedures, including knowledge management and other applications of technology designed to enhance productivity and caliber of work product

- Quality control and review processes

- Development and implementation of innovative marketing plans and strategies, and

- Client service and satisfaction.

Running a practice group in a medium to large firm is equivalent to running a business unit of a major company and requires the same level of management attention and calculated focus on skillset development. Today, law firms find that to run a practice group of approximately 30 professionals successfully and profitably requires at least 400 hours a year of "investment" (or nonbillable) time. In some firms, Practice Group Leaders are expected to spend in excess of 800 hours a year managing their groups. The amount of time varies depending upon the size of the group, the complexity of issues facing the group (i.e., are there partners who do not get along, are there unproductive lawyers, etc.) and what goals the group is trying to accomplish (maintain the current practice vs. significantly increase profitability and/or market position).

Why Implement Practice Group Management?

Strong practice group management enables firms to capitalize upon their growth and size. Without a group structure as described above and incentives to enhance group (not just individual or office) performance, most firms do not capitalize upon their growth--particularly not growth through large mergers or acquisitions. A firm-wide practice management structure provides a platform to integrate people and practices and capitalize upon growth. With a group structure in place, you have the natural place to bring together all the people who are necessary to develop common goals and group business plans--including where and how to position the group, clients to target, referrals to attract, how to share knowledge to enhance service to clients, ideas for new services and more. This leads to successful integration of the newly joined firms. Otherwise, many firms never fully capitalize upon the expansion they have undertaken, and are left only with greater mass, not the benefits that can come from such growth.

In fact, data on the growth of many AmLaw 100 and 200 firms from 1995 to 2000 indicates that a high percentage of them grew larger but did not significantly improve Profit Per Equity Partner (PPEP) or market position.

Strong practice group management also enables a firm to:

- Improve practice group, and therefore firm, profitability,

- Attract better work and clients--more work that is of high value to current and new clients, less work that is fee-sensitive and better leverage professionals other than partners, enhance the sense of ownership in the firm by all professionals and staff, leading to improved morale and retention,

- Better leverage junior professionals through improved mentoring, training, development and accountability,

- Maintain a sense of closeness or "small firm" or "family-like" culture, even if the firm grows very large,

- Achieve greater success in implementing your firm's strategic objectives since most implementation of firm plans is done at the practice level through practice group business plans, and

- Develop current and future leaders of the firm, thereby ensuring long-term stability of the firm.

Historically, a majority of medium and large firms have been geographically oriented. Most firms now have or are moving to a national or even international practice-driven orientation. Our research shows that firms that have a strong practice group structure with firm-wide groups attract higher value work and higher volumes of work from better clients. The key reason is that in order to achieve market recognition of your expertise and to be on "short lists" on more than a local or regional basis, firms need to have groups function as a cohesive unit-- across offices--to analyze and discuss their competition, target trade and business association involvement, get on "short lists" of specific existing and prospective clients, develop cutting-edge products and services and attract and retain talented professionals. Therefore, a firm-wide practice group structure helps firms compete more effectively than when they are simply a collection of individual lawyers. In interviews of law firm clients, we regularly hear that if a law firm does not provide seamless, cross-office service, then the clients prefer to use the "best firm in each location" approach rather than a regional or national firm with multiple offices.

Our research also indicates that this structure can help your firm avoid the "commoditization" of its services that so many firms have experienced. This trend can be controlled or minimized by the firm where the practice groups work to continually enhance the reputation of the group, to develop new, value-added services, to allow lawyers to be more specialized (which can affect their image as higher value providers) and more. In fact, many firms found that the geographic orientation they used throughout the '80s and sometimes into the '90s, often led to a need to be "full service" in each location and lead their practice toward even faster commoditization, through diminished credibility as specialists.

Many firms have tried to achieve these goals by putting in place practice groups with little authority or on paper only. These firms are routinely disappointed in the results. In fact, the goals above can only be

achieved through strong practice group management. Some of the major U.S. firms that were highly successful for years due to their strong, almost autocratic, firm leadership have found that even that strong leadership at the firm level is insufficient in today's competitive market. Without strong management at the practice level as well, large firms typically plateau in their profitability, market position and reputation and other factors--and sometimes, then begin to decline.

Keys to Achieving the Benefits of Practice Group Management

Our research has also shown that many firms have failed to achieve the significant benefits of true practice group management because they did not implement key changes in the firm to make it effective. Often, changes are required in a firm's compensation system and the typical "culture of autonomy." There is now a clear trend that many of the firms "pulling away from the pack" in net income, client base and size are those with strong practice group management. Keys to this success include:

Giving a specific job description to practice group leaders, including responsibility and authority over intake, work assignment, business planning, group profitability and more. It also includes significant input about the compensation of all lawyers in their group.

Rewarding a practice group leader based upon how his or her group performs, as much or more than on his or her personal "numbers."

