

THE LAW FIRM C-SUITE STUDY:

The Impact of C-Suite Growth in the AmLaw 200



ANITA TURNER
Senior Director & Principal



FOREWORD

Every law firm C-suite professional knows that lawyers are data driven—and, as business owners, profit driven. If you expect an audience and ultimately a decision from a law firm’s attorney leadership team, it is imperative to come to the table with facts. In this study by Anita Turner of Colliers Law Firm Services Group, the data proves what many of us already believed: Professional management of law firms has become a key differentiator for success.

CFOs and CMOs have been making headway in these organizations for the last decade, slowly but steadily proving their value. Not surprisingly, CHROs are becoming more involved in the full “talent” equation for firms focused on client service. And the increase in CIOs and CTOs demonstrates a clear recognition that these professionals are considered critical to a firm’s viability as they battle cyber-attacks on their own and their clients’ confidential data.

All that said, unfortunately no data exists (at least, to my knowledge) to demonstrate that the key to an effective C-suite is the acceptance of these professionals as a necessary part of the strategic business conversation. Despite employing C-suite professionals, at C-suite salaries, not every firm has embraced the full value of their contribution, still insisting that lawyers know best. The landscape is changing, to be sure, and just as Colliers has revealed with this invaluable report, that change consistently inures to the benefit of the lawyers who own and work at these firms.

Amanda K. Brady, Global Practice Leader
MAJOR, LINDSEY & AFRICA

THE IMPACT OF C-SUITE GROWTH IN THE AMLAW 200

In the Colliers Law Firm Services Group, we spend a lot of time studying the business of law because we believe you cannot truly understand a client’s real estate issues and needs if you do not understand their business issues and needs. This point was driven home to us last year when we completed a survey of General Counsel both in Canada and the US.

The General Counsel survey was intended to help us understand what drives client loyalty. It taught us that “by focusing on providing exceptional service, law firms can increase the number of clients who would promote and recommend them to others.” Exceptional service goes beyond understanding specific legal challenges to focus on understanding clients’ business challenges.¹

We continue to spend time surveying law firms, interviewing law firm board members and executive teams, and discussing law firm trends and issues with architects as well as legal recruiters. My most recent project was a comprehensive survey of the AmLaw 200 firms to determine which C-suite positions each of the firms employs.

¹Colin Scarlett, Colliers International Canada “General Counsel Survey”. Contact colin.scarlett@colliers.com for full report.

LAW FIRM STRUCTURE

When we as real estate advisors and strategists work with our law firm clients -- whether it be related to a specific transaction or overall portfolio planning and strategy -- our primary contact can vary from the Managing Partner to the Executive Committee to the COO, CFO or CAO. All of these different positions tend to have a different perspective based on individual background, seniority and whether or not they are a practicing lawyer.

In some firms, lawyers manage the business of the firm, while in others, business professionals are charged with this responsibility and the majority of the lawyers focus exclusively on practicing law and developing business. The intent of our research was to understand how the evolution of the business of law is reflected in the growing number of business professionals in C-suite positions.

“as the firm’s model of governance evolves, the balance of power shifts within the firm...[to a] smaller group of senior managers who have been delegated authority by the larger group of professionals.”

- LAURA EMPSON, CASS BUSINESS SCHOOL

In a research paper entitled “Evolution and Revolution in the Governance of Law Firms,” Laura Empson, the Director of the Centre for Professional Service Firms at the Cass Business School in London, posits that as professional service firms grow, they progress through stages of governance beginning with the committee system ultimately evolving to one that is “corporate” in structure because committees of lawyers are less effective as the size of the practice and geographical breadth grows. Empson states “as the firm’s model of governance evolves, the balance of power shifts within the firm...[to a] smaller group of senior managers who have been delegated authority by the larger group of professionals.”



LAW FIRM STRUCTURE CONT.

