



# ***Structuring Your Firm for Competitive Advantage***

**TAGLaw Fall Conference  
Prague, Czech Republic**

***Joseph B. Altonji***

***Hildebrandt International***

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# Internationalization of Practice



## **Internationalization of practices places additional stress on mid-size firms**

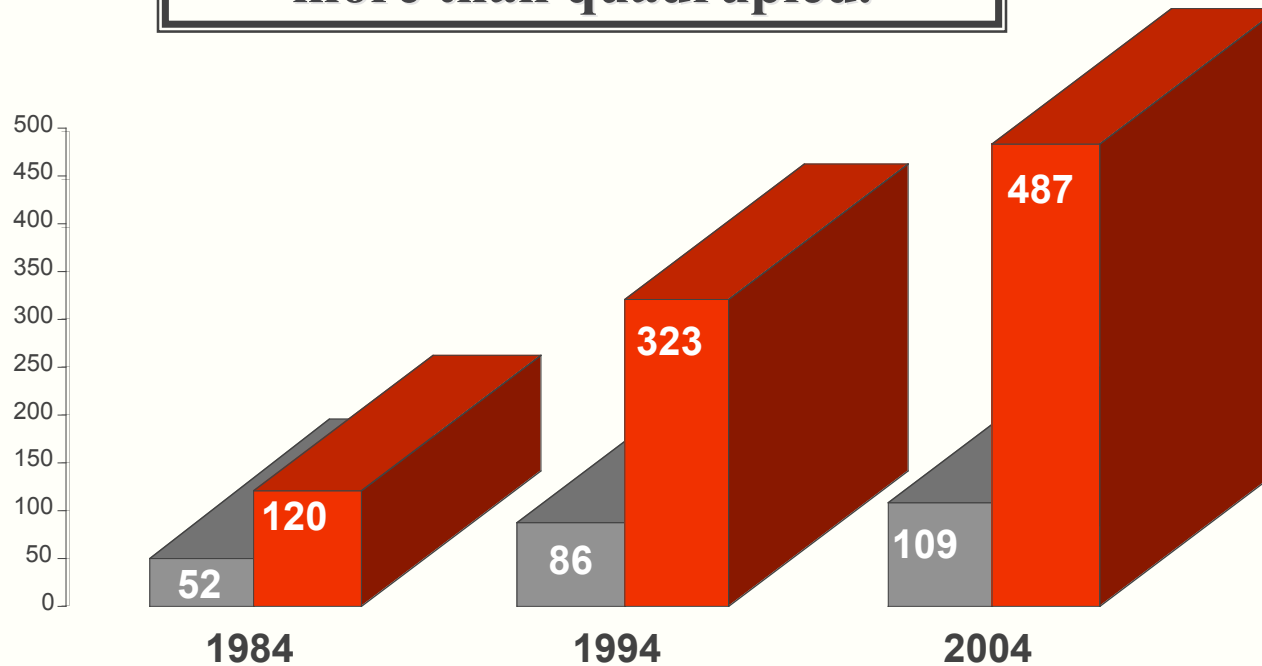
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- Global service desires for top clients
- Consistent service and product expectations
- Reduced need for local counsel/referrals
- Competition for top lawyers and talent
  - Drives need to remain economically competitive
- Increased need for successful alliance/network integration



## Number of NLJ 250 (US) Firms with International Offices & Total Number of International Offices

**Over the last two decades, the number of foreign offices has more than quadrupled.**



■ # of NLJ 250 Firms with International Offices

■ # of International Offices



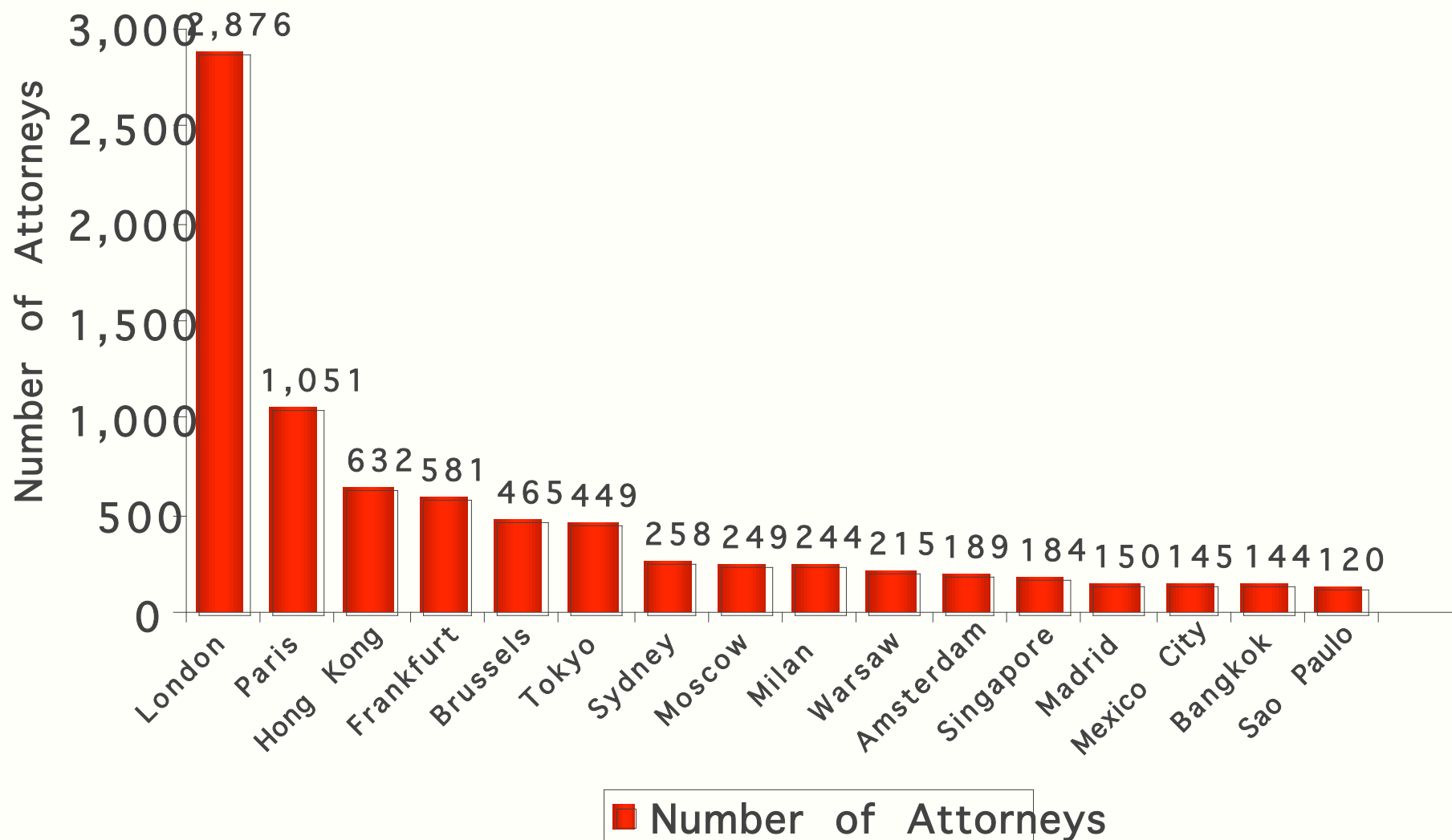
## International Offices of NLJ250 (US) Firms Will Continue to Grow

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- Number of firms in 2004 – 109
- Number of offices in 2004 – 487
- This number will go higher in 2005
  - 31 international offices of US firms have opened since January 1, 2005
    - **50% of those new offices are in Asia:**
    - 12 in China (6 in Shanghai, 3 in Beijing and 3 in Hong Kong)
    - 2 in Taipei, Taiwan
    - 1 in Tokyo
- Number of lawyers (2004) – 10,498
- London has the most – 2,876

