

# Law Firm

## MANAGEMENT

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Are your attorneys safe on the road?



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# Value — not billing alternatives — may determine client satisfaction

**T**here's been a lot of talk in recent years about alternative fee arrangements (AFAs) as a solution for rising legal services costs. But a recent study suggests that most corporate clients not only don't aggressively demand AFAs, but also don't consider them a top priority.

Instead, what many in-house counsel want from their outside legal services is "value" for their dollar. So whether you charge by the hour or offer AFAs, you need to be able to communicate the "extras" your firm provides clients.



## Perception vs. reality

A 2010 survey of in-house counsel conducted by InsideCounsel and law firm Leader & Berkon found something that will surprise many firms — and legal services clients: Despite increased discussion and awareness of AFAs, survey participants reported that less

than 10% of their outside counsel spending involved such billing arrangements. What's more, fewer than 5% of respondents used AFAs for more than half of their outside counsel budget.

What explains this apparent disconnect between the amount of discussion surrounding AFAs and their relative scarcity in the legal marketplace? Law firms, which typically are resistant to change and wary of financial risk, may not be doing enough to develop and market such arrangements. But clients have also dragged their feet. The InsideCounsel

survey respondents worried about the time, money and difficulty involved in evaluating new fee arrangements, changing internal procedures and potentially switching to new legal services providers.

Their greatest concern, however, was that the quality of the work performed under an AFA would suffer. Corporate legal departments may be tightening their belts, but they worry that bargain prices may yield bargain results.

## Defining value

Some firms already make AFAs available or are willing to meet or beat the bids of law firm competitors. And most firms discount services for good clients. But to address the issue of value, you need to concentrate less on the amount of fees and more on what your clients receive for them.

To that end, if you don't already, distribute satisfaction surveys when you close matters. Ask both specific questions about the case that has closed and general ones about how the client defines value. For example, would clients

be willing to spend more money on outside legal services if the bills included greater detail?

### Tailoring your message

Client satisfaction surveys are only a starting point. Be sure to call or meet in person with your best clients. Ask them how — apart from reduced fees — you can offer them greater value, and listen closely to what they say. Every client is different, and you'll want to tailor your message to address specific needs. But the basic message to all of them should be the same: Your firm's services are worth whatever clients pay for them.

If clients are anxious about high hourly rates, you might remind them that you don't always charge them for services such as researching the nature of their business or training in-house

legal staffers. Tell clients with sector-specific needs about your firm's industry focus or your partners with niche experience. Or, if clients are anxious that their matter get your "best people," you can highlight your attorneys' credentials and explain how the work of less-seasoned associates is closely monitored for quality.

### At the root

AFAs are here to stay, and firms can expect demand for alternative billing structures to increase. But the old billable hour will also likely remain popular for years to come. So the next time a client complains about fees, listen carefully and ask questions. The real issue may not be numbers on an invoice but poor communication about the value embedded in those numbers. ▣

## Beyond the numbers: A fair system for evaluating partners

**E**valuating partners relative to their peers is about as easy as comparing the proverbial apples to oranges. While partners share some basic roles and responsibilities as attorneys and owners, each is likely to bring something a little different to the table. How, then, do you ensure that performance reviews — and compensation decisions — are fair? Often, you need to look beyond the numbers.

### Standard measurements

You likely start the evaluation process with a partner's personal billable hours. Either too few or too many billable hours can be problematic. Too few hours may indicate that a partner is slowing down, has personal issues or has a declining client base. Too many hours, on the other hand, can be symptomatic of a tendency

to hoard existing business because the partner isn't sure he or she can generate new work. It can also reflect a desire to work alone, or that the partner just isn't a team player.

*Consider whether partners have upgraded existing skills and learned new ones to make them — and your firm — more competitive.*

Business origination probably also plays a big part in your evaluation process. But don't just count the cases and clients directly attributable

to a particular partner. The critical client relationship work that helps firms keep clients, and even bring in new ones, can be much harder to quantify. Much of it is long term and involves the efforts of more than one individual.

### Wearing many hats

Your evaluation process also needs to consider the many roles partners play in your firm. You may expect your partners, for example, to demonstrate their ability as:

**Administrator.** This might include collection efforts, personnel management and team leadership roles.

**Mentor.** Consider how partners have transferred knowledge to new associates and mentored junior partners.

**Marketer.** How well do partners market their own — and their partners' — services and attract new clients that fit the firm's strategic objectives?

