Breakdown: The Inside Story of the Rise and Fall of Heenan Blaikie by Norman Bacal

Daniel Del Gobbo

University of Toronto

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Book Review

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Citation Information
http://digitalcommons.osgoode.yorku.ca/ohlj/vol54/iss4/15

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Abstract
The Canadian legal landscape is changing. Data over the last three decades show a trend toward larger law firms. Many of the country’s most storied ‘big law’ corporate firms have exploded in size and reach. Almost all of these firms maintain offices across the country and satellite offices in key international markets. Other large firms have been subsumed into foreign conglomerates pursuing expansion into the Canadian legal market. These developments have led to an increase in revenues and business opportunities for senior partners at these firms. It has also led to unprecedented challenges for the management of big law firms in Canada. As one of the former managing partners of Heenan Blaikie LLP (Heenan Blaikie), Norman Bacal knows this better than most.

Cover Page Footnote
The author would like to thank Brenda Cossman, Adam Dodek, Rory Gillis, Richard Haigh, Nadia Lambek, and Simon Stern for their instructive comments on earlier drafts.
Book Review

*Breakdown: The Inside Story of the Rise and Fall of Heenan Blaikie* by Norman Bacal¹

DANIEL DEL GOBBO²

**THE CANADIAN LEGAL LANDSCAPE IS CHANGING.** Data over the last three decades show a trend toward larger law firms.³ Many of the country’s most storied

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2. 2017 Pierre Elliott Trudeau Scholar, 2016 CBA Viscount Bennett Fellow, and SSHRC Doctoral Fellow, SJD Candidate (Toronto), LLM (Harvard), JD (Osgoode), Hons BA (Queen’s), of the Bar of Ontario. The author worked as a summer student, articling student, and litigation associate in Heenan Blaikie LLP’s Toronto office from 2010 to 2014. The author would like to thank Brenda Cossman, Adam Dodek, Rory Gillis, Richard Haigh, Nadia Lambek, and Simon Stern for their instructive comments on earlier drafts.

‘big law’ corporate firms have exploded in size and reach.4 Almost all of these firms maintain offices across the country and satellite offices in key international markets.5 Other large firms have been subsumed into foreign conglomerates pursuing expansion into the Canadian legal market.6 These developments have led to an increase in revenues and business opportunities for senior partners at these firms. It has also led to unprecedented challenges for the management of big law firms in Canada. As one of the former managing partners of Heenan Blaikie LLP (Heenan Blaikie), Norman Bacal knows this better than most.

Founded in 1973, Heenan Blaikie was conceived as a boutique law firm in Montreal, employing a handful of lawyers in the areas of employment and entertainment law. By 2012, Heenan Blaikie was the fifth largest and one of the most prestigious full-service law firms in Canada, boasting nearly six hundred lawyers and one thousand three hundred staff, including two former Prime Ministers and a retired Supreme Court judge, across ten offices on three continents. Less than two years later in February 2014, Heenan Blaikie collapsed. It remains the largest and most spectacular law firm failure in Canadian history.7


4. Ibid. This includes each of the so-called “Seven Sisters” corporate law firms which are said to be major players in the Canadian legal market (Blake Cassels & Graydon; Davies Ward Phillips & Vineberg; Goodmans; McCarthy Tétrault; Osler, Hoskin & Harcourt; Stikeman Elliott; and Torys) as well as a number of other large corporate law firms in Canada (e.g., Borden Ladner Gervais; Gowling Lafleur Henderson; Fasken Martineau; Miller Thomson; McMillan; Cassels Brock & Blackwell). I will use the term big law throughout to refer to this collective group of Canadian firms as well as large foreign conglomerate firms entering Canada. See infra note 6.


6. Ibid. Recent examples of international corporate firms entering Canada include Norton Rose Fullbright (swallowing up national firm Ogilvy Renault), Dentons (swallowing up Fraser Milner Casgrain), DLA Piper (swallowing up Davis), and Baker & McKenzie.