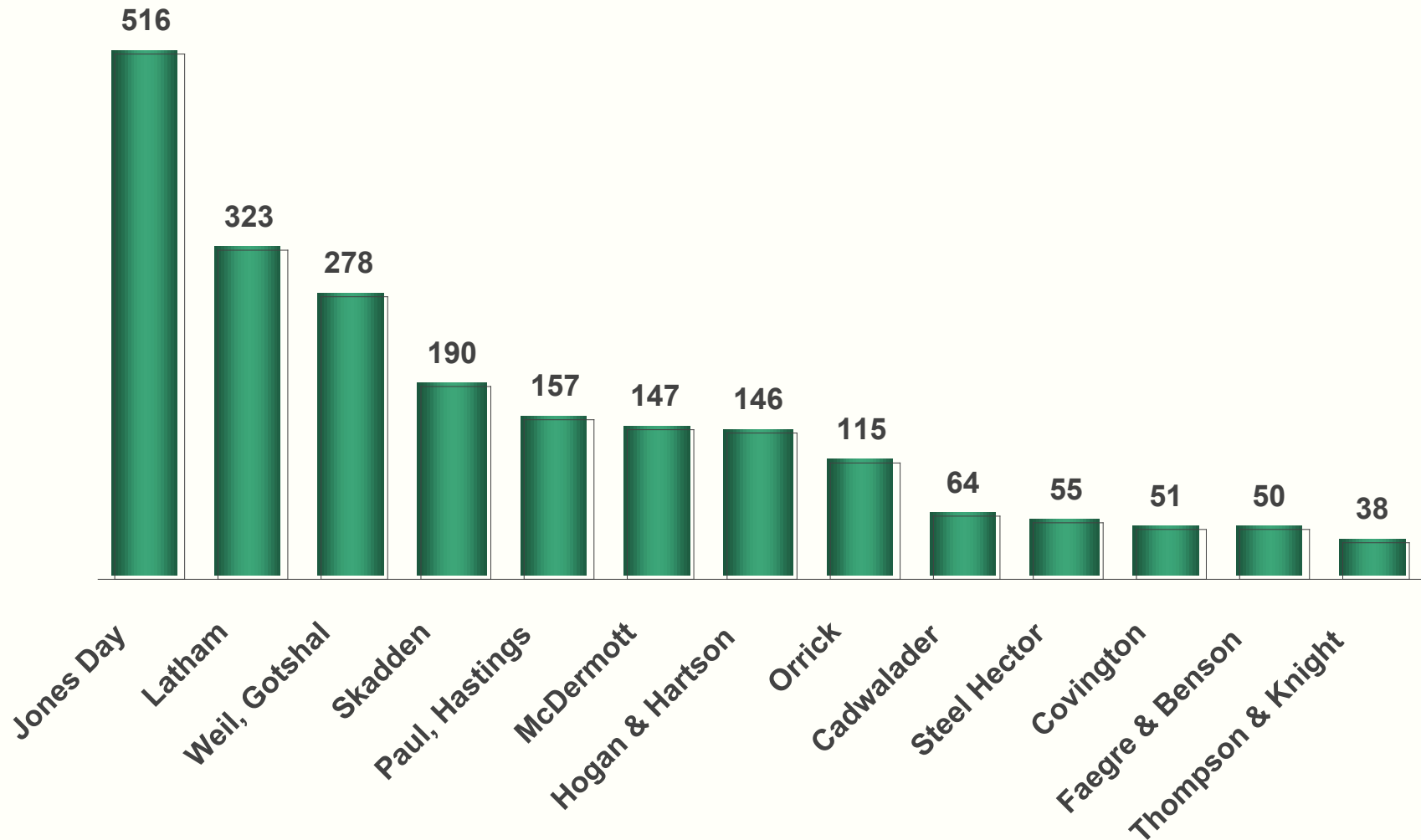


# Number of NLJ 250 (US) Lawyers by Major International City (2004)



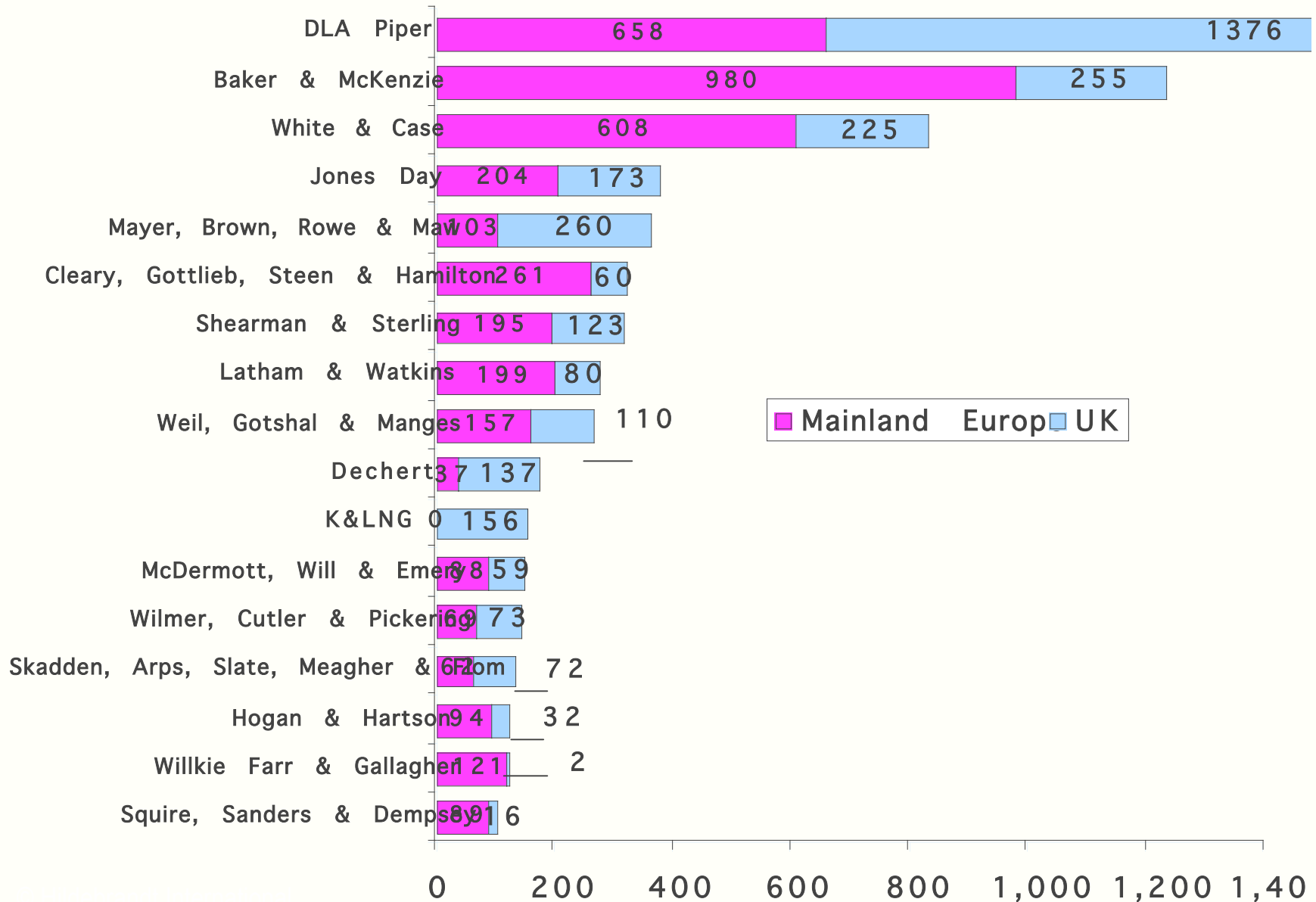


## NLJ 250 (US) Firms in 2004 with 10%+ Int'l Lawyers That Had No International Lawyers in 1984





# Europe – Top NLJ 250 (US) Firms: Number of Lawyers (2005)







# Major European Cities for Top US, UK and Canadian Firms (2005)

**US & UK firms listed are those with the largest offices.**

## Brussels

- Linklaters (142)
- Allen & Overy (97)
- Freshfields (79)
- DLA Piper (64)
- Clifford Chance (60)
- Baker & McKenzie (58)

## Amsterdam

- Baker & McKenzie (130)
- Allen & Overy (198)
- Clifford Chance (139)
- Greenberg Traurig (50)
- DLA Piper (80)

## Frankfurt

- Clifford Chance (282)
- Freshfields (195)
- Baker & McKenzie (111)
- Linklaters (110)
- Allen & Overy (102)

## London

- DLA Piper (476)
- Mayer Brown Rowe (259)
- Baker & McKenzie (255)
- White & Case (225)
- Stikeman Elliott (11)
- Fasken Martineau (6)
- McCarthy Tetrault (5)

## Moscow

- DLA Piper (77)
- White & Case (59)
- Linklaters (48)
- Freshfields (46)
- Baker & McKenzie (46)
- Gowlings (12)
- Macleod Dixon (8)

## Paris

- Freshfields (230)
- Clifford Chance (209)
- Linklaters (140)
- Lovells (122)
- Allen & Overy (110)
- Baker & McKenzie (105)

## Madrid

- Clifford Chance (109)
- Baker & McKenzie (97)
- Freshfields (64)
- Linklaters (57)
- Allen & Overy (40)

## Milan

- Allen & Overy (100)
- Clifford Chance (99)
- Freshfields (92)
- Baker & McKenzie (72)
- DLA Piper (43)

## Munich

- Lovells (69)
- Linklaters (55)
- Clifford Chance (36)
- Ashurst (27)
- Baker & McKenzie (23)
- Jones Day (22)

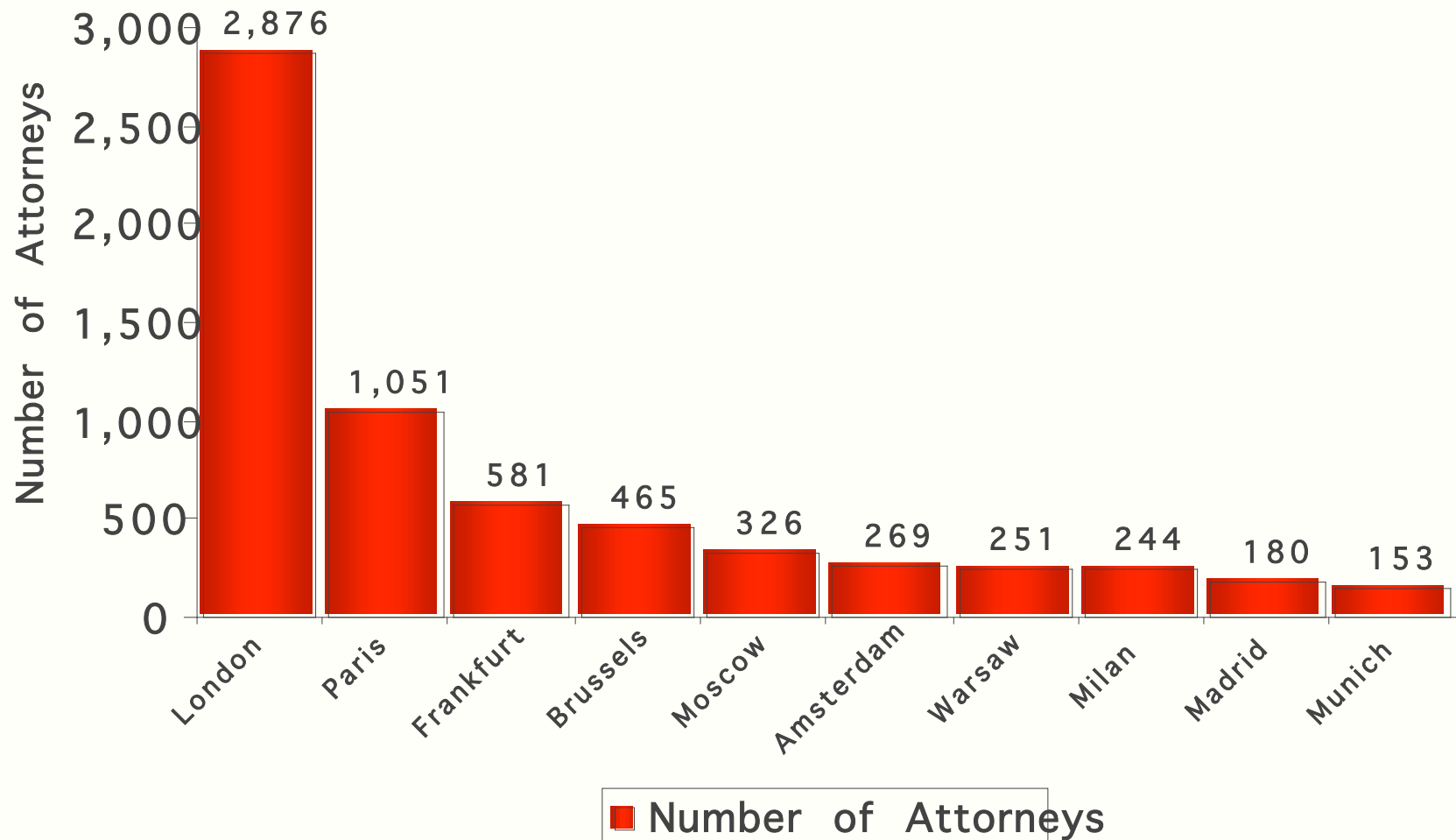
## Warsaw

- CMS Cameron (63)
- White & Case (46)
- Linklaters (45)
- Weil Gotshal (40)
- Dewey Ballantine (39)
- Chadbourne & Parke (34)
- Baker & McKenzie (31)

Russia

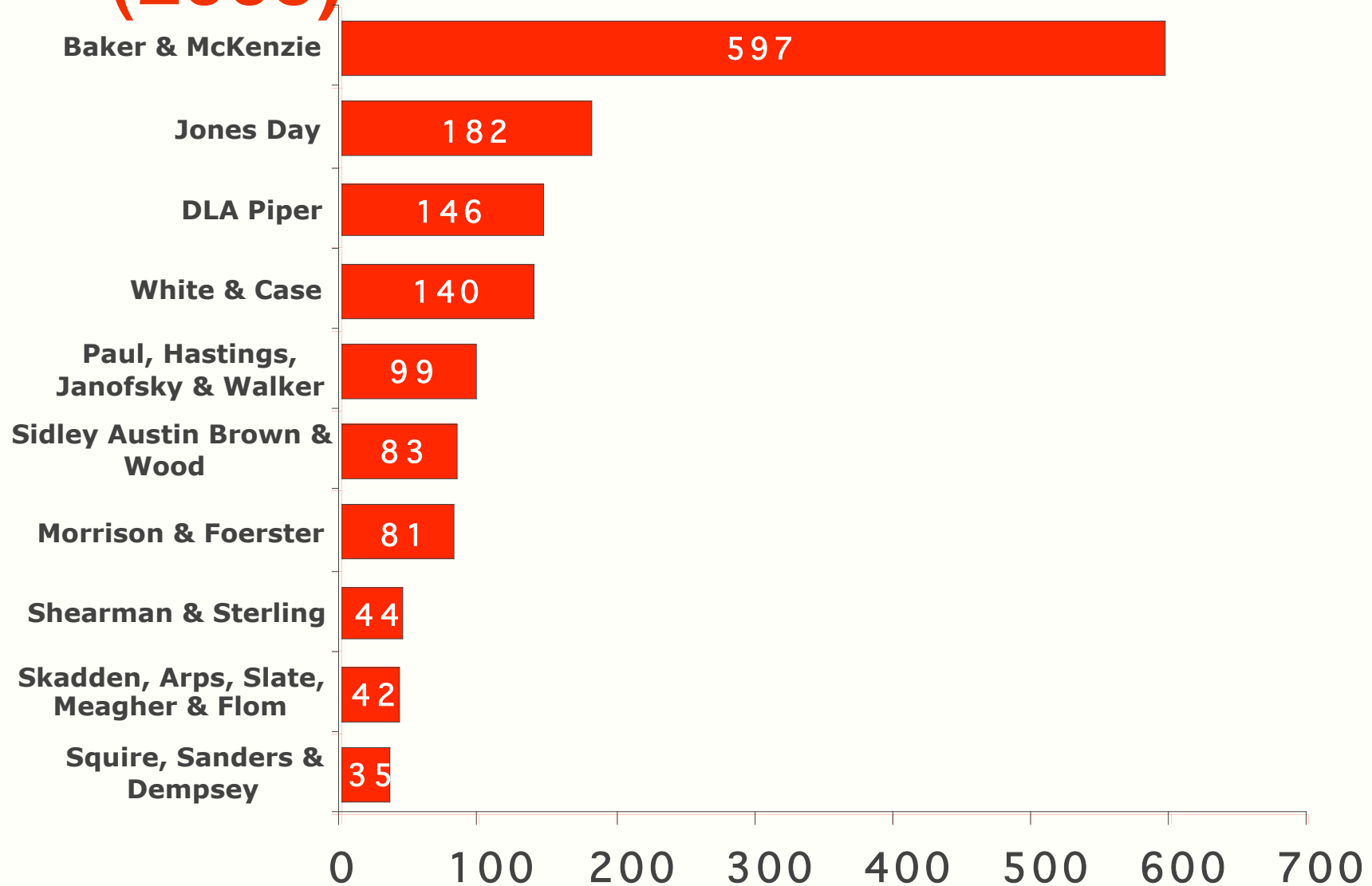


# Number of NLJ 250 (US) Lawyers by Major European City (2005)





# World's Largest Law Firms Top 10 1990-2000 (US) Firms: Number of Lawyers (2005)





# Major Asia-Pacific Cities for Top US, UK and Canadian Firms (2005)

## Beijing\*

- Lovells (20)
- Freshfields (17)
- DLA Piper (15)
- Orrick Herrington (13)
- Blake Cassels (4)
- Davies Ward (1)

