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# Business Models: Strategy & Governance

Or: Are we a CD  
in an iTunes world?



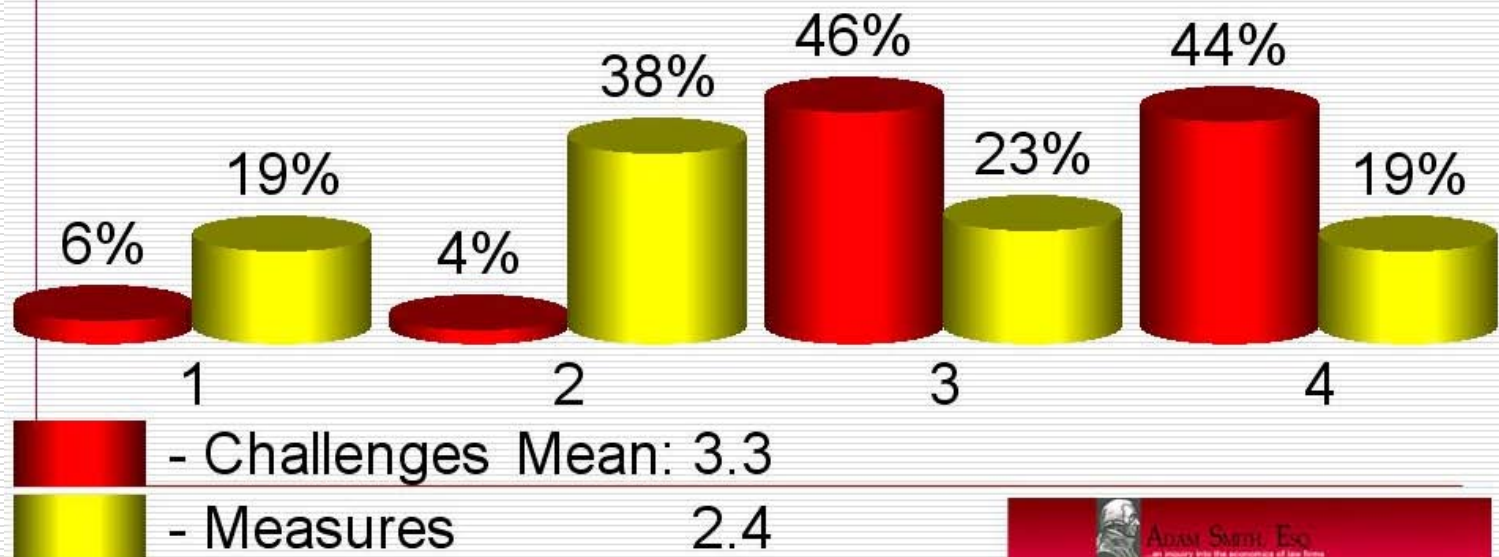
“We are a very mature profession and a very immature industry.”

Chairman,  
AmLaw 20 firm

# Challenges vs. Responses

1. Mild
- 2.
- 3.
4. Unprecedented

Source: Anonymous poll of senior law firm leaders (New York: February 2010)



# Recapitulating...

- 90% viewed challenges as unprecedented or nearly so
- But 57% characterized their firm's response as mild or nearly so

# People Are Talking

- 94%: Firm segmentation realigning
- Loyalty to partnership model declines
  - 2008: 57% “wedded” to partnership
  - 2010: 68% “indifferent” to structure
- Value billing ascendant
  - 2008: 78% of clients/52% of partners dismissed it as not anything serious
  - 2010: 86%/88% say it’s here to stay

Source: Eversheds, *The Clients' Revolution*, surveying 130 GC's and 80 firm partners  
(March 2010)

Q: “What is the *one* thing every business *must* have?”

A: “Clients.”  
—Peter Drucker

# An Econ 101 View

- Demand: Clients
- Supply: Talent
- Challenge: At the intersection of:
  - Creating value for clients
  - By deploying talent effectively (getting the right results) at worthwhile prices (results clients want to buy)
  - While yielding the firm attractive and market-competitive returns on its human and investment capital

# Key Elements of Strategy

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- What we do: Practice mix
- Where we do it: Geographical footprint
- Who we do it for: Target market

# Governance

- Traditionally, somewhere on a spectrum from
  - Athenian democracy to
  - Corporate command & control
  
- And in the 21<sup>st</sup> Century?
  - Post-LSA??



# Questions

- How can a strategic vision be squared with:
  - Lawyers' individual demands for autonomy
  - And superior self-image?
- What do we lose if we jettison the classic partnership model?
  - And how much of it have we already lost, at what price?

# Should Lawyers Run Law Firms?

- No other industry assumes superb practitioners should be C[X]O's
  
- How is our training germane?
  - Is it actually counterproductive?
  - "Emotional intelligence," anyone?
  
- Could you actually envision non-lawyer leaders? Say, from GE?

# What If We *Could* Raise Capital?

- What would we actually do with it?
  - Historically, we're a labor-intensive, not a capital-intensive, industry
- How could we pay investors a competitive return?
  - Cannot simply reduce partners' slice—cannot be zero-sum
- Would it imply we need:
  - To introduce “retained earnings” to our balance sheets?
  - To get serious about partner capital calls?

# End of the Strategic Monoculture

□ Growth, growth, growth...

“Gentlemen, we have run out of money. We shall be forced to *think*.”

—Sir Ernest Rutherford

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But:

What are the rewards to  
whoever gets it right first?



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# Thank You

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