7. See Gail J Cohen, “How Partnerships Ain’t All They Cracked up to Be,” Canadian Lawyer 38:3 (2013) 4 (“There’s never been a legal story in Canada that’s had the impact of the death of Heenan Blaikie”); Ian Holloway, “Heenan Blaikie the legal canary; firm reveals flaws in partnership model,” Financial Post (12 February 2014), FP1 (“Measured in terms of column inches, the collapse of Heenan Blaikie is the biggest story concerning the Canadian legal profession in modern history.”) After Heenan Blaikie, the next largest Canadian law firms to collapse were Goodman and Carr (2007) and Holden Day Wilson (1996). Some of the most notable US law firms to recently collapse were Dewey & LeBoeuf (2012), Howrey (2011), Wolf, Block (2009), Morgan & Finnegan (2009), Heller Ehrman (2008), Thelen (2008), Dreier (2008), Thacher, Profitt & Wood (2008), Jenkins & Gilchrist (2007), Coudert
Bacal’s *Breakdown* is his controversial book about Heenan Blaikie’s rapid ascent and even swifter decline. In the introduction, he bills the story as a cautionary tale for managers in the legal, accounting, and consultancy professions charged with the task of leading a large institution in the post-recession economy. Bacal shows how a critical lack of loyalty between the partners bred a crisis of confidence in the leaders’ ability to protect the firm’s unique culture in the face of pressures to over-commercialize. Contrary to popular reports, the firm did not go bankrupt. Rather, it was no longer attractive enough for certain partners to stay and accept a lower salary than other big law firms could pay—as those partners had done for years—in light of recent changes to the firm’s management philosophy. This increasing unattractiveness led to a series of senior partner defections and forced the remaining partners to reassess their relationship. In other words, financial concerns alone did not bring down the firm. Heenan Blaikie sank because its partners jumped ship. One of the book’s most important lessons is that a firm’s leadership, when at loggerheads, can fray the bonds of an otherwise profitable partnership until those bonds finally snap. Professional managers would do well to avoid Heenan Blaikie’s mistakes.

*Breakdown* is divided into three parts, mapping roughly onto the three periods of Heenan Blaikie’s rise to regional pre-eminence, the height of its national success, and its fall into dissolution. The first part, “From Student to Leader, 1980-1996,” describes Bacal’s experience as a law student, associate, and partner at Heenan Blaikie before he became one of its managing partners. Bacal traces the growth of the firm through a series of interesting if occasionally overlong anecdotes about his entertainment law practice. These stories reveal Bacal to be an enterprising young lawyer as he navigated office politics and pursued new lines of business. Given his pivotal role in founding Heenan Blaikie’s Toronto office at age 33, Bacal emerges as the natural leader of a different kind of large law firm in Canada: one that is a little younger and more nimble; one that encourages its lawyers to be entrepreneurs; and at the same time being one that, above all, puts people before profits, unlike its big law firm competitors already established on Bay Street. Bacal describes his early days with the partnership: “The magic we relied on, and that I would have to master, consisted of keeping the relationships


8. *Breakdown*, supra note 1 at xv.
9. Ibid at 289.
personal. We had to make these difficult men and women feel valued and loved and attached to a culture that was the foundation on which we built the firm.”

Maintaining this unique culture was crucial to Bacal’s long-term management philosophy. The second part of *Breakdown*, “Leading a Firm, 1997-2012,” describes his experience as co-managing partner of Heenan Blaikie. Under Bacal’s leadership, Heenan Blaikie grew from a specialized firm with a regional presence in Ontario and Quebec into a national powerhouse with wide-ranging corporate-commercial and litigation reach. Bacal attributes Heenan Blaikie’s rise to its “fresh approach to the practice of law.” This approach was manifested in a series of gutsy decisions by the firm to expand into new and emerging practice areas—decisions born of good instincts by its lawyers and mutual trust in their abilities rather than strict adherence to current market demand. Other big law firms in Canada expanded into new practice areas more incrementally, serving their institutional clients’ needs first instead of their lawyers’ practice interests. With Bacal at the helm, Heenan Blaikie’s culture encouraged its lawyers to “experiment, be brave, fail occasionally, and push in new directions.”

