

A United Front:

One way to make sure that a firm's personnel policies support its business strategy: Combine its marketing and human resources functions.

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(first published in *The American Lawyer*, August 2006)

It's a classic chicken-and-egg problem: to get the best talent, have the best work. To get the best work, make the most money. And to make the most money, get the best talent. For the past quarter-century, large law firms seeking to improve their strategic position have been told that the key to solving the dilemma is more and better marketing.

But marketing only addresses half of the equation. Firms are in the people business as much as they are in the client-service business. In fact, in a June 2005 *Harvard Business Review* article, management consultant Felix Barber described large law firms to a tee when he defined a people business as one that has high employee costs and little spending on research and development. So why do human resources departments at law firms remain a backwater of secretarial, staff, and associate training?

One only need look at the structural changes in large firms to see the need for nuanced personnel management. At all but a few firms, the up-or-out talent development model has been replaced by a multiclass structure that includes nonequity partners, permanent associates, and contract lawyers. All are needed in order to profitably handle a growing body of work. But the early adopters of two-tier partnerships are learning the hard way that a nonequity tier bulging with attorneys who can do the work but can't sell it limits opportunities for young associates. They don't get the chance to cut their teeth on good work and develop relationships with clients. What's really called for is a more sophisticated hiring policy that screens prospective associates for substantive and analytical smarts as well as skills in relationship building and business development. Grunt work could then be outsourced or done by contract workers, instead of by overpaid, overpedigreed junior associates.

This challenge to the traditional law firm structure is bringing about a growing recognition of the importance of human resources in law firms. A few firms are elevating human resource directors to C-level status, retitling them chief talent officers and chief recruiting officers and awarding them pay packages on par with the mid-six-figure levels of chief marketing officers.

In fact, there's a good argument to be made for combining a firm's human resources functions with its marketing operations, combining both into a chief talent and marketing officer position. Making sure that these efforts function like a well-oiled machine could have significant advantages in the areas of recruiting and retention, management and motivation, and training.

Recruiting and Retention. It's no secret that attracting and keeping talent is about building breadth and depth through strong expertise in core practices. But it also requires signaling breadth and depth to clients and laterals—that is, branding and positioning. In the early years of law firm marketing, firms marketed their capabilities to clients; that effort was largely separate from lateral recruiting, which was the province of the managing partner or chairman. Today, the firms that most successfully grow through lateral hiring aim their marketing messages far more broadly. Their marketing departments produce powerful materials targeted not only at students, with messages about training opportunities and culture, but also at lateral partners, with messages about import-export statistics, client and industry penetration, and strategic geographic footprints, all speak to why the firm is well-suited for a recruit seeking to develop and build a challenging practice.

Management and Motivation. One of the oldest saws in firm management is that managing lawyers is like herding cats. Partner autonomy is a hallmark of storied law firms, and lawyers generally tend to distrust management. Firm management has few tools with which to motivate and manage talent to begin with, and many firms exacerbate the problem by putting management's chief tool—compensation decisions—into the hands of people not responsible for leading their firms. This is akin to a corporation putting compensation decisions into the hands of the factory floor workers (in fact, it sounds like the sort of thing that pushed at least one airline into bankruptcy).

Few law firms can point to partner compensation decisions as a management forte. Yet, they have failed to turn to the logical source of compensation expertise in their midst—human resources professionals. Every year major corporations spend tens of millions of dollars for advice from compensation consultants. But law firms don't spend a dime, in spite of widespread recognition that partners in firms don't understand or, worse yet, draw the wrong conclusions from the bewildering number of messages sent by compensation decisions.

Benchmarking surveys indicate that the typical large firm compensation system rewards a grab bag of 16 or more different lawyer behaviors. That is far too many. In an article in the October 2005 edition of the *Harvard Management Update*, Charles Knight and Davis Dyer point out that a principle problem in people

businesses is mixed messages sent by compensation decisions. Successful leaders set a limited number of priorities, which they communicate clearly and consistently.

Firm leaders already work with their marketing departments to develop and disseminate of clear, concise messages about the relationship between their strategies and brands. Within their firms, they deliver these messages at every opportunity, from retreats to intranets. As the market for talent becomes ever more competitive, firms will need to reinforce these messages through compensation, too. They will need to better align their compensation systems with their branding and positioning strategies. The expertise for this alignment should reside in a beefed-up human resources department.

Training. Firms have historically divided training into two buckets: training lawyers to do good work, and training them to develop business. The former has been ceded to human resources; the latter to marketing.

But it's a false dichotomy. Failure to integrate the two produces too many technically proficient lawyers who can't sell—lawyers who don't have the know-how or the discipline to gather competitive intelligence in their day-to-day work with clients. Such lawyers are not trained to see subtle differences in client preferences about deal structure or service delivery and pricing as harbingers of market trends, and firms don't measure or even focus on the significance of these changes. Real market research is not the stuff of law firm executive committee meetings. By the time the idea of market research reaches the executive committee, it's already too late to gain the benefit of first-mover and market leadership status, except through recruiting expensive laterals.

Only the most successful firms have integrated their training and branding messages with their product and pricing strategies. At such firms, lawyers recognize that clients come to them because they are known for doing the best work on the most important matters: Although they are expensive, clients need them. Such firms build premiums into their pricing for the results that clients want most. The compensation system rewards lawyers who execute this strategy well.

Less successful firms reward every piece of work the same, no matter how important it was to the client, as measured by whether the client paid a full-rate or premium fee for it. Too many firms that aspire to attract top-tier work think they can do so through low-price, loss-leader or discounting strategies, or by hanging on to dime-a-dozen commodity practices (or worse yet, becoming known for them). They don't understand that such pricing and product strategies are simply inconsistent with their branding and positioning aspirations. These firms are fooling themselves—and they are the ones that could benefit most from an integrated approach to human resources and marketing.

It is a basic axiom of business planning that a firm's structure must be aligned with its strategy. In elevating the role of marketing, law firms have taken a giant step toward meeting that standard. In similarly enhancing the role of human resources, and joining it tightly with marketing, they can take another.