Rewarding lawyers who are excellent managers and motivators of others, as much as business developers are rewarded.

Holding all partners/owners accountable to do far more than be profitable over the short term. It means a significant contribution of investment (nonbillable) time to the firm in the form of associate management, recruiting, training and development, research and development, business development, knowledge management, etc. This means about 700 hours a year on top of billable time.

Without these steps or philosophies in place, the time that your lawyers spend in the role of a practice group leader or department chair or in management training will not be as valuable to you as it could be if the right foundational work were done first. In fact, the structure can even backfire since it is often undermined by those resisting change.

What Practice Management Can Accomplish

Practice management is critical in law firms today because it helps firms achieve goals in the following areas:

Client Base and Profitability

Attract higher "value" work and more competitive clients

Develop a "brand" image

Provide better services and work product

Improve overall profitability of the firm by increasing profit margins at the client, matter and practice area levels, and

Develop new services and products to differentiate the firm from its competitors.

Lawyer Recruitment and Retention

Attract and retain more and better talent at all professional levels

Improve retention, productivity, morale and enthusiasm of all professionals, and

Increase the spirit and success of internal teamwork.

Motivation

Inspire and motivate performance by providing an articulated common vision for development of the practice area

Enhance individual's sense of ownership and belonging to the firm, and

Create higher levels of commitment to the firm and the practice group.

The discussion of these goal areas below may show you where enhanced practice management can significantly improve your firm's performance.

Client Base

Strong practice group management helps firms to obtain and retain a greater number of the more attractive clients. The old models for "practice management" in firms involved large departments of corporate and litigation lawyers. These groups typically handled a few, limited practice management functions such as recruiting, limited "training" and workload allocation for associates. Unfortunately, they were completely ineffective for marketing purposes, for the reasons outlined below.

First, and most importantly, it is at the practice group level that you can most effectively address the changes in how clients value legal work today. Some firms are still pricing, managing and marketing all work as if it has the same value to all clients. In fact, some clients value certain work as commodity while others see it as higher risk and thus more highly valued. Some firms staff and manage their "bread and butter" work in the same manner as their expertise or "bet-the-company" work. Inappropriate packaging of your firm's areas of expertise can seriously impact the practice group's profitability, marketplace reputation and client base. Without concerted efforts, many law firms are losing pieces of the client's work and it is often the more profitable work.

Next, different practices are marketed very differently. For example, the way to market securities work effectively is different than the way to market lending work. Large, all-encompassing departments cannot accommodate these different areas of market focus and establishing separate marketing teams by substantive expertise or industry group has almost never worked. The marketing function is best handled at the practice group level, but only as part of the group's integrated strategy and practice management activities.

Finally, another problem with the marketing teams in firms historically was that they spent their time identifying target clients or groups to address. They did not focus on how they could develop characteristics or selling points of their group that would be truly differentiable from other similar practices in other firms. [If a firm simply markets services that look like those of other firms, it will compete almost entirely on a price basis or on personal relationships.](#) Where you have practice groups that are regularly developing new high value services or new ways of delivering services, you can develop marketing approaches that are truly different from other firms and are more effective in attracting more and better business.

Improved Profitability

Practice management is the area where you can most significantly affect your firm's short- and long-term profitability. In the short term, strong practice management can result in better intake and pricing decisions, improved realization with shorter billing and collection cycles (as a result of better intake and better management of the work and client expectations), and higher billing rates (through the attraction of higher value work).

Leverage (the ratio of non-owners to owners) is the factor in the Profit Per Equity Partner (PPEP) formula that most firms can improve the most over the long term. Without practice management, it is difficult, if not impossible, to increase leverage. Practice management results in better workflow management to get the work to the person best-suited to handle it, better supervision of the work (thereby resulting in fewer write-offs and less unbilled time), more even development of young lawyers, and lower turnover of associates and other professionals, among other benefits. Turnover per lost associate today typically costs at least \$300,000 in hard and soft costs. Firms need to understand the reasons for, and then reduce, the cost of lost human capital in their firms. Through strong practice management, firms can achieve and sustain higher levels of leverage.

With respect to expenses, practice management will not necessarily reduce the group's direct expenditures (which are typically practice developmental in nature), but it will improve the group's return on those expenditures. The oversight and approval process for major expenses generally ensures that money is being spent on efforts that support the group's strategy and on target clients or prospects that make sense.

In addition, the profitability of practice areas within a firm and services within a practice can vary widely. For many practices in recent years, a segment of the work has become more of a commodity, and profitability has therefore declined significantly. Practice group profitability can be improved with the application of good practice area, and sometimes service line, financial information by strong practice group leaders.

