

MELBOURNE LAWYER

MAGAZINE | ISSUE 05 | 20 JULY 2006



Photo: Kristian Gehraide Photography

Dixon lifts the lid on Gadens' renaissance

Six years ago, Gadens' Melbourne office was having difficulties. A significant merger offered much needed national solutions but also brought with it significant internal strife. The firm was struggling to turn a profit anywhere near the levels expected of the newly merged entity. Morale was low and tensions were high. In short, Gadens was struggling.

But that was then. Gadens' forty Partner strong Melbourne office recently announced a near \$50 million turnover with for the 2005/2006 financial year. Most of Gadens' full equity Partners have been earning around \$1 million for the last two or three years and the firm's profit margins have risen from a poorly 9% to a now impressive 45%.

The firm has managed to lure 17 senior lawyers to its ranks in the last two years aiding this growth in both revenue and profits.

The numbers are compelling, but still at least beyond its walls - Gadens' rapid growth and commercial success remain somewhat of a mystery to many. In a *Melbourne Lawyer* exclusive Gadens' Melbourne Managing Director, Grant Dixon, the architect behind this substantial reversal of fortunes, opens the book on the firm's turnaround and what it took.

Left Gadens' Melbourne Managing Director Grant Dixon

continued on page 11 >

Lawyers seek aspirational targets

Melbourne's law firms have displayed a mixed bag of responses to a suggestion by National Pro Bono Resource Centre (NPBRC) Director, John Corker, to push for the introduction of an aspirational benchmark of at least 30 hours pro bono work per lawyer per year as of January 1, 2007.

While firm's generally have embraced the prospect of increased pro bono offerings few were prepared to endorse a purely quantitative benchmark.

"Since 1999 there have been four studies that all call for the introduction of aspirational targets," Corker says in explaining the reasons for proposal of the new benchmark.

"We know from our own discussions with lawyers and legal firms that there are mixed views about whether or not there should be a target. But organisations such as the Australian Lawyer's Alliance have passed a resolution confirming the idea, and our discussions with lawyers and

law firms lead us to conclude that there is considerable support for the introduction of aspirational targets."

Corker stressed to *Melbourne Lawyer* that there will be no obligation on law firms. He says the target is more about enshrining a key ethical obligation across the entire profession. "We don't believe it will bring a feeling of compulsion. We are aware that there is quite significant activity in certain sectors of the pro bono market and not enough in others. It's not about

marketing or publicity. It's about lifting the profile of the concept both inside and outside of the profession."

"Probably about 50% of lawyers meet that target now," he says. "We're already on the record as saying that perhaps the mid-tier firms don't do as much the smaller firms and the larger firms. So [mid tier firms] is an area that although improving is one we think could benefit from more structured and organised pro bono activities within their firms."

continued on page 6 >

Dixon lifts the lid

In a *Melbourne Lawyer* exclusive Gadens Lawyers' Melbourne Managing Director, Grant Dixon, the architect behind the firm's recent success, Dixon opens the book on the firm's turnaround since it's troubles earlier this decade and what it took.

continued from page 1 >

Patrick Walsh is Chairman of Gadens' Melbourne office. He was a Partner when the firm began instituting drastic changes at the start of this decade. "At the end of the day, the fact is when Grant came on board we were looking for someone who could take away some of the decision making of the Partnership," he says. "At the time of the merger and for the period immediately after it we'd find ourselves involved in any number of Partnership meetings and it was a significant drain on time and productivity. It was just eating into our days."

In walked New Zealand business consultant, Grant Dixon.

The early stages and the changes they entailed were difficult for both parties. "It's easy now because the results are there," Dixon says. "In the first year of the new model, [the firm] went from 9% to 33%. One of the catalysts of this working so well was that they had just merged. Strategically the merger was a good idea. It had a national focus. The clients had great potential. But in terms of bringing the merging parties together operationally, it was very poorly managed. The results were such that these guys were only achieving 9% profitability. We are now achieving 45% with less management and administration people than in 2000. They were in such a state that I could come in and say 'guys for this to work fully, you need to hand over the running of the firm to me. You need to let go. You need a new structure'."

Walsh says the changes took time to infiltrate the firms psyche. "It definitely took a while for us as a Partnership to get a clear view on what exactly was required and to understand where the line between management and Partnership existed. We had a meeting at one point where Grant simply said 'you are not listening'. We realised pretty quickly that we hadn't quite broken free of our old ways. That's essentially when we took a leap of faith. Literally within months it had an effect operationally and from a performance point of view."

