



## **Maintaining Profitability at Chambers Prentiss**

### *Profitability issues in the Corporate Department*

Jane Douglas found herself alone as she left the conference room where a meeting of the Executive Committee of international law firm Chambers Prentiss had been in session. As global head of her firm's Corporate department she had effectively been given an ultimatum by the other members of the Executive Committee that the number of equity parts held by the partners in her department would have to be reduced to bring its profitability levels, and, in particular, the attributable PEP (profit per equity part), in line with the rest of the firm.

As she waited in the lobby of the conference suite for a lift to take her back to her office, Jane pondered some of the issues facing her. CP's corporate department had enjoyed five years of strong growth in turnover and profitability before the credit crunch-induced recession had hit many of the department's practice areas hard. Activity levels and utilisation rates had fallen considerably – in some areas such as private equity they were at record lows – while the department's profitability was down 25% in the last twelve months. This compared unfavourably with other departments where their practice areas, such as financial services litigation and restructuring, were benefitting from conditions caused by the recession. Whereas promoting new partners in Corporate had previously been seen as critical to enabling Chambers Prentiss to achieve its strategic goal of having one of the leading international corporate practices, it was now not only difficult to make a business case for the promotion of new partners, but Jane was, in effect, being ordered to make cuts in the ranks of her existing equity partners.

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Arriving back in her office and indicating to her PA that she did not want to be disturbed until her next meeting in a couple of hours' time, Jane railed at what she saw as the unfairness of the Executive Committee's demands. The subject of a reduction in equity parts had first been raised a few months ago and Jane had argued, she had thought successfully, that such a step would be a short-sighted knee jerk reaction to current market conditions and would damage, longer term, the department's chances of consolidating its position as a leading international player. And wasn't the whole point of being part of a full service firm that, at any given stage in an economic cycle some practice areas would benefit from conditions more than others? During the boom years, for example, the Restructuring practice had done very little but Jane could not recall anyone being overly critical of their performance. That said, she now regretted having persuaded the Finance department a couple of years ago that they, and not the Corporate department, were the natural home for the Restructuring group; how welcome that group's profitability would be to her now.

#### *Structure and Management at Chambers Prentiss*

Chambers Prentiss was a full-service international law firm, headquartered in London, with 23 offices in 18 countries in Europe, the Middle East and Asia. Its 260 partners were supported by a total staff of around 2,000, of whom some 1,000 were fee-earning lawyers. The firm was a single partnership worldwide, with partners being either salaried or equity profit sharing; once promoted to the equity, there was a pure lockstep structure which saw partners automatically progress in 10 annual increments of six parts from 40 to 100 parts at the top of the lockstep. Structurally, the firm was divided into four departments – corporate, litigation, finance and real estate – each of which covered a number of different general and specialist practice areas. Departments were managed on a global basis although currently the global heads of all four departments were based in London. In terms of budgeting and financial reporting, each of the departments in London was regarded as a separate profit centre, as were each of the international offices.

The pure lockstep nature of the equity structure was viewed by the partners as being an essential ingredient and driver of the firm's culture of collegiality. As profit share was not linked to individual financial performance, partners were encouraged to share work that they brought in, and indeed to ensure that the work went to the partner(s) best qualified to do it. Lockstep was also perceived to facilitate the cross selling of practice areas and international offices, and, where appropriate to meet workload demands, the movement of partners between those offices. The structure had been put to the test five years previously with the departure of one of its biggest billing partners in London to a US firm which employed a merit-based system of

remuneration. In response to that move, the equity partners had debated at length, and then voted on, a proposal under which the firm's strict lockstep plateau could be modified to permit the Executive Council, at its discretion, to award additional parts in a specific year to the highest billing partners. The proposal had been defeated by an overwhelming majority of partners who feared that the introduction of an albeit very limited element of "eat-what-you-kill" remuneration would be highly detrimental to the firm's culture, and lead potentially to unacceptable partner behaviours in the longer term.

