

Managing the Multidimensional Organization

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Professional businesses today are structurally complex organizations with many senior people overburdened by time-consuming and often conflicting roles.

Professional businesses often have some combination of

- Business unit
- Geographic markets or offices
- Division or department
- Product line/service offering
- Industry group
- Key account team
- Committees (recruitment, training)
- Task force or project team (service innovation, new offerings)

Each of these organizational groupings can, and does, intersect with duplicated missions, overlapping membership, and common resource pools to draw upon.

We frequently hear comments like this from members of management:

It's not at all clear what each of these groupings should be responsible for and how their activities should be coordinated and evaluated. If you are a key player in this organization, you can spend an inordinate amount of time in meetings. There has got to be a better way to organize for effective operations!

There *is* a better way, but the way professional businesses organize and manage has not kept up with their increasing complexity. Eventually – we think sooner rather than later – this will significantly impede their continuing success.

Not only do modern companies have more “types” of organizational groupings than in the past, but these groups now have broader responsibilities than the simple “generate and serve clients” goals of the past. To survive and flourish, individual groups within today’s organizations must be accountable for client loyalty, knowledge transfer, development of their people (junior and senior), and many other “balanced scorecard” items.

To make it all worse, many of these groups are composed of people who, because of geographic dispersion, do not

see each other regularly face-to-face. They have to operate as members of a “virtual” organization. Many would not even recognize some of the people in their own operating groups, with whom they have to interact regularly.

As Marcel Goldstein, of the global public relations firm Ogilvy, wrote to us: “The modern-day professional business lacks much formal structure, at least when compared with manufacturers, government agencies, and other organizations. This is a great asset, as it allows the flexibility, creativity, and autonomy necessary to adapt to client needs. It can have a darker side though: inefficiency, confusion, and process breakdowns.

“In many professions, clients are demanding cross-practice cooperation. But do we have the right structures and personal skill sets to successfully manage the integration of specialty expertise?

“The highly matrixed professional business turns downright chaotic during times of great change: acquisitions/mergers; technology disruptions; and transitions to integrated, cross-functional service delivery.

“Many professional businesses engage in acquisitions of great fanfare, only to have their value left unrealized by political undermining. In my experience, traditional manufacturers with structured, hierarchical management execute acquisitions with far less confusion and resulting paralysis.

“We need structures that don’t squash flexibility and creativity but minimize inefficiency and confusion. We need

help building the personal skill sets needed to manage ourselves and each other in these environments, especially during times of great change.”

We certainly would not profess to have answers to all these complex issues. However, we believe that there are five perspectives that must guide any review of a firm’s or company’s structure.

Imperative 1: Examine Structure, Process, and People

The solution for an individual firm must always address three perspectives in any organizational review:

1. *structure* (how we are formally organized);
2. *processes* (how different types of decisions are to be made and how conflicts and trade-offs are to be resolved);
3. and *people* (appointing the right individuals to play the complex roles that will make it all work).

No one dimension will solve the problem: all three must be examined. However, we suspect that the importance of these three elements in the solution may be first, people; then processes; then structure.

Imperative 2: Choose the Right Group Leaders

Many organizations believe, as we do, that selecting the right leaders (and having enough of them) is more important than structure or process.

Peter Kalis, managing partner of law firm Kirkpatrick & Lockhart, states the view forcefully: “Structure and process – while as essential to a law firm as a skeleton and a nervous system are to a human – are prone to ossification and

thus are fundamentally at war with the dynamism of the marketplace. People, on the other hand, are not. We try to elevate the empowerment of our people over the organizational niceties of structure and process except to the extent that those structural and process features work to empower our people.”

Choosing the right people for leadership positions was always important, but is even more critical in complex organizations. Consider just some of the (newly important?) skills that today’s group leader probably must have:

- The ability (and interest) to motivate and influence people they never see in person
- The ability to delegate and trust others to manage important relationships
- The ability to play a “linking-pin” role, simultaneously thinking about the overall good of the firm while taking care of the needs of the units they are responsible for
- The ability to manage people who have core disciplines other than the one in which the leader was specifically trained

It has always been true that effective management required a complex mix of social, interpersonal, psychological, political, and emotional skills on top of the high intelligence and technical skills necessary to rise to the top. We believe that as organizations become more complex, possession (and development) of these so-called soft skills must play an ever-more-important role in influencing who is selected to perform managerial or leadership roles.

Unfortunately, such considerations do not always play a dominant role in selecting group leaders. It is a common syndrome that all initiatives (client team, industry, geographic, functional, etc.) are seen as important, so the same senior people always end up on all the committees, often based on considerations other than managerial aptitude or even orientation.

