

LEADERSHIP AND LAW FIRM SUCCESS: A STATISTICAL ANALYSIS

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The quality of leadership within law firms has, for the first time, been shown statistically to be a significant driver of the financial success of law firms. This white paper summarizes the findings from the first-ever quantitative analysis of the relationship between the leadership skills of law firms' partners and the success of the law firm. This independent study was undertaken by McBassi & Company, an economic analysis and survey research firm.¹

Sixty-nine law firms participated in this analysis. McBassi collected data on numerous aspects of leadership, management, and development practices within these firms. Data were simultaneously collected on law firms' performance relative to their competitors in five separate areas:²

- (1) Profitability
- (2) Ability to attract employees
- (3) Ability to retain key employees
- (4) Client satisfaction
- (5) Business development

A statistical analysis was then undertaken to identify the specific aspects of leadership, management, and development practices that were most significantly correlated with law firm performance.

I. MEASUREMENT METHODOLOGY

The statistical analysis identifies the specific aspects of leadership, management, and development practices that have the greatest impact on law firm profitability, ability to attract employees, and the other success variables noted above.

For the purpose of this analysis, McBassi used a modified version of its Human Capital Capability Scorecard (HCCS). This is a research-based measurement framework that quantifies and measures the quality of the "human capital management" (HCM)—the leadership, management, and development practices—of firms through carefully constructed survey instruments.

The measures that emerge from these instruments are then used to predict key outcomes—both financial and non-financial—of firms. This methodology is used by McBassi's clients to spot important deficiencies, remedy them, and thereby improve their future performance.³

¹ This study was supported by the Association of Legal Administrators. The design of the analysis was developed exclusively by McBassi & Company, who is solely responsible for the methodology and results of the study.

² These five measures constitute in statistical language the dependent variables. The independent variables include twenty-four factors (within five indices) discussed throughout this analysis. These five indices can be described as: 1) quality of leadership practices; 2) measures of the learning capacity of the law firm; 3) the law firm's ability to optimize its workforce productivity; 4) practices that foster employee engagement; and 5) measures of how accessible knowledge is to employees of the law firm. McBassi has developed a rigorous set of survey questions over the past seven years to quantify in a valid and scientifically rigorous way, each of these variables. Over 60,000 responses have been compiled in over 500 organizations.

³ A more complete description of the HCCS can be found in "Maximizing Your Return on People," by Laurie Bassi and Daniel McMurrer, *Harvard Business Review*, March 2007, pages 115-123.

This framework, which is summarized below in Figure 1, measures five major aspects of firms' leadership, management, and development practices: 1) quality of leadership practices; 2) practices that foster employee engagement; 3) measures of how accessible knowledge is to employees of the firm; 4) the firm's ability to optimize its workforce's productivity, and; 5) measures of the learning capacity of the firm.

Figure 1. Human Capital Capability Framework



A brief synopsis of each of the 24 factors included in the framework is provided in Table 1. Those factors that were found to be most significantly correlated with law firms' success are highlighted in yellow (more detail on these findings is provided in the following section).

Table 1. Description of Factors Measured in Law Firms

Leadership Practices	Employee Engagement	Knowledge Accessibility	Workforce Optimization	Learning Capacity
<i>Communication</i> Partners' and managers' communication is open and effective	<i>Job design</i> Work is well organized and taps employees' skills	<i>Information Availability</i> Job-related information and training are readily available	<i>Processes</i> Work processes are well defined, and training is effective	<i>Innovation</i> New ideas are welcome
<i>Inclusiveness</i> Partners and managers collaborate with employees and invites input	<i>Commitment to employees</i> Jobs are secure, employees are recognized, and advancement is possible	<i>Collaboration</i> Teamwork is encouraged and enabled	<i>Conditions</i> Working conditions support high performance	<i>Training</i> Training is practical and supports organizational goals
<i>Managerial skills</i> Managers eliminate barriers, provide feedback, and inspire confidence	<i>Time</i> Workload allows employees to do jobs well and enables good work/life balance	<i>Information sharing</i> Best practices are shared and improved	<i>Accountability</i> High performance is expected and rewarded	<i>Development</i> Employees have formal career development plans
<i>Partners' leadership skills</i> Partners eliminate barriers, provide feedback, and inspire confidence	<i>Contribution</i> Organization contributes to its community		<i>Hiring</i> Hires are chosen on the basis of skill; new hires complete a thorough orientation	<i>Value and support</i> Leaders demonstrate that learning is valued
<i>Systems</i> Leadership development and transition systems are effective	<i>Systems</i> Employee engagement is continually evaluated	<i>Systems</i> Collection systems make information easily available	<i>Systems</i> Employee performance management systems are effective	<i>Systems</i> A learning management system automates aspects of training