**Relationship manager.** This includes work that develops, maintains and strengthens client relationships.

**Self-improver.** Consider whether partners have upgraded existing skills and learned new ones to make them — and your firm — more competitive. For example, a partner who builds a reputation as an expert in a particular legal field can charge a higher rate and boost your firm's income.

Not every partner will be successful in every one of these roles. But the evaluation process can help make partners aware of where their deficiencies lie and what skills need to be developed or strengthened.

### Winning formula

You may want to develop a formula based on the skills and roles your firm considers important. But be sure your evaluation tools consider the four factors that determine a firm's profitability:

1. Utilization — the number of billable hours or the work generated,

2. Rate — how much the partner can charge per hour or, for alternative fee arrangements, by matter or project,

3. Margin — how efficiently the partner uses firm resources, including associates and support staff, and

4. Leverage — the amount of additional billable work the partner generates for other attorneys and staff.

### What about unique practice partners?

All partners are unique, but some partners are more unique than others — for example, those who provide services outside your main practice area or as a standalone, self-supporting operation. Evaluating and compensating unique practice partners can be difficult.

If your firm reviews and pays partners based on billable hours and business generated, the process may be relatively simple. But when subjective factors — such as leadership skills and marketing results — are also considered in compensation, they can complicate matters if they aren't applicable to the unique partner.

Problems may also arise when firms participate in tiered, lockstep or equal-share systems. The unique partner may feel greater ownership (and expect higher compensation) when he or she is the only one able to recruit and service certain clients.

You might instead consider a split fee arrangement, in which the unique partner receives 10% to 20% of the fee from self-generated work and 40% to 50% from work he or she both originates and services. Another option is for your firm and the unique partner to take an agreed-upon fee and then split anything above the agreed amount.

Breaking down the attributes and actions that influence each of these factors will give you a fairly complete list of the behaviors on which you should base evaluations.

### All for one

Periodic evaluations help partners assess their own performance, and they're essential to making fair compensation decisions. But you might also want to think of them as exercises in firm improvement. As partners address shortcomings and upgrade skills, they also boost your firm's reputation and growth prospects. ■



## Good customer service applies to law firms, too

**Y**ou may be familiar with the concept of a “marketing culture” and how it encourages firms to integrate growth strategies and objectives into every aspect of their operations. But even a healthy marketing culture won't necessarily keep clients happy.

So in addition to weaving marketing into your firm's fabric, consider improving the way every attorney and staff member interacts with current and prospective clients. A “customer service culture” isn't only for retailers and restaurants; it also can give law firms a competitive edge.

### The front line

Everyone in your firm should receive some form of customer service training. However, those working your firm's front lines, such

as receptionists, legal secretaries and administrators, are most likely to use it on a daily basis.

The size of your firm may determine whether you formalize client communication guidelines or simply encourage everyone who answers phones, returns e-mails and greets clients to adopt a helpful, problem-solving attitude. At its most basic level, this means that they should be polite, friendly and ready to go the extra mile for a client.

They also must be able to recognize the difference between issues they can resolve themselves and those that require another's expertise. For example, a paralegal might provide information about a court's ruling but can't tell a client whether he or she should appeal the court's decision.

## 5 steps to client satisfaction

Great customer service can be easy to achieve when clients are pleased with your work. The test comes when they aren't. Five basic rules can help members of your firm, from receptionist to managing partner, navigate antagonistic situations:

**1. Smile.** It may sound simplistic, but as Dale Carnegie famously said, “your smile is a messenger of your goodwill” and tells clients that you're ready and eager to help. Studies have shown that smiling, even while on the phone or writing an e-mail, puts a positive spin on every communication.

**2. Listen.** When a client calls with a worry or complaint — whether it's about a bill or the outcome of a case — it's critical that you listen. As tempting as it may be to interrupt and rebut, you won't know how to address an issue until you hear how your client perceives it.

**3. Empathize.** Even if clients seem to be making unreasonable claims, tell them that you regret their dissatisfaction and want to understand their position. Repeat what they tell you and attempt to work through the issue together. Disagreements often boil down to simple misunderstandings.

**4. Solve.** When you can't address a client issue yourself, know who can. Keep a list of current matters and their assigned attorneys close at hand and know when to forward issues to your



accounting manager or firm administrator. Be sure to communicate frequently with the client as you seek a solution.