**US & UK firms listed are those with the largest offices.**

## Shanghai\*

- Simmons & Simmons (21)
- Clifford Chance (20)
- DLA Piper (19)
- Freshfields (13)
- Jones Day (12)
- O'Melveny & Myers (11)
- Orrick Herrington (10)

## Tokyo

- Baker & McKenzie (86)
- White & Case (58)
- Morrison & Foerster (55)
- Paul Hastings (40)
- Clifford Chance (36)
- Orrick Herrington (31)
- Davis & Co. (2)

## Hong Kong

- Baker & McKenzie (167)
- Clifford Chance (120)
- Allen & Overy (114+)
- Simmons & Simmons (97)
- Freshfields (90+)
- Linklaters (80+)
- Herbert Smith (70)
- Lovells (60)
- DLA Piper (58)
- Goodmans (3)

## Taipei

- Baker & McKenzie (64)
- Jones Day (22)
- Preston Gates & Ellis (20)
- Akin Gump (6)

China

## Bangkok

- Baker & McKenzie (71)
- White & Case (58)
- Allen & Overy (50)
- Clifford Chance (28)
- Hunton & Williams (27)
- Linklaters (22)
- DLA Piper (16)

## Singapore

- Allen & Overy (60)
- Baker & McKenzie (43)
- White & Case (38)
- DLA Piper (36)
- Clifford Chance (31)
- Jones Day (26)

## Sydney

- Baker & McKenzie (180)
- Pillsbury Winthrop (5)
- Skadden Arps (5)
- Jones Day (4)
- Sullivan & Cromwell (3)
- Stikeman Elliott (1)

Australia

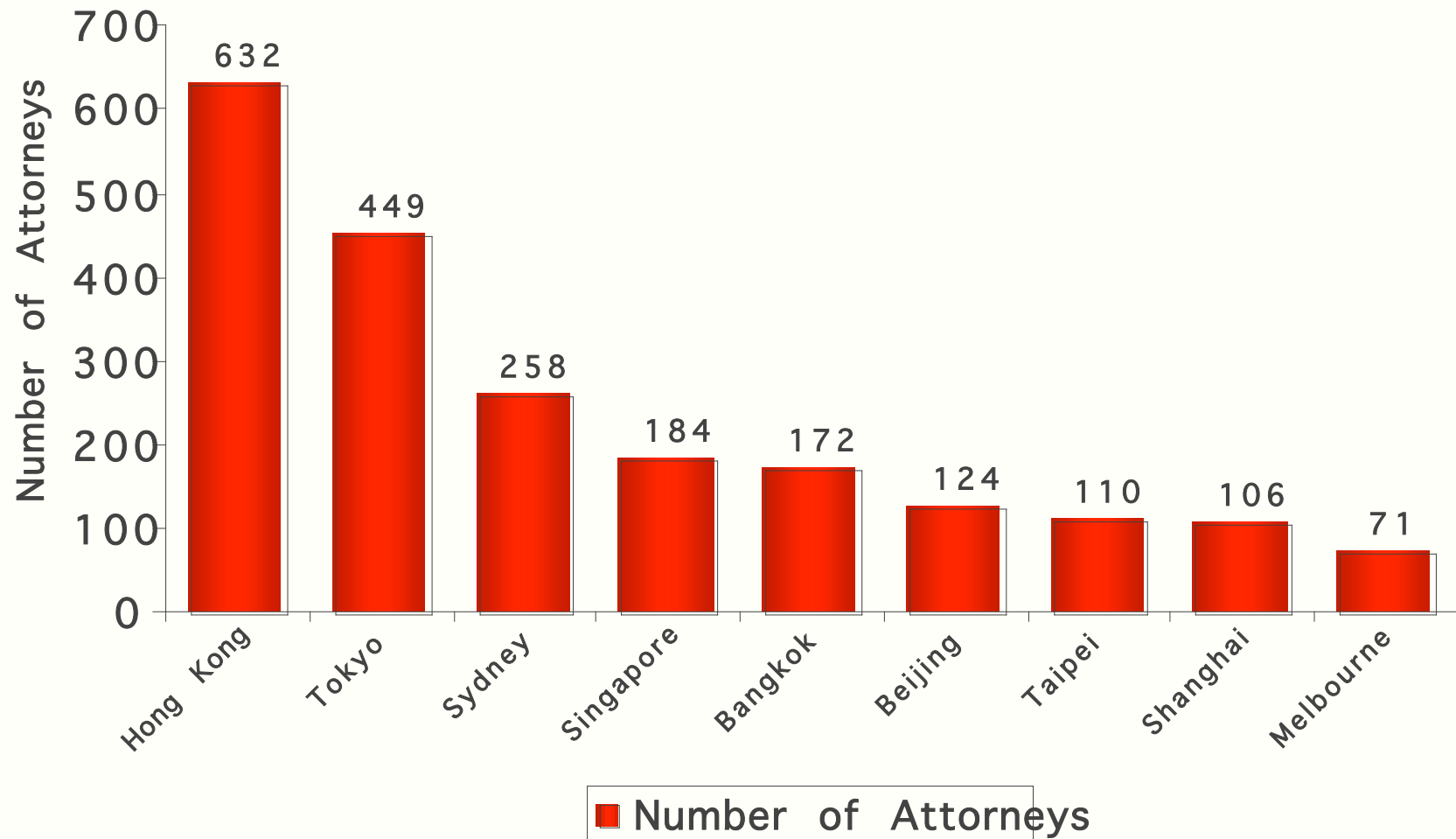
## Melbourne

- Baker & McKenzie (65)
- Sullivan & Cromwell (6)

