

Why Law Firms Need

# NON-EXECUTIVE DIRECTORS



Until recently and certainly before the failure of Howrey and then Dewey & LeBoeuf, the bankruptcy of a large law firm had been regarded as nearly inconceivable. In examining what went off track and in my article entitled *Malignant Leadership*, I reported that “too often, boards and/or executive committees facilitate firm failures by denying, overlooking, or ‘working around’ crucial issues.”

In that same piece I cited a number of governance steps that firms might consider. One of the notable differences between the top UK law firms and top US firms is that almost one in four (24%) of the UK firms now employ one or more Non-Executive Directors (NED) on their boards. Even more interesting, in a study released late last year, those law firms with at least one NED have seen revenues grow by one-third more than those without. In another research study commissioned by BDO and published in April: nearly a third (33%) of the global firms had at least one NED on their board.

Law firm NEDs have often been drawn from a pool of retired law firm leaders, accountants and management consultants. None of the US firms surveyed had any independent advisers involved in their firms’ governance. US lawyers continue to be skeptical about the value an outside expert might bring.

Yet, the use of NEDs has grown significantly. Lovells was known to have appointed the first NED back in the early 90’s and attested to the benefits of taking such a move. In raising this topic with Fred Lautz, the Managing Partner at 480-lawyer Quarles & Brady, he offered this observation:

*We have assembled a few partners who we call investment partners. They are attorneys who were partners in the firm at one time, and then went on to become business executives. After retiring or otherwise completing their executive roles, some of them have been willing to commit some portion of their time, under contract, to*

*assist us in business development. We ask them to leverage their significant business contacts and community and business profiles to help position us to be in front of developing legal needs which fit our strategic imperatives. I frequently confer with a number of these investment partners on matters of firm business, service delivery, client relationships and Firm growth. I find their experiences in the business side of things (and in some cases as purchasers of outside legal services), coupled with their knowledge not only of the business and operations of a professional partnership generally, but of ours in particular, provide terrific perspective and insight for me as I lead our Firm. So, while we have not formalized any advisory board of outside business folks, I can certainly affirm the value of tapping into people with this type of experience.*

I believe an NED can provide any law firm with a number of benefits:

- provide a dispassionate external view of the firm together with business experience and new concepts;
- make a contribution to the firm’s strategy and market performance;
- act as a vital sounding board and an outside voice to challenge current thinking and practices;
- strengthen the firm’s management and provide an objective view;
- deliver a fresh perspective and open up opportuni-

ties for how the firm might access new revenue streams; and

- objectively assess the firm’s performance and make recommendations for improvement

Key areas that NEDs might be consulted on include governance, complex partnership matters, areas of risk management, changing partner performance evaluation, financing policies, along with many of the marketing and strategic challenges that today’s firms are facing. The ‘right’ NED can also be engaged in the role of leadership coach, helping the Managing Partner who may be an excellent attorney, but with limited leadership and management experience.

It is important that NEDs are focused on matters at the Executive Committee or Board level and should not be involved in the day-to-day operations of the firm. An outside NED should have a more objective view of external factors affecting the business than the partners and should not be afraid to comment and contribute accordingly in the longer-term interests of the firm.

Lawyers recognize 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 sacred cows which tend to develop in any inwardly-focused organization. Thus they can help the board to see things from a different perspective, and to spot unforeseen risks and opportunities.

So what do you think; is it time for our law firms to adopt a similar strategy to what most of our corporate clients have been doing for decades?

“In a study released late last year, those law firms with at least one Non-Executive Director have seen revenues grow by one-third more than those without. Is it time to explore this growth option?”