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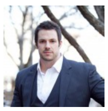

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I cover the evolving business, politics and psychology of BigLaw

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Pete Winstead Of Winstead PC, On 'Eat What You Kill,' Business Development And Collaborative Culture

Managing a law firm can be difficult. Lawyers are often accused of being strong willed, type-A personalities that are generally less susceptible to influence. Even with a strong brand, systems, and a cohesive culture in place, the nature of the profession presents unique management hurdles. And while leading lawyers is often described by the (admittedly overused) term "herding cats," I think most law firm leadership would describe their role as challenging despite being a privilege. Now, with the challenge of leading a firm as our point of reference, *starting* a law firm from scratch and scaling it to critical mass in a single generation is a different animal altogether.

In the early 1970s, tax lawyer Pete Winstead and two of his cohorts perceived issues with their then current firm, particularly with respect to compensation and its role in creating, or preventing, a collaborative culture. So, in 1973, inspired by the prospect of going off on their own, they founded Winstead, McGuire & Sechrest – today known as Winstead PC. And with some ingenuity, nerve, hard work and a bit of luck, they went from 3 lawyers to 330 lawyers in just over 40 years.

Today we hear from Winstead about the motivation behind hanging his own shingle, the values that have brought the firm to where it is today, and some of the business aspects behind his firm's success, including compensation, governance, culture, and more. Please see a revised and edited version of our conversation below:

On Starting Out on His Own

Parnell: Let's go back to the beginning and talk about when you first went out on your own. What is the story behind that?

Winstead: Well, I spent 4 years in the Department of Justice Tax Division in Washington D.C in Tax Refund Litigation, trying tax cases in the federal district courts. So, I was a tax lawyer, as it were, and I left the Department of Justice and became a tax partner of another Dallas law firm; this would have been in 1969 after a four-year commitment to the Justice Department.

My dad was a tax lawyer up in Dallas at the Jackson, Walker, Winstead, Cantwell & Miller law firm. So, I grew up around a lot of tax lawyers; that obviously had to be my chosen field. So, I joined the Dallas firm with a lot of insurance defense orientations and backgrounds. I was part of the business and tax side of that law firm. I noticed something seem to be wrong. It was a lot of what I would call in-fighting, or competition, among the partners in that firm — fighting over the money. Who had a great year, and who did what billings, and whose client was whose? It occurred to me that the enemy was not your fellow law partner, but it was the client on the other side, the business world outside. That behavior of competing internally was destructive.

So, I said, “This is wrong. We need to act like a team. We need to go out and develop business for each other and think about the firm. If we do that right, all boats will rise and the firm will advance.” So, I had some fellow travelers who agreed with me, and in 1973, three of us on the business side decided to jump out and do our own thing. Winstead, McGuire & Sechrest was started.

We had some clients follow us, but our big break was a bank in Dallas called the Mercantile National Bank, which was an old-line traditional kind of place, but they were a banking powerhouse in the Dallas market that had decided -they need to change their image. So, they brought in a young guy from an investment banking firm named Gene Bishop and he said, “We’re going to change the bank’s image. And by the way, I think we better get some new law firms who can help do that.” So, we walked into the idea that 4 of us at 33 years of age or younger could represent one of the biggest banks in Dallas. I had a lot of gray hair, so I was the “graybeard” in the firm. And every time we went to pitch a new client, we said, “We represent the Mercantile bank; how about them apples?” That gave us instant credibility. We took that and ran with it.

On Picking up Dell Computer as a Client

Parnell: What a great upstart. You were able to leverage one of your client’s names to build the business in the beginning?

