# Law Firm
## MANAGEMENT

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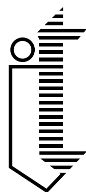

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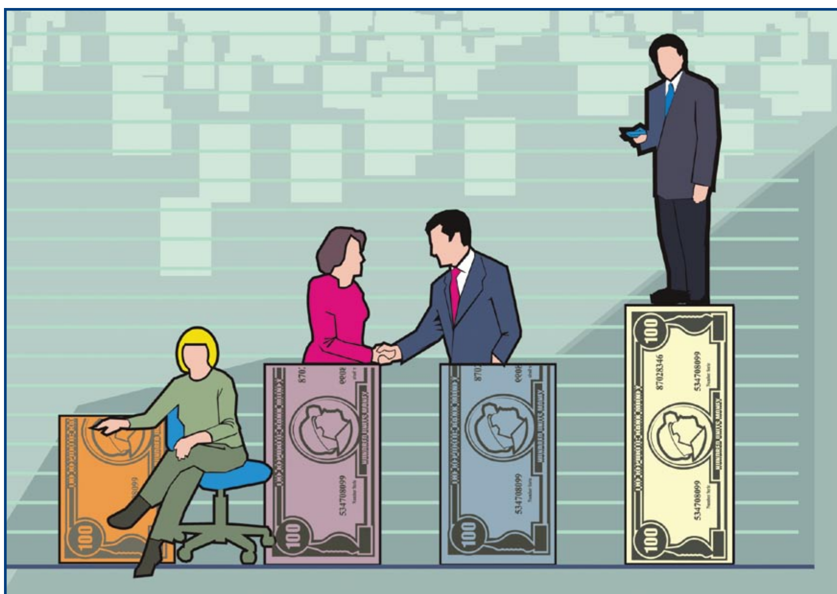
# Why you must address partner compensation challenges

When the economy was thriving, most law firms had enough revenue coming in that they could afford to compensate each partner well, regardless of individual contributions to the firm. So underperformers *and* the biggest rainmakers and technical stars were all content with their pieces of the ever-growing pie.



But now, many firms are finding that their pie has stopped growing or even has shrunk. In such an environment, partner compensation can become a contentious issue — one that could threaten the firm's viability. Don't think that your firm is safe just because your compensation plan is merit-based. Many firms that have a merit-based plan on paper don't have one in practice.

## Plan challenges

Partner compensation plans are facing many challenges. First, there's less client work, and remaining clients are more cost conscious. So, there's less revenue coming in.

Second, layoffs of associates and staff and other cost-cutting measures aren't providing enough savings to make up for reduced business. So, firm coffers won't be large enough to support the levels of compensation partners have been enjoying.

Third, banks are keeping an eye on law firms and are likely to be less willing to extend credit at the beginning of the year if they've seen large cash payouts at year end. So firms can't simply maintain current levels of compensation and depend on credit to get by until the economy improves.

Fourth, other firms may try to lure away top-performing partners by offering better compensation. Losing top performers could lead to revenue losses that may be nearly impossible to recover from. So plans must sufficiently reward top performers.

All of this adds up to one conclusion: Many firms must re-evaluate how to divide up the compensation pie in a way that won't negatively impact the practice.

## Partner challenges

Partner compensation involves not just finances but people — and that can prove to be the toughest challenge of all.

It's hard enough to talk to employees about how poor performance is going to negatively affect their compensation; it's even harder to discuss that subject with fellow owners. Often

partners have been partners for years and in many cases they're good friends. It's difficult to tell a respected colleague that she isn't contributing enough to the firm to deserve to get paid as much as the other partners. Or even worse, to tell a friend that he needs to improve his performance to *remain* a partner.

When times were good, many firms could afford to avoid having these tough conversations. Top partners often were earning enough that they didn't mind if underperformers were also doing well — it was a small price to pay for firm harmony. But this avoidance strategy can create problems when revenues are down.

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Top performers may become concerned that their compensation isn't proportionate to their contributions to the firm's success, especially if they feel they're the ones keeping the firm afloat. They may become impatient with seeing money they're bringing in being distributed to underperformers.

At the same time, underperformers may have grown to feel entitled to their compensation levels. These partners can be extremely resistant to any reductions, even if necessary for the health of the firm.

## What to do

To address these challenges, firms that *aren't* on a merit-based compensation system should seriously consider switching to one. Firms that *are* on a merit-based system should review it to see if the behaviors they're rewarding are still the right ones.

Volumes have been written on what makes an effective merit-based partner compensation plan. For many firms, an outside consultant can be invaluable in separating the wheat from the chaff — whether a firm is developing a new plan or evaluating an existing one. But here are a few considerations to keep in mind:

- Because the current economic reality is so different from what it has been, firms must focus on each partner's *recent* performance, rather than on performance over the past several years.
- Rewarding nonfinancial contributions that are critical to the firm's long-term success and client satisfaction, such as mentoring associates and fostering teamwork, must be balanced with rewarding contributions that immediately impact the bottom line.
- It's critical to stick to the performance criteria; firms can't continue to give underperforming partners another chance next year.

