SURVIVORS: the law of the jungle

Sweeping staff crises under the carpet or failing to manage human egos is a sure-fire way to damage office morale and business profits, but there are some solutions, writes **Cameron Cooper**

BLURRING THE LINES: Thomas DeLong says the course of action when tackling staff management issues is often unclear.

PHOTOGRAPHY: FRANK LINDNER

The way Thomas DeLong tells the story, it sounds like an episode of *Survivor*.

A Harvard Business School professor and former human capital manager at Morgan Stanley, DeLong says once workers are thrown together they start looking for signs that they have been "voted off the island". He puts it down to human conditioning, and adds that such natural selection occurs as a matter of course in law firms and professional services firms.

DeLong says staff inevitably ask the question: "Am I a member of the club or not?"

In his experience with professional services firms – and it is the same in a children's playground – it takes about six weeks to two months for people to realise that they are "not connected" to an organisation.

The results can be devastating – for the individual and the firm.

DeLong was the keynote speaker at the World Masters of Law Firm Management at the Four Seasons Hotel in Sydney in August. About 300 people attended this year's seminar, an event hosted by the Legal Practice Section of the Law Council of Australia and which has quickly established itself as one of the premier law conferences in Australia.

DeLong aside, this year's speaker list featured internationally renowned Blake Dawson Waldron partner and legal technology innovator Elizabeth Broderick, and leading US consultant on law firm culture Ed Wesemann, a principal with Edge International.

The power of the positive

DeLong laments that too many law firms are riddled with negativity and held back by poor staff management – a nasty cocktail that often takes its toll on staff morale and firm profits.

To avoid creating the perception that some staff members are the chosen ones – and to hell with the others – he says law firm managers and partners need to be unequivocal about the messages they send to staff.

"All ambiguous behaviour is interpreted negatively," DeLong says.

That means a snub for a junior lawyer at the water cooler from a partner can have serious flow-on effects. The partner may simply have been worrying about what to buy his wife for her birthday, but the junior partner sees the cold shoulder as a sign of his standing in the organisation.

It's simple, DeLong says: if people don't get the full story, they will fill in the gaps negatively. "Is the managing partner planning to get rid of me?" "Is my recent work not up to scratch?" "Did I offend him at the last office party?" A downward spiral has started for the employee – and perhaps for the firm given that it will probably not get value from the shaken staff member. DeLong adds tellingly: "And by the way, most behaviour is ambiguous".

While it is difficult for senior staff members to always be 'on', DeLong says there is a huge calling in organisations for strong, communicative leadership.

'Once an individual loses courage or confidence, it's hard to get them back on the horse'

How to succeed

Thomas DeLong nominates four keys to success.

1. Set a direction for your people: "If you fake it or are clueless [remember] all ambiguous behaviour is interpreted negatively."
2. Get commitment to the direction of the firm from all partners and staff.
3. Execute: accountability is the key.
4. Lead by personal example: set the bar higher for your partners.

"There is more and more pressure on having partners act as examples," he says.

The Harvard motivator says all efforts should be made to delay "classifying" staff members into categories as A, B or C players. If someone is branded a low-performing C player, it is almost impossible to change that perception within the office. He adds: "Once an individual loses courage or confidence, it's hard to get them back on the horse."

By DeLong's reckoning, A players make up about 10 per cent of any organisation, the "solid citizen" B players about 85 per cent, and C players 5 per cent. The catch, of course, is that more than half of all staff truly believe they are stars.

With managing partners typically spending most of their time with the A players, DeLong says that means most businesses "are ignoring the heart and soul of your firm". Sure, the B players need fewer pats on the back than the ego-driven stars, but the risk is that if the former are ignored for too long they may well transmogrify into unmotivated C players. The solution? DeLong advises partners to send regular thankyou notes to valuable staff members, and to take them out to lunch or dinner as a reward for good work. If not, they will either stay with the firm and possibly poison it from within, or leave along with all their hard-working mates for a more appreciative firm.

"So recognition is really crucial," DeLong says.

A generational change

Elizabeth Broderick agrees that law firms had better start looking after the interests of their staff – but for different reasons.

