A HECK OF A GOOD STORY

A Harvard B-School Study Blows the Lid Off Duane Morris—With the Firm's Full Consent

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PSSST. WANT TO LISTEN IN ON INTERnal discussions at a law firm that rapidly doubled in size while morphing from a local/regional firm to a national/international one?

Want to get a peek at the firm's inside data—a lot more than in those routine rankings of revenue? Want to know why the partners don't care if you know?

Then pony up seven bucks. That's the price for a new Harvard Business School case study of Philadelphia's 600-lawyer-and-counting Duane Morris.

While not unprecedented, it's a rare display of openness. "This coincides with the word *industry* being added to the word *legal*," says Boris Groysberg, who teaches at the Harvard Business School and conducted the case study. "Some of them get it."

Sheldon Bonovitz: "When you're 80 percent sure, make the decision."

More than 80 percent of the business school's classes are built on case studies of real managers facing real problems, and Duane Morris will be treated like other companies studied. Eighty to 90 of Harvard's MBA students will pore over a dissection of this law firm in flux. They will analyze the facts and dynamics presented.

The professor engages the entire class for thoughts on the problems, possibilities and alternatives. Students do most of the talking. (They should. The business school's Web site says class participation often counts for half the semester's grade.)

"The students try to put themselves in the shoes of the protagonists," says Groysberg. "They will answer questions posed by me and their colleagues. And this is a very rich case."

Groysberg studies organizational behavior, with professional service firms among his specialties. He says the most important aspects of a useful case study are transparency and candor from the subject.

He expects law firm leaders to shut the door in his face. He could not have anticipated the likes of Sheldon Bonovitz, chairman and CEO of Duane Morris.

Bonovitz, 69, has a slightly unruly mane suitable for a movie star or a rocket scientist, and he sometimes comes across like management guru Peter Drucker with some Elvis in him. A mover and a shaker, Bonovitz has managed to protect the 102-year-old firm's Quaker-rooted culture in what is so far a successful sprint to the future.

UNCOMMON CANDOR

WHEN BONOVITZ TOLD GROYSBERG, "WHATEVER YOU ASK for, you're going to get," the professor did a double take.

"I had to ask that same question twice, for me," says Groysberg. "His response was quite unusual, especially for a law firm."

While the inside skinny is intriguing, the already upfront information tells a heck of a story. When Bonovitz became chairman in 1998, the firm had 242 lawyers and had just opened a Washington, D.C., office. Since then, the firm has grown to include more than 600 lawyers and planted the flag in eight more locations, for a total of 18, including, ahem, Lake Tahoe.

Professor Groysberg's interest was piqued by the combination of the firm's rapid growth and apparent ability to maintain its culture, particularly the Quaker values of equality and transparency.

He would find the spread between highest and lowest partner compensation unusually narrow. And any partner can know what others make. Groysberg quotes quintessential Bonovitz: "First of all, I believe that in a law firm the leadership has to be perceived as being undercompensated." Bonovitz went on to say that "there has to be a recognition that compensation is an art and not a science."

Bonovitz says that, despite opening most of its ways and nearly all its numbers for one and all to see, the firm isn't giving away anything proprietary. "There is a strong

sheldon bonovitz photo inserted by duane morris subjective overlay to the quantitative information," Bonovitz explains.

In keeping with the culture of equality, Duane Morris makes no distinction between equity and nonequity partners—their numbers are roughly half and half—other than profit sharing at the end of the year for one group. And there is no up-or-out partnership track for associates. Good lawyers who don't care to play the rainmaking game are welcome to stay.

GROWTH MANAGEMENT

INTERESTINGLY, AS THE FIRM HAS GROWN EXPONENTIALLY in recent years, it has hired fewer and fewer associates straight out of law school. While some firms encourage young lawyers to come on board to learn and be leveraged for billable hours before moving on, Duane Morris wants to be their destination.

In fact, the firm has relied so much on bringing in laterals that during this time of rapid growth the number of associates coming in straight from law school has declined.