As a result, it is somewhat hit-and-miss as to whether the right people get selected for these roles, their mandate is clear, their performance as leaders gets discussed and evaluated, and whether they receive any assistance or guidance in learning how to perform their roles.

Not only does this hurt the organization by (possibly) leading to less effective team leadership, but it’s not clear that it is wise to consume the limited time of valuable people by asking them to manage and/or get involved in everything. This is simple economics – a valuable resource should always be focused on its highest and best use.

Imperative 3: Establish Mandates for Each Group

Even if you have an ideal structure, there will always be problems with coordinating cross-boundary resources and dealing with conflicting priorities. You cannot make all cross-boundary issues go away by simply redesigning the boundaries.

Beyond structure, companies must ensure that each group has a clear mission (or mandate) that is understood by those inside and outside the group.

In our experience, many firms launch new business units, various committees, or project teams with ambiguous charters and then leave it to powerful (or

not-so-powerful) group leaders to determine through negotiations over time precisely how the groups will interact.

The case *for* doing this rests on the idea that internal competition is the inevitable result of shifting external market forces influencing each of the organization's groups differently and that a flexible approach to the responsibilities and interactions of groups is an efficient way of responding to these external market forces.

However, we believe that failing to discuss and resolve the issues of group responsibilities (and how groups will interact and resolve conflicts and trade-offs) rarely results in optimal outcomes.

Under such an approach, power rather than principle determines group goals and how groups will interact, and this leads to lesser performance. Resolution of conflicting goals and clear, agreed-upon guidelines for decision making over trade-off situations must be determined in advance.

We also believe that organizations must stop treating all groups alike, which many unfortunately do, for administrative convenience. It is possible to use different types of groups for different things: lots of little teams for client-level relationships or one large central group for financial and administrative services.

A large, growing, and complex firm doesn't have to be (in fact, can't be) made up of units that have similar roles, look alike, have the same targets, and are managed in the same way. We discussed specific procedures for setting group goals and mandates in our book *First Among Equals* (Free Press, 2002).

In making all this work, it is almost better to stop thinking of permanent or semi-permanent "departments" and to begin to use the language of "teams." There is a great deal of evidence that organizations work better when people feel that they are volunteers self-selected to small mission-oriented teams.

This is not just a matter of making people "feel good." It has always been true that winning professional service firms succeed most by designing their organizations from the bottom up – through the voluntary enthusiasm of individuals. You'll be better off with a messy set of teams filled with enthusiasts than you will with a logically correct set of groups filled with good citizens.

As Ben Johnson of law firm Alston & Bird remarked, "One problem is that too many 'leaders' are afraid to create more energy than they can control. I tell people I'd rather have created more energy than I could control than not created any energy at all. Here's to structural complexity! Here's to dispersed leadership!"

On the other hand, it is also important that firms clarify the roles and responsibilities of group leaders and avoid the balkanization of the organization that can come from letting group leaders think that they are responsible only for their groups.

Peter Friedes, the former CEO of human-resources consulting firm Hewitt Associates, had this to say: "I had 15 or so managers reporting to me. So I needed them to not be pulling the firm in different directions. One practice I had was to remind all those who reported to me that part of their role was to have my CEO perspective in managing their

group. They were not to just be an advocate for their group or their people. They had to have a ‘whole entity’ view.”

Imperative 4: Clarify Agreements Within the Groups

Whether you are managing a division, a key client team, or a limited-scope task force, every group needs to have a very clear understanding of what “team membership” implies. As a matter of practicality (although not, alas, reality in some firms) there also needs to be a limit on the number of teams one person can join (and the number of roles one person can play).

For teams to work, there need to be clear, explicit guidelines (even rules of engagement) that team members have agreed to observe. Clarifying team members’ rights and obligations can go a long way toward becoming more efficient and effective. (Even as simple a rule as “You must do what you said you were going to do” would transform some organizations and save a lot of wasted meeting and planning time.)

The need for such agreements, while always wise, has become ever more critical in a virtual world. As Harry Truehart, chairman of law firm Nixon Peabody, observed, “Getting people and procedures that facilitate effective ‘management at a distance’ is the biggest challenge in making groups work.”

We believe that if far-flung groups made up of many autonomous individuals are to make cohesive decisions over time, then it is necessary that the group members agree in advance the principles on which they will base their decisions – the guidelines the group members agree to follow. Only with such an agreement in place can a decentralized organization make consistent decisions.