\*Linklaters China Practice totals 70

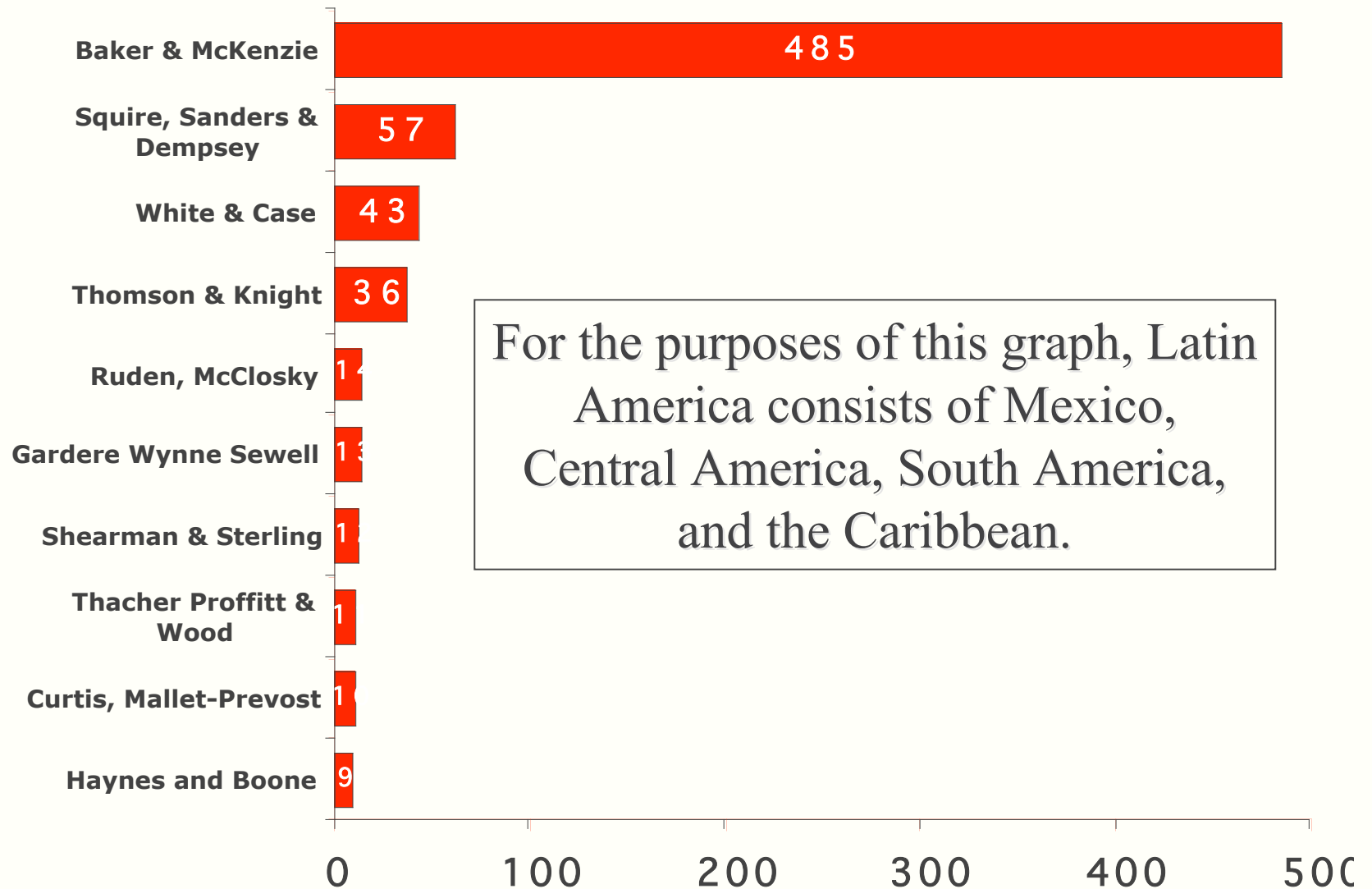


# Number of NLJ 250 (US) Lawyers by Major Asia-Pacific City (2005)





# Latin America – Top 10 NLJ 250 US) Firms: Number of Lawyers (2005)

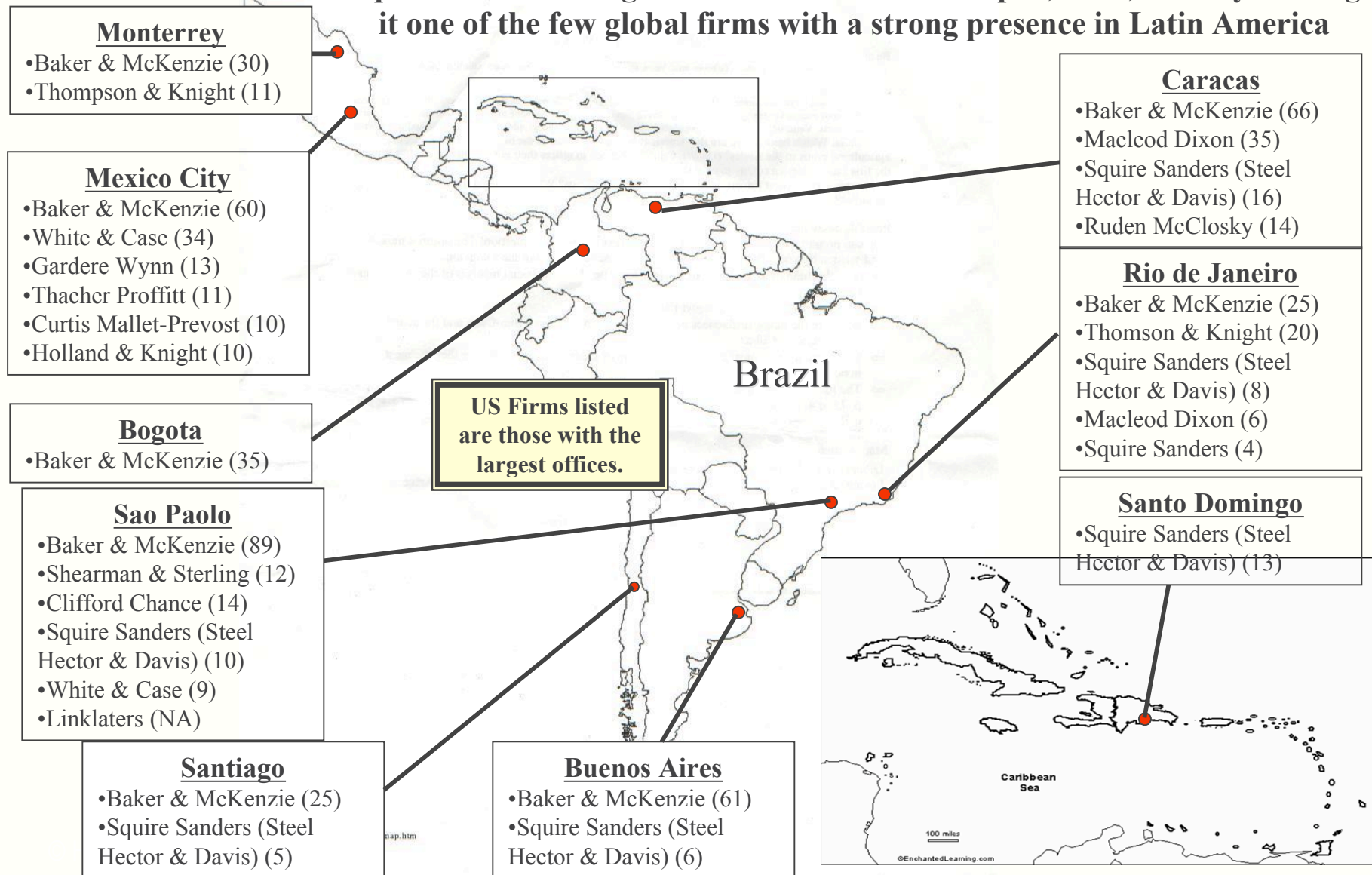


*Note: SSD include Steel Hector. SSD merged with Steel Hector on Sep. 6, 2005.*



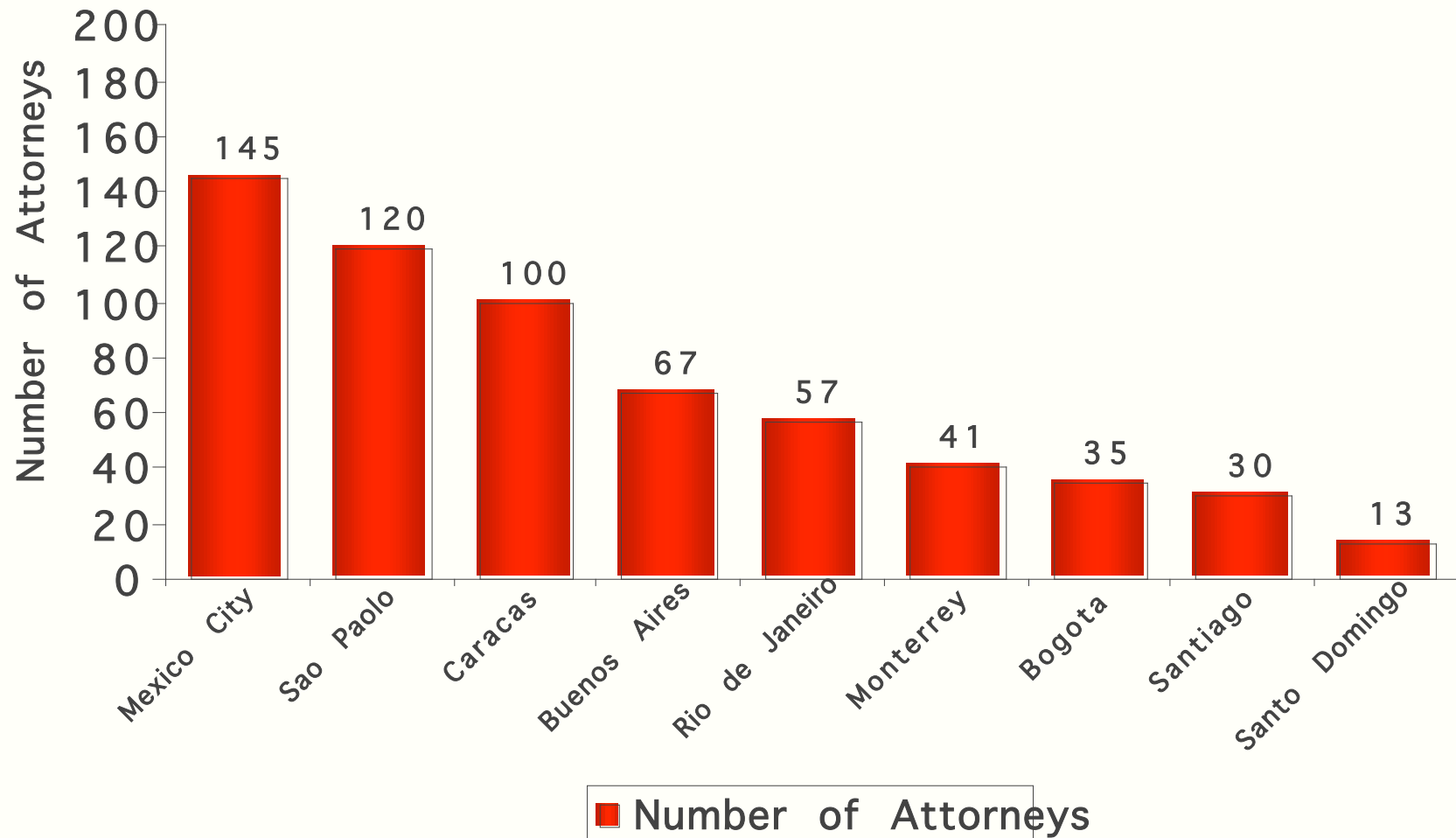
# Major Latin American Cities for Top US, UK and Canadian Firms (2005)

Squire Sanders merged with Steel Hector on Sep. 6, 2005, thereby making it one of the few global firms with a strong presence in Latin America





# Number of NLJ 250 (US) Lawyers by Major Latin American City (2005)







# Top UK Firms in New York

<b>Magic Circle</b>	<b>Lawyers in New York</b>
Clifford Chance	360
Allen & Overy	100
Linklaters	80
Freshfields	50
Slaughter & May	0
<b>Other Firms</b>	<b>Lawyers in New York</b>
Lovells	40+
Simmons & Simmons	1
Ashurst	NA



# Top Canadian Firms in New York

Firm	Lawyers in New York
Torys	73
Davies Ward	20
Fraser Milner	7
Stikeman Elliott	5
Osler Hoskin	4
Fasken Martineau	2
Blake Cassels	2
McCarthy Tétrault*	1

\*and the firm has an affiliation with Fried Frank



# Top Canadian Firms in London

Firm	Lawyers in London
Stikeman Elliott	11
Fasken Martineau	6
McCarthy Tétrault	5
Blake Cassels	3
Ogilvy Renault	2



## Other International Offices of Canadian Firms

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- Almaty, Kazakstan
  - Macleod Dixon (8)
- Beijing
  - Blake Cassels & Graydon (4)
  - Davies Ward Phillips & Vineberg (1)
- Caracas
  - Macleod Dixon (35)
- Chicago
  - Blake Cassels & Graydon (1)
- Hong Kong
  - Goodmans (3)
- Johannesburg
  - Fasken Martineau DuMoulin (5)
- Moscow
  - Gowlings (12)
  - Macleod Dixon (8)
- Rio de Janeiro
  - Macleod Dixon (6)
- Sydney
  - Stikeman Elliott (1)
- Tokyo
  - Davis & Company (2)
- Washington, DC
  - Miller Thomson (1)



## Sources

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- *American Lawyer, June 2005*
- *Asia Pacific Legal 500 (2004/05)*
- *Firm websites and press releases*
- *Hildebrandt Headlines*
- *Hildebrandt International Office Openings List*
- *Legal 500 (2005)*
- *Lexpert Directory (2005)*
- *NALP Directory of Legal Employers (2005/06 ed.)*
- *NLJ 250 (1984, 1994 and 2004)*



# The profession faces several long term challenges

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- War for talent
- Strategic focus and competitive positioning
  - Remaining relevant in a competitive environment
- Leadership development
- Economic competitiveness
- Compensation and Governance