The lockstep philosophy also influenced, in part, the system of file opening and recording billings which had remained largely unchanged for over twenty years. Irrespective of the source of any new instructions, it was only those partners overseeing and/or working on a matter who opened a file under their reference. Details of the financial performance of each partner – namely, for files under their reference the total billed, amount of work-in-progress and number of debtor weeks – were shared with all the other partners in the same office on a monthly basis throughout the year. Partner performance appraisals were carried out annually by the heads of department, assisted by one other more senior partner from that department. The appraisals sought to reflect the collegial culture of the firm by establishing a picture of the all round contribution of the partners, not just their financial performance, and by encouraging them to identify the support that they would need to develop their practices further. In the past, managing underperforming partners had not been considered to be part of the appraisal function; traditionally, it had been left to the relevant head of department to handle outside the appraisal process, with the support of the Executive Committee,

#### *Possible solutions*

And therein lies one of my problems, thought Jane as she turned to the files on her desk which contained the detailed financial data for all the partners in her department in London, together with their performance appraisals for the last couple of years. Nothing much had been said to any of the underperforming partners at their annual appraisals, other than a general exhortation to try and up their game. And until the recent downturn there had been no pressure to deal with performance issues more generally. Certainly her predecessor as corporate head, Charles Morgan, did not appear to have prepared the ground or had any meaningful discussions with any partners who were perceived to be underperforming, so Jane sensed that as and when any shoulders were tapped she would be met with accusations of absence of process, unfairness, lack of collegiality and the like – and, in a sense, her accusers would be right.

Effectively, to meet the target set by the Executive Committee for the reduction in equity parts in her department, Jane had the task of selecting two plateau partners out of the three that had been identified by the Executive Committee. She knew, though, that this would not be easy as, in all three cases, there were mitigating circumstances which explained, in part, their failure to meet their billing targets. Jane looked again at their papers and formulated the case for and against their retention.

### **Charles Morgan**

Charles Morgan was in his mid 50s and had been Jane's predecessor as head of the Corporate department. Before taking on that role he had been one of the department's biggest billers, acting for some of the firm's major, long standing clients. However, he had decided that the demands of being departmental head meant that he would not have time to look after clients properly. So, in a very systematic way, he had brought in experienced partners to head up those client relationships where he had previously been the lead or relationship partner. This handover had been very successful and Charles had received nothing but praise from both clients and partners alike for the manner in which the process had been managed.

Freed of client and practice responsibilities Charles had immersed himself in the detail of the management and administration of the department, determined to see that all partners and associates followed the requisite procedures, whether it was in opening files, carrying out conflict checks, recording time, billing w-i-p, collecting receivables, following risk management procedures or performing annual appraisals. At first Charles' approach had been welcomed; standards in these areas had fallen and a tightening up was long overdue. However, Charles's period as Corporate head had also coincided with the strong growth in the department's turnover and profitability and before long Charles's perceived preoccupation with the minutiae of practice procedures when everyone was so busy had started to grate. His colleagues were looking to him for a lead on where the practice was heading, particularly internationally. It had taken a relatively junior partner, for example, to develop and get partner buy-in to a strategy for building a private equity capability within the firm and its associated firms in Europe.

All this had led to increasing criticism of Charles's leadership, and growing complaints that he was failing to see the woods for the trees. As a result, he lost the confidence of those around him and in his own ability to make the right decisions. That loss of confidence continued to plague him after his term as Corporate head came to an end and he started back in mainstream practice. Indeed, if anything, it was magnified as he did not have a practice to take up again, so effective had been his CRM strategy when he became Corporate head. In his ever diligent and methodical way, however, he

strove to develop a new client base, but the lack of recent deal experience coupled with his general air of under-confidence counted against him in one client pitch after another. His billings, such as they were, came largely from being the second partner on major transactions; he was happy to fill this role and would have done so more often if he had been asked, but Jane sensed that some partners were reluctant or embarrassed to bring in someone so senior on their matters.

In non-fee earning areas Charles continued to contribute as much as he could. He worked tirelessly with the professional support lawyers to improve knowledge systems and precedents. As the partner responsible for developing closer links with law firms in Eastern Europe, he made frequent visits to the relevant countries and built a detailed database of those individuals at specific firms whom he felt could be recommended to work alongside Chambers Prentiss on pan-European transactions. He also played a full part in the graduate recruitment of trainees, making presentations at universities and interviewing candidates. With all of these non-fee-earning activities, Charles kept himself fully occupied.