This group of senior professionals increasingly hails from industries outside of law. As clients demand change for which there is no precedent in law, firms look to industries outside of law to recruit business professionals who bring different experience and are adept at different business models. Bruce MacEwen of Adam Smith, Esq. states “No other industry assumes superb practitioners should be CXOs.” MacEwen, himself a lawyer, adds that legal training is not necessarily germane to law firm leadership.

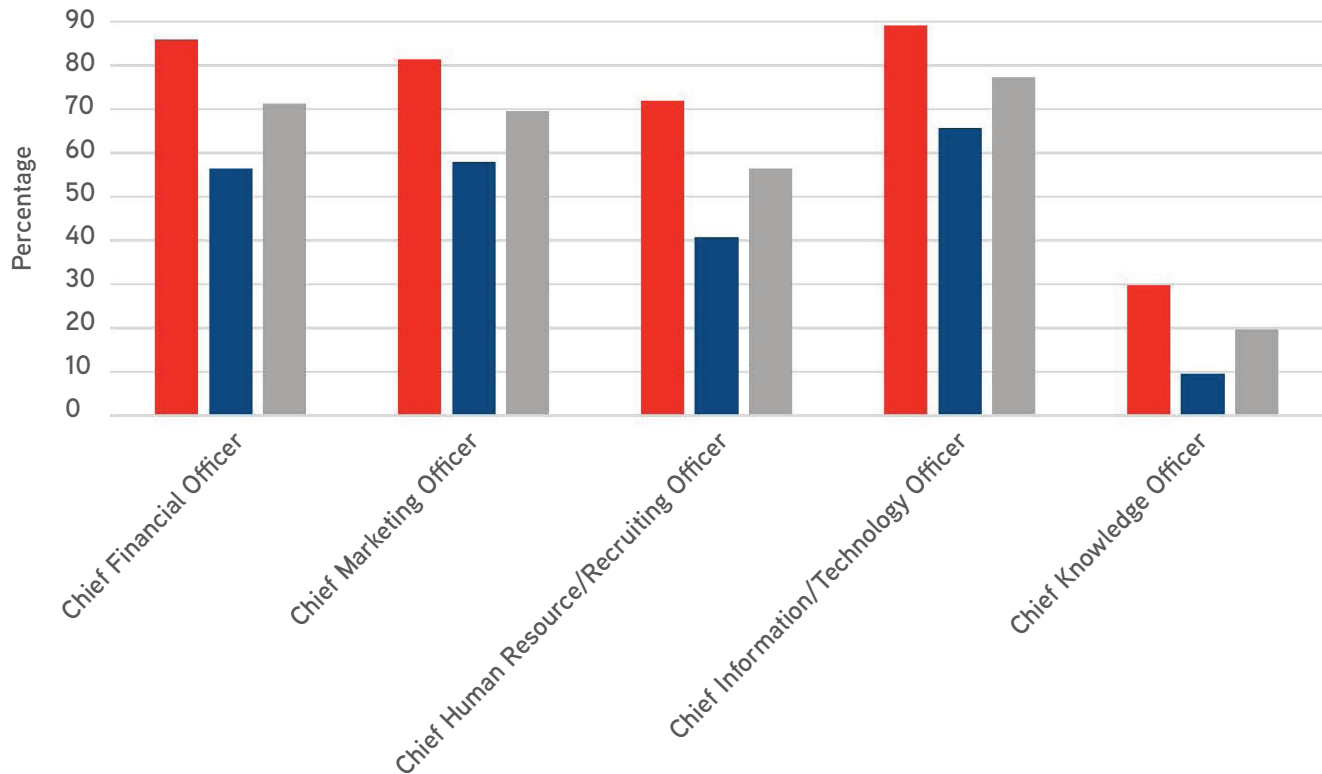
Amanda K. Brady, Global Practice Leader for the Law Firm Management practice at recruiting firm Major, Lindsey & Africa, says that 95% of the C-suite searches she conducts on behalf of her law firm clients are open to someone without legal experience. She added that only about 25% of the time do firms actually hire someone without legal experience because often the need to immediately add value outweighs the desire for a new perspective and there is potentially the perception that such a hire brings less risk.

