

Autumn Thoughts Turn to Year End

By [Joseph B. Altonji](#) on October 8, 2015

As summer fades into autumn, law firm attentions invariably turn to year-end. From a production perspective the current year is largely done, save for closings holding up collections. Focus turns to receivables, budgeting, partner retreats, practice planning and year-end holiday celebrations. Lateral hiring slows dramatically, as relatively few are willing to forgo year-end distributions and bonuses. For too many firms, forward progress goes on hold (except possibly for the practice planning part), sacrificed to the needs and realities of year-end.

In a [blog](#) a few months back, we urged our readers to reassess progress on this year's strategic initiatives, focusing attention on completing what could be completed and keeping things moving through year end. As the year begins to fade, we want to remind our friends how critical it is to keep long-term efforts moving in your firms. *Simply put, you can't afford to put strategic efforts on hold from October through January, and hope to make progress at the pace you would like.*

There are many factors that drive this crazy cycle. Cash basis accounting, in the US particularly, reinforces the annual collections focus. Compensation cycles, large annualized distributions, bonuses and most other incentive plans reinforce the underlying bias. Most firms do partner promotions and lawyer evaluations on the same cycle, and add in pricing decisions (aka rate adjustments). Most partners think in terms of "starting over" every year, from a metrics perspective – the ultimate hamster wheel. With no underlying growth in equity value available for the equity-level owners, the focus will inevitably be on immediate compensation. Smaller and midsize firms have an added disadvantage, because the larger firms can afford a more significant leadership investment, and the leaders have a greater luxury to focus on the long term, knowing that the managers can mind the store and deal with the annual cycle.

In many ways over recent years, the industry has changed. We've become more business-like, more focused, more strategic and more disciplined. We are slowly learning to drive more client value at lower cost, differentiate and compete. We have not though, as an industry, learned to *operate* from a long-term perspective, a challenge that goes well beyond the concern about taking four months a year off from strategic focus. US Corporations are often said to only focus on quarterly results; most law firms only focus on annual results.

What can be done to move the needle more, recognizing that as long as industry *structure* remains built around an annual cycle, we will never fully move away from this behavior? Here are some steps to consider:

1. Increasing the distinction between those charged with managing, and those charged with leading. As noted above, *some* of the larger firms have succeeded more on this front, by creating more separation between strategically focused firm Chairs and more operational Managing Partners (with clearly focused functions and spheres of influence).
2. Changing the metrics, particularly at the practice level, to emphasize longer-term success, and reward group leaders materially based on longer-term accomplishments. What if a group leader was rewarded, for example, for achieving a compounded annual growth rate of more than 7% over a five-year period – rather than just for an annual revenue spike that evaporates next year?
3. Organizing and focusing the investment time of your key lawyers. The use of this invaluable resource, in most firms, is left to the whim of each partner. Making longer-term efforts a component of every partner's evaluation will at least force them to think about their contributions differently.

4. Beginning to rethink compensation models. This will be a long-term project and, frankly, one that individual firms will be challenged to achieve absent more universal industry change. It is difficult to set the trend, but as long as partners are rewarded mainly for their annual performance, their focus will remain primarily short term.
5. Considering ways to create a longer-term stake in value (without putting the firm at risk). Long-term focus is very difficult for lawyers – particularly those with only a few years left until retirement. Unfortunately, many younger professionals also show little long-term commitment, and don't assume they will be around to reap the rewards of investment. How will the investments you are asking me to make result in me being better off? Until we can answer this question, we may never really achieve the goal.

Even these suggestions, while sounding simple are, with the possible exception of the first, extraordinarily difficult to accomplish. Multi-year compensation cycles might help with some of the others, but will not fully answer the questions. This, though, does not let leaders off the hook. We encourage you to take the steps you can – separating responsibilities for short-term management as much as possible from the leadership of strategic change. To the greatest extent possible, turn over the short term to the professional staff, and keep your focus on the long-term goals.

There's three months left in 2015. We encourage you *NOT* to let the necessities of closing out the year take your attention away from the more important focus of building the firm. As you prepare your goals for 2016, consider an effort to begin shifting the focus a little more toward the long term while smoothing out the year-end cycle.