But the bleak fact remained: Charles's chargeable hours were well below 1,000 per annum and his billings were, with the exception of Maria Regan, the lowest in the department.

### **Tom Farmer**

Tom Farmer was something of an oddity. In an era of ever increasing specialisation he was one of what seemed to be a dying breed, a traditional corporate generalist, who would handle whatever the clients brought to him. He was in his late 40s and had only ever been at Chambers Prentiss. He had been made a partner in 1997 when levels of corporate activity, and the need for deal-doing partners at CP, had both been high. As with a number of other partners of his generation, he could never really shake off the perception (prevalent amongst more senior partners) that his promotion had been somewhat fortuitous, that he had been in the right place at the right time, and that in less buoyant times he would never have made it through to partner.

That said, he had (initially at least) used the partner label to develop new clients for the firm and to build his own practice. Tom had never regarded himself as a black letter lawyer; he was more than happy to delegate the technical work to more gifted juniors while he concentrated on doing what he enjoyed most – getting an in-depth understanding of the clients' businesses and their strategies. This approach had made him popular with many dot-com entrepreneurs of the late 1990s and many regarded him as their general business adviser as much as their lawyer. Of course, fees from dot.com companies, many of which were start ups that had never made a profit, were

not high but the firm was supportive of Tom's efforts as it could see from those internet companies that had made it, that large fee earning opportunities such as IPOs or buy-outs were just around the corner. Indeed, it was the potential of high earnings that saw Tom being promoted to equity partner ahead of many of his contemporaries, who were dependant on work generated either by institutional clients of the firm or by other, more experienced partners.

Of course, the dot-com bubble had burst in the new millennium and with it a significant part of Tom's client base. Armed with the benefit of hindsight, many of the firm's partners had also started openly questioning whether Tom was acting for the sort of clients that CP wanted to attract. Undaunted, Tom had set about rebuilding his practice amongst a new wave of entrepreneurs, many of whom were involved in outsourcing operations in eastern Europe, Turkey and India. Criticism about this new client base came quickly and it did not take long for Tom to believe that his efforts were not properly appreciated.

It was in this context that Tom had welcomed, in 2005, the suggestion of Charles Morgan, who was at that time Corporate head, that he spend a minimum of three years in CP's newly established Singapore office helping develop CP's corporate practice in south east Asia. The move to Singapore had rejuvenated Tom and he had found that his approach to building client relationships was well received and effective. However, after three years and just as many of his networking activities had started to bear fruit, Tom reluctantly agreed with his wife that, for the sake of their children's education, it was time to return to the UK.

So Tom had rather unenthusiastically returned to work in CP's London office in the late summer of 2008, just as the credit-crunch induced recession was starting to bite. And, as feared, he had found that many partners were unwilling to share their clients, particularly with someone like Tom who had never claimed to be a front line technical lawyer. As a result, Tom had focussed nearly all his efforts on business development but, with the market so flat and opportunities so limited, little was being generated other than large entertaining bills at restaurants and golf courses.

At a meeting held at Tom's request a fortnight ago, Tom and Jane had discussed his difficulties in reintegrating back into the London office. It was clear that Tom felt that he had done all that could be expected of him and that the fault for his predicament lay with other partners in the department who had totally failed to support him. He had even been critical of Jane for what he considered was her lack of any lead or direction which could have assisted him. How, he had challenged her, was she going to persuade other partners to spend time in international offices if, when they returned to London, they were effectively thrown on the scrapheap. How, indeed, mused Jane.