“...It ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.” - MACHIAVELLI



WHICH POSITIONS ARE MOST COMMON?

Percentage of AmLaw Firms Employing Each C-Suite Position ²



A somewhat surprising fact learned from our research: more AmLaw 200 firms have a **Chief Information or Technology Officer** than any other C-suite position besides the CEO/COO/CAO. Sally Drexler, a partner at corporate executive search firm Odgers Berndtson, suggests that “some of the newer [C-suite] titles emphasize the importance of a new [firm] initiative or function within an organization” and reflect the high priority given to that function. As information technology and data security grow in focus for the AmLaw 200, the importance of having a strong business professional to oversee that function grows. Further, the skills needed to manage this function seldom overlap with the skills of other C-suite members like the Chief Marketing or Human Resources Officer.

² While we surveyed firms as to C suite positions inclusive of Chief Executive Officer, Executive Director/Chief Operating Officer and Chief Administrative Officer, this data is omitted from our analysis because virtually every firm has someone in one or all of these roles, so we were not able to materially distinguish these titles.

WHICH POSITIONS ARE MOST COMMON? CONT.

Contrast the **Chief Financial Officer** position. Often if the chief business professional at a firm (COO, CAO or CEO) has a strong finance or accounting background, the finance leader will be limited to a director level position and there will not be a CFO. In larger firms, this is less likely to be the case. While over 71% of all AmLaw 200 firms employ a CFO, more than 85% of the AmLaw 100 do so. Our research confirms that the larger its revenues, the more likely a firm is to have a CFO.

While our research indicates that only slightly more than half of the AmLaw 200 firms employ a **Chief Human Resources or Recruiting Officer**, Brady says that these positions are becoming more common, especially among the larger firms that make up the AmLaw 100. Brady also says that this role is taking on a broader application as the officer is increasingly responsible for recruiting and human resources for all of the firm's talent, both legal and business professional staff. She adds that while the number of secretarial positions may be shrinking at many law firms, the total employee headcount is growing due to the addition of new functions such as project management and pricing.



As marketing budgets increase with the increased level of competition for legal work, the existence of the **Chief Marketing Officer** position is also becoming more prevalent. This reflects brand management as an increasing priority in law. The CMO role now typically involves brand management, business development and client relations. Nearly 70% of all AmLaw 200 firms surveyed report employing a chief level officer to direct marketing for their firms.

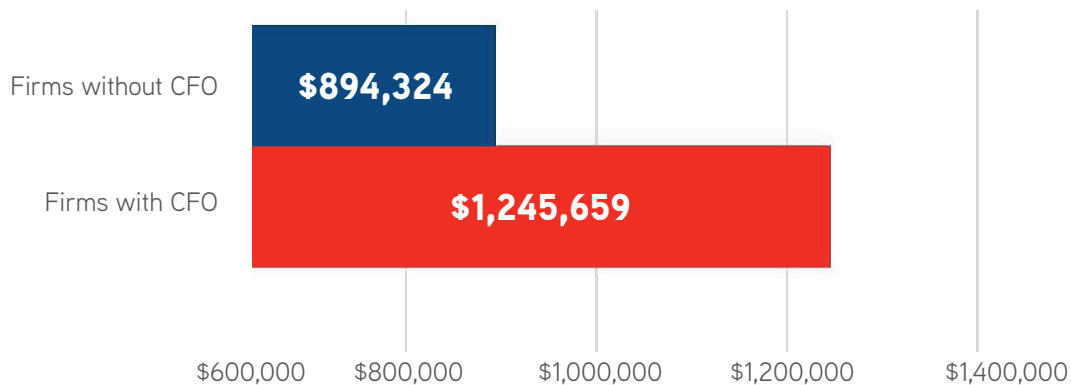
Chief Knowledge Officer is one of the most recent positions added to the law firm C-suite. The primary role of the Chief Knowledge Officer is to “convert knowledge into profit by leveraging the organization’s intellectual assets.”³ In some firms, the CKO is technology-focused and works to ensure that things like precedent documents that can be used as templates can be found in a firm’s knowledge management system. In others, the CKO is focused on capturing and synthesizing the knowledge gained on matters and then developing knowledge databases that include relevant documents, learnings and processes so that the firm can deliver better, faster, cheaper on similar deals in the future. Per our survey, less than 20% of the AmLaw 200 employ currently a chief level officer in this position.

