Adding Professional Management – And How to Pay For It

By Karen MacKay

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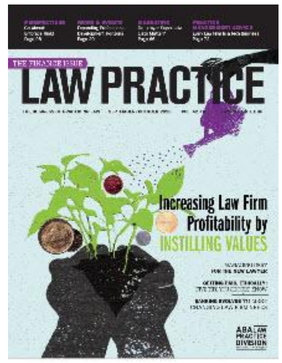
Yours is a small firm on the rise. It has enjoyed top line growth and is having success attracting some terrific talent. More importantly you have landed a few signature matters that have raised the firm's profile in a meaningful way. All of this is great, but . . .

Each of the partners has taken responsibility for different aspects of administration. You look after the financial aspects of the firm, working closely with your bookkeeper. The bookkeeper does a great job at that level, but you get blindsided by issues that become problems, requiring you to drop everything and handle them. One partner looks after talent—associate hiring and development, but also front line staff management, which can mean that partner is pulled away from his or her practice by every little episode of people management. One partner looks after technology and when the systems are giving you trouble, well, need I say more?

CREATING A CHALLENGING OPPORTUNITY

Saying you are ready for a more sophisticated nonlawyer managment is one thing. Creating an opportunity that is sufficiently challenging to keep a great person engaged can be quite another.



First, identify the scope of the role, including the obvious areas of finance, talent, facilities, technology and marketing. Then consider the not-so-obvious areas like risk management, client relationship management, workflow and engagement pricing. Consider getting your director involved in every engagement and working with clients on pricing, billing and payment plans.

Second, create the role in three phases and identify areas of responsibility that can shift to the new director in the near term, medium term and longer term. This will help the director to take the initiative to take on more when he or she is ready.

Third, create a decision tree that clearly sets out the scope of responsibility and authority for the director, the issues that need to go to the management committee or managing partner and the issues that need to be approved by the partners. This will give the partners confidence that the director won't step in a hole, while keeping the partners out of the mundane.

PAYING FOR TALENT REQUIRES DISCIPLINE

A director of finance and administration in your market may cost about $200,000, plus benefits. On the surface this is a significant addition to the expenses of your firm. As a firm grows the cost base grows in steps, and the profits catch up. Consider, for example, that each of the partners is contributing about 500 hours of nonbillable time in service to the firm. Four partners represent 2,000 hours, at an average billing rate of, say, $500 per hour, which represents the equivalent of $1 million. At a minimum you need to turn 400 hours from nonbillable to billable to pay for this new director. That should be an easy first step, but it will still require discipline. The control freak in all of us makes it difficult to turn over responsibility and authority to a new director. Until he or she gets up to speed, it may feel like it takes more of your time, not less.

Imagine now that you are six months in and your new director is hitting his or her stride. He or she understands the personalities in the firm and addresses people issues quickly. You are able to leverage his or her financial skills, and you are doing a better job of pricing matters and anticipating cash flow and budget requirements. More importantly, the director has the confidence to keep you apprised but takes responsibility, which frees you and your partners up from the day-to-day minutiae. He or she has you focused on business development and client service, and you've found another 200 hours in the next six months that will now be billable—just among the partners. That's $100,000 that goes right to the bottom line. The director has turned his or her mind to practice management tools and organization strategies that just make it easier to serve clients. Your associates are happier, and they have captured another 200 hours among them, at their average billing rate of $300 per hour, which sends another $60,000 to the bottom line.

If you think through the growth trajectory for the director, you can quantify measures of success. In my experience, I have met administrators who think that they only way they can impact the firm's profitability is by cutting costs. Only the lawyers can increase revenue, right? An effective director who can take a holistic view of the firm and his or her contribution to it can indeed foster increased revenue and profit by increasing effectiveness (doing the right things) and efficiency (at the right cost).

SETTING YOUR FIRM UP FOR SUCCESS

Adding a layer of management in a successful small firm takes courage, communication and discipline. The courage to take a big step forward that immediately increases your cost. Communication is important to the success of the role itself and the person who takes it on. Communicating this change to your team, communicating with the director and communicating within the partnership are critical to success. Finally, have the discipline and the courage to let the director grow along with you and to take on as much responsibility as he or she can handle. Give the director the opportunity, get out of his or her way and, more importantly, have his or her back.

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