Bottom line: Top- and middle-performers must be committed to having an effective system and face having the hard conversations with underperformers.

## Think long-term

Because of the recession's severity, clients likely will be cost sensitive for years to come. So even as work increases, your firm may not be able to bring in the fees that were common before the downturn. This means you can't apply a temporary fix to partner compensation plan changes; you must make changes that will be effective long-term. ▣

# To merge or not to merge? Good question!

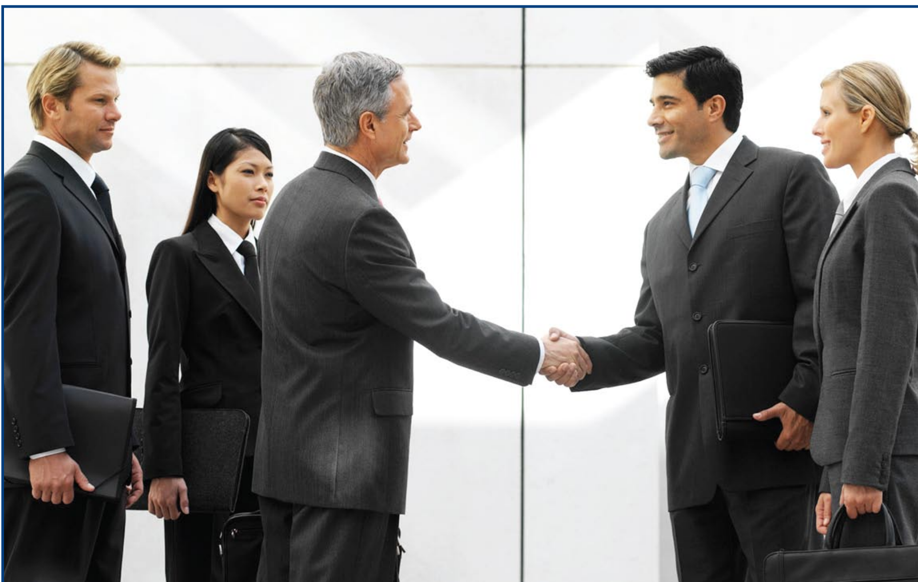
Mergers can be difficult, risky and expensive. So why do so many law firms contemplate them?

Most would say they're hoping to achieve a competitive advantage or find a quick fix to a perceived need. Mergers often help firms realize their strategic objectives. However, if not done for the right reasons, they can be a source of frustration and lead to a firm's demise.

## The right reasons

A good place to look for the right reasons is your firm's strategic plan. For instance, a merger may make sense if your firm wishes to:

***Add experience and depth to an established practice area.*** Offering clients expanded capabilities is a great way to keep their business and increase your billings. For example, suppose by way of a merger you're able to increase the size of your intellectual property practice and expand your firm's patent infringement services. This could be important to existing and prospective clients when retaining a firm.



***Increase specialization.*** A merger could allow your attorneys to expand beyond their traditional roles and become true business advisors. Construction firms, for instance, would rather deal with a trusted advisor who has broad experience in industry-specific areas that matter to them, such as dealing with bonding agents and subcontractors.

*Good reasons for merging might be the availability of new cross-selling opportunities or the ability to tap into more profitable lines of business.*

***Enter a new geographic area.*** Expanding geographically may allow you to take advantage of opportunities in underserved markets or to become a regional or national player. Or you may wish to follow an important client into a new locale. In these cases, merging with an existing firm in the desired market may be preferable to starting from scratch.

***Correct an internal weakness.*** Mergers are viable strategies to fix certain internal issues, such as partner groups that have become unbalanced in terms of age or ability. Or if your firm was founded by entrepreneurial rain-makers who hired more technically oriented attorneys to service its clients, you may no longer have enough

business developers. Merging with the right firm can be a much better answer than trying to quickly develop rainmakers internally.

Other good reasons for merging might be the availability of new cross-selling opportunities or the ability to tap into more profitable lines of business. As many "right" reasons as there are for merging, however, there are wrong reasons as well.

## The wrong reasons

Typically, mergers are not the answer to the following issues:

***The desire to be bigger.*** Getting *larger* isn't a good enough reason to merge. Focus on whether the merger will make your firm *better.* Also, it's possible that a merger can reduce profitability.

***Dealing with problem partners.*** Firm management that won't deal with problem partners may want to merge to avoid an uncomfortable situation. Such issues won't go away during the course of a merger.

***Solving profitability problems.*** Most profitability issues in law firms are related to the top line (billable hours and realization), not to overhead expenses. There are usually few, if any, economies of scale to be gained in a law firm merger.