In a typical application of McBassi's HCCS methodology, all employees within a firm are invited to respond to an online questionnaire (approximately 80 questions) that captures information on specific elements of each of the 24 factors outlined above in Table 1.⁴ Their responses provide information on the firm's strengths and weaknesses in each area.

We then examine statistically the relationship between employees' responses and a variety of measures of "business outcomes." These outcome measures can be quite varied, including: measures of employees' engagement and intention to stay with their firm, client satisfaction, business development, and profitability.

Examining the statistical linkage between leadership, management, and development (HCM) practices and the firm's business outcomes enables a firm to identify those specific practices that are the most critical determinants of the business outcomes that the firm would most like to improve. This provides a foundation for developing fact-based, objective recommendations to help the firm improve its success.

For the purpose of helping the ALA to understand the relationship between leadership practices and firm success across multiple law firms, we modified the process outlined above in order to capture key information from a large number of firms. So, rather than developing highly detailed measures based on responses from multiple employees within a single firm, we captured more general information from a single respondent within each firm. Responses were received from a total of sixty-nine (69) law firms, with most individual respondents reporting that they hold senior administrative positions within their firm.⁵

In addition to assessing their firms' maturity on each of the leadership and development factors listed in Table 1, the respondents were also asked to assess how well their firm performed relative to their competition on five outcomes:⁶

1. Ability to attract employees
2. Success in retaining key employees
3. Client satisfaction
4. Business development
5. Profitability

⁴ It typically takes an employee 12 to 14 minutes to complete the questionnaire.

⁵ 58 of the 69 respondents identified themselves as a "Principal Administrator, Executive Director, Executive Officer, or Executive Staff" in their law firm, 7 identified themselves as "Staff Members," and 4 identified themselves as "Partners."

⁶ A 5-point scale was used to measure these outcomes, ranging from "strongly disagree" to "strongly agree" that the firm outperforms its competition.

II. MAJOR FINDINGS

The statistical analysis revealed that the most powerful predictor of law firm profitability is the quality of the partners' leadership skills. In other words, of all of the factors measured, this factor was most highly correlated with higher law firm profitability.

The nine strongest factors predicting overall law firm success are listed below in descending order of importance:

1. Partner leadership skills
2. Inclusiveness
3. Managerial skills
4. Value and support for learning
5. Innovation
6. Commitment to employees
7. Information availability
8. Systems for tracking engagement
9. Partners' communication

Four of the nine factors that were the most significant predictors of success fall within the "Leadership Practices" category (see Figure 1), thus making the overall quality of leadership in the firm the strongest predictor of law firm success. These four factors are: (1) partners' leadership skills, (2) inclusiveness, (3) managerial skills, and (4) partners' communication.

Two of the nine factors that emerged as the most significant predictors of success are categorized as "Learning Capacity" factors: (1) innovation, and (2) value and support for learning.

Similarly, two of the nine factors that emerged as the most significant predictors of success are categorized as "Employee Engagement" factors: (1) commitment to employees, and (2) systems for tracking engagement.

Finally, one of the nine factors is categorized as a "Knowledge Accessibility" factor: information availability.

The analysis that follows summarizes the specific human capital management (HCM) factors that emerged from the statistical analysis as most strongly correlated with firms':⁷

1. Ability to attract employees
2. Ability to retain key employees
3. Business development
4. Profitability

⁷ None of the 24 factors was found to be statistically significantly correlated with client satisfaction.

