Law firms fulfill privileged, yet vital, roles in American society. They simultaneously protect the resources, reputations, and prerogatives of the nation’s leading corporations, businesses, and families; supply many of the political leaders serving in state and national governments; manage about 500,000 partners and associate attorneys; and effectuate a massive transfer of assets from clients to law firms in payment of legal fees. Although law firms serve as protectors of established wealth, status, and power, they also dedicate millions of attorney hours every year to pro bono representation of indigent and historically underserved populations. Many law firm attorneys, moreover, act as another conscience for their clients, and their ethical duty to exercise independent judgment generally has heightened the quality of clients’ decision making and the integrity of commercial conduct. The pivotal role of law firms, however, is now challenged by a series of economic dislocations and strategic errors that have disturbed, destabilized, and weakened law firms. Those dislocations and errors—and methods of recovering from them—are the subject of this book.

Law firms are remarkably profitable but surprisingly fragile. Their profit margins vastly exceed those of Fortune 100 corporations,
and Citi Private Bank depicts them as “one of the most profitable personal services businesses in the world.”

Despite their profitability, law firms become insolvent and collapse at exceptionally high rates. Nearly one-half of the firms listed in the Am Law 100 in 1987, the first year in which The American Lawyer publicly ranked law firms by gross revenue and profits per partner, have now dissolved, merged with stronger firms, or failed to maintain sufficient revenue or profitability to remain in the Am Law 100. Although law firms attempt to project an aura of stability consistent with the staid image of the legal profession, many law firms are, in reality, only a few months away from a devastating defection of partners, a disappointing revenue report, or a rushed merger with a stronger firm.

The Great Recession inflicted a severe economic blow from which most law firms did not recover. The period from 1990 to 2008 is now called the “Golden Era” of law firms. The period after that has been marked by fewer billable hours per attorney, declining revenue per lawyer, intense competition from corporate law departments and alternative legal service providers, fewer employment opportunities for law school graduates, and a wave of law firm failures.


Christensen, Clayton M., & Anthony, Scott D. (2003, January 21). Transforming legal services (p. 2). Innosight LLC. (“Law firms are among the most profitable and least risky businesses in the world. The profit margins of the top 100 U.S. law firms are at least twice those of America’s largest publicly traded corporations”)


consolidations and mergers. As the U.S. economy recovered after the Great Recession, it left most law firms behind, competing for a stagnant number of billable hours and scrambling to maintain their partners’ income levels.

The apex of client demand for law firms’ services occurred in 2008, and overall demand has been static or declining since then. To the extent that lawyers’ income increased after 2008, this increase is attributable to hourly billing rate increases, not increased billable hours. The collapse of demand for law firms’ legal services has been well hidden by incremental increases in their billing rates and, hence, their gross revenue—giving the impression that firms are thriving financially when in fact they have simply changed the prices on their billable hours. As the annual Report on the State of the Legal Market succinctly states, “the financial performance of law firms over the past 10 years has essentially been driven by only one factor: rate increases.” This palliative treatment, masking with annual hourly rate increases the industry’s underlying infirmity of declining demand, will be withdrawn in the next economic downturn as law firms exhaust their clients’ tolerance for higher rates.

The rate of law firm implosions has doubled since the beginning of the Great Recession. Dewey & LeBoeuf’s dissolution in 2012 was the largest law firm bankruptcy in history, expelling 1,100 attorneys and revealing liabilities exceeding $300 million. The demise of Dewey & LeBoeuf was preceded by the disintegration of well-regarded firms such as Howrey, Brobeck, Heller Ehrman, Coudert


7 Georgetown Law Center for the Study of the Legal Profession & Thomson Reuters Legal Executive Institute (2017), supra note 6 at 9.