**5. Follow up.** Address problems as quickly as feasible and pursue them to a resolution. If you forward a call or e-mail to someone else, ensure that he or she received it and is pursuing the matter. Finally, thank the client for his or her patience and solicit feedback on your service.

### Long-term benefits

The effectiveness of your customer service efforts can be hard to quantify. Some firms use annual client satisfaction surveys to get a feel for how they're measuring up. But it's important to make a year round effort. If it doesn't show in the short term, you'll reap the rewards over time in the form of client loyalty. ■

## Tech matters

# Are your attorneys safe on the road?

**T**echnological advances in the past decade or so have changed the way many lawyers do their jobs. You can check e-mail from the courthouse, text colleagues from a client meeting and access documents on your firm's network from the airport.

With so many “cans,” it's easy to forget to ask whether you always *should*. Unless you adhere to some basic security protocols, you may be putting confidential (including privileged) information at risk every time you hit the road with your smartphone. That's why your firm needs a remote technology security policy.

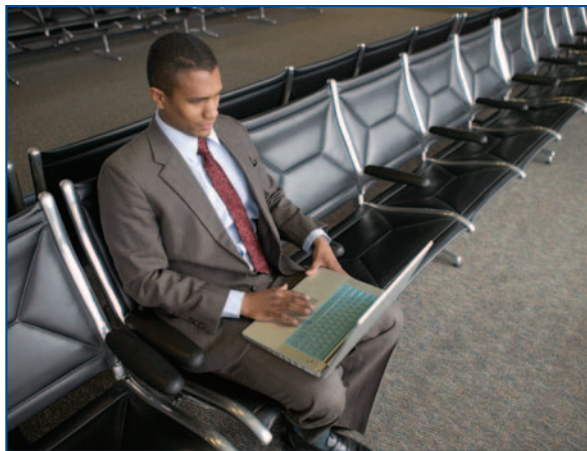
## Best practices

When drafting your firm's policy, consider how your attorneys and staff work (for example, do they often telecommute or work from client sites?), the equipment they use and your firm's technology capabilities. Most firms with IT personnel have a virtual private network that enables remote network access, while many smaller firms use third-party network access tools. Each calls for different security practices.

Your policy also should address some universal security risks:

**Home access.** When logging into the firm's e-mail server or network from home, users must protect the connection with a strong password. Their computer's firewall must be enabled and its virus protection software should be up-to-date. Also, they should take reasonable precautions to ensure that family members can't access client documents or your firm's network.

**WiFi networks.** When using public WiFi networks (such as those in airports and coffee shops), users should change their device's firewall to the highest setting that still enables Web browsing and the receipt of e-mails.



**Webmail.** Users must exercise caution when using webmail accounts (such as Gmail or Yahoo) because standard HTTP connections aren't secure. They should use webmail for confidential communications only when an encrypted HTTPS channel is available.

**Instant messaging (IM).** Users shouldn't use IM for any confidential communication. Most IM text is transmitted without encryption, making it vulnerable to interception.

**Public computers.** Users should avoid using computers set up in conference centers or hotels for public use. Fraud perpetrators may have installed spyware programs on them that can capture user names and passwords.

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## Keeping up

You'll need to review and update your remote technology use policy frequently as new devices and applications become available. Currently, many law firms are beginning to use cloud-based computing, which enables them to store data and software offsite (rather than on a local server) and access them online from anywhere.

Some have legitimate concerns about the security of cloud applications. But cloud proponents contend that it's no more dangerous than storing data on the typical home or work-place computer. You'll need to weigh the benefits and drawbacks for your firm, but, if you do seek cloud services, look for providers that offer strong password protection and document encryption.

## Take care

Thanks to recent quantum leaps in communications technology, lawyers can be just as productive at home or on the road as they are in the office. But with technology comes great responsibility. Ensure your firm's attorneys take care to keep confidential information confidential. ■



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## A Team Strategy for Successful Law Firms



Like many ventures, the success of today's law firm depends largely upon results-oriented management acting on sound and timely business advice. Successful, growth-oriented law firms don't just "happen." The professionals at Israeloff, Trattner & Co. know how to ask the right questions, while providing creativity and energy in helping you deal with the issues that confront your industry, the economy and their impact on your business. Isn't it time you made Israeloff, Trattner & Co, part of your team?



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