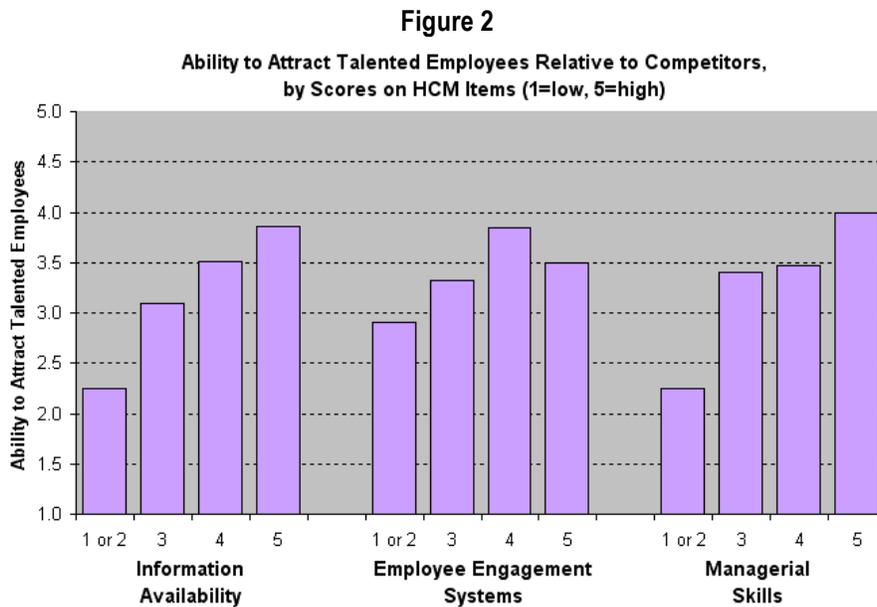
Ability to attract employees

Every law firm knows that their ability to attract employees is a key driver of their organization's success. Stories of the bidding wars and recruiting frenzies that law firms endure to recruit new associates and lateral hires are legendary.

Our analysis represents the first statistical evidence on the specific factors that are most powerfully correlated with law firms' success in attracting the employees that it wants (see Figure 2). The three factors that emerged from this analysis are:

- (1) Information availability: job-related information and training are readily available
- (2) Systems for tracking employees engagement: employee engagement is continually evaluated
- (3) The quality of the managerial skills: managers eliminate unnecessary barriers, provide feedback, and inspire confidence

For example, of the law firms that reported above average scores on information availability, more than half (52 percent) also reported that they were more able to attract employees than their competitors, compared with none (zero percent) of firms that reported below average scores on information availability.



Ability to retain key employees

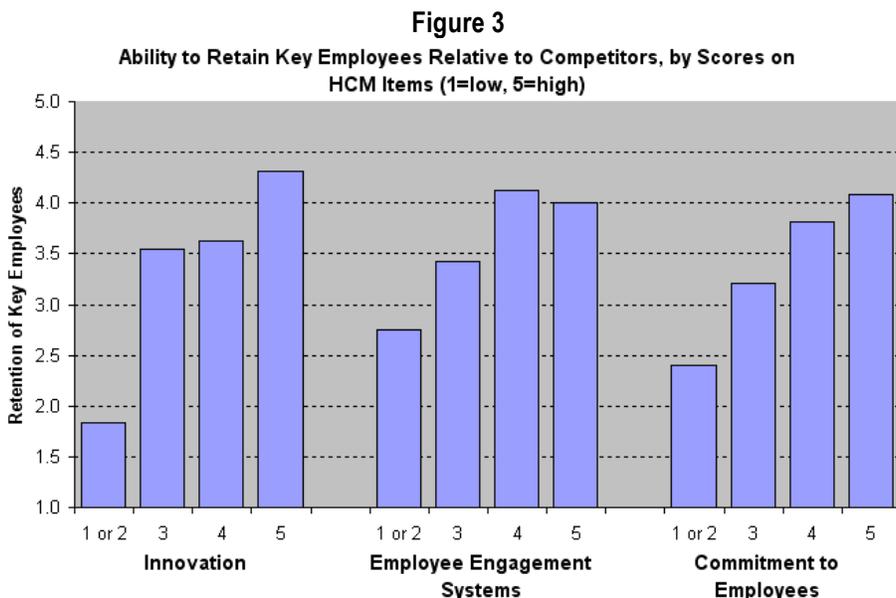
Employee retention is a huge issue among law firms and is growing every year.⁸ Estimates indicate that a loss of an associate represents a \$300,000 financial loss to a law firm.⁹