³ Bob Guns, (1997) “The Chief Knowledge Officer’s Role: Challenges and Competencies”, Journal of Knowledge Management, Vol. 1, Iss: 4, pp.315-319.

DOES THE EXISTENCE OF ANY OF THESE C-SUITE POSITIONS CORRELATE TO GREATER PROFITABILITY?

In addition to learning which positions were most common among the AmLaw 200 C-suite, we sought to understand whether there was any correlation between the existence of a C-suite position and profits per equity partner (PPEP). Arguably this is a classic problem of the chicken and the egg, i.e. do more profitable firms have more money to hire C-suite professionals or do the efforts of C-suite professionals increase profitability? We completed a statistical analysis of our data together with the revenue and profitability data reported to the American Lawyer by the AmLaw 200. To ensure that correlations were not related to overall firm size, our statistician controlled for the number of attorneys.

Chief Financial Officer Relationship to Average Profits Per Equity Partner⁴



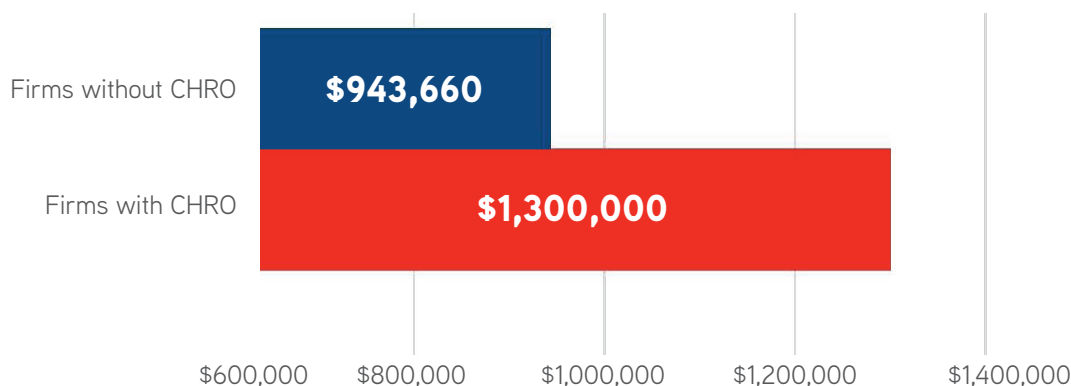
As evidenced above, there is a strong correlation between the existence of a CFO and higher PPEP. Several AmLaw 200 COOs consulted for this study suggest that this is reflective of the fact that firms that employ CFOs are typically sophisticated enough to pay attention to complex metrics. Those firms expend significant effort to understand financial data and to use that data to determine what it is going to take in the new legal market to maintain profitability.

One prominent firm's Executive Director added that the CFO often adds discipline and structure to daily decision making. He cited as an example the hiring of laterals. Where lawyers or practice groups may be excited about a prospective lateral hire and become emotionally invested in the hire, a CFO will model the financial benefits of the lateral's acquisition to analyze whether the acquisition is a good long term one for the whole firm. Essentially, the facts presented by strategic and knowledgeable CFOs help limit the role of emotion in decision making.

