

infocus

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Leverage

It seems straight forward. If you are in the business of selling time and your time is limited, why not buy someone else's time and on-sell it at a profit? The more you sell the better your business.

To be a little more theoretical about it, a partner's greatest asset is intellectual capital. Having practised for years, it is likely that a partner has accumulated intellectual capital beyond his or her capacity to sell it. It follows that a sensible strategy would be to leverage intellectual capital by employing lawyers with lesser skill to harness and sell the partner's intellectual capital, hence the leveraged firm. Supervision, training, precedent systems and modern HRM strategies ensure quality and business growth simultaneously. In an ideal world everyone wins. The client is served and the partner maximises his or her return on their intellectual capital, in time the employed lawyer builds their own intellectual capital opening the opportunity for partnership and the benefits therein.

There is nothing new about this approach. It is claimed to have been pioneered by Paul D. Cravath, founder of the New York firm Cravath, Swaine and Moore in the 1930's¹. What has become known

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as the "Cravath System" involved hiring gifted law students from prestigious law schools, paying them more than they would be able to earn elsewhere, requiring that they devote all of their effort to the firm's clients and not work for anyone else (a practice common in the early 1900's when lawyers were either owners or effectively project to project contractors), giving them graduated increases in responsibility through an intensive apprenticeship. At the end of the apprenticeship, say 5 – 10 years later, the associate was invited to partnership or invited to leave creating an up or out

features of several prestigious firms of the time. If you are interested see Swain, Robert Taylor (1946) *The Cravath Firm and its Predecessors*. New York: Ad Press.

tournament for limited partnership positions. As others copied the Cravath system it quickly became the structural model of the large law firm.

Time marches on. Employed lawyers don't respond to the same "treat 'em mean and keep 'em keen" philosophies that made Cravath's one of the world's great firms quite like they used to. Nonetheless, some of the principles remain valid.

The mathematics of leverage is compelling. Consider two approaches, a partner with a secretary doing it all themselves and a partner with two employed lawyers, one secretary and some word processing done by one quarter full time equivalent.



¹ In reality Cravath did not invent this system but rather appears to have taken the best

These approaches carry a relative cost of production as follows:

	APPROACH 1	APPROACH 2
Partners salary (notional)	\$200,000	\$200,000
Solicitors salary		90,000
Secretary	65,000	65,000
WP		16,250
Non-salary o/heads @ \$50K/person	100,000	225,000
Total cost	365,000	686,250
Available chargeable time	1,000 hours	3,000 hours
Cost per hour	\$365.00	\$228.75

The leveraged partner can compete with a lower cost and enjoy a significantly greater margin.

Despite logic and the fact “loan rangers” persist, often presenting one of these arguments.

“I can do it quicker and cheaper myself”

In the short term this may be true. Unfortunately there is often a catch. Partners providing commodity services will, in all likelihood, price their service to meet the market, regardless of cost. This leaves only one option, work harder, producing profit through exhaustion. Taking the time to develop a process, training others to use it, coaching them, motivating them and retaining them will yield a significantly greater mid and long term return, benefiting all involved, including the client.

Partners providing knowledge services that require experience and know how have a greater challenge but the same principles apply. Sharing knowledge and

approach will minimise risk and develop a more enduring business model.

“It is harder than ever to find good people”

True enough! Every firm that I have been involved with is still trying to find that lawyer with three to five years’ experience, good at marketing and good at commercial law. Unlimited demand and hardly any supply. This is a frustrating market in which to be a purchaser. Cravath saw the attraction of a

“grow your own” model at the end of the 1920’s. If experienced people are lacking in abundance, firms should identify the graduates they wish to hire by employing summer clerks, sponsoring local students through university, encouraging talented school leavers to study part time while working for the firm, training career change candidates as they study and identifying talent among support staff who may be interested in studying law. When Manchester United want a stream of talented players they don’t limit their search to the next division down, they send scouts to the Under 10s. That may appear a little desperate for law firms but when the going gets tough.....

“Just when I get them trained they leave”

Law firms are getting better at managing attrition but it remains a challenge. I had the pleasure to serve a North Queensland firm recently who have figured retention out. They identify local kids who are studying law, some locally some in Brisbane. They employ them during university holidays and offer the best ones a position on graduation; such is the culture of the firm that they invariably accept. Graduates serve an apprenticeship, working their way through a two year training



curriculum with exposure to several partners (literally working in their offices). They don't encourage a graduate's admission until they are confident that they are a capable practitioner. Early in a lawyer's career, after about three years they insist that they travel, ideally abroad to better their life skills and to experience all that travel has to offer. Not all but most of these lawyers return to the firm to build their skills and progress to partnership. In this firm attrition is not an issue, it does happen but instead of being the end of the world it provides opportunities for others. They employ a couple of graduates every year.

It's a hare and tortoise argument, consistent average performance invariably beats the occasional, isolated star performance.

“Younger lawyers won't work hard enough, certainly not as hard as we did”

Let's avoid all the “Gen Y” clichés, the fact is they don't have to. If all lawyers in the firm do 1,000 chargeable hours (that's about 4.5 each day of the working year) and that time is sold at contemporary rates the firm will usually perform at best practice levels. It's a hare and tortoise argument, consistent average performance invariably beats the occasional, isolated star performance.



This is not a target, it is minimum acceptable contribution. It can be achieved by ensuring that all lawyers have sufficient work to do. Delegate, monitor and coach.

“The clients expect me to do the work”

With the exception of extremely informed (usually insurance company) clients and clients with complex, unique and high risk matters, this is not generally true. Clients want the work done quickly, accurately and cost effectively. This is usually best achieved by supervising well trained employed lawyers. Indeed this is the requirement of an increasing number of sophisticated clients who insist on a depth of skill within any firm.

If your practice is indeed the stuff of rocket science, it need not be a problem - price accordingly and get used to working hard. The bar has been doing it for centuries. I do, however, maintain that all partners can employ at least one solicitor with which to share the magic. There are definite opportunities in practices where partners insist that clients require them while maintaining that price remains an issue.

At FMRC we would like to assist your firm to develop a leveraged approach. Telephone us on (02) 9262 3377 or visit www.fmrc.com.au.



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Neil has been working almost exclusively as a management consultant with the legal profession for 20 years. He undertakes consulting assignments for law firms throughout Australia and New Zealand, specialising in strategic advantage, profit growth strategies, contemporary leadership and change management. Each year he is involved with some 110 law firms of various sizes and specialty areas of practice.

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