## **Maria Regan**

Maria was an M & A practitioner whose principal clients were investment banks operating in the London and European markets. Now in her late 40s, she had joined Chambers Prentiss from a magic circle firm (where she had been a partner) some twelve years previously, attracted by the idea of building a market leading practice which combined M & A expertise with a heavyweight litigation capability. She had seen how this practice model had been very successful in the US where investment banks regarded litigation strategies, and the capability to execute them, as an essential part of bid and defence armouries in hostile takeovers. She had also been convinced that as the Wall Street bulge bracket banks started to dominate the UK and European markets, the requirement for a similar blend of skills and expertise would continue to increase. And, in her early years at Chambers Prentiss, Maria had been proved right. She had been brought in by a number of investment banks to advise them and their clients on a string of high profile contested takeovers, which had given her, and a number of litigation partners, a profile from which to develop further an investment banking practice focussed on compliance, regulatory and contentious matters. It was generally acknowledged that Maria had led this initiative well and that, as a result, the firm had developed close ties with a couple of the largest investment banks which, prior to Maria's arrival, had never sought to instruct Chambers Prentiss. She had remained the principal relationship partner for these investment banks which continued to generate annually significant fees for a number of different practice areas in the firm. However, her own billings from these clients were now at a negligible level.

And therein lay Jane's current dilemma. There was more than a hint that Maria was resting on past glories, and had been doing so for a number of years. Jane turned to Maria's profile page on the firm's website and gave an involuntary shudder when she realised that the most recent deal listed there dated back to 2002, some seven years previously. It was almost as if Maria had lost interest in legal practice itself, and now preferred instead to be involved in firm-wide management issues, particularly in relation to business development initiatives, where her previous successes with investment banks had led to Jane appointing her head of BD in the corporate department. The trouble was that in the absence of any recent, major client gains for the department, Jane found it difficult to judge how effective Maria was in this role. At her last performance review, Maria had defended her position by saying that in the current economic climate the value of her contribution to business development activities could only be judged in the longer term. She had also referred to the overhaul of the client relationship management system, including the method of selecting relationship partners, which had energised the younger partners by

allocating them additional responsibilities. Keeping the firm's name in the minds of business leaders was a key part of the firm's business development activities, and there was no doubt that Maria's interest in and knowledge of markets and the corporate world gave her a confidence and gravitas which allowed her to interact as an equal with senior executives, something which made her a great role model for less experienced partners – a rare commodity in Jane's department.

Against this, Jane sensed that support for Maria had been waning over the last few years and that she was now positively unpopular with a majority of her department's partners. Even some of Maria's achievements were now being viewed with suspicion. It was true that for many years Maria had been CP's outward face with the legal directories and journals, during which time she had gained positive press coverage and favourable rankings for both the firm and herself. And that's where it appeared to rankle. Notwithstanding Maria's complete lack of any recent deal experience, she continued to be ranked and listed as an expert in nearly all the legal directories, a fact that most partners attributed to her famed ability to schmooze with editors and influential journalists. However, many of the firm's partners assumed that the legal directories operated an informal quota system for each firm and ranking an inactive partner like Maria was seen by them as blocking someone who was more deserving of recognition and would use the enhanced profile to better effect and in the wider interests of the firm.

Maria's detractors pointed to a range of other behaviours which made her a soft target for criticism. She rarely made it into the office before 9.30 in the morning, while her departure to cocktail parties and other networking events in the early evening served only to exacerbate the perception held by many that she was not pulling her weight. She was also something of a hypochondriac. At the first sign of a sniffle she would call in sick, a trait which, when coupled with her time-keeping habits, had resulted in her being mercilessly lampooned at successive departmental Christmas parties and had led to her moniker amongst the trainees of "the Late Ms. Regan".

But what made Maria's position particularly difficult for Jane was that Maria had used her undoubted talents for influencing people in support of Jane's campaign three years previously during the elections for head of the Corporate department. To ask Maria to leave now would seem like the height of ingratitude and disloyalty, wouldn't it?

### *Back to the Real World*

As Jane contemplated what to do next, her PA called through to say that the clients had just arrived for her next meeting. Rarely had she felt so relieved.

**Case questions**

**What are the structural and cultural characteristics of Chambers Prentiss which have contributed to the situation in which Jane Douglas finds herself?**

**Do you agree with the approach that Jane Douglas is taking in response to the Executive Committee's ultimatum?**

**If so, which of the partners identified in the case should be asked to leave, and why?**

**What other options may be open to Jane?**

**What changes to firm structure or management practices would you advise CP to consider implementing (a) generally and (b) to prevent the same situation from arising in the future?**