⁴ When the number of attorneys in a firm is controlled for, those firms that employ a CFO have profits per equity partner \$335,000 higher on average than those that do not employ a CFO.

DOES THE EXISTENCE OF ANY OF THESE C-SUITE POSITIONS CORRELATE TO GREATER PROFITABILITY? CONT.

Chief HR/Recruiting Officer Relationship to Average Profits Per Equity Partner⁵



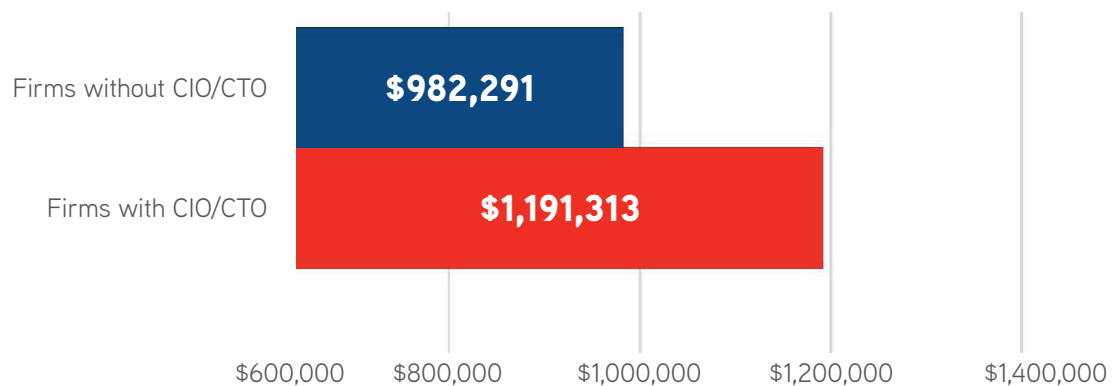
Similarly, there is a strong correlation between PPEP and the existence of a Chief HR officer. One C-suite member described the Chief HR Officer's job as identifying, motivating, retaining and rewarding a firm's best people. These duties include helping partners understand generational issues, building a professional development program and managing a firm's alumni network - a large source of referrals for many AmLaw 200 firms.

According to Citi Private Bank Law Firm Group's Greta Rusanow in a report delivered at the 2016 Law Firm COO/CFO Forum in New York City, continuously profitable firms are more careful and considered when bringing on laterals and as a result, their hires are more successful. In addition, the 2015 Altman Weil Law Firm Survey found that 77% of firms making major changes to lawyer staffing models had increased PPEP, compared to 56% of others. When a Chief HR officer is tasked with managing the lateral hiring process and strategically addressing the need for change in staffing models, it would logically follow that PPEP would increase as a result.

⁵ When the number of attorneys in a firm is controlled for, those firms that employ a Chief HR or Recruiting Officer have profits per equity partner \$320,000 higher on average than those that do not.

DOES THE EXISTENCE OF ANY OF THESE C-SUITE POSITIONS CORRELATE TO GREATER PROFITABILITY? CONT.

Chief Information Officer/Chief Technology Officer Relationship to Average Profits Per Equity Partner ⁶



Lastly, there is a strong correlation between PPEP and the existence of a Chief Information or Technology Officer. A 2015 study by Thomson Reuters Peer Monitor confirmed that upper tier firms (in terms of financial performance) were much more likely to have adopted operational changes focused on technology.⁷ COOs interviewed for this study cite the fact that CIOs and CTOs are usually tasked with making lawyers more productive and efficient as the likely reason for the associated higher PPEP.

⁶ When the number of attorneys in a firm is controlled for, those firms that employ a Chief Information or Technology Officer have profits per equity partner \$320,000 higher on average than those that do not.

⁷ There was not a statistically significant correlation between the existence of a Chief Marketing Officer or Chief Knowledge Officer and a change in the PPEP. Therefore, those statistics were omitted from this report. Further, arguably, revenues are a better measure of a CMO's impact than profitability.