When Broderick did a quick calculation of the generational make-up of her colleagues at the powerful Australian firm Blake Dawson Waldron, the figures surprised her.

Sure, there were the veterans – well-respected founding partners (mainly men, of course) who had defined roles, worked hard and valued loyalty. There were the baby boomers, now aged 40 to 54, and seen as the 'stress generation'. There was generation X, the 'opportunity generation' that grew up in an era of downsizing in the knowledge that there is no job for life. And then there was generation Y, aged up to 24 and who see globalisation and technology not as a threat but an opportunity.

Yes, Blake Dawson Waldron has the usual players. But what interested Broderick is that generation X makes up 70 per cent of the firm, although older workers still dominate partner level.

As generational change occurs in law firms and social, work and economic goals are turned on their head, Broderick says law firms must move with the times. In short, they had better start listening to the generation Xers – who want projects that motivate them, who require a work-life balance, and who may not be loyal to the firm but rather to people and partners they like.

Leadership is the key to attracting and retaining generation X and Y, according to Broderick. That means giving staff the chance to have real input into decision-making. It also means ensuring that feedback is given at all possible opportunities.

It's a tough juggling act for managers and partners. However, according to Broderick, the firms that don't make the effort now will run into recruiting problems sooner or later. She notes the international pull of Asia and Britain, in particular, which means Australian firms are increasingly competing with foreign firms for the best talent.

So what do you offer these generational hotshots? Broderick suggests:

- A salary that is market competitive
- 'Partner shadowing' whereby they receive mentoring from their seniors and can see that there is a path at the firm for them (should they bother to go down it)
- A sense of inclusiveness
- Initiatives that build a culture that is receptive to the industry's future
- Focus and feedback
- Leadership
- Career planning
- Non-financial rewards such as challenges and praise.

And for good measure, Broderick suggests that law firms also need to start recognising the importance of people. For all her background in technology solutions for lawyers, she maintains that "people are the lifeblood of legal practice".

Placing a value on clients

Taking a different tack at the World Masters, Ed Wesemann diverted attention from the internal culture of law firms to discuss client needs.

Wesemann questions the law firm mantra that service to clients is always paramount. In fact, he argues that many clients do not want intensive – and expensive – interaction with their law firm.

"Every firm talks about service, but Wal-Mart gives no service," says Wesemann, referring to the US retailing giant that has built its reputation on selling cheap goods with minimal associated levels of service.

While acknowledging that the retail world is a different beast from the law, Wesemann says firms should not just assume that all clients want high levels of service. Yes, some might want to pay a premium price in order to make stakeholders feel secure, but others will just want a quick and cheap Wal-Mart-style solution to a problem.

The key is being able to identify the client's requirements and match them to prices and services. Overpricing the market can also be justified. When he was in need of sensitive eye surgery a few years back, for instance, Wesemann admits he wanted the $3000 doctor, not the $600 cheap option.

"The more they charged, the better I felt about it," he says.

On the other hand, Wesemann admits that under-pricing the market can create ongoing difficulties because a firm might never know when to stop. Margins get lower and lower, and the work becomes less and less profitable. And he warns "loss leaders" against offering cheap services as a "one-time offer". No, Wesemann says, the fare never goes back up again.

At Blake Dawson Waldron, Broderick says the technology revolution presents challenges for all firms, whether they embrace or resist it. Hi-tech solutions, she argues, increasingly underpin the delivery of legal services.

And while technology needs will differ according to the size of a business, she says "all firms require good plumbing" in back-office operations.

With technology comes increasing expectations from

Elizabeth Broderick

clients that services must be faster and faster.

Broderick says firms must manage those expectations carefully.

"Everything has sped up," she says. "They all want something done yesterday. Work with clients (to explain) that it's access they want – not time spent in the office."

Shooting stars

For all the technical dilemmas that technology can create, it seems that the emotional dramas of staff management are inevitably the most traumatic for professional services firms.

At the World Masters seminar, DeLong recounted the breakdown in relations between Paul Nasr, a senior managing director in capital market services at Morgan Stanley, and Rob Parsons, a sharp-tongued and caustic investment banking star who was generating huge revenue gains for the finance house.