These experiments paid off handsomely for the firm. Bacal admits that most of the partners were paid more than they could ever have imagined when they started their careers, although not as much as they could have if they had practiced at other big law firms in Canada. The traditional big law model of professional service delivery, not unlike the ‘big accounting’ or ‘big consultancy’ models, assumes that partners of large law firms are autonomously self-interested actors who must be compensated based on their individual books of business rather than on seniority or community service; otherwise, the partners might conduct their practices at the expense of the entire firm. Larry Ribstein argues that the management philosophies founded on this idea have supported the institution of new structural hierarchies within many large law firms, including the increased hiring and training of associates without realistic prospects of promotion, the

recruitment of lateral partners with discrete practices and weak attachments to the firms, and the stratification of partners into different tiers of influence that disproportionately reward star business generators.\textsuperscript{16} By institutionalizing hierarchy in these ways, the traditional big law model privileges commercial values at the expense of ethical values and produces environments that promote unnecessary competition between colleagues.\textsuperscript{17}

From Bacal’s description, Heenan Blaikie partners appear to have been motivated by what Russell Pearce and Eli Wald have theorized as “relational self-interest” in conducting their legal practice, which means that the lawyers recognize that “all actors are inter-connected, whether [as] individuals [or in groups] … [and] cannot maximize [their] own good in isolation.”\textsuperscript{18} The clearest example is that the firm’s partners agreed to accept their unique culture by taking lower salaries than partners at comparable firms. This salary differential was known for years as the Heenan Tax.\textsuperscript{19} Bacal explains: “For those of us who were brought up in the firm, this philosophy was tied to a reverse snobbery about the larger, more profitable firms. We couldn’t see ourselves fitting into another major firm with constricting rules and general unhappiness. Our quirky acceptance of one another and the genuine mutual respect we all shared came with an overall loss of efficiency.”\textsuperscript{20} When richer firms came knocking, most lawyers refused to consider the alternative because “Heenan Blaikie was their Camelot.”\textsuperscript{21} The strong implication here is that living a happy life on Bay Street means striving against the over-commercialization of the traditional big law model in Canada.

The third part of Breakdown, “Failure in Leadership, 2013,” describes the series of events that tested Heenan Blaikie’s ability to maintain its unique culture in the face of pressures to over-commercialize in a struggling economy. The firm’s leaders failed this test and the partnership lost its way. This is the most compelling section of Bacal’s book, providing an ultimate insider’s perspective on the individually surmountable challenges that were collectively mishandled by Heenan Blaikie’s management: a bruising partner compensation review that depressed firm morale;\textsuperscript{22} a lease of new and expensive office space in Toronto.

\textsuperscript{16} Ibid at 754-57. See also Galanter & Palay, supra note 3 at 748-56.
\textsuperscript{17} See Eli Wald, “Glass Ceilings and Dead Ends: Professional Ideologies, Gender Stereotypes, and the Future of Women Lawyers at Large Law Firms” (2009) 78 Fordham L Rev 2245 at 2264-73.
\textsuperscript{18} Pearce & Wald, supra note 15 at 110, 128-40.
\textsuperscript{19} Breakdown, supra note 1 at 193-94.
\textsuperscript{20} Ibid at 194.
\textsuperscript{21} Ibid at 194, 322.
\textsuperscript{22} Ibid at 249-53.
that the firm did not need;\textsuperscript{23} a series of risky international ventures, including a shiny Paris office\textsuperscript{24} and a global consulting practice,\textsuperscript{25} that failed to make any money; a rogue partner in Montreal whose unethical business connections to an international arms dealer were publicly exposed;\textsuperscript{26} an increasingly hostile media and rumour mill that magnified the firm’s mistakes;\textsuperscript{27} and, most damaging of all, a bungled transition in leadership that saw two new managing partners, Robert Bonhomme in Montreal and Kip Daeschel in Toronto, deadlocked over what to do about the growing crisis.\textsuperscript{28}