"We've seen it work, so it is very true to say that the proof is in the pudding. Year after year our financial performance has improved. And each year we've become better at understanding [the model]."



Above Chairman of Gadens' Melbourne Patrick Walsh

Gadens' commercial business model – one that sees a Board of Management assume complete control of operational decision-making - is as unusual as it is foreign to traditional Partnerships.

According to Dixon, the Partners at Gadens only have two functions to perform.

"They do the networking, and develop the relationships with the clients. The other is actually doing the work, and supervising it to make sure the service delivery meets client's expectations. What makes a very good lawyer in many ways makes the worst business-person because lawyers are taught to look at everything that can go wrong. That's their job. And rightly so. They are also taught not to give advice – not to go forward – until they are 100% correct. Now if you apply those methods to business decision making well, it just doesn't work. We remove that as a possibility here. Our decision-making process is rapid. Business is risk, risk is return. To illustrate, we've actually hired a Partner the day after meeting him. We

can do that. We can turn around important decisions quickly to take advantage of the opportunity while it is there."

"What a lot of organisations I don't think appreciate is that strategy and operational implementation of strategy is one process. Unless you have input to strategy at decision making level you can't guide it properly. We have synergy between board, management and operations, and it works well. So the Partners have really bought in and they are enjoying it. They are enjoying the relationships they have with their clients and they enjoy their legal work. And they are leaving the running of the firm and the implementation of the strategy to the management team. There are no committees here. I firmly believe that any organisations success is directly proportionate to its ability to make the right decisions."

And success has been the hallmark of this decade for Gadens. "Clearly it's out in the marketplace how well we are doing financially," says Dixon. >

Gadens Melbourne Senior Lateral hires since 1 January 2004

Gavin Forrest	Partner	July 2006
Alan Cornell	Special Counsel	July 2006
Doug Robertson	Partner	April 2006
John O'Callaghan	Partner	April 2006
James Price	Partner	December 2005
Catherine Byrne	Special Counsel	November 2005
Peter Bramwell, partner	Partner	April 2005
Simon Theodore	Partner	March 2005
Gail Owen	Partner	February 2005
Dan Feldman	Partner	January 2005
Rob Perry	Partner	June 2004
Gary Trollope	Partner	June 2004
David Maddocks	Partner	June 2004
Natalie Bannister	Partner	May 2004
David Lawson	Partner	May 2004
Tom Bostock	Partner	March 2004
Doug Goodman	Special Counsel	February 2004

>

"I'm not sure a lot of firms understand how we are doing it and why we are growing. That's fine. The concept of our model is not unique. But I think we implement it well. We are good at making sensible, commercial decisions without the politics that tends to infiltrate some Partnerships, and undermines trust in management. I think that's where we are different and successful."

Dixon nominates two key reasons for Gadens' growth. One, he says, is that they had a focused management team that has removed sluggish, politicised decision-making.

"The other," he says, "is that the buy in from the Partners has been exceptional. They've embraced it and worked hard to understand it. They've developed the disciplines and accountability that goes with it."

All this talk of taking decisions out of the hands of Partners in a law firm is one thing. But to remove day-to-day business ownership from Partners who are used to doing things their way must have been difficult. "It's a unique situation, a Partnership. You have to understand it. If you can meld that together successfully with corporate philosophy, great things can be achieved. It's their business. It's very hard to let go. So it is very much a leap of faith, the key is to ensure that management encourages input and knowledge to what is going on during the decision making process but at the end of the day management will make the call."

Dixon says the Gadens model doesn't allow for egos. "We don't have corridor politics; we don't have power plays because there is no power to play. It's a fully commercial business model. We don't have staff Partners here, we don't

have financial or marketing Partners, or committees. That's all taken care of by the management team."

Gadens' model is centred very much on commercial viability and accountability. According to Dixon, because of their resourcing and management structure, Gadens doesn't carry large and expensive overhead. Its emphasis is on efficiency and leverage. "Our overhead structure allows hands on Partner involvement with an emphasis on giving exposure to the experience and expertise of senior lawyers. Where the quality and service outcomes are not reduced, work is allocated appropriately to other team members to minimise costs. Our internal measurements encourage this."

For a firm with a broad range of services on offer - property, banking and finance, corporate, litigation and insurance practice, and even family law - it certainly begs the question: how do low margin offerings compete with higher billing transactional work? Dixon says the difference is not as distinct as one might think.