Retention and Morale

Recruitment and retention of lawyer talent is one of the most significant issues affecting many law firms today. Many lawyers cling to their individual autonomy, yet lament the internal competition within their firms and the resulting environment of a "confederation of solos under one roof." This competition results from a lack of structure, autonomous operation of lawyers as professionals, inappropriate compensation incentives and the lack of individual involvement in meaningful practice group's activities.

Practice management positively affects morale through the following activities:

Development of in-depth and meaningful training and professional development programs for lawyers at all levels. Law firm partners, like all other executives, need professional development plans as much or more than associates do, if they want to remain competitive as client needs and demands change. Many lawyers have seen their practices and clients change dramatically in recent years, often with negative effects on the challenge in their practice client relationships and profitability. Ongoing professional development plans can prevent this.

Associates and professional staff are motivated by consistent, formal and informal training and development efforts, which are viewed as an investment in them as professionals. This kind of investment, or lack thereof, significantly affects the loyalty and productivity of many young lawyers. Absent a commitment to the personal development of their associates and professional staff, law firms are seeing, and will continue to see, attrition rates at incredibly high levels.

Enhanced communication. One reason why even many partners feel like "employees" of their firm today is the result of insufficient communication throughout the firm and particularly from management. There should be regular communication about major engagements, lawyer successes or honors, cross-selling efforts or opportunities, the common vision for the practice group, criteria for accepting new business and new lawyers into the firm, regular statements about firm financial performance and more.

Lawyers in most firms cannot articulate their firm or their group's vision for the future with any specificity. It is hard for professionals to stay motivated and appropriately focused without this vision as a "guiding light." Law firms have become large organizations struggling under tremendous time pressures and client demands. Without strong communication at the practice group level, it is impossible to keep all partners--much less all the lawyers and staff--moving in a common direction and actively engaged in helping achieve firm and practice group goals. This is critical to ensuring that lawyers remain committed to the firm and appreciate their contribution to the firm's overall success.

Teamwork. As law firms have experienced tremendous growth and increased specialization, many partners say they do not feel like owners in their firms anymore. To create a "glue other than money" that holds a firm together, you must have teamwork. In large firms, this teamwork must begin at the practice group level because the firm is too large to do it at the firm level. Effective teamwork is based on strong personal relationships among individuals who trust each other or who develop that trust as they work toward common goals together. At the practice group level, you can develop meaningful teams for research on new areas, knowledge management systems, improvement in industry reputation and more.

Motivation. In the business world, even the employees of very large companies demonstrate a high degree of employee loyalty and sense of belonging. Large companies typically create this loyalty by organizing and managing with small groups and teams. Our research shows that law firms have lost much of the sense of personal ownership that they once had, even among those who still are technically "owners," or partners.

Having well-functioning practice groups with strong leadership is critical to law firms maintaining this sense of ownership and belonging--and among the best ways to counter the terrific pressure for lawyer mobility in the profession today.

Getting Started

Establishing a strong practice group structure usually requires the following steps. Your firm may have already undertaken one or more of these steps. You can do these on your own or consultants can assist, as desired. The steps include:

A meeting of key firm management--At this meeting, the group would develop a game plan for implementing stronger practice group management, such as a detailed job description, compensation input, goal-setting for groups and more. This meeting would enable your management to decide what parts of practice management they feel are appropriate at this time and for your culture; that is, how far the firm is willing to go in terms of practice management. Many firms are recognizing that their future success will depend on new models for law practice and paradigm shifts from the old approaches.

A meeting of all firm partners to educate them about the changes necessary to achieve the benefits of strong practice management--Without partners' willingness to be managed, it is virtually impossible for practice group leaders to do their job. Many firms have adopted these positions but the partners had not seriously bought in to any change in their autonomy and participation in group activities. All partners need to spend significant investment time participating in practice management activities. This meeting can be conducted by firm management or by consultants.

Identification of department and practice group leaders and group members--This includes identifying those with the willingness and ability to fill the practice leadership roles, which requires some sacrifice of attention to their personal practice. During a transition period, lawyers are often a member of two or more groups (one primary and one or two secondary). After that, every lawyer has one primary group and, sometimes, a second one.

Development of a customized leadership and management training program--Based upon the level of practice management you decide to implement, your practice leaders need training in leadership and management skills.

Conclusion

What is the bottom line? [Lawyers are motivated by making a difference and being part of a practice group embracing a common vision](#). This increased motivation produces better morale and satisfaction resulting in less internal dissension and turnover. Those who are more motivated also convey this to clients and attract better work and clients. While it may sound foreign and overly optimistic, practice management implemented as discussed above will achieve results that no other law firm changes can. If you look at the law firms who have seen the greatest success in recent years, in many, it is attributable in significant part to a strong practice group management structure.

Interested in Learning More About Legal Hiring? Read the Definitive Guide:

[How to Hire a Legal Recruiter for Your Law Firm: How Law Firms Recruit Attorneys Using Legal Recruiters](#)