The Price of Leadership in Law Firms

Simply put, if the job of a manager is "to make the trains run on time," the job of a leader is to ask where we should lay the tracks - or, perhaps, to suggest that it`s time to close down the railroad and start an airline. Most law firms are reasonably well managed but seriously under led. At a time of dramatic change in the legal market, this deficiency can be fatal. Having an effective leader as managing partner, though certainly not a panacea, can go a long way to helping a firm weather the storm of change going on all around us. Unfortunately, effective leaders are not in abundant supply in most law firms. Contrary to popular myth in the profession, the **managing partner`s job** - at least today - is not one that can be effectively performed by any partner who decides to devote a portion of his or her time to it. Most firms are lucky to have even two or three partners with the skills, temperament, and creativity necessary to be an effective managing partner. And increasingly, to entice those partners to take on such leadership responsibilities, firms must craft compensation packages that recognize the unique work performed by managing partners. This is particularly true in larger firms where the managing partner`s job is usually a full-time position.

Compensation Arrangements

For some time now, we have been asking managing partners who participate in programs to provide us with anonymous information about their compensation arrangements. From that data, it appears that most managing partners are compensated within the top 10 percent range of partners in their firms, though normally not at the highest level. In some cases, compensation is tied - usually through bonus arrangements - to the firm`s financial performance (e.g., meeting budgeted profitability targets or exceeding such targets by "x" percent).

In most instances, however, managing partners are compensated in the same way as other partners in their firms, often with some ambiguity about how the "normal criteria" for compensation should apply to someone who is not actively engaged in law practice.

Most managing partners appear to serve five to seven years in their positions, although some stay in office considerably longer. The earlier practice in some firms of setting mandatory term limits of two or three years, seems to be falling out of favor, and that certainly is a salutary development.

It takes most managing partners a couple of years to learn the job and to hit their stride as effective leaders. The notion of turning them out of office at that very moment never made much sense and was, frankly, a reflection of the old discredited idea that "any partner" can serve successfully as managing partner.

A particularly tricky compensation issue arises when a managing partner steps down from his or her position. If the individual has
served as a full-time managing partner, it is manifestly unfair to throw him or her immediately back into the normal partner compensation pool, especially if - as is the case in most firms - the criteria for "normal" partner compensation are heavily weighted toward client originations or client billings.

As a consequence, most firms grant their former managing partners a protected period of two years or so within which their compensation is guaranteed while they seek to rebuild their practices.

Stepping Down

These guarantee arrangements generally assume that former managing partners will remain at their firms. In a significant number of cases, however, managing partners decide to leave after stepping down from their leadership positions. Sometimes these decisions reflect a change in interest on the part of the individuals concerned, a lack of commitment to returning to the full-time practice of law or a desire to pursue other professional interests.

In other cases, the decisions are driven by the practical difficulties of a former managing partner blending back into the partnership ranks.

In any event, for former managing partners contemplating new careers, the compensation guarantees offered by many firms provide a useful period for exploring other options. We are aware of one firm that even provides an optional severance package for its managing partner, though such arrangements are rare.

Whatever the arrangements for managing partner compensation - either during the individual's tenure in office or afterwards - in most firms the methods of fixing such compensation and evaluating the performance of the managing partner remain fairly ambiguous and ill-defined. Typically, firms try to fit the square peg of the managing partner's functions into the round hole of normal compensation criteria used for evaluating all partners. Thus, if a firm's compensation criteria include, for example, weighted percentages of credit for matters originated, matters billed, and matters supervised, as well as some credit for service to the firm in various administrative capacities, it may be tempting to say that the managing partner will be evaluated simply on the basis of 100 percent of his or her time being devoted to activities in the latter category.

That may entitle the managing partner to a nice compensation package, but it will often be one that is - almost by necessity - lower than the compensation of a partner who scores high in credits for origination, billing, or supervision.

Manager as Rainmaker

This outcome reflects the commonly held view that firms must generously reward rainmakers while assigning a lower compensation priority to those lawyers who are, in effect, part of the firm`s overhead.

Since a managing partner, under this theory, spends the bulk of his or her time on "non-revenue generating" activities, it is appropriate that he or she should be compensated at a lower level than the firm`s real "producers."

The problem with this view is that it seriously distorts the functions and value of an effective managing partner. In fact, a managing partner can be an extraordinarily effective rainmaker, though perhaps in somewhat different ways than firms are used to considering.

A managing partner who steers his or her firm into an important new practice area or who successfully phases out an unprofitable practice contributes to the firm`s bottom line just as surely and significantly as a partner who brings in a new piece of business.

Likewise, a managing partner who helps position his or her firm prominently in its market and provides the technology systems necessary to service complex client matters deserves as much credit for landing a new client attracted to the firm`s name and its technology as the partner who happens to lead the team in the "beauty contest" that actually succeeds in getting the client signed up.

Also, a managing partner who, in the process of regular visits with key clients, discovers and resolves a significant problem in the relationship between the firm and one of its major clients, surely deserves as much credit for the firm keeping that client as the lawyer who is listed as the billing partner.

Conclusion

In thinking about managing partner compensation, firms should view their managing partners as significant potential rainmakers and not just as part of the overhead. This is an idea that is hardly surprising in most business enterprises. Jack Welch probably never made many direct sales of products or services for General Electric companies, but it would be foolish to say that Mr. Welch - and the vision and direction he provided to General Electric - was not enormously important to the success of the company or to the confidence and trust that customers were willing to repose in General Electric.

Effective managing partners are "rainmakers" in the same way, and they deserve to be fairly compensated for their efforts.

It is encouraging that law firms are beginning to think seriously about how they compensate their managing partners. What remains is to understand that visionary and inspiring leaders are as essential to the future of modern law firms as experienced CEOs are to other types of business enterprises. Managing partners are in unique positions to help guide their firms through the challenging and largely uncharted waters of today's changing legal market. When they succeed, their contributions to the long-term economic health of their firms can be enormously significant. Firms that understand this fact - and that are prepared to compensate their managing partners fairly for the jobs they do - will reap their rewards many times over.