"It's all about how you manage your resources," he says. "Technology for instance. Mortgage servicing occupies about 17% of our turnover. We've invested into R&D heavily to create extensive real-time intranet arrangements with the banks we service to streamline the process and refine the way we do things. You can change anything if you put business management solutions in place. There's always a solution if you think outside the square."

But above all this there's little doubt that a protracted period of acquisitional growth has been crucial. At the forefront of this growth is Gadens' Melbourne office with 24 lateral senior practitioner/

Partner acquisitions since 2000 - 17 since 2004 - as well as a raft of internal promotions. In the last few months, further announcements have been made with Doug Robertson and Gavin Forrest making the switch from other large firms to join as Partners and John O'Callaghan also appointed. Alan Cornell was recently appointed Special Counsel.

"It was controversial at the time," Dixon says of the Gadens acquisition program. "We are not unique in pursuing lateral acquisitional growth. We are not alone. But we recognised that we needed to get some more substantial clients and some more significant expertise. We had some good people already here, but needed more depth. One thing that I learned in New Zealand was that firms were discarding some extremely talented and experienced senior practitioners. People with a wealth of experience and existing client contacts. It was an effective way to grow by placing value on these people. Bring them in use their skills. Develop their relationships and connections. They feed your existing infrastructure, with new clients."

"Take Matt Walsh for instance. All those years at Mallesons as Managing Partner. He has contributed significantly here. Young Jeremy Smith - now an equity Partner at 32 - has blossomed under Matt's tutelage. The mega's don't want people like this. It's crazy."

Despite the relatively open stance towards those the top-tiers no longer want, staff don't escape scrutiny. When questioned about the model's propensity towards financial contribution as an indicator at the expense of perhaps less measurable contributions, Dixon is unapologetic. "We have two categories of staff here," Dixon says. "If you are an average performer, that's fine and you can expect to be treated fairly. There's absolutely nothing wrong with being average. But if you are above average you will be told that and can expect to be treated in an above average way, to share in the rewards that above average performers share in. These staff are rewarded financially and with promotion. Everyone gets treated on merit. We are a business. We run on business principles. We don't spend any money on developing weaknesses. We identify strengths in individuals and invest in developing those. It's a much more significant return on investment."

Dixon can't quote exact figures on the firm's staff turnover, but says, "We don't lose a lot of lawyers to other law firms. We lose a few to the bar, or to overseas, or to other professions, or to the arts. We have turnover, but it's not significant. After performance counselling we do lose below average performers, and they are going to say what they like about why they departed. But for staff that perform,

last year we paid out \$1.4 million in staff and limited Partner bonuses. Another indicator is that we have only two in staff resources - one for professionals, the other for admin staff, they look after 380 plus people here in Melbourne. Everyone knows what is expected of them, how they are measured, therefore extensive time is not taken up with staff resources on counselling sessions. Motivation is high when you ensure staff are given input and knowledge to their environment."

Dixon's own motivation was brought into question last year. Five years after taking the reins Dixon resigned from his role as Managing Director - very publicly - after citing that the firm's rapid improvement, consolidation and subsequent financial success took away the work challenges he thrived on. But he never really left. Now, encouraged by the enthusiasm of the Gadens Partnership for him to stay and rejuvenated by the possibility of expanding his consulting work within Gadens, Dixon remains.

"Once the decision was made to leave, the equity Partners got together and asked what it would take for me to stay," he says. "Once I explained to them that I was going because I wanted new challenges, they said 'we can accommodate that here.' They said 'if you want to do your consulting work, why don't you do it from within Gadens. That's what I used to do in New Zealand, and I'd been missing that. So I stayed. And I'm glad I did.'"

Now that Gadens' immediate future is secure, Dixon says that it will be business as usual, but nothing will be taken for granted. "Success breeds success only when the information controls and disciplines are in place for that success, without the control systems eventually people will become complacent and performance will then drop away"

"I think \$80 million [in turnover] is about as much as we can handle," he says matter-of-factly. "For me it's not about size as such. Our infrastructure is where we want it to be, and we are I think a credible alternative to the mega's. We've certainly got the expertise now and depth, particularly with our lateral acquisitions. We always want to be masters of our own destiny therefore we will not merge nationally. We have a great belief in our model. We have a seamless national solution. Our harmony doesn't come from a national Partnership model but rather from national cooperation between state offices. We will continue to look for new lateral acquisitions, we enjoy our work environment, we are happy with where we are at."

MATT WEBBER