Winstead: Yes. When I moved to Austin in 1987 to open an office, one of the things I did early on when hustling business was I met a young computer executive – he was 23 years old at the time – by the name of Michael Dell. We did a traffic ticket or two for him. He had dropped out of school at UT and was starting PC Limited at the time. He was going to form his new company and didn’t have the $1,000 minimum capitalization to start it. I was smart enough to hire the young lawyer who helped him start the company, Kelly Guest. So, I hired Kelly and 3 or 4 other key people in Austin. In the Spring of 1988 when his company was looking to go public, I convinced the president of Dell Computer, Lee Walker – another graybeard like me who was president at the time because Michael was only 23 and that posed a credibility issue on Wall Street for an IPO – that if they were really going to go public in Austin that they would need a "big" Dallas firm to do that. You couldn't possibly do that with an Austin law firm. So, we landed the Dell IPO in the spring of 88′ and we took them public at $8.50 a share. The rest is history.

The bad news is that we took our fee in cash, and I'm still working. Kelly is living in Carmel, and Michael is on Forbes's The World's Billionaires List. More importantly, we were able to work as a team in taking Dell public. We did it with smoke, mirrors, Southwest Airlines, and tons of help from corporate lawyers in our Dallas office. Our firm culture worked and it put us on the map in Austin, Texas. Whenever the Austin Business Journal would write "Pete Winstead, Michael Dell's personal attorney…" I'd ask them to rerun the story as often as possible.

On Their Compensation Model and "Eat What You Kill"

Parnell: That's a great story. You have to appreciate the attorneys who make things happen! You mentioned infighting earlier. Often compensation creates a fertile environment for that. Could you talk to me about your compensation model? It sounds like your values are situated towards an egalitarian environment. Could you expand on that?

Winstead: When we saw that internal competition going on in our monthly firm meeting at our former firm, we thought that was kind of nuts. It was "Whose client is it?" Rather than "Is the firm advancing? Are we improving the firm's relations with State Farm?" So, when we started the law firm we pressed thumbs and said, "Ok, compensation is equal. We're going to talk about the firm, and I'll go out and market you two guys, and you market me, and we'll keep compensation absolutely equal. We're not going to get into carving this up. Maybe down the road, several years from now, we'll stop and look back and say 'Bill, you were better than Pete,' and we'll work that out." So, we really pressed on. It was about the firm's future, not about individuals. It's easy for me to talk about the merits of others in the firm, but bragging on about me is really difficult and probably not credible. "Me-ism" draws a penalty flag at our firm.

I have watched a lot of firms in my years that have what I call an "eat what you kill" kind of mentality. It's great when times are good and everybody has their book of business and "their client" or "their associates," but when things turn South and get tough, the relationships between those people evaporate quickly. They are not thinking about the firm anymore. They're not a family of lawyers going through adversity and sticking together. So, we held to the idea that we're all in this together, thick or thin, good or bad, and so let's worry about the firm. And that's how we did it.

Parnell: so, can you give me some more specifics about how the compensation is actually determined?

Pete Winstead: "It occurred to me that the enemy was not your fellow law partner, but it was the client on the other side, the business world outside. That behavior of competing internally was destructive."

Winstead: Sure. We don't base compensation on seniority, here. It's based on your individual merit: what do you do overall for the firm? Everybody keeps charts and graphs and columns and figures and numbers and billings, but we pay attention to a lot of other intangibles: what else have you done for the firm? Are you running the recruiting? Are you the office manager? Are you opening a new office for the law firm? What other value do you add? And that's part of the value to the firm along with the billing. Our lunch rooms have the firm mission statement on the wall that says, "We can accomplish more as a team than as individuals." However, putting it on the wall doesn't mean much. You have to walk the talk, particularly when someone from the eat what you kill world comes aboard. That's why I try to be the first to take them through their new client and billing responsibility and offer any help I can provide.