The dilemma? Should Morgan Stanley promote Parsons because of his business prowess, or hold him back to teach him a lesson about his unacceptable treatment of colleagues?

By sweeping the issue under the carpet and failing to address concerns, Nasr ultimately became the victim as his staff management inadequacies became apparent.

DeLong says the Nasr-Parsons case highlights the fact that many partners are ill-equipped to handle staff management crises. They enter the sector to practise law, but fail to appreciate that the human element is critical to the firm's success. While they will deliver tough messages to clients, they don kid gloves for staff.

Says DeLong: "We are never taught how to have a difficult conversation … The last thing I want to do is have to deliver tough messages."

He says waiting for annual performance reviews to tell staff about their poor performances is a dereliction of duty. Under such a system, problems and discontent will fester.

"Unless you have honest conversations it's very difficult to hold staff accountable for anything," DeLong says.

The Harvard professor says it is the small things that firms do that have the greatest payoff. He advises businesses to maintain their credibility, to empower people who are helping the organisation, and to ensure that honesty runs through the system.

Creating such a culture might not be easy in the short term, but DeLong is adamant that it is the best way to thrive and survive.

"[Get] truth speakers to tell you if the firm is full of it," he says. "You must get them to tell you the truth."

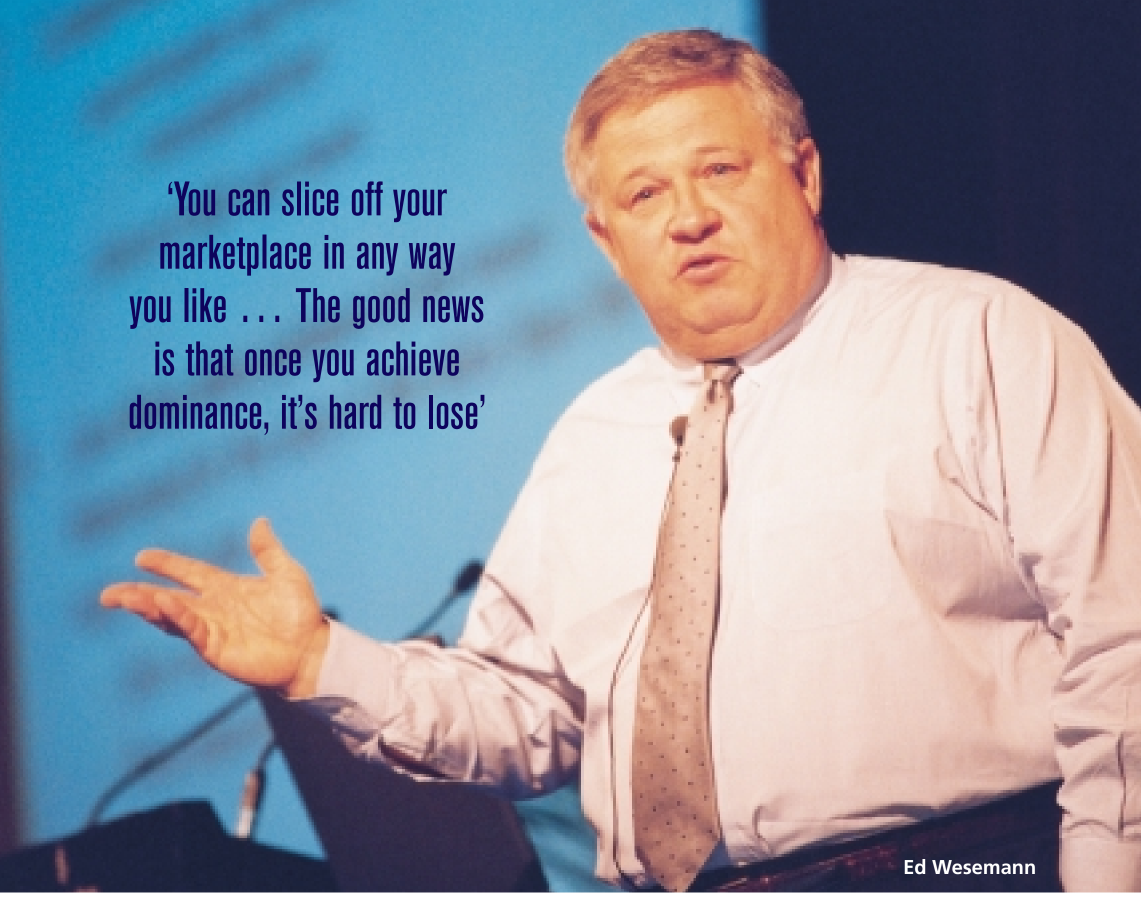
An evolution…

Elizabeth Broderick says law firms must evolve to meet the changing market. The following assets will help:

- a strong focus on values
- having a strategic plan
- life-long learning
- challenging individual-focused cultures
- testing the firm's structure and beliefs
- flexibility
- having an investment mind-set
- being open to changes in management attitudes.

The DeLong theories …

- Staff are more committed to personal relationships than to a brand. So if great partners leave a great firm, other staff are likely to follow them out the door. Such partners will take the best and the brightest with them.
- Respect staff, celebrate their achievements, and include them in the firm's business operations. That way you might just keep them.
- Star performers are the least loyal to a firm but demand – because of their egos – most of its time. The key is not to ignore the hard-working majority of your firm.
- In breaking bad news to staff, do it in a formal office environment, not a café or pub. Using alcohol as a way to break down barriers inevitably ends in tears.
- Always consider the signals that any given decision sends to other members of staff. Misunderstandings create negativity.



Ed Wesemann

Getting down to business

Ed Wesemann has a provocative claim. "Most law firms do not know why they are in business," says the principal of US consulting firm Edge International.