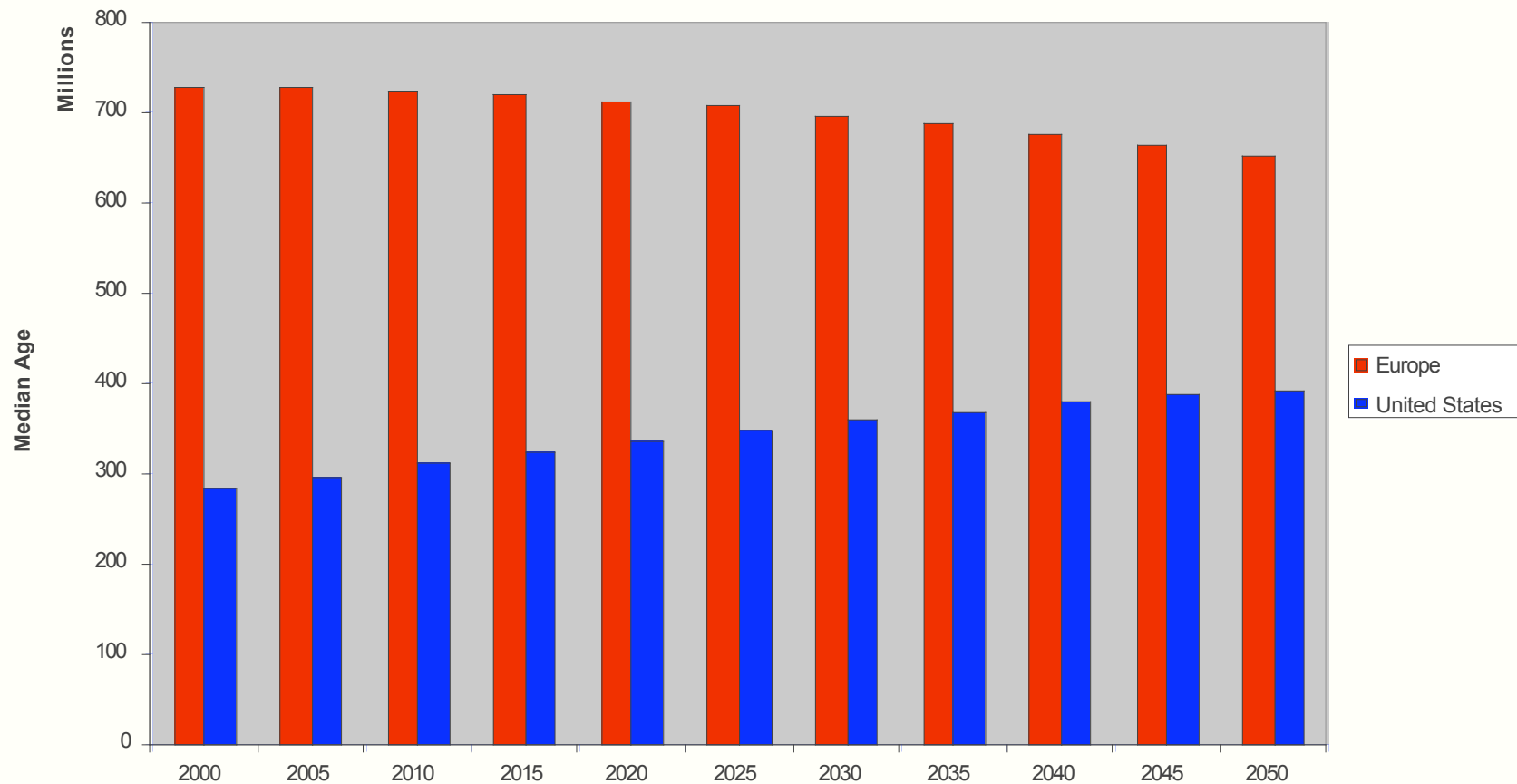


# **Key Strategic Challenges: The War for Talent**



# Europe faces a declining population

Population Trends -- US & Europe



And both Europe and the US face rapidly changing demographics

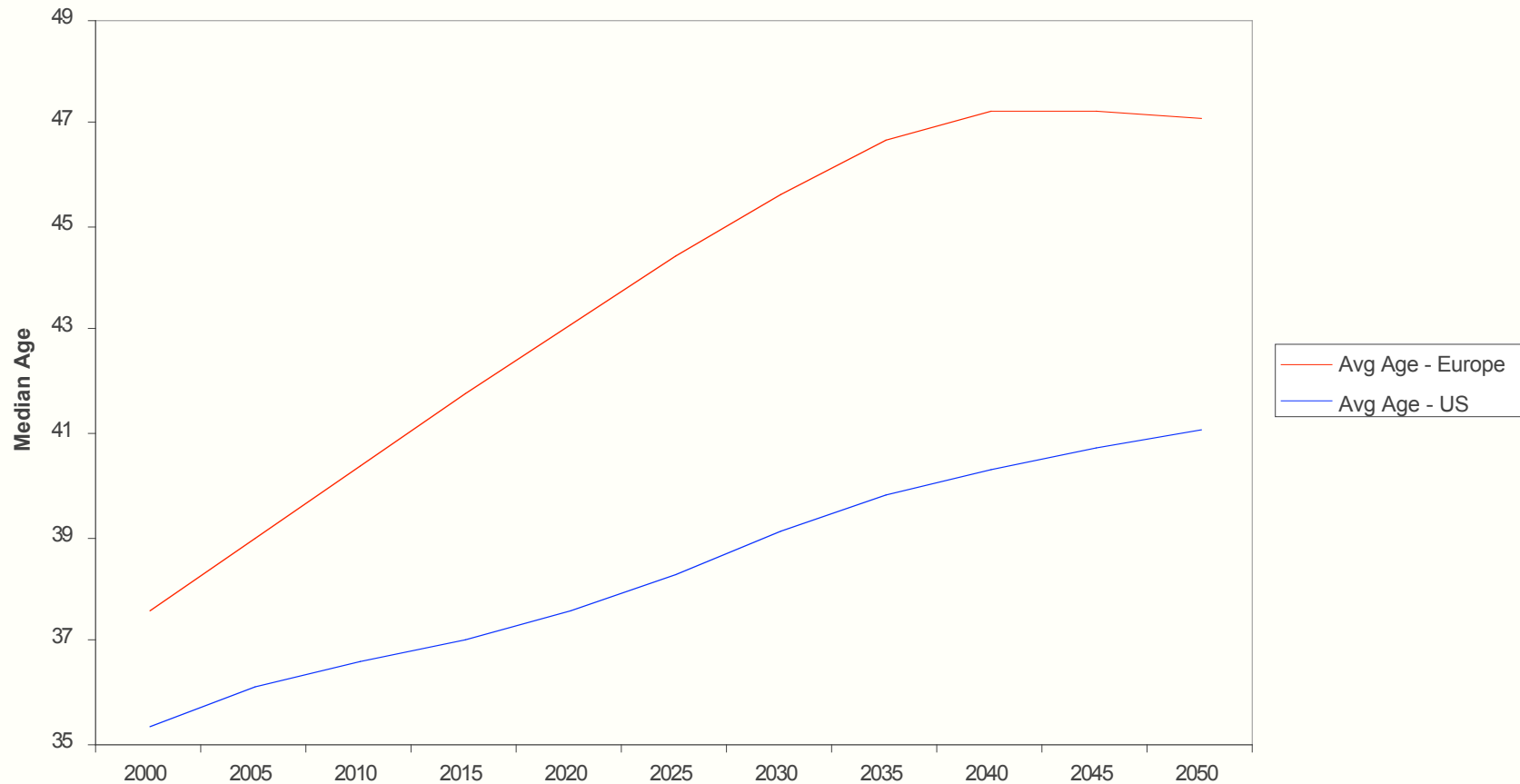
Source: United Nations, 2004





# An aging population

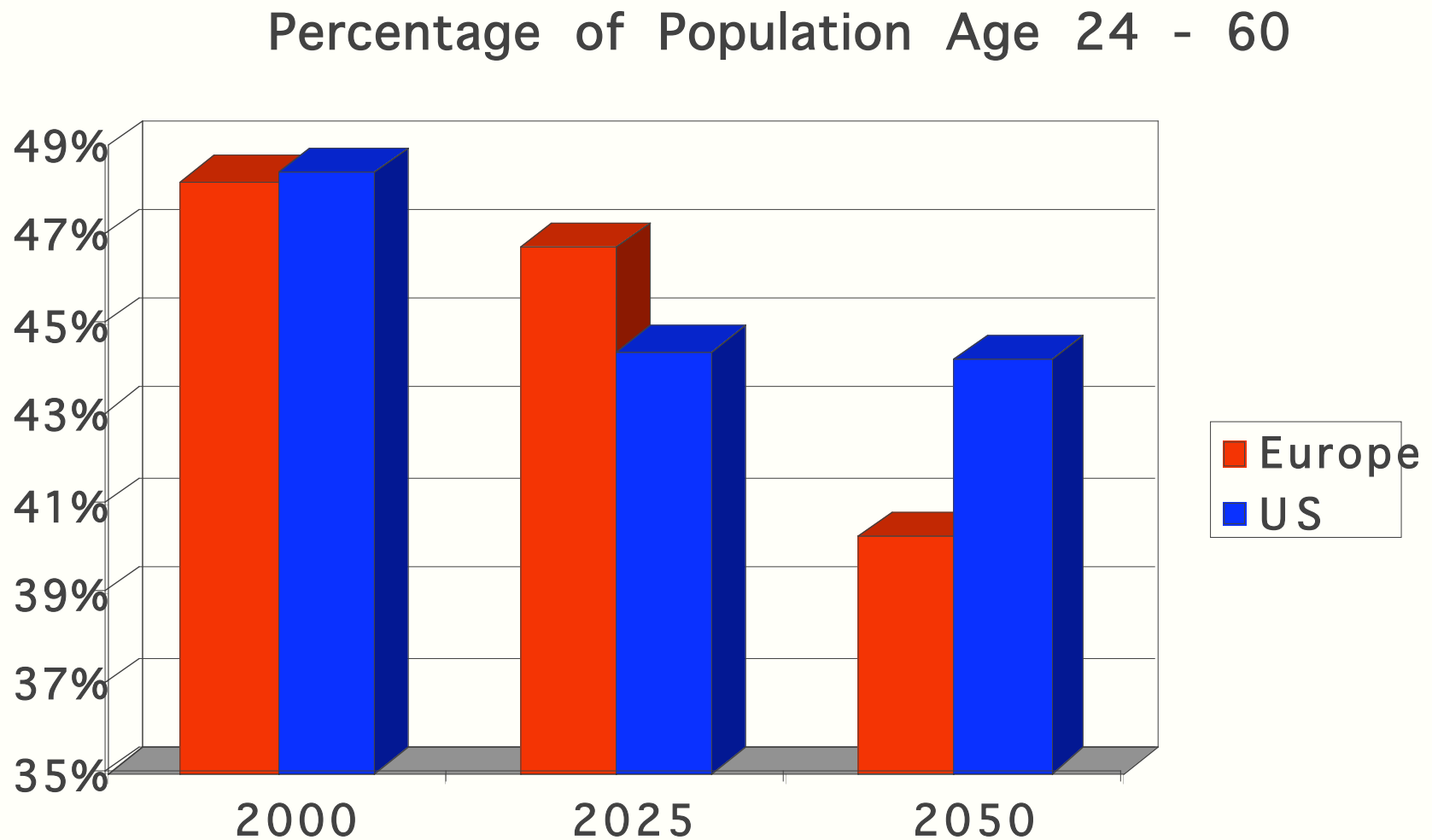
## Population Trends -- US & Europe



Source: United Nations, 2004



# And a declining workforce

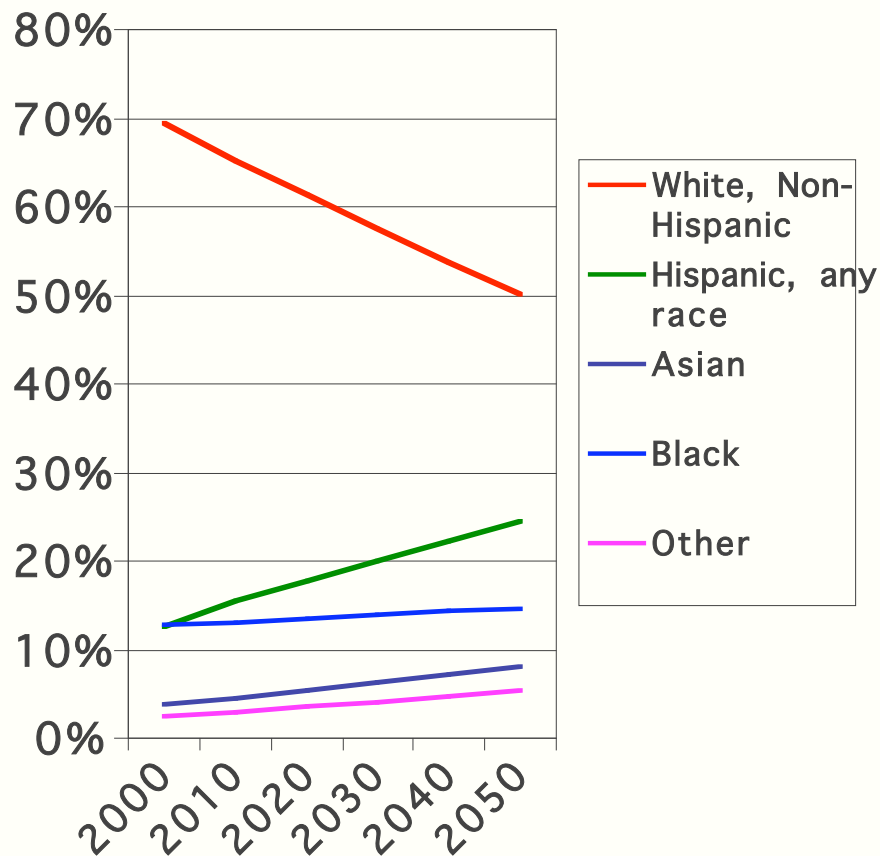


Source: United Nations, 2004



# Diversity & Recruiting

## US Population Trends



Source: US Census Bureau, 2004

## Law Firm Diversity

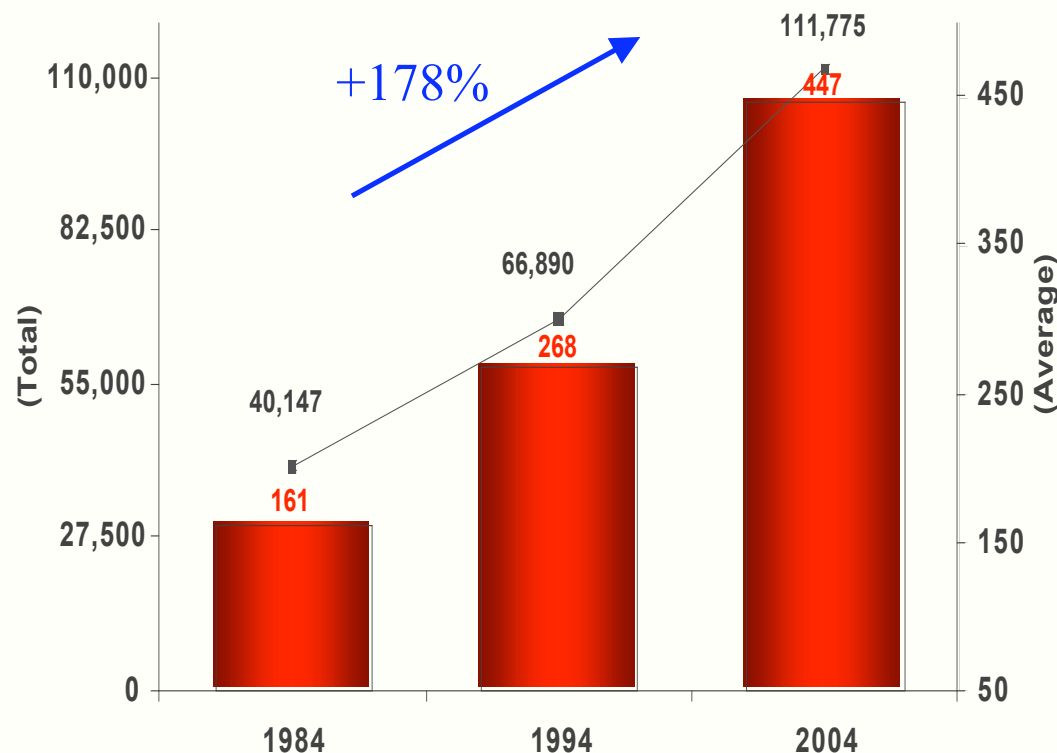
Nationwide Law Firms (NALP '04)	Partners	Associates	Summer Associates
Men	82.94%	56.64%	52.24%
Women	17.06%	43.36%	47.74%
Whites	95.68%	84.94%	79.85%
Minorities	4.32%	15.06%	20.15%

Source: NALP 2004



# The demand for good lawyers grows...

**Average and Total Lawyers in NLJ 250 Firms**



Since 1984, the total number of lawyers in NLJ 250 firms has almost tripled.

