

1/13/12 Legal Wk. (Pg. Unavail. Online)

2012 WLNR 811672

Legal Week

Copyright © 2012 Legal Week

January 13, 2012

Section: opinion

## **Law firms need to practise good governance and not just preach about it to clients**

Richard Turnor

A partnership specialist argues that law firms need to apply a few more of the proven rules of good governance

The global legal landscape is changing, and the pace of change is accelerating as the balance of power shifts from law firms to their clients. On the international stage, firms are competing for business from a global elite of clients. Everywhere, clients are becoming ever more discerning in their choice of legal adviser and their requirements for service delivery and pricing. At the same time, in jurisdictions like England and Wales, pressure from consumers and competition authorities is leading to alternative business structures, and to a new and more intrusive style of regulation of legal services.

The firm needs a clear sense of what are its core values, a dynamic and flexible strategy and a well-prepared leadership team. It also needs a robust governance structure which facilitates effective management and provides rank and file partners with the confidence to focus their own efforts on meeting the needs of clients and on building a business in which the firm's own people can fulfil their aspirations.

Too many law firms fail to practise good governance, even though they are only too happy to preach about its importance to their clients. Even quite small firms can benefit from a more structured approach to governance. Indeed, it is a requirement of the new Solicitors Regulation Authority Handbook, introduced in England and Wales on 6 October 2011, that all firms, however small, should have a clear governance structure and reporting lines, and effective systems and processes for the management of risk.

The managing partner and his team should be charged with responsibility for developing and communicating the firm's vision and strategy, and for its execution, including risk and partner performance management. The management team should be empowered to make and implement the necessary decisions and should be accountable to the firm's partners for its decisions and actions.

### Overseeing the team

The partnership as a whole should be focused on servicing clients, and so the function of overseeing the management team should be delegated to a board. This should comprise at least a majority of members who are not part of the management team, even if members of the management team are also part of it. It should create a culture in which innovation is actively encouraged and it should insist on consistency with the firm's core values and on absolute transparency, even where it is not possible for operational reasons to share information with all partners. It should monitor the firm's processes for risk and performance management. It should guide the management team and be responsible for its own performance management and for succession planning. It will often be appropriate for the board to delegate some of the more detailed issues, such as oversight of the risk management function.

### Outsider's perspective

Lawyers recognise that it is good practice for their clients to involve external non-executive directors on their boards, yet law firms seldom adopt this practice themselves. It is often claimed that only partners really understand the business or enjoy the necessary respect, and that elected partners

don't have the necessary oversight function. Yet non-executive directors are perfectly capable, in the corporate world, of commanding respect and of calling management to account on behalf of the shareholders. They can also use their outside experience to advise, and to challenge the holy cows which tend to develop in any inwardly-focused organisation. Thus they can help the board to see things from a different perspective, and to spot unforeseen risks and opportunities. If this is true for clients, why is it not true for law firms? Firms which seek outside investors will find that they insist on this approach.

Discretionary sharing of profits is an area of governance which is especially fraught with the risk of self-interest and conflict. Assessment and appraisal can be left to be dealt with by the management team, so that that appraisal meetings focus only on issues of performance and do not become a discussion about money. Issues about remuneration and relative worth, on the other hand, should be handled by a committee of independent partners and non-executive directors, in order to ensure impartiality and fairness.

Like any business, a law firm needs someone, usually the senior partner, to fulfil the chairman role. The chairman shares all the oversight and guidance roles of the board as a whole, but has a particular responsibility for shaping and planning the board agenda, for ensuring that sufficient time is allocated to key strategic issues and for ensuring that board time is not wasted on operational issues which can be delegated to the management team or to board committees. The senior partner also usually has an important role as a communicator and an ambassador, ensuring that the board listens to the firm's key clients and partners and helping to communicate the firm's strategy and vision to its clients.

Finally, every partner is a stakeholder who can call the firm's management and board to account through an electoral process.

Richard Turnor is a partner at London firm Maurice Turnor Gardner.

---- INDEX REFERENCES ----

NEWS SUBJECT: (Government(1GO80); Business Management(1BU42); Regulatory Affairs(1RE51))

INDUSTRY: (Benchmarks(1BE85); Business Metrics(1BU72))

REGION: (England(1EN10); Europe(1EU83); United Kingdom(1UN38); Western Europe(1WE41))

Language: EN

OTHER INDEXING: (MAURICE TURNOR GARDNER; SOLICITORS REGULATION AUTHORITY)(Assessment; Discretionary; Lawyers; Richard Turnor)

Word Count: 859

1/13/12 LEGALWEEK (No Page)