On Building Their Culture

Parnell: I'm sure this has a huge influence on the firm's culture…

Winstead: Sure. We created an entire culture on the value that you are bringing rather than being based on seniority or anything else. I am always surprised at how many firms have an origination factor: "If Joe landed Acme Brick, then 20 cents of every dollar from Acme Brick forever went into Joe's column." That's not us. We just go out and try as a team to get the client. The other thing that I learned pretty quickly in a system that is eat what you kill: Let's say Pete lands a client who is in the real estate business, but Pete is not a real estate lawyer. What does he do? He tries to hang on to the client by trying to do the real estate transaction, which he has no business doing. His billing rate will be way too high for that real estate matter; he could pass that down to a real estate lawyer, or a younger lawyer, but he won't because he wants to get credit. The implications for "errors and omissions" in that environment are obvious.

We came up with this culture of passing down clients and responsibility quickly for younger lawyers. They have watched me do it. I hand them a client. "You do the billings. I landed the client, but you are in charge, Fred. Call me if you need me. I'll stay involved as long as you need me, but this guy or gal is yours." The only way lawyers learn to be good lawyers is when it's their responsibility, their client, their file. If you're a trial lawyer, you don't learn a thing by carrying Pete Winstead's briefcase. Until it's your witness, you are not learning a whole lot. And so, this idea of empowering younger people with their own clients and their own responsibilities — not to drop them in the grease; help them when they need — that's how they learn the system. And guess what, pretty quickly they are passing stuff down, themselves because that's the culture they grew up in. That's how we've gone from 3 lawyers to 330 lawyers.

On Winstead's Governance

Parnell: If we could, let's talk about your governance for a bit. Who is making the decisions about the compensation? And we can dovetail that into centralization of management issues within the firm.

Winstead: We have an elected board of directors, now. You know, in the early days we didn't buy a typewriter without having everybody meet about it. We didn't hire a single lawyer without everybody voting on it. Well, now we've streamlined. You give up many of your rights and you delegate management to a limited group of people. Trust of the people elected is key to the surrender of these rights.

We now have an elected group of seven, and they come from all over the firm, not selected based on geographic location, the area of practice, tenure at the firm or financial significance to the firm. They are equity shareholders. They are term limited in their roles. I believe they are high-quality people, but most importantly they subscribe to the firm values. Thus, they are trusted to make our compensation decisions.

Our compensation system is very transparent, very open, very participatory. Of course, we do a write up on what Pete did this year. But what we do more of is, "Pete, tell us what somebody else did for you this year, or what you did for somebody else? Don't talk to me just about your clients and your billings and your hero plays; talk about how you helped another lawyer in the firm, or how another lawyer brought you a piece of business and handed you billing responsibility. What did you do in the civic and philanthropic world in the community that advanced the reputation of the law firm?"

So, our seven-person management committee has feedback of a subjective nature on things like that. They can look on charts and graphs and grapple with all that, but that doesn't tell the whole story of the merit or contributions of particular people. We share the compensation figures; everybody sees what everybody is making. Of course, there is a right to appeal when the figures come out, but adjustments rarely happen. Most appeals or adjustments are advocated on behalf of other people.

On Succession as A Name Partner

Parnell: You're still practicing, at least to a degree. Being a name partner and the founder, you certainly have to be a huge influence within the firm. Have you considered succession at all?

Winstead: Sure. I was heavily involved in firm management when I came to open the Austin office. I have felt for a long time that we should elect much younger members of the firm to management positions. Our current group of seven is made of some of the younger crowd — the movers and shakers; the people who are really making things happen. And we are now looking at succession plans for everybody. Obviously, with our efforts to downstream clients and responsibility succession is effectively under way every day.

One thing I might mention that I think is a core strength to the law firm — and this goes back to our beginnings with two of us being tax lawyers – when the firm began, we made up our minds early on to take advantage of deferred compensation, pension and profit sharing plans to facilitate future retirement. Back then you could put away up to 25% as deferred compensation in pension and profit sharing plans and avoid current taxation. We made up our minds to aggressively put away monies for retirement to ease succession issues.