Speaking at the World Masters seminar in Sydney, Wesemann maintained that law firm partners too often have competing objectives that they fail to reconcile. Some are in business for the money – and they want it now. Some want to make a contribution to society through their work. Some practise because they actually really like the law. And some do it to fund their real life goals such as travel, the arts and family.

Wesemann says if each partner has a different objective, it is almost impossible to forge a solid strategy and direction for the firm. His advice? Get partners to sit down and thrash out the question: why are we doing this? If it means parting company to work in different firms, so be it.

Another key piece of advice for seminar attendees centred around trying to create new revenue streams.

Wesemann says many law firms have a "missionary zeal" about dominating the market, but that they rarely examine ways to create new revenue streams. He estimates that about 70 per cent of the best, most profitable work often goes to the top few firms, with a mere 30 per cent left for all the others. The key, therefore, is to be a leader in a niche section of a good market.

"You can slice off your marketplace in any way you like," Wesemann says.

He cites the example of a US firm that specialised in obscure historic preservation transactions. The business quickly spread from state to state because it developed a reputation for being able to excel in this narrow field ... and the profits continue to flow.

"The good news is that once you achieve dominance, it's hard to lose."

Wesemann argues that most firms should abandon attempts to try to dominate as an all-practice market. To achieve leadership in a niche, Wesemann says firms need:

- critical mass
- name recognition
- high-profile management
- clout
- signature clients.

"It's an oxymoron to talk about dominance if no-one knows who you are," Wesemann says.

The payoff for being known as a company that can move mountains is great. He notes that in the US last year, about 68 per cent of business went to the top three firms. And on the back of its high-profile work in the Enron case, a mid-level firm – Andrews & Kurth – has built a huge name, and profits.

"So the key is to be known for something," Wesemann says.

Ten terrible truths about law firm partner compensation, according to Ed Wesemann

1. Lawyers equate compensation with management.
2. Law firms believe in Theory X (that most people are lazy and irresponsible and that their work must be controlled and supervised).
3. Management is divorced from compensation.
4. Partners are constantly afraid of being cheated.
5. There are no ties between compensation and the performance it is designed to incent.
6. Committees avoid responsibility for compensation actions.
7. Compensation systems ignore motivation.
8. Law firms drive partners to be more interested in the size of their slice than the size of the pie.
9. There are rarely enough dollars to reward some things that really matter.
10. The most profitable law firms have the least merit-based system.