

## Are there cracks in the traditional partnership model?

Looking back at 2020, it was a financial roller-coaster for law firms, raising issues of cash-flow, capitalisation and cost reduction.

At Lexington Consultants we have assisted our clients globally understand their key financial risks and how to overcome them. Workplace and property strategy is high on the agenda for many firms, and this can impact not only cost but also the client experience, culture, operating model and importantly how your people view the firm.



“Law firms are finally incorporating a financial strategy where pricing and profitability are clearly set.” Paul Browne

Now that we are heading into the last end of the year, looking back at 2021, when we thought that partnership was the best way to engage professionals in law firms and motivate them as co-owners, the market made a U-turn and re-considered corporate structures in legal services surfacing as more capable to serve well to clients based on their agility, flexibility and adaptability in the new environment.



“In a world where lawyers have been trained to be the best at technical skills, we now are expecting more than ever new partners capable to bring a business case and demonstrated leadership skills.” Moray McLaren

We have worked with firms to translate a clear vision into strategy execution, helping them to improve operational effectiveness through better internal and external processes. In our experience, those corporate structures are better for innovation, LegalTech and efficiency but also transforms firm’s culture and attracts young and diverse talent.

However, talent it is still the biggest asset of a law firm. The challenge for many firms is to build high performance structures, designed to support and motivate the more flexible working environments which are likely to be the norm in the post-pandemic world.



“Law firm leaders must ensure they identify and develop their future leaders efficiently and in a timely way in the light of the changing environment in which they operate. Getting their assessment processes right is, therefore, essential. The rest of the team cannot be overlooked of course so everyone must be motivated to help the firm achieve its business objectives and supported in doing so.” Tony King

So is it the beginning of the end of the partnership model / ‘traditional law firm’?

Let’s look at the British DWF Group headquartered in Manchester, no longer a partnership, it’s now a company listed on the stock market in 2019. As described by **Artificial Lawyer magazine**, the firm organises itself now into three divisions: the law firm – in effect what was there before, and the part most people would recognise; the Mindcrest group – an ALSP business, which does contract management and litigation support, as well as data-led legal analytics; and then Connected Services – which ranges from risk management, to digital learning, to corporate governance, to forensic accounting, to claims management, amongst other services.

But this model is not exclusive for RWF, we have seen the Big4 or Herbert Smith Freehills, refining their Alternative Legal Services (ALS) and other firms developing what is known as captive LPOs ( Legal Process Outsourcing) often located in lower-cost regions such as Allen & Overy, Clifford Chance, Eversheds, Orrick, Reed Smith, WilmerHale.

Partnerships (*not all....but many*) tend to take a fairly short-term view of firm development spending. The equity partners get paid out over a year, and then the firm is back to zero in effect, and it all starts again. The focus is on working very hard and then getting the bills sent out to the clients..

Also, as partners move to retirement, money invested from profits is money they won't see paid into their pockets. And as most law firm management teams are stacked with older partners, there is a big barrier to really investing heavily in change that won't make you more money before you leave.

Corporate business structures, where the partners own shares that they can take with them, it's a different story. Their focus is on client needs, not what they sell. They also doubling down on training.



“Leadership and accountability is key to develop a culture of efficiency. Law firms needs to mirror their clients’ capacity to adapt and transform.” Mari Cruz Taboada

In order to support resistance or lack of skills to adapt, many of the best-known firms have been providing coaching to both their highest performers and their upcoming talent, for years. This investment in the recipients’ personal development is designed to ensure that they are fulfilled in their work, remain fresh and focussed, and consequently achieve ever-better performance.

So why is coaching so effective? Some of Lexington Consultants are trained coaches too, and the difference is that coaching is about *active* listening which results in empowerment. Often, self-imposed limitations are uncovered, which once recognised and acknowledged can be worked on to free up trapped potential. This is both fulfilling for the coachee and highly beneficial for the firm as it's people work more happily and effectively.

Lawyers are required to have a more entrepreneurial mindset. They have to work closely with inhouse legal teams to really understand what the clients want.



“It has never been more important for firms to ensure that all their people are equipped to be absolutely clear when speaking to clients as to why, *truthfully*, their firm stands out from the crowd as the most value-adding choice compared to the competition. In other words, it's about finding and expressing a really crisp and honest differentiator.” Richard Macklin

Law firms continue to increase their marketing budgets according to Lexis Nexis survey with Judge Business School, University of Cambridge and focus on what they sell. The research highlighted that 40% of clients indicated that the senior partners of the firm they instructed lacked a basic understanding of the client's business and partner interactions were often superficial.

**Lexington Academy** – our learning arm – has been training future leaders and providing the toolkit required for our changing world.

Please do not hesitate to request more information. We will be delighted to offer you our support to strengthen your capabilities for the present and the future, whether people, business model, clients or managing new risks.

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Lexington Consultants assists law firms globally as they address their most complex strategic and organisational issues and develop actionable responses. The team is made up former lawyers who have held senior leadership position at top firms and professionally trained consultants who have come to specialise in the legal sector.