Brothers, Shea & Gould, WolfBlock, and Thelen.9 The frequency and magnitude of law firm implosions seem to have inured both attorneys and clients to the transient nature of law firm alliances. As a partner who left Dewey & LeBoeuf and joined Winston & Strawn in 2012 notes, “All we really did for clients was change the firm name and the address where they sent their bills.”10

No one has determined whether attorneys and law firms have developed a preoccupation with short-term revenue as a result of law firms’ instability or whether law firms’ instability is caused by attorneys’ preoccupation with short-term revenue. In any event, this instability has engendered among many attorneys a transitory, opportunistic attitude that derides loyalty as naïveté and perseverance as quixotic. Law firms now serve as upscale docks for transient, highly talented attorneys whose allegiance to the firm may be as variable as The American Lawyer’s annual ranking of its profits per partner. Rather than await the outcome of financial setbacks, attorneys flee their law firms when managing partners, recruiters, or journalists alert them to sudden changes in their firms’ financial condition or other unanticipated risks. Consequently, the viability of many law firms is precarious, their very existence threatened by the next recession, loss of a key client, or defection of a few rainmaker partners. Today’s venerated law firm is quickly transformed into tomorrow’s legend as soon as its most profitable partners lose confidence in its financial prospects or leadership.

Causes of Law Firm Instability

Dewey & LeBoeuf, a law firm with 26 offices and annual revenue of $782 million, filed its bankruptcy petition on May 28, 2012. During the preceding five years, its debt had increased from $140 million to

$315 million.\textsuperscript{11} Within hours after this bankruptcy filing, attorneys throughout the United States began asking themselves, “Is there anything that we need to do differently to avoid making Dewey’s mistakes?”\textsuperscript{12} They quickly assured themselves that the problems besetting Dewey & LeBoeuf—excessive debt, compensation guarantees to partners, and an overly aggressive growth strategy—either did not exist at their firms or existed in a small, benign form. They convinced themselves that the conditions leading to Dewey & LeBoeuf’s demise were unique, episodic, and purgative.

In regarding Dewey & LeBoeuf’s collapse as an isolated event, attorneys missed an opportunity to objectively evaluate their own law firms’ weaknesses and to correct attitudes and practices that could lead to a debacle every bit as momentous and unexpected as Dewey & LeBoeuf’s downfall. The fact that an existing law firm does not exhibit the same maladies as a defunct law firm does not make it any less vulnerable to collapse. Vulnerability is now embedded in most law firms due to weak demand for their services and the absence of methods, systems, and incentives essential to detecting and responding to major changes in clients’ expectations of professional service providers. What distinguishes Dewey & LeBoeuf’s collapse from that of a contemporary law firm are the manifestations and depth of the problems, not their nature and breadth.

The critical question for law firm leaders is not whether their firms have problems identical to those that afflicted Dewey & LeBoeuf and other failed firms but rather whether their firms have any vulnerabilities that could lead to their demise. A comprehensive assessment of law firm vulnerabilities is required because “law firms, like human beings, usually do not die from a single cause but from a combination of systemic failures.”\textsuperscript{13} In their comparative study of


\textsuperscript{12} Zimmerman, Kent. (2012, June 8). Four steps every firm should consider in the wake of Dewey & LeBoeuf. \textit{Chicago Daily Law Bulletin}.

\textsuperscript{13} Raasch, Janet Ellen. (2007, September 30). Why do some law firms fail while others succeed?
failed and successful law firms, consultants Burkey Belser and Mark Greene found that “many of the failed firms had some or nearly all of the characteristics of the firms that succeeded. It would be simpler if we could point to a single fatal flaw.”

Among the 60 variables that Belser and Greene determined were associated with success and failure, “none was predictive in and of itself.” They concluded that law firms’ failures were not caused by a single factor or incident but instead resulted from multiple characteristics and a sequence of events. This conclusion is consistent with general catastrophic failure theories, which find that “disasters do not simply occur; they evolve. In complex systems, a single failure rarely leads to harm.” Because law firm failures are multifaceted and unfold in a series of deleterious processes and events, Belser and Greene observe, “there is no such thing as a precipitous firm collapse. It only appears that way.”

Over the next decade, many law firms will vanish in a Dewey & LeBoeuf–like implosion or will merge with other firms in rescue operations marketed as bold, strategic actions. They will fail for the same reasons that other companies dissolve, governments fail, leaders are ousted, and industries become obsolete: failure to anticipate, failure to learn, and failure to adapt. Law firm critics like Paul Lippe, the founder of the technology firm Legal OnRamp,

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17 Belser & Greene, supra note 14.

believe that the problems afflicting law firms are largely irreversible: “Large firms are entering a Bermuda Triangle of management challenges: slower growth, greater pressure for change, and a governance model designed to be anti-nimble. The problem for firms is that they are designed to not be especially good at change, so it’s crazy to imagine that they will be able to transcend that architecture.” The approach taken in this book, however, is less pessimistic than Lippe’s prognosis. This book’s thesis is that the problems facing law firms are severe, chronic, endemic—and solvable.