Inside the legal profession there seems to be a resignation that associate and staff turnover is inevitable and unavoidable. Our analysis shows that this is not the case, and that there are practices and processes that law firms can put in place that significantly reduce turnover (see Figure 3).

The three factors most significantly correlated with law firms' ability to retain key employees include:

- (1) Innovation: new ideas are welcome
- (2) Systems for tracking employee engagement: employee engagement is continually evaluated
- (3) Commitment to employees: jobs are secure, employees are recognized, and advancement is possible

For example, over three-quarters (78 percent) of the law firms that reported above average scores on employee engagement systems, reported that they were more able to retain key employees than their competitors. However, for the firms that reported that they have below average employee engagement systems, less than half (42 percent) reported they were more able to retain key employees than their competitors.



⁸ For evidence on this point and recommended solutions, see *Leadership for Lawyers*, Herbert Rubenstein, American Bar Association, 2008.

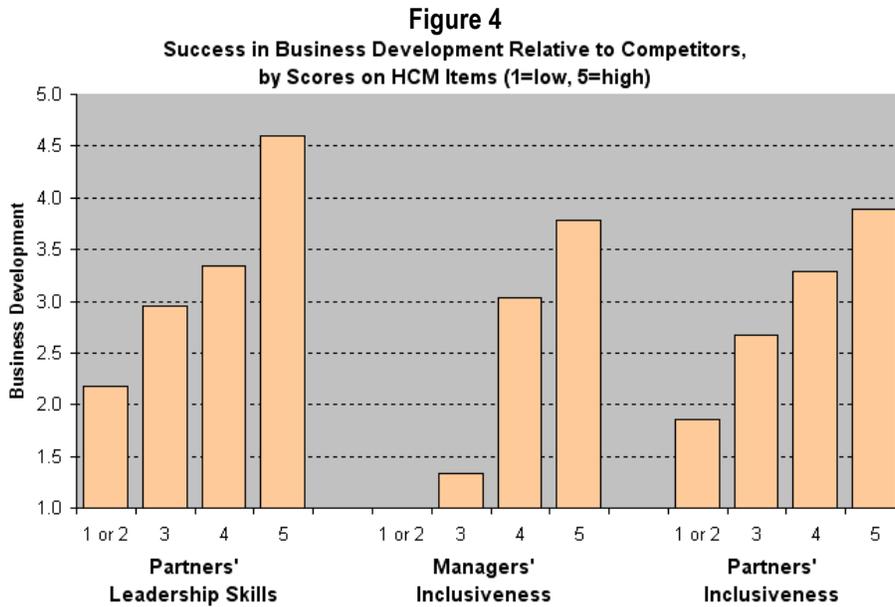
⁹ See, for example, *The Extraordinary Law Firm: Making Your Firm a Great Place to Work*, Charles E. Stinnett, Association of Legal Administrators, 2007.

Business development

The three factors most significantly correlated with law firms' ability to develop business (see Figure 4) are:

- (1) Partners' leadership skills: partners eliminate unnecessary barriers, provide feedback, and inspire confidence
- (2) Managers' inclusiveness: managers collaborate with employees and invites input
- (3) Partners' inclusiveness: partners collaborate with employees and invites input

Of the firms that reported above average scores on partners' leadership skills, nearly half (49 percent) also reported that their firms were better at business development than their competitors. However, of the firms that reported below average scores on partners' leadership skills, none (zero percent) reported that they were better at business development than their competitors.