Part of the solution, may involve thinking of (and formalizing) different levels of team membership. For example, levels of “team membership” might include (i) full decision rights – possible called Team Leadership, or (ii) right to be consulted – called team membership or (iii) right to be kept informed – called team affiliation. (These are examples only.)

Imperative 5: Recognize Shifting Priorities in Structural Design

Structural changes alone will not resolve conflicting priorities and competing demands for resources, but structure does nevertheless matter. The evolution of professional-service firms over time suggests that some structural approaches do work better than others. Most successful global firms, in a broad array of professions, have tilted the importance of their different organizational “axes.”

For some time, there has been a general trend to make the target client industry the most important (and organizationally powerful) grouping. This has been driven by clients repeatedly telling their vendors and providers that they had better get to know and understand the client’s business.

Next in authority and emphasis comes the specifically targeted client (or key account) team. Well-orchestrated client teams are the only answer to making seamless service across geography and product/service offerings a reality. Don Lents of law firm Bryan, Cave notes, “It is my sense that there is a growing focus on client teams and the need for such teams to be front and center in the thinking of firms.”

Third, and with increasingly *less* power and responsibility inside most

organizations, are the traditional product or service-line groups built around a focused technical specialty or discipline. Companies need to have highly focused and skilled technical people, but few are still primarily organized that way.

Finally (and this is a huge revolution from the past), the trend has been to make geography the least important and powerful dimension of the complex matrix.

In the past, the office head (or country head in mega firms) was the source of all resources and the arbiter of last resort. Today, in many organizations, a geographic head may preside over a location whose people all belong to groups headed and “controlled” by a powerful leader located elsewhere.

This is not meant to denigrate the role of the geographic leader. As Bob Dell of law firm Latham & Watkins points out: “Having the right leader in an office can be extremely effective in facilitating the success of all the other groups therein. There seems to be something about physical presence combined with a leader who is perceived as less biased toward any group that can be very powerful in resolving competing demands.”

Moving Forward

We believe that there is a distinct process that firms need to go through to find their own customized solutions to managing a complex organization.

The steps are these:

First, assess the perception of “pain and difficulties” felt by the current organization, to determine people’s appetite for considering changes. This will usually require a process of interviewing key players across the firm.

No change can be made unless there is a keenly felt sense of either pressure or opportunity.

Next, it will be necessary to collect and assess the evidence as to how well the organization and its components are currently performing and interacting. In a recent issue of *The McKinsey Quarterly* (2006, number 3), Cross, Martin, and Weiss described a detailed and powerful methodology for “mapping the value of ... collaboration.”

Even if the approach is not this thorough, there will need to be an investigation of current organizational functioning, including not only an in-depth view of financials, analyzed according to numerous perspectives, but also an analysis of external evidence (including, perhaps, input from selected clients) and internal structural frustrations and performance inhibitors.

It will be necessary to examine whether reward systems are in line with organizational objectives and whether profit-center accounting systems are contributing to a balkanization of the organization.

At the other extreme, it would be worth examining whether the organization is currently being held together and energized by sharing in what is sometimes referred to as an “overarching purpose” or shared values. This is an approach to organization that is often fervently preached but rarely achieved.

Next, in any organizational review, would be the need to design and implement a process to generate commitment to re-examine organizational structures and processes and explore the major alternatives (including possibly re-constituting key groups). Any redesign, must, of course,

ensure continuity of strategy formulation and implementation through the organization.

Finally, it will be necessary to examine, consider, and implement methods for the development of special managerial skills and competencies as well as new metrics that may give better indications of the organization's functioning and response to external forces or internal pressures.

It may also be necessary to design a process to get the organization to recommit to a clarified sense of purpose, values, and "rules of membership": – the principles and practices that people must follow to remain members in good standing of the organization.

Of course, to make any of this work, there is a need for key players to be willing to let other people decide some things even when they're not there – a situation which does not exist in many companies and firms!

We do not mean this to be a throwaway line. To effect real change, organizations must not try to establish "theoretically correct" structures and processes but must have honest discussions among powerful players about the types and nature of the firm's group processes that would, in fact, be honored.

We have seen too many firms go through the motions of putting in place what appear to be sensible organizations, when everyone knows that certain key players will not adhere to the policies that have been adopted.

We're not idealists here – we recognize the realities of the need to accommodate personalities and special situations. But we also do not believe that progress is made by pretending or obtaining "false consent." That is why organizational

solutions must be custom-designed for each firm and need to be the result of a comprehensive review, not, as is so frequently the case, the net result of an accumulation of a series of incremental changes driven by short-run pressures.



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