## Minimizing the pitfalls

When contemplating a merger, keep the following in mind:

- Communicate regularly as the merger progresses.
- Have a good grasp of your firm culture — mergers succeed when both firms have the same work ethic and common visions of management, strategic goals, partner compensation and professional standards.
- If the public and industry perception of your firm is poor, its attractiveness as a merger candidate will suffer.
- Going into merger discussions with partner problems isn't a good idea, because you'll be at a disadvantage at the negotiating table.

## 7 would-be deal breakers

**Want to make sure your merger doesn't fall apart? Then address these seven issues early and thoroughly:**

**1. Capital value differences.** Reconcile the excess of one firm's capital over the other's. If it's paid out, make appropriate financial plans.

**2. Partner compensation.** If compensation methods differ, work out a single approach for the new firm.

**3. Management team.** Discuss early on who will be on the new management team. Try to base decisions on specific merits of various partners, recognizing that you may need to deal with areas of overlap. Expect some fall-out from partners who don't make the cut.

**4. Outstanding receivables.** Firms must choose between contributing outstanding receivables to the new firm or liquidating them under the former individual partnerships.

**5. Valuing goodwill.** If goodwill is part of the deal, retain a qualified valuation expert to perform a valuation.

**6. Partner retirement plans.** If plans are funded at different levels, create a new single plan for the merged entity.

**7. Office space.** Evaluate locations, office features, and lease terms of both firms. Then decide whether to keep both offices or move into new quarters.

- Make sure your partners support the merger, especially if the majority of client relationships belong to a few key partners.

In most cases, tackling these issues upfront will remove many obstacles once the merger process begins.

## Think it through

Proper planning and an honest evaluation of your firm's current strengths and weaknesses can help ensure a successful merger that solves more issues than it creates. ▣

# E-billing benefits law firms, too

If your law firm is like most, you implemented an e-billing system because you had to — your clients demanded it. In-house legal departments typically prefer electronic bills to paper statements because they save companies considerable time and money. But despite some technology and training costs, e-billing can benefit law firms as well.

## Keeping clients happy

Client satisfaction is determined not only by relationships with your attorneys and support staff, but also with your accounting department or outside accounting service. If you're sending paper bills, you may be putting your firm at a disadvantage to competitors that use e-billing. This is particularly true because many companies are closely scrutinizing costs and looking for ways to slash their budgets.

E-billing allows legal departments to import billing data into their own case-management systems, and quickly and easily route that information to the appropriate people for review, approval and processing. Besides saving time, electronic bills enable legal departments to track a firm's budget use and adherence to outside counsel guidelines. This ultimately allows them to compare different firms or attorneys working on similar matters to determine which ones are the most efficient.

## Progressive practices

Electronic billing has been around for about 15 years, but many law firms are still dragging their feet making the transition, or if they have an e-billing system they're reluctant to use it.

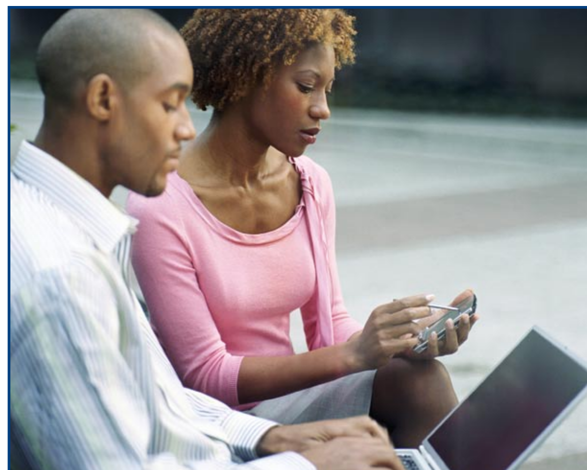
There are, of course, some drawbacks to e-billing, including software set-up costs and fees charged by outside billing services either by the month or per invoice. In addition, firms must train their attorneys and staff to use the software and Uniform Task-Based Management System (UTBMS) billing codes. And although many law departments adhere to the standardized Legal Electronic Data Exchange Standard (LEDES) format, those that don't, or those that use a modified version of LEDES, may need customized bills.

On the other hand, e-billing can provide law firms with several benefits:

***Faster payment.*** Because e-billing streamlines and standardizes the billing process, you could receive payment in as little as a few days instead of waiting 30+ days for remittance. You may, for example, want to offer clients a small discount on services for a 72-hour or one-week turnaround.

***Reduced errors.*** Mistakes can happen at every stage of the billing process, but an electronic system limits the opportunity for human error in your or your client's office. This can reduce the percentage of invoices rejected and returned for adjustment and resubmission.