Bonhomme was the hatchet man. He wanted to trim the fat that was weighing Heenan Blaikie down. This meant firing dozens of poor performers, reducing the lawyers’ benefits, and eliminating the more innovative and speculative business lines to fit the mould of more lucrative big law firms on Bay Street.\textsuperscript{29} Bacal’s bias in his assessment of this strategy is obvious: “Robert believed we needed to start putting profitability at the front line in order to save the firm. No one was psychologically prepared for this kind of shock treatment. We were drifting from our basic firm philosophy. Like chemotherapy, the proposed cure was killing parts of the patient.”\textsuperscript{30} For his part, Daeschel agreed with Bacal’s view about the importance of maintaining Heenan Blaikie’s culture, but he lacked the wherewithal to counter Bonhomme’s tactics and offer a more comprehensive strategy that would appease the bottom-liners.\textsuperscript{31} Bacal and some other Toronto partners tried to intervene on Daeschel’s behalf, but they no longer had the mandate to push back against the forces of corporatization in a firm that had grown too large, too quickly. The rift exposed a deeper conflict between the business philosophies of Heenan Blaikie’s regional practice leaders, such that Bonhomme quickly became \textit{persona non grata} in Toronto.\textsuperscript{32} He later argued for the balkanization of the firm’s provincial operations.\textsuperscript{33}

It appears that in one short year, whatever charismatic forces had once unified the dreamers at Heenan Blaikie were lost, or at least were no longer

\begin{itemize}
\item[\textsuperscript{23}] \textit{Ibid} at 318-19.
\item[\textsuperscript{24}] \textit{Ibid} at 206-15, 246-47.
\item[\textsuperscript{25}] \textit{Ibid} at 216-18, 253.
\item[\textsuperscript{26}] \textit{Ibid} at 223-29, 232.
\item[\textsuperscript{27}] \textit{Ibid} at 254.
\item[\textsuperscript{28}] \textit{Ibid} at 320.
\item[\textsuperscript{29}] \textit{Ibid} at 250.
\item[\textsuperscript{30}] \textit{Ibid} at 265-66.
\item[\textsuperscript{31}] \textit{Ibid} at 256.
\item[\textsuperscript{32}] \textit{Ibid} at 257.
\item[\textsuperscript{33}] \textit{Ibid} at 263.
\end{itemize}
persuasive enough to overcome the widespread displeasure and dissensus that had gripped the firm. This disintegration was not an unexpected phenomenon. Ribstein suggests that big law firms are vulnerable to collapse when the ties that bind lawyers to institutional cultures become unraveled, shifting the dynamic from cooperation to competition.\textsuperscript{34} Bacal similarly explains that “[f]or a firm that prided itself on creating a warm environment where it was fun and exciting to come to work in the morning, a gloom had set in. The Heenan Tax was no longer an anecdote. It was a noose.”\textsuperscript{35} As the firm’s management philosophy changed and the partners’ emotional and financial investments in Heenan Blaikie waned, they faced a Prisoner’s Dilemma. They feared that other partners might take their clients and leave instead of working together to restore the firm for everyone’s benefit.\textsuperscript{36} Too many partners were afraid of being last with their fingers in the dike, so they left the firm to drown. Bacal’s refrain is clear: “Like the deserting spouse in the marriage, their self-interest superseded their commitment to the rest of us who stayed behind.”\textsuperscript{37} The departing partners had put profits before people. As soon as they forgot what they were about, Heenan Blaikie had failed.\textsuperscript{38} Had they stayed true to their roots, the firm could have survived.\textsuperscript{39}