**Themes and Premises of This Book**

Law firms’ problems are rooted deeply in attorney personality characteristics; law firms’ recruitment processes, professional development programs, and partnership admission criteria; practice group and law firm leader selection; and attorneys’ short-term perspectives exacerbated by law firms’ cash basis method of accounting. Law firms’ adaptability is further hindered by the impractical nature of legal education and a general misconception that law firms are unique and have little or nothing to learn from other businesses and organizations. This admixture of errors, oversights, arrogance, and isolation buttresses a collective intransigence that now threatens the continued existence of many law firms. To better understand law firms’ vulnerabilities and to show how they can be reduced, mitigated, or surmounted, this book analyzes their practices, leadership, cultures, systems, strategies, challenges, and deficiencies. This book posits that effective law firms must be proficient, professional, positive, prescient, and profitable, and it demonstrates how those qualities can be realized.

This book’s analysis of law firms employs an analogy developed by James Collins, a noted business consultant and author of the best sellers *Good to Great*, *How the Mighty Fall*, and *Great by Choice*. Collins asserts that business successes are attributable to three basic achievements: getting the right people on the bus, placing

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the right people in the right seats, and sending the bus in the right
direction. Business failures, conversely, are attributable to poor
recruiting, hiring, and promotion decisions; mismatches between
people and their positions; and mistaken strategies. The leader’s
primary responsibility in every organization, Collins explains, cen-
ters on people, assignments, and strategies:

You are a bus driver. The bus, your company, is at a standstill,
and it’s your job to get it going. You have to decide where you’re
going, how you’re going to get there, and who’s going with you.

Most people assume that great bus drivers (read: business
leaders) immediately start the journey by announcing to the
people on the bus where they’re going—by setting a new direc-
tion or by articulating a fresh corporate vision.

In fact, leaders of companies that go from good to great start
not with “where” but with “who.” They start by getting the right
people on the bus, the wrong people off the bus, and the right
people in the right seats. And they stick with that discipline—
first the people, then the direction—no matter how dire the
circumstances.20

When Collins’ model is applied to law firms, it is evident that law
firms get far too many of the wrong people on the bus; they place
many of the right people in the wrong seats; and, collectively, the
wrong people, the misseated right people, and the leaders are steer-
ing the bus in the wrong direction. Although it is impracticable for
law firms to change the people, their seats, or the direction of the
bus immediately, they can initiate four critical changes by:

• realistically assessing and eventually changing the types of
  attorneys they hire.
• modifying their recruiting, hiring, and professional develop-
  ment practices to more closely align attorneys’ skills and pro-
  pensities with clients’ needs and expectations.

• selecting leaders based on their leadership capabilities instead of their legal expertise and rainmaking success.
• developing and executing more incisive, intelligent, and durable strategies than the current “expansion fever” in law firm mergers and lateral hiring, the overemphasis on premium pricing, and the obsession with “chasing stars” in compensation decisions and lateral partner acquisitions.

The solutions proposed in this book will require a frank acknowledgment of misconceptions that currently impair attorney performance and mislead law firm management; a willingness to abandon behavior that was debatably successful in the past but is now dangerously maladaptive; a receptiveness to personal change and the adoption of higher standards of professional conduct and client service; and the implementation of contemporary management and leadership practices that have been tested and validated in other disciplines and industries. These solutions also require a degree of humility and openness in a profession whose most prominent members are popularly portrayed as argumentative, aggressive, confident, and not particularly reflective.

Organization of This Book

This book provides an overview of economic and demographic trends in the legal services industry and explains how law firms’ current practices and strategies are misaligned with clients’ needs and unsupported by empirical research. After providing this overview of current conditions, the book shows how improvements in culture, character, practices, systems, and leaders can enable law firms to survive and thrive in the next decade.

A brief summary of the book’s chapters appears below to orient readers to the book’s organization, content, and progression:

• Chapter 2—Trends. This chapter presents a snapshot of the legal services industry and of law firms’ declining role in that industry. It summarizes key indicators and trends that signal high risks for law firms: law firm revenue, employees, billable hours, hourly rates, collections, profitability, volatility,
corporate legal departments, alternative legal service providers, and surplus partners. This chapter also illuminates two major demographic changes that will reconstitute law firms: the impending retirement of nearly one-half of all current partners and the surge of Millennial generation attorneys joining firms and becoming partners.

