ABSTRACT

Evolution and Revolution in the Governance of Law Firms

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What are the consequences of the recent economic crisis for the governance of law firms?
Will the decisive action taken by some law firm management groups in response to collapsing financial performance lead irrevocably to the strengthening of management power and the erosion of the long-cherished commitment to partner autonomy? In other words, will current upheavals in the global economy exacerbate and consolidate the trend towards more “corporate” style of partnership governance which has been associated with the growth of large law firms in recent years?

The long-term impact of the global recession is not yet clear and it is too soon to answer these questions definitively. In the meantime, however, we can develop a deeper understanding of how professional service firm governance evolves over time and how exogenous and endogenous shocks can effect the underlying systems and structures of governance in such firms.

Studies of professional service firm governance typically focus on unitary or dichotomous models of governance (Empson, 2007): professional partnership versus managed professional business (Cooper et al, 1996; Greenwood et al, 1990); adhocracy versus professional
bureaucracy (Mintzberg, 1983); partnership versus corporation (Empson & Chapman, 2006; Greenwood & Empson, 2003), private versus public corporation (Von Nordenflycht, 2007). These dichotomized and static models of professional service firm governance present an overly simplistic and reductivist view of governance. They do not help to explain how and why professional service firms move between these models and whether alternative models exist. For example, what is the impact of the increasing scale and complexity of professional service firms on the underlying balance of power between partners and management? When ownership and authority is diffused amongst a large group of partners, how does power become concentrated amongst a smaller group of senior management?

This paper looks to organizational lifecycle research for insights into these questions and develops a multi-stage model of evolutionary and revolutionary change in professional service firm governance - adapting Greiner’s classic but generic model of the stages of organizational growth (1972, 1998) to the distinctive context of professional service firms. The model is derived from in-depth case studies of ten professional service firms: four management consulting firms, three accounting firms, two law firms, and one actuarial firm. This research was conducted by the author as part of two UK government funded research projects: the first on merger and acquisition processes and the second on changing forms of governance. As part of these studies over 500 hours of interviews were conducted, alongside archival analysis and detailed observation of meetings. Consistent narratives emerged which, when applied to the basic structure of Greiner’s model, support Greiner’s assertion that organizations pass through a series of predefined stages as they grow and mature. Given the similarity of the narratives presented, it has been possible to develop a multi-stage model of governance which is specific to the context of professional service firms.
The paper argues that, as a professional service firm increases in scale and complexity, unresolved governance problems may precipitate organizational crises. These crises may in turn lead to dramatic shifts in the balance of power within the firm and to changes in its structures and systems of governance (or “revolutions” to use Greiner’s terminology).

The multi-stage model outlines five key stages through which professional service firms pass as their governance evolves: moving from founder-focused to collegial, and through stages of committee-run and delegation to federation or “corporate” (in style if not in legal form). The Big 4 accounting firms, for example, are just now struggling with how to make the transition from a global federal structure to a more centrally managed “corporate” form.

The model applies equally to partnerships or professional service firms which are legally constituted as corporations. The process of transition is unlikely to be straightforward and is punctuated by periodic crises including: exclusion, disorganization, frustration, disconnection and, potentially, dispersal. As the firm’s model of governance evolves, the balance of power shifts within the firm, among a relatively small group of founders, the enlarged group of “second generation” professionals, and a smaller group of senior managers who have been delegated authority by the larger group of professionals.

As with Greiner’s model, the multi-stage governance model appears to suggest that each stage follows on sequentially from an appropriate and inevitable crisis. In reality the process of “evolution and revolution” is more complex. The paper argues that the process is not necessary sequential, linear, or inevitable, and that changes in the balance of power can be reversed in response to “crises” of governance – leading to disruption and traumatic upheavals with the professional service firm.
So looking to the future of law firm governance, it seems inevitable that some firms will respond to the current economic crisis by strengthening their management systems and structures – leading to a shift in the balance of power away from the partnership as a whole in favour of management. Such firms may respond quickly and effectively to the exogenous shocks presented by the external marketplace and may even out-perform their less explicitly “managed” competitors (ref. the recent strengthening of the position of Latham & Watkins and Linklaters vis their competitors). However there are substantial risks associated with attempts to bring about dramatic changes in law firm governance. Management need to be aware of the dangers associated with these “revolutions”. Management’s attempts to change the structures and systems of governance to strengthen their authority may ultimately lead to their overthrow by the rest of the partnership.

**Bibliography**