Since 1984, the average number of lawyers in NLJ 250 firms has increased by a factor of 2.7.

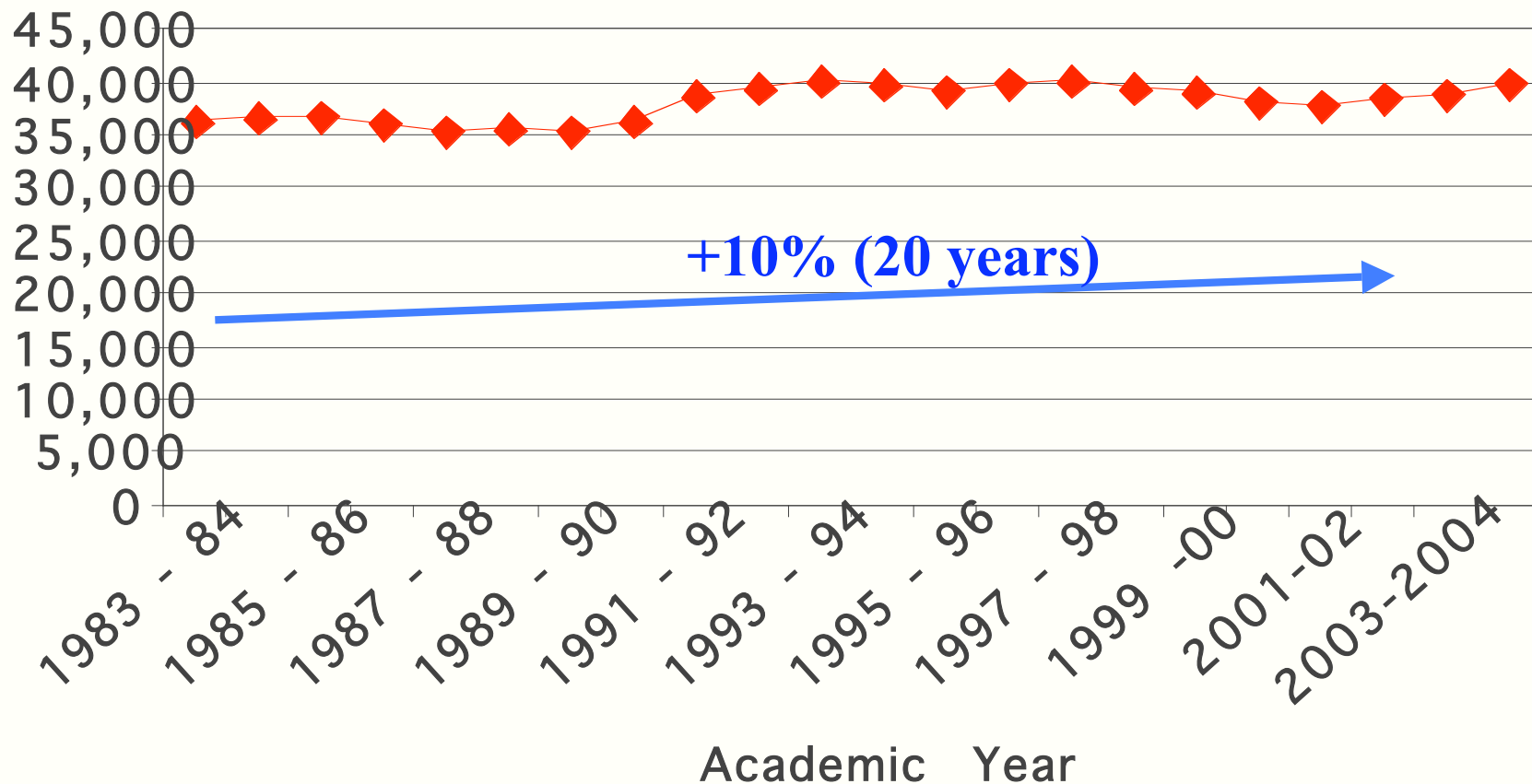
There are currently 92 US-based firms with more than 400 lawyers.

In 2004, the top 20 firms in the NLJ 250 averaged nearly 1,400 lawyers.



# While the supply is static

Law Degrees Awarded (JD/LLB)





## And the expectations of the next generation change

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- Generation Y is:
  - Unresponsive to “command & control” management style
    - Environment allowing independent thinking valued
  - Financially savvy; value retirement planning
  - Work/life balance crucial
  - Skeptical re: “Employee loyalty”/Change oriented

**“They’re like Generation X on Steroids”**

Source: USA Today, Nov. 7, 2005



## Do you have an HR strategy?

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- Acquisition and retention of talent?
- Training and development?
- Retention of women through child-rearing years?
- Hiring and retention of minorities?
- Creating loyalty in younger lawyers?
- Retention of senior talent longer term?



# **Diversity in Law Firms: Challenges Facing Diverse Associates**





# Challenges Facing Diverse Associates

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- Harder to effectively access key informal networks to learn the “unwritten rules”
- Harder to find an advocate/guide who can provide feedback, monitor performance and quality of work assignments and act as link to decision makers
- Harder to find a sponsor to create connections to key firm clients and external business networks
- Harder to find a coach who provides support, runs interference when necessary and inspires continuous professional growth
- Harder to combat subtle stereotypes regarding competency and individuality

Source: Dr. Arin Reeves, The Athens Group



# Challenges Facing Law Firms in Integrating Diverse Associates

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- Defining diversity in an inclusive way
- Balancing individuality with “diverse” identification
- Guarding against commodification
- Creating representation without overburdening
- Transcending discomfort
- Addressing “limited pie” perceptions

Source: Dr. Arin Reeves, The Athens Group



# Shifting to a Diversity Paradigm

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- Presumption of Competence vs.  
Presumption of Incompetence
- Efforts at Retention vs.  
Assumption of Attrition
- Lack of Opportunity to Demonstrate  
Potential vs. Lack of Potential
- Integration vs.  
Isolation
- Diversity vs.  
Affirmative Action

Source: Dr. Arin Reeves, The Athens Group



# **Key Strategic Challenges: Lack of Focus**



# The Internal Strategic Standoff



# Many Firms Are Breaking Down Into Three Groups:

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## Leadership Group:

Strategy Focused  
On Improving  
Clients And Profits,  
and Addressing  
Market Pressures.

## Majority Group:

Conflicted About  
Which Strategy Is  
The Right Strategy,  
For Them And For  
The Firm.

## Status Quo Group:

Satisfied with  
Market Position,  
Profits, & Clients.  
Skeptical or  
Unconcerned About  
Market Pressures on  
Firm, Or Need to  
Change.



# Criticisms/Counter Arguments Directed at Leadership Group:

## Leadership Group:

Strategy Focused  
On Improving  
Clients And Profits,  
and Addressing  
Market Pressures

“Our lawyers are better than any firm in town.”

“Every firm has these problems...we are no worse than anyone else.”

“We should study this more” or “That isn’t the problem, this is...”

“We tried that solution once and it didn’t work” or “I know a firm that tried that and it destroyed them.”

“We haven’t lost any partners yet” or “those who left us weren’t that good anyway.”

“You are just greedy...that is against our culture...we aren’t in this for the money.”



# Criticisms/Counter Arguments Directed at Status Quo Group:

“We no longer get the best associates and we aren’t even considered by quality laterals.”

“We study everything to death...we never make any meaningful decision.”

“Yes, we still major clients, but unlike ten years ago we get their marginal work. We’re their 3<sup>rd</sup> tier firm.”

“We don’t hold anyone accountable for anything. The problem partners we have now have been our problem partners for years.”

“You are just trying to protect your compensation...the firm won’t survive unless we adapt to the changing market.”

## Status Quo Group:

Satisfied with  
Market Position,  
Profits, & Clients.

Skeptical or  
Unconcerned About  
Market Pressures on  
Firm, Or Need to  
Change.





# The Middle Group Won't Commit to Either Strategy...Why?

Some leaders lose touch with their partners and/or get too far out in front on issues, trends, and strategy.

Current or past success (lack of a crisis) makes it easy to overlook problems.

The firm has bred a culture of distrust so no one is allowed to make any tough decision or lead (often using the excuse “*our culture values democracy, lifestyle and consensus*”).

## **Majority Group:**

Conflicted About Which Strategy Is The Right Strategy, For Them And For The Firm.

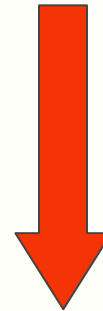
Low/non-existent performance standards, or lack of accountability combined with compensation that is not merit driven, hide problems.

Lack of an honest market assessment and/or honest internal feedback make it easy to doubt existence of any issues.



# What Is Strategy?

*Strategy is about how a firm will deliver  
“competitive advantage”: to meet client  
needs with a service that is superior to rivals*

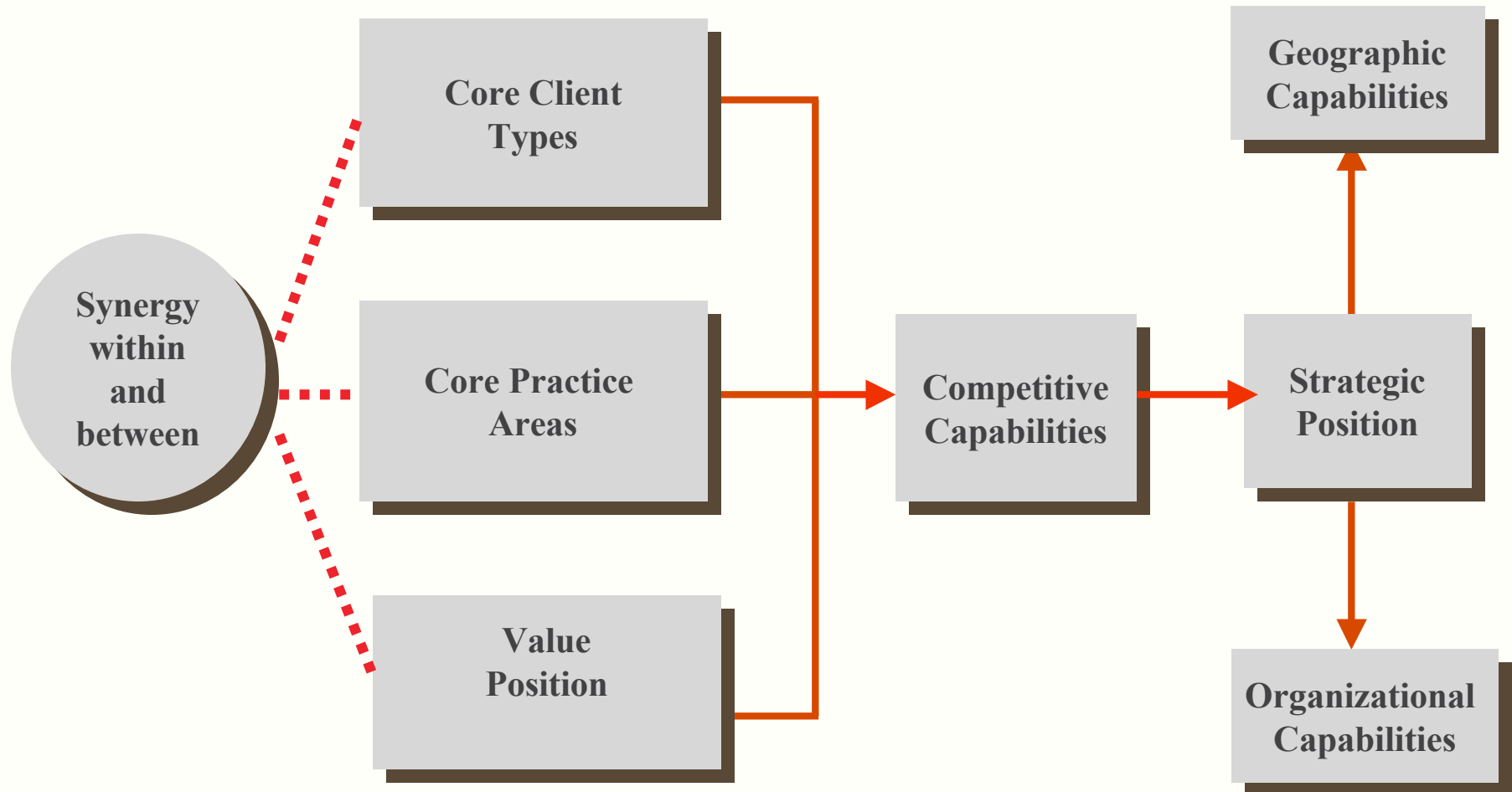


**BASIS FOR A  
DISTINCTIVE MARKET  
REPUTATION**

**BASIS FOR HIGHER  
RETURNS**



# What Is Strategy?





# Change in Paradigms

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- *The real threat today is not inefficiency, but irrelevancy.*
- *Every organization has a set of little lies.*
- *Never before has incumbency meant less.*
- *When you start with a protectionist attitude, you cannot bring a new view to things.*

Gary Hamel  
Visiting Professor of Strategic and  
International Management at the  
London Business School and Chairman of  
Strategos, an International Consulting Company.