***Efficient marketing.*** Firms marketing themselves as cost-efficient can easily prove it by showing how closely they adhere to client guidelines for billing and staffing and stay within matter budgets. Some e-billing vendors even allow law departments to search their database for firms whose profile and representative clients match their needs.



***Positive environmental impact.*** If your office hasn't already adopted environmentally friendly practices, paperless billing is a great place to get started. Not only do you save money on paper, envelopes and postage, but you also contribute to a healthier environment.

## Matter of time

Although you can probably put off switching to e-billing to another day, it's not advisable. Eventually, almost all firms will be *expected* to bill clients electronically. Why wait?

# Don't just build a Web site, *optimize* it

"Build it, and they will come." If that maxim was ever true in the brick and mortar world, it certainly hasn't been on the Web. Attracting prospective clients to your firm's site takes a well-strategized and -executed marketing plan. Central to that plan is search engine optimization (SEO) — which means maximizing your ranking among Internet search engines so that your firm's site is among the top search results.

### Cracking Google

The Web offers many general and specialized search engines, but Google garners almost 70% of all search traffic. Most law firms, therefore, focus on optimizing their sites for Google's search algorithm. Although the company is known to closely guard and frequently alter the formulas it uses to rank sites, certain factors are known to raise a site's profile, including:

**Keywords.** You can improve your firm's online visibility by embedding into your site's code certain keywords that are commonly used as search terms (for example, "medical malpractice" and "real estate contracts") and that accurately reflect your site's content.

**Quality.** The quality of Google's search results affects its brand, so the engine favors professionally built sites with good content and design.

**Links.** Incoming links from other reputable Web sites, particularly high-traffic ones, can give your site a significant Google bump.

### Putting the plan in place

If these sound like simple-to-implement ideas, they're not. Researching the most effective keywords, and then programming them into your Web site, takes considerable time and expertise you may not have in-house. And outsourcing your site design to a neighbor kid, simply because he'll work cheaply, isn't a serious option.

Instead, talk to SEO professionals who specialize in working with law firms. If you're building your Web site from scratch or redesigning an outdated site, be sure to include an SEO specialist on the project team. It's a lot easier to implement SEO practices during the design stage than to have to go back later and "retrofit" your site. Once you launch the site, this consultant can not only help you cultivate relationships with other sites to provide links to yours, but also suggest other ways to boost your rankings.

### 1 vs. 20

With such intense competition for clients and Web presence, you simply can't afford to ignore the boost that search engines can provide your Web site in terms of site traffic. Landing on page 1 vs. page 20 of Google's search results could be the difference between a well-known practice and one that … well … isn't.

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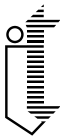

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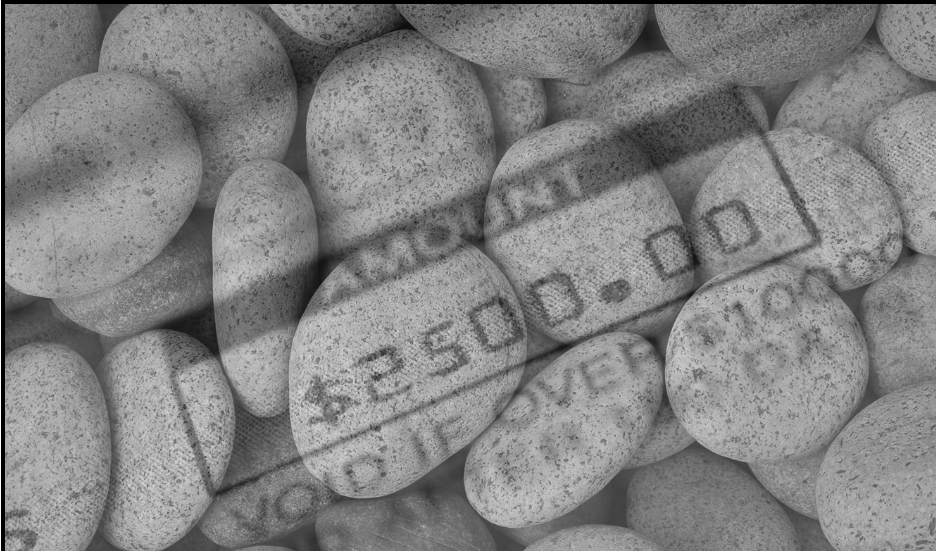
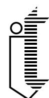
# Our Forensic Accountants Leave No Stone Unturned




Unfortunately, fraud can happen anywhere, and no one is immune. White collar crime continues to endanger businesses, and technology eases the way for perpetrators to cover their tracks. That's why an accountant should be an integral part of your team. Leaving no stone unturned, our forensic accountants have the technical expertise necessary to analyze books and records, detect inconsistencies, and find and trace hidden or misappropriated assets. Isn't it time you made Israeloff, Trattner & Co. part of your team?



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