

Walker Clark Consultants Roundtable

10 Signs that Your Firm Is in Trouble

Many law firms fail to survive more than 10 to 15 years. They may experience rapid growth and business success at first, but then go into decline. Three of Walker Clark's most experienced consultants --- Norman Clark, Plínio Ribeiro, and Lisa Walker Johnson --- met recently in São Paulo to compare their experiences spanning more than three decades working in or with the legal profession. They agreed that there are clear indicators which almost always warn of imminent deterioration in business performance and market position. There are also a set of responses that are characteristic of a failing law firm.



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Leading Indicators of Declining Law Firm Performance

How frequently do these behaviors appear in your firm?

seldom

some-
times

often

1. Associates are paid below the median for your market.

C

g

g

2. Only one or two partners are personally involved in management.

C

g

g

3. Partners do not make decisions as a group.

C

g

g

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Leading Indicators of Declining Law Firm Performance

| | | | |
|---|----------|----------|----------|
| <p>4. Most partners are technical experts who are not involved in leadership of the firm.</p> | <p>C</p> | <p>g</p> | <p>g</p> |
| <p>5. Associates become partners without having to develop new clients or business.</p> | <p>C</p> | <p>g</p> | <p>g</p> |
| <p>6. Teamwork at the partnership level is starting to erode.</p> | <p>C</p> | <p>g</p> | <p>g</p> |
| <p>7. Partners ask, "Why can't we spend more time just practicing law?"</p> | <p>C</p> | <p>g</p> | <p>g</p> |

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| | | | |
|---|---|---|---|
| 8. Partners express frustration with underperforming associates, and associates express frustration with a lack of opportunity in the firm. | C | g | g |
| 9. The firm does not dedicate a significant amount of time and resources to professional development. | C | g | g |
| 10. Junior partners are updating their resumes. | C | g | g |
| <i>Totals</i> | | | |

What do the scores mean?

Walker Clark consultants believe that each of these behaviors can be linked to a measurable decline in productivity and profitability. Moreover, each one increases the probability of business failure. Any one of these behaviors, if displayed often, could be fatal to the firm's business success in a period as short as the next three to five years. One red card, and you could be out of the game.

Two yellow cards equal a red. Even if none of these warning signs appear often, any two or more of them can combine to produce a detrimental effect on the firm's long-term business performance. Whether a red card or a yellow one, each one of these behaviors works against business success in professional services firms. The firm must be willing to invest the time, resources, and attention needed to change these behaviors.

How do failing law firms usually respond?

The law firm in trouble can also be identified by the way that it responds to challenges, such as these ten warning signs. There is little mistaking a law firm that is going under. Walker Clark consultants typically observe these behaviors among partners in failing law firms. They usually only make things worse.

- Deny that a problem exists
- Rationalize
- Relive past successes
- Resist internal inquiry; treat questions as acts of disloyalty
- Look for scapegoats: blame associates or demonize departed partners
- Focus on relatively minor issues, such as hiring a marketing director, designing a new associate evaluation form, or increasing the billable hours requirements
- Procrastinate
- Impose more controls

What is the prognosis?

In the many years of their combined experience, Walker Clark consultants have seen these behaviors lead law firms steadily downhill. The best case scenario for these firms includes static or declining fee revenues and the increasing inability to attract and retain desired clients and professionals. The firm finds itself unable to take advantage of the dwindling number of opportunities that come its way. The firm survives as a business, but it never meets the financial expectations of the partners, who find themselves having to work harder just to keep up.

The worst case scenario is a financial death spiral. As the partners find themselves increasingly unable to respond to and discuss new challenges in the market. As financial performance declines, partners begin to leave the firm and to take some of the most promising associates with them. Clients also follow the partners out of the firm, making it harder for the firm to remain profitable on a diminished client base. This in turn convinces more partners to leave. Eventually, after a downward spiral of about three to five years, what is left of the firm in terms of clients and legal talent can no longer support the business. A downturn in the economy or the loss of a major partner or client is usually the fatal blow.

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The bottom line

The ten warning signs are not "soft" problems in interpersonal relationships that can be cured on a weekend retreat or by working harder. They are hard business issues requiring substantial investment and sustained attention. The future of the law firm is at stake.

About the roundtable participants



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