The subject of Heenan Blaikie’s collapse is contested terrain. Of course, Bacal can only tell Heenan Blaikie’s story through his own eyes, in his own voice, reflecting his own individual biases from the self-stylized perch of “rainmaker” and managing partner.\textsuperscript{40} Others are certain to have a different perspective on the events and available means to express themselves in public or private settings.\textsuperscript{41} Stories abound in Canadian legal circles about how the firm’s employees were personally affected by the crisis.\textsuperscript{42} Few of these stories have appeared in print. Bacal’s readers might wonder how one of Heenan Blaikie’s junior partners, raising

\textsuperscript{34} Ribstein, supra note 15 at 759.
\textsuperscript{35} Breakdown, supra note 1 at 317.
\textsuperscript{37} Breakdown, supra note 1 at 317.
\textsuperscript{38} Ibid at 321.
\textsuperscript{39} Ibid.
\textsuperscript{40} Ibid at 41.
\textsuperscript{41} For example, a range of employee and employer perspectives on Heenan Blaikie’s collapse may be found in the court filings. See Jeff Gray, “Former employees sue Heenan Blaikie,” The Globe and Mail (15 October 2014), online: <www.theglobeandmail.com/report-on-business/industry-news/the-law-page/former-employees-sue-heenan-blaikie/article21117724/>.
\textsuperscript{42} Cohen, supra note 7 at 3 (“It was the biggest law firm collapse in Canadian history and almost everyone I know is either personally affected or knows people personally affected by it”).
three children on her own and facing the total loss of her capital contribution upon the firm’s dissolution, would have reacted to the news of her more senior male partners’ defections; or how one of the firm’s legal assistants, a twenty-year veteran in the role and on the verge of his well-earned retirement, would have been compelled to re-enter the job market at an advanced age; or how one of the firm’s junior associates, paying off her student debt and suddenly fired without severance, would have made the agonizing decision to delay her plans to start a family; or how one of the firm’s articling students, forced to complete his articles elsewhere with no prospect of getting hired back, would have gained a formative education in the brutal business of big law. Bacal intimates these stories but never gives them their full due. Perhaps he could not, perhaps he chose not to.

Bacal describes Breakdown as “a story of leadership and how it develops, of the importance of people to an organization, of the stories we tell about ourselves and what those stories reveal of our value systems.” 43 At bottom, the book is a cautionary tale about professional management written by a former professional manager and intended to be read by current and future professional managers. While it succeeds as a case study in executive education, the book is a limited and somewhat impoverished vision of the multi-level social implications of partners’ decisions to act in their autonomous self-interest within big law firm organizations in Canada.

Throughout the book, Bacal’s memories of Heenan Blaikie are drawn with a “high degree of nostalgia.” 44 His pain at the dissolution of the firm is real. These emotions lend credibility to Bacal’s experiences and give his arguments about professional management a certain normative force, but they may have compromised his ability to critically reflect on the firm’s failings and his own potential role in bringing it down. Readers should wonder about the kind of cautionary tale that another insider like Bonhomme or an unaffiliated outsider might write. Could it be, as Jonathan Kay suggests, that “the demise of Heenan Blaikie is proof that big firms need bean-counters, not visionaries, in the corner offices?” 45 What if aspects of Heenan Blaikie’s unique culture, born of its roots as a boutique law firm over forty years ago, simply cannot be scaled to a larger, more diverse institutional provider of professional services today? Could it be that kinder and gentler big law firms like Heenan Blaikie are unsustainable in the

43. Breakdown, supra note 1 at 41.
44. Ibid at xv.
increasingly globalized economy, which requires that ethical values of informality, collegiality, independence, and public service be marginalized in the quest to remain relevant?[^46] What if the real cause of Heenan Blaikie’s collapse was the misguided leadership of managers like Bacal and Daeschel, who failed to focus on the bottom line as a necessary corrective to the firm’s unchecked idealism in a precarious time?