- **Chapter 3—Mismatches.** This chapter describes and challenges traditional attorney hiring criteria and the attendant overemphasis on grade point averages and law school ranking. It explains how law firms’ hiring strategies, incentives, biases, and compensation systems result in a low level of diversity and a high level of attrition among female and racial and ethnic minority attorneys. This chapter also documents the extraordinary costs of attorney attrition and describes the financial benefits that firms can realize with a diverse workforce.

- **Chapter 4—Missteps.** Law firms generally adopt eight strategies to increase market share and profitability: head count growth, mergers, lateral partner hiring, star partner recruiting, client origination incentives, rate increases, premium pricing, and leverage. This chapter examines the empirical evidence regarding these strategies and finds that they promote short-term perspectives and generally fail to achieve the intended results.

- **Chapter 5—Culture.** The role of culture in law firms has been neglected. This chapter describes the meaning and importance of firm culture. It discusses and shows how effective law firms develop the key features of culture: shared objectives, commitment to clients, trust and collegiality, continuous learning and improvement, social purpose, and accountability.

- **Chapter 6—Character.** This chapter identifies the personal traits that law firms must seek when recruiting attorneys and should enhance in their talent development programs: likeability, humility, engagement, realism, openness, and resilience. Law firms have overlooked these traits, and as a result, many clients have been subjected to suboptimal legal service. This chapter also examines what psychologists call the “dark traits” that law firms should detect and avoid in attorney candidates.
• Chapter 7—Practices. The practices that distinguish effective law firms, derived from studies of high-performance organizations, are identified and discussed in this chapter. Those practices include collaboration, decision making, civility, readiness, and diversity and inclusion. The chapter explains the benefits of those practices, along with specific methods of improving them.

• Chapter 8—Systems. Successful law firms operate with systems that facilitate client service and attorney professionalism. When systems are working well, they are taken for granted and hence may receive less attention than they merit. This chapter highlights and explains the importance of these key law firm systems: quality control, feedback, and evaluation; compensation; technology and information management; lateral attorney integration; succession planning; attorney wellness; and pro bono services.

• Chapter 9—Leaders. Law firm leaders occupy ill-defined roles that are often circumscribed by a predecessor’s model or directed by their own interests. As a result, law firm leadership is often more idiosyncratic than perdurable. This chapter delineates the six major responsibilities that law firm leaders must understand and undertake: awareness; vision and strategy; innovation and change management; crisis management; talent development; and execution.

Purposes of This Book

As indicated by these brief chapter summaries, this book’s purpose is to animate attorneys’ deep intelligence and strong analytical skills to enable them to (1) become more effective attorneys and law firm leaders; and (2) recognize and possibly reverse the downward trends that currently threaten their client relationships and destabilize their law firms. Those trends, unless halted, will lead to the termination of thousands of attorneys and the demise of multiple law firms. Although clients ultimately may benefit from that disruptive process as competitors seize new opportunities from law firms, it is not clear that these competitors will provide the breadth of expertise or the independent judgment traditionally offered by law firms.
Nor is it clear that these competitors will fulfill the community service roles and undertake the pro bono responsibilities traditionally assumed by law firms. Law firms have a singular role and purpose in American society that may not be fully understood or appreciated until many of them vanish.

The transformation of the legal services industry has been largely ignored by attorneys and their law firms. This transformation is driven as much by law firms’ passivity as it is by competitors’ advantages, as much by law firms’ acquiescence as it is by competitors’ ambitions. It is critical for law firms to explicitly decide whether they will continue to succumb to competitive forces that promise clients less expensive, more efficient legal services or whether they will reassert themselves by adopting new attitudes and modern practices. Although client attrition from law firms is not inexorable, it will become irreversible if it is continually minimized or disregarded.

Clients’ expectations and their alternatives have expanded markedly since most attorneys graduated from law school, and the gap between clients’ demands and law firms’ performance widens every year. This gap is both tangible and perceptual. Clients are convinced that their law firms are not serious about changing their legal services delivery model and providing greater value to clients, but their law firms report significant progress in increasing their efficiency.21 This book can help law firm attorneys bridge this gap or narrow it sufficiently to preserve their firms’ distinct contributions to American society and its legal system.

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