Now, as the firm went along, one of the things I observed as we tried to grow the law firm and looked to acquire other law firms, was that one of their big problems always was, "What the hell do you do about that old dog Pete Winstead who hangs around the firm? He comes to work late, doesn't bill very much, but we have to keep paying him out of current revenue?" You've got to satisfy these young lions who are kicking butt and making money, and you must reward them. But if Pete the old partner is dragging the firm down because he's still hanging around, that's a problem; an unfunded liability that impacts an acquisition decision. But by aggressively funding pension and profit sharing plans, it enabled me and the other older lawyers to retire or leave the law firm with dignity and some serious financial security, and to not be a burden on these young up and coming lawyers. Today our 401(k) Plans have over $200 million in retirement funds. In many months, I may earn more money in my retirement account than in current law firm compensation. More importantly, these retirement plans are a huge incentive for the retention of administrative personnel.

On Lateral Hiring as A Part of Their Strategy

Parnell: You'd mentioned lateral hiring earlier. Where is that sitting in your strategy? Are you aggressive with that? Not at all?

Winstead: We've really built the firm on lateral hiring. That's how we really grew it quickly. Our practice grew so quickly that training a young lawyer and bringing them all on at today's rates is difficult. The days of 15 summer clerks and hiring out of law school have all but ended.

The vetting process on lateral hires has been streamlined. We have a hiring partner down in Houston. She runs that program with heavy involvement from our board of directors and legal administrator. I bet you that today I don't know 45% of the lawyers in the firm in our other 6 offices.

We do a lot of lateral hiring, and I trust the process. I don't have to meet them; I don't have to vote on them; it is all about building trust in the lateral hiring function. We look at their book of business. We ask them to prepare a business plan: "If you came to Winstead, what is your strategy for becoming a productive member of the firm and adding to our capabilities?" We try to skate to where the puck's going to be in areas of legal practice. We test them on their likely adherence to our culture and value system. If you're coming from the eat what you kill environment, that is relevant to us. All of those things make for the right lateral hires.

On Potential Mergers and The Consolidating Market

Parnell: So, what do you think of the consolidating market? And are you getting approached from merger partners?

Winstead: Yes, we do. Our management committee handles those things. For a while, we looked into going to California, Atlanta, and other places. I would say, our number one criteria are not the money we make or who the clients are, but more so, "What's the culture of that law firm?" We have established a very successful office in Charlotte, North Carolina, to better represent our strong banking clientele. We've had limited efforts in the Washington, DC area in the past.

We may have been approached by some of the national mega firms, but I haven't heard much talk about it in the last few years. I think we see our group as a strong regional law firm. We're pretty proud of the culture that we've built, and are pretty happy with it. I think if we got approached by a mega-firm about becoming part of their 1200 to 1500-person law firm, I don't know that we'd be too interested in it. It's not about the money. It is about the family and the enjoyment of practicing law together.

On Lessons Learned Over Time

Parnell: One last question: if you could go back to when Pete Winstead was young and just starting out as an attorney and you had 2 minutes to talk to yourself, what would you tell yourself? What are the most important lessons you would get out within those 2 minutes?

Winstead: I would tell myself to do what I did: specialize in something; distinguish yourself in the practice of law. Aspire to be chairman of the Dallas Bar Tax Section and the State Bar of Texas Tax Section. I wouldn't change any of that. I would pursue the law firm team culture that we built; the idea that we are a family, not a group of individual lawyers practicing by ourselves.

I would urge myself to not be afraid to move to an entirely new city, start a new practice area, and I'd take stock in Dell Computer instead of legal fees in cash.

I would recognize the role of philanthropy and that lawyers need to give back. Never forget you are lucky to be one. If you don't pay it forward by jumping out and helping solve other's problems – be it the United Way campaign or the Crime Commission or chairing some capital campaigns or serving on the board of trustees of a university – you are not doing your job or living up to your full potential. That's what I would tell myself.

Attorney Placement/Legal Recruiter – True North Partner Management.

Books: The Failing Law Firm: Symptoms And Remedies; In-House: A Lawyer's Guide To Getting A Corporate Legal Position