Author of Leading the Revolution and  
Competing for the Future



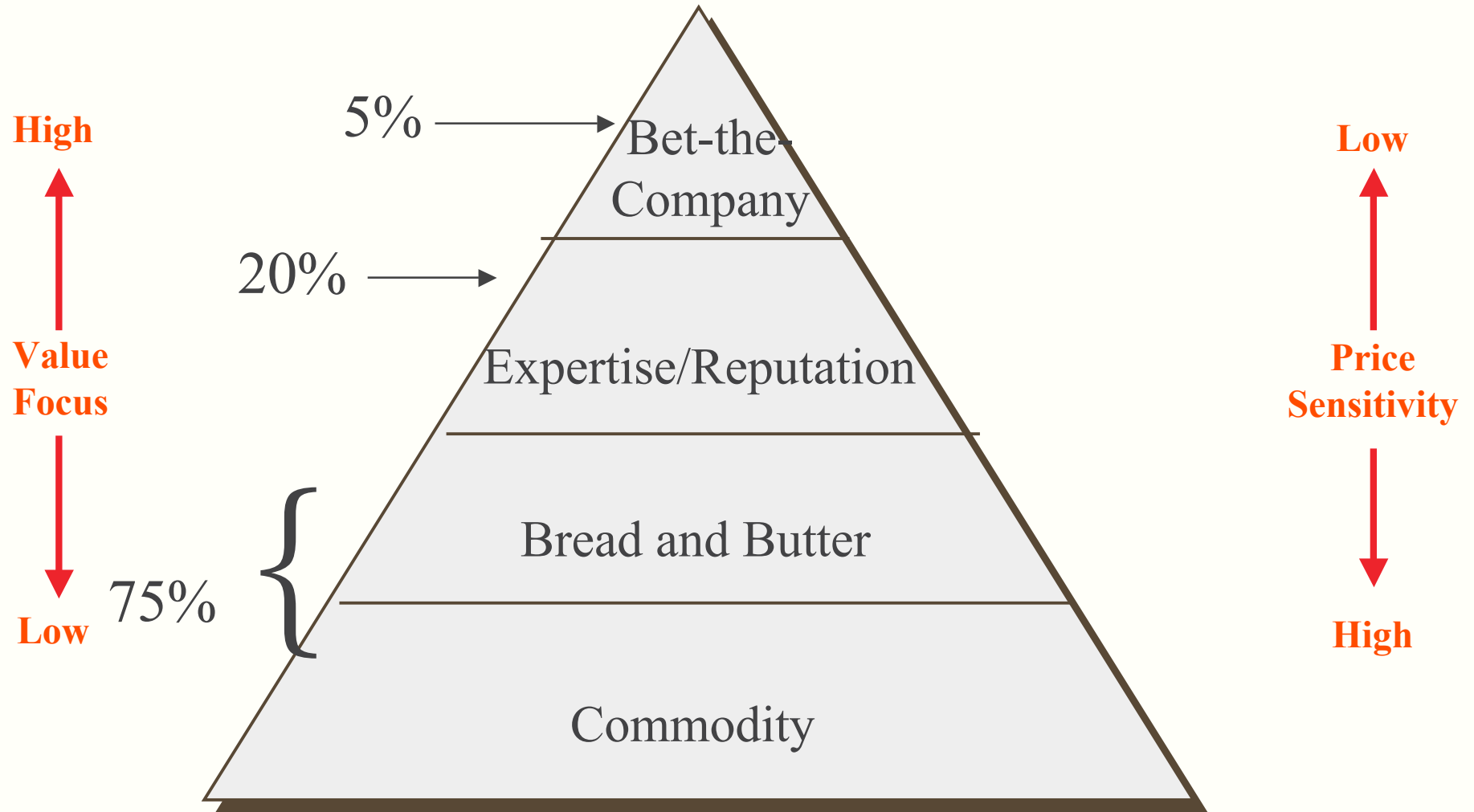
## **Greatest obstacle to Strategy: Believing your own BS!**

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- *“We’re just as good as [The Brand Name Firm], but clients want the comfort of the big name.”*
- *“Clients come to us because we provide great service.”*
- *“We can handle any type of public securities or M&A matter. There is no difference between a \$50 million deal and a \$2 billion deal.”*



# Devaluing – The Client's View of the Value of Legal Work





# Key Strategic Issue: Value Positioning

High Value	Low Value
<ul style="list-style-type: none"><li>▪ Partner intensive</li><li>▪ Relationship focused</li><li>▪ High quality service delivery</li><li>▪ Expensive backup/support cost</li><li>▪ Team-driven delivery</li></ul>	<ul style="list-style-type: none"><li>▪ Junior lawyer/paralegal/technology - driven</li><li>▪ Interface management – low involvement</li><li>▪ Deliver on time</li><li>▪ Process-driven</li><li>▪ Technology - driven support</li></ul>



## Factors Influencing the Hiring Decision Vary Down the Value Pyramid

High Value	Low Value
<ul style="list-style-type: none"><li>▪ Reputation and “CYA” factor</li><li>▪ Expertise and depth/competitive critical mass</li><li>▪ “Experience curve”</li><li>▪ Delivery of “solutions”</li><li>▪ Service delivery</li><li>▪ Trust/relationship - based</li><li>▪ Team-based (where appropriate)</li></ul>	<ul style="list-style-type: none"><li>▪ Price</li><li>▪ Base level competence and depth – to handle volume</li><li>▪ Delivery on time</li><li>▪ Reputation</li></ul>





# **Key Strategic Challenges: The Leadership Void**



## Strategic focus requires leadership

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In thinking about strategy, it's critical to understand that *strategy* and *planning* are completely different.

- Strategy is a leadership process; planning is a management process - -
  - Management is about coping with complexity; bringing order and stability; a linear process.
  - Leadership is about coping with change; often causing de-stabilization; a non-linear process.



# Strategic focus requires leadership

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- Playing out the distinction - -
  - Management involves planning and budgeting; leadership involves setting directions.
  - Management involves organizing and staffing; leadership involves aligning people.
  - Management provides control and solves problems; leadership provides motivation.

[Source: “What Leaders Really Do,” John Kotter (HBR 1990)]

*Most law firms are well managed and seriously under led.*



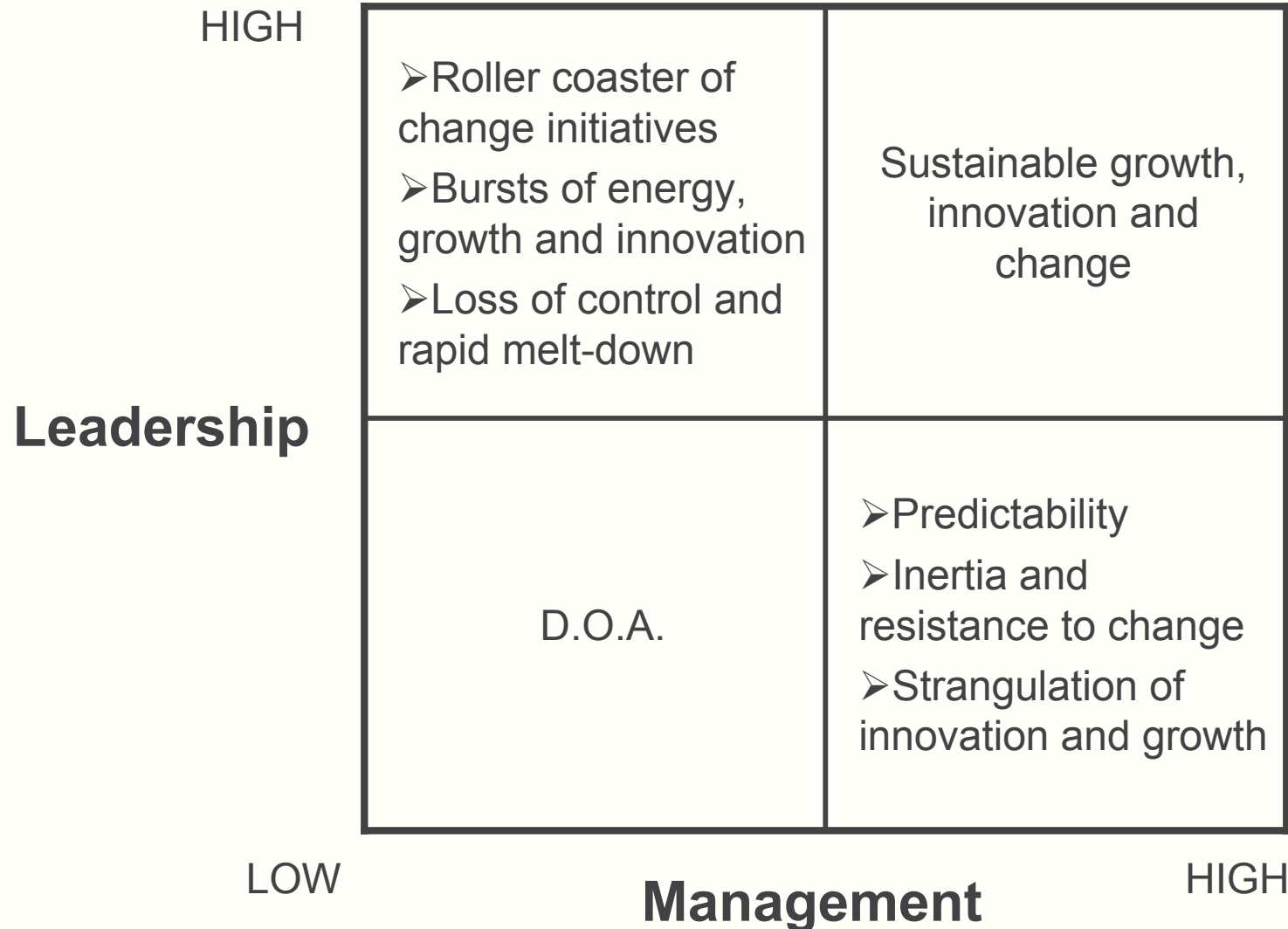
# Strategic focus requires leadership

	Management	Leadership
<b>Creating an agenda</b>	<b>Planning &amp; Budget</b> <ul style="list-style-type: none"><li>•Details, timetables, plans resources</li></ul>	<b>Establishing Direction</b> <ul style="list-style-type: none"><li>•Vision for the future, innovative strategies</li></ul>
<b>Developing an organization</b>	<b>Organizing &amp; Staffing</b> <ul style="list-style-type: none"><li>•Structure, roles policies and procedures, systems</li></ul>	<b>Aligning People</b> <ul style="list-style-type: none"><li>•Communicating direction, influencing, creating teams, and coalitions</li></ul>
<b>Execution</b>	<b>Controlling &amp; Problem Solving</b> <ul style="list-style-type: none"><li>•Monitoring results, identifying deviations, organizing solutions, focused on needs of task</li></ul>	<b>Motivating &amp; Inspiring</b> <ul style="list-style-type: none"><li>•Energizing people, overcoming barriers (political, bureaucratic) to change, focused on needs of followers</li></ul>
<b>Outcomes</b>	<b>Predictability &amp; Order</b> <ul style="list-style-type: none"><li>•Focus on incremental results</li></ul>	<b>Change</b> <ul style="list-style-type: none"><li>•Often dramatic, new products, programs, processes, behaviors</li></ul>

Source: “What Leaders Really Do,” John Kotter, (HBR 1990)



# Strategic focus requires leadership



*Leadership and management are complementary skills.*



# Developing Effective Leadership



# Developing Effective Leadership

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- Leadership issues are particularly complex in the setting of professional service organizations like law firms.
  - A professional services firm is absolutely dependent on skilled and motivated professionals.
  - The best professionals are independently minded and cannot be motivated by being “ordered” to behave in certain ways; they must be persuaded.



