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## LESSONS LEARNED

### Embrace Change, Ensure Success



*Change is necessary for growth, says Bryan Schwartz, Chairman of Chicago-based Levenfeld Pearlstein.*

to respond quickly to clients.

Over the years, the firm has evolved, and there are no more crayons or racing cars. “As the firm has grown as an organization, it has also grown up as an organization,” says Chairman Bryan Schwartz. But it still works hard to “maintain our culture of informality,”

By Dan Kittay

In a recent interview, Bryan Schwartz talked about how to decide when change is needed, how to implement that change, and how firms can weather economic storms and prepare for eventual recovery.

Since its inception in 1999, Chicago-based Levenfeld Pearlstein has been known for its different approach to running a law firm. The 54-attorney firm used to distribute crayons and racing cars to its lawyers, to remind them to think in different ways and

*"We're a culture that moves the dial pretty quickly, so for those who cling to the status quo, we're just going to outgrow them over time. While it's uncomfortable, those people either need to move up or to move out."*

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Schwartz adds.

**Q.** After the firm's early days where crayons and racing cars were part of the culture, you phased them out. Why?

**A.** In order to run a higher-level organization and continue to grow, there are just certain changes that are necessary. There are some things you do in the early days to bind the culture and build the team. You don't need the same kinds of things to keep the glue together. A lot of the things we did were fundamental team-building kinds of things, whereas when the firm was around longer and there was more glue to it, those things simply weren't necessary anymore.

In all levels of all businesses there are things that are important in the beginning and are then outgrown, and there are people that are important in the beginning and are then outgrown.

**Q.** As the firm began to change, were there some employees who had difficulty adapting?

**A.** Nobody likes change. One of the things we embraced early on and covered in every interview was the idea that everything would change and continue to evolve. No matter what we were talking about at the time, we would always be moving the needle forward. Even though we spelled that out, it's still difficult for people to accept and adapt to. We're a culture that moves the dial pretty quickly, so for those who cling to the status quo, we're just going to outgrow them over time. While it's uncomfortable, those people either need to move up or to move out.

**Q.** If an attorney is not adapting well to the culture, in your experience is it the firm's management that notices it first, or the attorney?

**A.** It's generally more the firm than the individual attorney. We conduct annual surveys of all the partners in the firm. There's a saying in law firms that perception is reality, and it's true. So we let people know what the perception of them is. And we share the results of the partners' surveys with the other partners and the associates. So you know where you stand in the firm. You can

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either take steps to change it if it's negative, or enhance it if it's positive. From a best practices perspective, nothing has been more valuable than surveys that are shared publicly. It's our way of holding people's feet to the fire.

Q. As a managing partner, what do you see as the key to running a successful firm?

A. What I've come to understand is different from what I originally thought. The bottom line for every firm is to look at its governance system to get an idea of how successful the firm is. The mistake that many people make is thinking that the compensation system is the most important thing. The fact is that compensation is a system that supports other systems in the firm in order to effectuate your strategy. It is not the most important system, by any measure.

The answer is much deeper than that. It is how the firm governs itself, how it communicates, that determines how well the firm is going to do. If the governance system is right, then people will buy into the compensation system, because there will be a belief that it is fair, because the governance system is fair.

For example, how are major decisions made at the firm? Do they come down from Mt. Olympus, or is there a process where input is obtained, works its way up, and then the governance system has had the input of the core of the partnership, and makes its decisions based upon that? People want to feel that their opinion was heard, even if the final decision is not what they recommended.

One of the key parts of a good governance system is that it's not run by people who are putting their own agendas first. In order to get that, there needs to be a feeling amongst the firm that this is of paramount importance.

Q. We've talked about a culture of change being prevalent at your firm. How do you know when it's time to institute a major change, and how do you

go about deciding what and how to change?

A. We have a formal process for dealing with change. Our Executive Committee is not allowed to deal with management issues. It only handles strategic visions and big picture issues. So our management is handled at one place, and our strategy at another place. Strategy is a conceptual process, and if there is no conceptual process, the firm won't get any better. Lawyers like to work on things that obtain something tangible, rather than conceptual. So we have a group that only focuses on conceptual issues.

*"Often the people who are best at running a business are also the most adept at handling relationships and clients, and just want to be lawyers. But in order to build a strong partnership, everybody has to make some sacrifices."*

We've had three strategy processes in our 10 years as a firm. They're all building blocks upon the previous ones. There will be things that we change because they just don't fit anymore. We use strategy to help decide what those things are. Strategy is as much of what you won't do as it is of what you will do.

We start with the big conceptual ideas at the Executive Committee level. Then we take them back through the firm. We talk to associates, key clients, and our income partners. We formulate a strategy document, which we then present to everyone in the firm. You work your way up the firm so that by the time you're finished, it's "our idea," not "Bryan's idea."

Our firm tends to work with task forces more than committees. We'll establish a task force with a set time deadline. If they don't accomplish their goal, we blow it up and establish a new task force with new people. Some parts of the strategy are handled by task forces.

Q. Once you have the strategy established, how do you implement it?

A. The business plan is where we execute the strategy. Our Executive Director, who is not an attorney, is in charge of

implementing the business plan. We have deliverables—we want to get to certain places by certain times, and we have certain objectives that we want to manage toward.

As we move from the strategy phase to the execution phase, the Executive Committee is already working on the next round of strategizing. These days, strategies only last two or three years, and while most parts of them will remain the same, it takes a constant review to be sure we've made the right choices.

Q. How prepared were you for the upheaval in the economy?

A. While few of us expected the full magnitude of what has come about in the economy, in November of 2007 we were focused on what eventually came to pass. It's because we separate management from strategy that we were able to make the kinds of decisions we made with enough lead time. We manage the firm seriously, in terms of "Hey, this is a business." If you were an investor and I told you that I was running a \$40 million business that I'd like you to invest in, and I'm not going to spend any time running the business, but I hope it will turn out well, would you give me any money? When you think about it, many law firms are run like that. Often the people who are best at running a business are also the most adept at handling relationships and clients, and just want to be lawyers. But in order to build a strong partnership, everybody has to make some sacrifices.

Q. As the economy eventually makes its way toward recovery, what should firms be looking at to position themselves well in the new economic environment?

A. I really can't overstress the importance of a flexible work environment. Lawyers are just going to have to figure out how to deal with it. Like every firm, we are focused on providing the highest level of client service. But the delivery of that service by hiring associates who work all hours of the night and stay for dinner, is outdated. The idea that we can keep raising rates forever is absurd.

I always look to accounting firms, who are generally 10 years ahead in these areas. Their studies say that they generate 90

percent of their income from fixed-fee arrangements. This means you're going to have to learn how to manage your projects efficiently, or you're going to be killed. That means you need to be training people in management and leadership.

Things have to change. You have to work around more flexibility, and less compensation in exchange for that flexibility. Many younger people are willing to give up some compensation to receive more flexibility in their lives. When you think about it, it makes sense. You have one life to live, and there's no refund.

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