Groysberg was very much interested in how the firm managed its growth. For the most part, that has been by ones and small groups of four to 11.

It was not until January 2006 that Duane Morris absorbed an entire firm—San Francisco's 64-lawyer Hancock Rothert & Bunshoft and its complex insurance practice. (As well as its Lake Tahoe office, whose usefulness becomes apparent in the description on the firm's Web site at www.duanemorris.com.)

In acquiring groups of lawyers, Duane Morris begins by meeting with the leaders but has extensive one-on-one meetings with individuals, too.

From the case study: "When the leader of one newly started regional office turned out to be abusive with colleagues and territorial with clients—both extreme taboos at Duane Morris—Bonovitz moved quickly to reduce the person's authority until the message was sent that a resignation was in order."

While mistakes are avoided to the extent possible, they're also understood as inevitable. Bonovitz works on the 80 percent theory of decision-making. "I believe that when you're 80 percent sure, make the decision," he says. "Don't wait any longer for more certainty because you'll just become paralyzed."

The firm's biggest decision came about the time Bonovitz was chosen as chairman and CEO in 1998. During the mid-'90s, the ongoing shakeout among midsize law firms began in earnest, and Duane Morris fit the endangered demographic. They were too small to compete for the biggest and best litigation and transactions, too big to compete on price. They had to grow. Fast. Big. Carefully.

The firm told Groysberg it doesn't believe there are five other law firms in the country that match its in-depth financial reporting and analysis.

This quantitative information informs all manner of decisions and plans, such as the significant growth in ancillary businesses. The firm was early in that game, opening one for financial planning and money management in 1987.

Unlike those of most law firms, between 85 percent and 90 percent of Duane Morris' ancillary business customers are not law firm clients. The firm now has 13 such stand-alone enterprises, which generated revenues of $22.3 million in 2005.

That entrepreneurial mindset also led to the creation of a significant contingent-fee practice—unusual for a big law firm. A contingent-fee committee carefully vets potential cases with an exhaustive formula. Then—perhaps this is the Quaker approach to gambling—it grossly underbudgets expectations.

"Contingent fees are so variable, we budget low," Bonovitz says. For example, from 1999 to 2004, the firm budgeted $28 million for contingent cases and actually got $63.9 million. In 2005, $7.5 million was budgeted and the return was $20.5 million.

The 31-page case study includes eight pages of exhibits, which offer lots of numbers and details, as well as the Bonovitz bio. These are to help MBA students figure out what makes the firm tick so they can plot its future.

ACCENT ON CONSENSUS

THE UNIQUE MANAGEMENT STRUCTURE IS DETAILED, too. It helps make sense of a firm that thus far has found a way to enjoy the benefits of steroids without the poisoning side effects. The case study's explanation of the various firm meetings, for example, shows how such a big group can work mainly by consensus.

There is this nugget on morale building from Bonovitz's description, in the case study, concerning a firmwide working meeting: "The associates (and some partners) went to South Beach and came in at 5:00 in the morning, but they still got to the meetings."

The case study ends with five questions for the students, but in effect for Duane Morris itself:

- How much growth is necessary for the firm, and how fast?
- Can the firm maintain its risk-averse compensation system in an overheated marketplace?
- Can the firm continue to pursue merger strategies for faster growth and maintain its culture?
- As it grows, can it keep its "Quaker consensus" style of government?
- Bonovitz has been reappointed year by year since passing the firm's mandatory retirement age in 2003. What skills and qualifications should be sought in a successor? What risks and opportunities will that person face?

Asked in an interview how much longer he'll lead the firm, Bonovitz says he serves at the pleasure of colleagues. Reminded that it's his pleasure, too, he says, "Longer, but not much longer."

That's another decision that is more of an art than a science.

To purchase the Duane Morris case study, log on to the Harvard Business School Publishing site, which is at http://harvardbusinessonline.hbsp.harvard.edu, or call 800-545-7685. ■