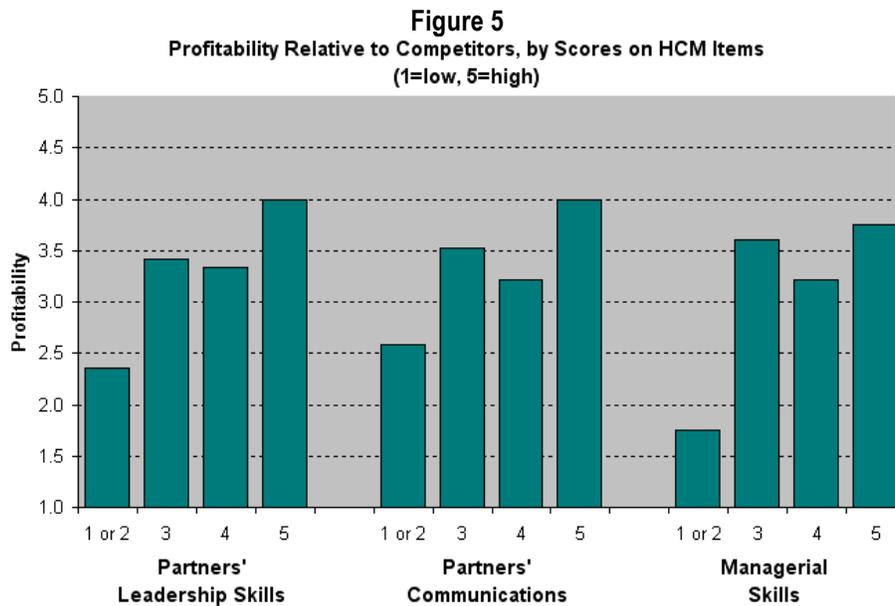
Profitability

The practice of law is first and foremost a profession. Nonetheless, whether they are sole practitioners or have several thousand employees, in order to be viable law firms must be: financially successful, able to pay competitive wages, and able to invest in administrative infrastructure. Hence, understanding the drivers of profitability is critical to law firms' success.¹⁰

The three factors that are most significantly correlated with law firms' profitability (see Figure 5) are:

- (1) Partners' leadership skills: partners eliminate unnecessary barriers, provide feedback, and inspire confidence
- (2) Partners' communication: partners' communication is open and effective
- (3) The quality of the managerial skills: managers eliminate unnecessary barriers, provide feedback, and inspire confidence

Of the 69 law firms that responded to our questionnaire, among those that reported above average scores on partners' leadership skills, nearly half (46 percent) reported that they were more profitable than their competitors. However, of the firms that reported below average partners' leadership skills, less than one-fifth (18 percent) of such firms reported that they were more profitable than their competitors.



¹⁰ The authors are not suggesting that the quality of a law firm's services are correlated to the profits of the firm.

III. SUMMARY AND CONCLUSIONS

The analysis reported here provides the first-ever empirical evidence on the factors that distinguish highly profitable and successful law firms from less profitable and successful law firms.

The single most important determinant of law firm success and profitability is the leadership skills and practices of partners. To experts in the field of organizational development, this finding will come as no surprise. To some in the legal profession, however, this will be an eye-opening finding.

In particular, successful law firms have leaders and managers with the following characteristics:

- Skilled at eliminating unnecessary barriers to effective work
- Inclusive
- Provide frequent and constructive feedback to the employees who report to them
- Inspire confidence
- Communicate openly and honestly

The next most important determinant of law firm success is learning and knowledge practices. The most successful law firms have the following characteristics:

- Value and support learning and development
- Are open to innovation
- Ensure that information and training are readily available

Finally, the most successful law firms are those that successfully engage their employees by:

- Demonstrating commitment to employees through adequate job security, appropriate recognition of employees for their accomplishments, and providing opportunities for advancement
- Implementing systems for tracking and improving employee engagement

Every law firm can improve each of these factors. The first step toward doing so is to quantify and measure your firm's current strengths and weaknesses on these factors. This creates a benchmark that can both provide guidance about which interventions will be most effective in improving your firm's success, and serve as a baseline against which your progress can be measured.