*Breakdown* should have answered these questions more directly. Even if we accept Bacal’s argument that Heenan Blaikie could have weathered the storm with the benefit of stronger, more inspired leadership, it is unclear how his management philosophy of “putting people before profits” would have responded to changing economic conditions, technological innovations, and client business practices that are transforming the nature of professional work and would have only increased the pressures on the firm to over-commercialize after the storm had cleared.[^47] Marc Galanter and Thomas Palay suggest that large law firms have no option but to reorganize their institutions to promote the more efficient sharing of human capital in a “promotion-to-partnership tournament” structure or else suppress the growth of their business.[^48] If Heenan Blaikie lawyers “couldn’t see [them]selves fitting into another major firm with constricting rules and general unhappiness,”[^49] perhaps they could not have succeeded on Bay Street for much longer without adopting a model that included more constrictive rules and sacrificed their general happiness. Given the book’s limited mandate to warn future professional managers against potential dangers, Bacal should have explained how his advice applied in light of emerging market forces on Canadian legal practice.

Nevertheless, Bacal contributes to these debates by opposing his own management philosophy against the prevailing ideology of big law that is reflected by Bonhomme’s slash-and-burn approach to the crisis. Bacal could have framed his argument in more radical terms, but the book still reads as an attack on the relentlessly individualistic and adversarial culture that determines the design of most large law firms and contributes to an increasing unhealthy and unhappy legal profession in Canada. Attitude theory teaches that feelings of career satisfaction mediate the relationship between lawyers’ jobs, their firms’ institutional processes,

[^49]: *Breakdown*, *supra* note 1 at 194.
and turnover. Studies show that career satisfaction predicts rates of employee retention across the professions, including law. Patrick Schiltz summarizes some of the reasons given by lawyers for their unhealthiness and unhappiness:

They complain about the commercialization of the legal profession—about the fact that practicing law has become less of a profession and more of a business. They complain about the increased pressure to attract and retain clients in a ferociously competitive marketplace. They complain about having to work in an adversarial environment “in which aggression, selfishness, hostility, suspiciousness, and cynicism are widespread.” They complain about not having control over their lives and about being at the mercy of judges and clients. They complain about a lack of civility among lawyers. They complain about a lack of collegiality and loyalty among their partners. And they complain about their poor public image. Mostly, though, they complain about the hours.

Schiltz further explains that rates of depression, anxiety, substance abuse, divorce, and suicide are higher for lawyers than for members of other professions. Within the legal profession itself, rates of career dissatisfaction are higher for large firm lawyers than for lawyers who work in other practice settings. Fiona Kay’s work has shown that large firm environments have a direct impact on the decisions of Canadian lawyers (and female associates in particular) to switch firms and, in some cases, to leave private practice altogether. Feelings of career dissatisfaction among large firm lawyers are so endemic that professional managers are designing the firms’ recruitment processes, training programs, and incentive structures around the lawyers’ expected high rates of attrition. These measures have come at the expense of comprehensive attempts to reform the underlying assumptions of big law and the institutional processes based on these assumptions that are driving the problem of unhealthiness and unhappiness among lawyers. Given that the instruments for large firm growth are constantly evolving, the focus of researchers’ efforts should be exploring new, more holistic, and potentially redemptive models for the delivery of professional services in Canada.

50. Kay, Alarie, & Adjei, supra note 3 at 3.
51. Ibid.
53. Ibid at 874-81.
54. Ibid at 886.
Breakdown is a fascinating and detailed case study of a large law firm grappling with the design of its institutions and ultimately giving into political and economic pressures to over-commercialize its culture, which inspired widespread career dissatisfaction among its partners who then ran for the bank. Managers who are interested in the means of professional service delivery in Canada should heed the warnings of Bacal’s cautionary tale. But as a critical intervention in the academic literature about the ethics of big law practice in the post-recession era, the book falls short. At a time when innovation in the legal profession is needed more than ever, reformers should look outside the corner office, and perhaps outside the large law firm altogether, for more radical perspectives on how lawyers can put people before profits.