IF WE HIRE THEM, WHERE DO WE PUT THEM?

Just as my colleague Colin Scarlett states that a “law firm’s office space is...a tool in communicating commitment to services, as it reflects the brand and values of the law firm,” it is also a tool in facilitating necessary interaction between the business professionals and the lawyers. To this end, we asked several AmLaw 200 firms where the C-suite members’ offices are located within their firm’s office space.

The responses to this question were as varied as the firms themselves.

- **STAFF FLOORS:** Some firms believe that the C-suite members can be more effective in their roles if they sit near the operational staffs that support them. One Birmingham-based firm that has adopted this approach encourages its staff to make a conscious effort to have face to face interaction with attorneys and professionals on other floors.
- **INTEGRATED ON ATTORNEY FLOORS:** Some believe that the C-suite offices should be integrated with the attorneys’ offices in order to facilitate interaction and collaboration.
- **VACANT SPACES:** Still others located their C-suite members wherever there were vacant offices to fill.
- **POSITION DEPENDENT:** Several firms located the marketing and professional development C-suite officers on the attorney floors while the finance, IT and other functions were near staff on a separate floor.
- **ROTATING:** One major firm’s Executive Director said that he moves his own office every year among lawyer floors in the firm’s headquarters. By doing this, he feels he is more visible and better able to build relationships and understand how different practice groups operate. He also states that he doesn’t like to have an “administrative ghetto” where all of the staff are clustered in subpar space away from the legal professionals as he does not believe this is conducive to collaboration and respect.

Also differing from firm to firm was the size of office allocated to the C-suite positions. However, in most firms, the C-suite officers sit in offices comparable in size to the law firm partners.



CONCLUSION

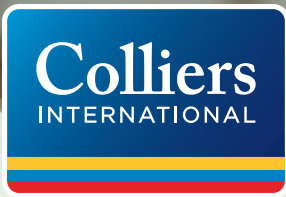
The most successful AmLaw 200 law firms have evolved from being partner-run to being run by a group of highly-skilled professionals reporting to the shareholders of the firm. This law firm model is increasingly reflective of the corporate governance model. The data collected from our survey indicates that this model is generally conducive to increased profitability for the firms that adapt it.

For growing firms, often the addition of a newly formed C-suite position is driven out of necessity to add order and control to firm management and operations. Firms can be reluctant to add these positions due to the additional overhead burden, but our research shows a strong positive correlation between profits per partner and firms with a more extensive network of business executives (i.e. non-practicing lawyers) in leadership positions.



METHODOLOGY

The insights documented in this paper are the result of a survey of the AmLaw 200 law firms. Through email, telephone and internet surveying and research, Colliers was able to document whether 128 law firms (64 in the AmLaw100 and 64 in the AmLaw 101-200) employed chief level financial, marketing, IT, Knowledge and HR professionals. Regressions of these results were run against the self-reported revenue and profitability data collected by AmLaw. This research was augmented by interviews of leading law firm architects, legal recruiters and C-level officers at more than ten major law firms. I am immensely grateful to the many professionals who graciously agreed to share their knowledge with me.



ANITA TURNER

SENIOR DIRECTOR & PRINCIPAL

Anita Turner is a commercial real estate tenant representative at Colliers International. Anita has significant experience representing Fortune 1000 companies and professional service firms including major banks, large private companies and corporate headquarters. As a former lawyer, she has a special interest in law firms. She has lived and worked in numerous major markets over her twenty-year career including Chicago, Los Angeles, Atlanta, Tampa, Northern Virginia, Las Vegas.

Anita holds a B.A. from the University of Minnesota, a J.D. from Pepperdine University School of Law and an M.B.A. from The Anderson School at UCLA.

For further research and insights, please visit Anita's website: www.anitajturner.com.

+1 205 949 2690 | anita.turner@colliers.com