## Developing Effective Leadership, cont.

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- The key to leading a professional services firm successfully is striking the right – and ever changing – balance between the needs of the organization and the needs and desires of its individual professionals.
- And that requires leaders with *emotional intelligence* and the ability to adapt their leadership styles to fit different people and circumstances.

*There is no “one size fits all” when it comes to effective leadership.*





## Developing Effective Leadership, cont.

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- One helpful model for addressing the broad array of leadership styles and skills needed in a law firm setting is the concept of **emotional intelligence**.
- Emotional intelligence (“EQ”) is the ability to monitor one’s own emotions and those of others in order to understand them and to guide one’s thinking and actions.
- EQ is a much stronger predictor of leadership success than IQ. EQ can also be learned.



# Developing Effective Leadership, cont.

## *Components of Emotional Intelligence at Work*

	Definition	Hallmarks
<b>Self-Awareness</b>	<ul style="list-style-type: none"><li>• The ability to recognize and understand your moods, emotions, and drives, as well as their effect on others</li></ul>	<ul style="list-style-type: none"><li>• Self-confidence</li><li>• Realistic self-assessment</li><li>• Self-deprecating sense of humor</li></ul>
<b>Self-Regulation</b>	<ul style="list-style-type: none"><li>• The ability to control or redirect disruptive impulses and moods</li><li>• The propensity to suspend judgment – to think before acting</li></ul>	<ul style="list-style-type: none"><li>• Trustworthiness and integrity</li><li>• Comfort with ambiguity</li><li>• Openness to change</li></ul>
<b>Motivation</b>	<ul style="list-style-type: none"><li>• A passion to work for reasons that go beyond money or status</li><li>• A propensity to pursue goals with energy and persistence</li></ul>	<ul style="list-style-type: none"><li>• Strong drive to achieve</li><li>• Optimism, even in the face of failure</li><li>• Organizational commitment</li></ul>
<b>Empathy</b>	<ul style="list-style-type: none"><li>• The ability to understand the emotional makeup of other people</li><li>• Skill in treating people according to their emotional reactions</li></ul>	<ul style="list-style-type: none"><li>• Expertise in building and retaining talent</li><li>• Cross-cultural sensitivity</li><li>• Service to clients and customers</li></ul>
<b>Social Skill</b>	<ul style="list-style-type: none"><li>• Proficiency in managing relationships and building networks</li><li>• An ability to find common ground and build rapport</li></ul>	<ul style="list-style-type: none"><li>• Effectiveness in leading change</li><li>• Persuasiveness</li><li>• Expertise in building and leading teams</li></ul>

Source: Daniel Goleman, “What Makes a Leader” (HBR 1998)



## Developing Effective Leadership, cont.

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- Special challenges for lawyers using EQ –
  - “Thinking like a lawyer” – issues of training and experience;
  - Seeing problems and not opportunities;
  - Taking risks – operating on less than perfect information.
- Recent research has found that effective leaders use six distinct leadership styles, each growing out of different components of EQ. [Source: Daniel Goleman, “Leadership That Gets Results” (HBR 2000)]



# Developing Effective Leadership, cont.

## *Summary of Leadership Styles*

<b>Leadership Style</b>	<b>Coercive</b>	<b>Authoritative</b>	<b>Affiliative</b>
<i>Leader's Modus Operandi</i>	Demands immediate compliance	Mobilizes people toward a vision	Creates harmony and builds emotional bonds
<i>Style in a Phrase</i>	"Do what I tell you."	"Come with me."	"People come first."
<i>When Style Works Best</i>	In a crisis, to kick start a turnaround or with problem employees	When changes require a new vision, or when a new direction is needed	To heal rifts in a team or to motivate people under stress

Source: Daniel Goleman, "Leadership That Gets Results" (HBR 2000)



## Developing Effective Leadership, cont.

### *Summary of Leadership Styles, cont.*

<b>Leadership Style</b>	<b>Democratic</b>	<b>Pacesetting</b>	<b>Coaching</b>
<i>Leader's Modus Operandi</i>	Forges consensus through participation	Sets high standards for performance	Develops people for the future
<i>Style in a Phrase</i>	"What do you think?"	"Do as I do, now."	"Try this."
<i>When Style Works Best</i>	To build buy-in or get input from valuable employees	To get quick results from a highly motivated team	To help employees improve performance

Source: Daniel Goleman, "Leadership That Gets Results" (HBR 2000)



## Developing Effective Leadership, cont.

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- Some simple truths –
  - If you begin with “who” rather than “what,” you can more easily adapt to a changing world.
  - If you “have the right people on the bus,” the problem of how to motivate and manage people largely goes away.
  - If you have the wrong people, it doesn’t matter whether you discover the right direction; you *still* won’t have an effective organization.

[Jim Collins, *Good to Great* (2001)]



# **Key Strategic Challenges: Maintaining Economic Competitiveness**



# The Top No Longer Resembles the Middle or the Bottom

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- The Economics Of The Top Segment Of The Profession Does Not Resemble The Middle Or Bottom.
  - Yet, many in the middle/bottom don't understand how rapidly the market is changing, and still try to emulate the top.
  - Many firms don't recognize the slow pace of pricing pressures over-taking them.
  - Consider the following example:


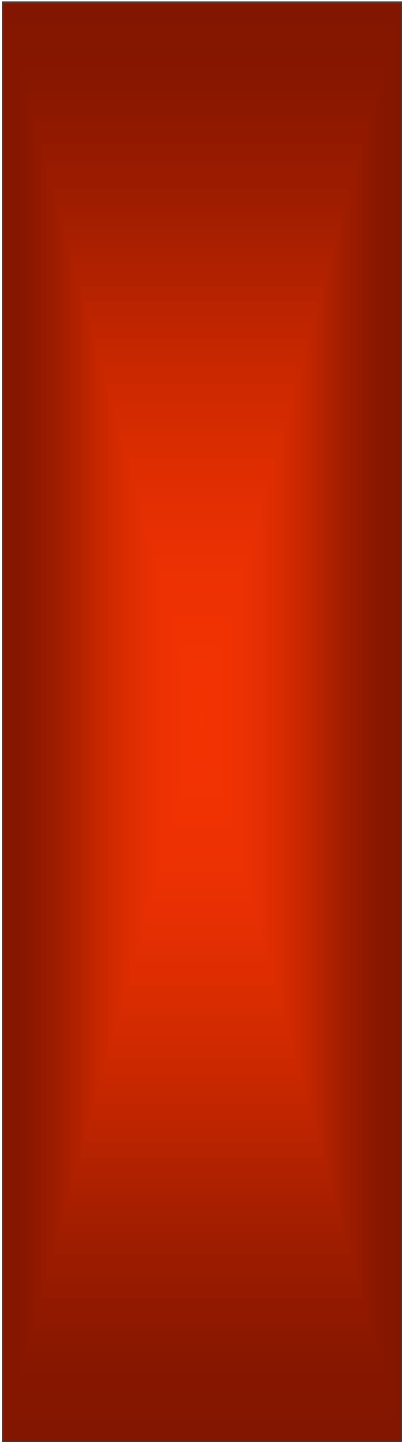




# Comparison of First Year Economics At Three Firms:

Mid Market

	Premium Firm	National or Regional Firm	Small/Insurance Defense Firm
Billing Rate	\$250	\$175	\$120
Billable Hours	2,350	1,800	1,950
Realization	97%	91%	90%
<b>Collections</b>	<b>\$569,875</b>	<b>\$286,650</b>	<b>\$210,600</b>
Salary + Bonus	(\$135,000)	(\$105,000)	(\$75,000)
Benefits	(\$27,000)	(\$22,000)	(\$15,000)
Overhead/Atty.	(\$200,000)	(\$150,000)	(\$85,000)
<b>Total Cost</b>	<b>(\$362,000)</b>	<b>(\$277,000)</b>	<b>(\$175,000)</b>
<b>Profit</b>	<b>\$207,875</b>	<b>\$9,650</b>	<b>\$35,600</b>
Profit Margin	36%	3%	17%
<b>Hours to Break Even?</b>	<b>1,519</b>	<b>1,745</b>	<b>1,653</b>



# **Key Strategic Challenges: Compensation and Governance**



# It Will Be Tougher To Become An Owner

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- As Profession Matures And Becomes More Competitive, It Will Become Harder, Not Easier, To Become An Equity Owner.
  - More use of two tier ownership structures.
  - Widespread, extensive use of contract lawyers.
  - More rigorous evaluations of, standards for, partner performance.
  - Possible restructuring of partnerships to continue trend of shrinking/holding the equity partnership.
  - Growing realization that partners who are just workers shouldn't be paid like entrepreneurs.
    - Firms will have to confront sense of entitlement they have bred in their partners.



## And leadership will be valued

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- Critical contribution to firm success
- Valuation of leadership (and management) one of the major challenges in compensation today
- Will we move toward a form of “phantom equitization” of firm profit sharing?



# Possible future compensation model?

## Tier 1 Compensation:

Historical/Expected current  
Year performance  
•Hours, “originations”,  
Matter management, etc.

## Tier 2 Compensation:

Extraordinary Current Results

## Tier 3 Compensation:

Firm building contributions,  
Major client institutionalization.  
Extraordinary management and  
Leadership.

Share in:

Current \$

Future \$

**X**



**x**

**X**



None

**x**



**X**

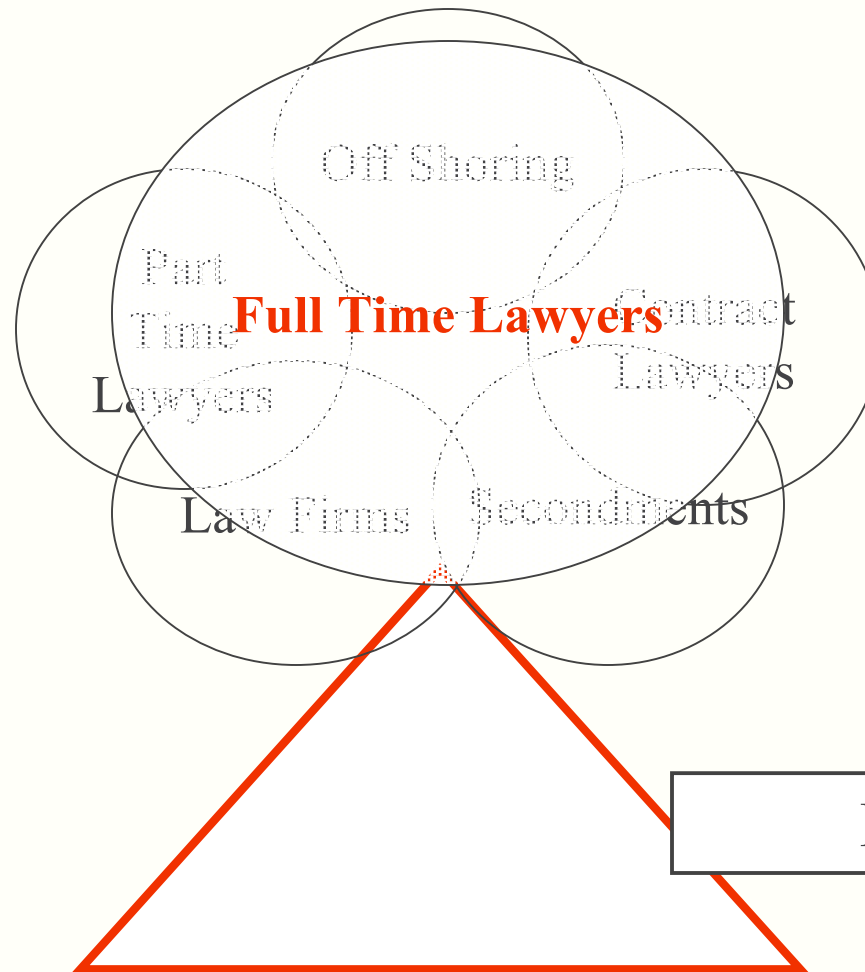


# Will we need a whole new business model?

Talent Management and Resourcing

Contraction of Full Time, Tract Lawyers

How do we motivate/differentiate our full time lawyers from alternative forms of leverage and lawyering sources.





# Discussion



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