

law firm management

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Israeloff, Trattner & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS • FINANCIAL CONSULTANTS

1225 Franklin Avenue • Garden City, NY 11530-7904 • (516) 240-3300

350 Fifth Avenue • New York, NY 10118-1099 • (212) 239-3300

www.israeloff.com

Can smaller firms compete with mega firms?

Consolidation is not the only option

The law firm consolidation trend has left many wondering about the fate of smaller firms. To be profitable, will they have to consolidate and pursue the models of the mega firms?

If your firm isn't mega size, don't pack up your legal briefs just yet. (Mega firms typically have more than 1,000 lawyers while midsize law firms staff between 20 and 50.) There are several ways you can develop competitive advantages that distinguish your firm as a worthy contender against the big firms.

Carve out your own niche

Many smaller firms are less profitable because they underprice their services. This is often due to pricing inexperience, a lack of competitive knowledge or an inability to communicate the firm's value proposition, according to the Juris Law Firm Economic Survey. To remedy this problem, smaller firms have to find a competitive edge. In one word: Specialize.

Although specializing — reducing a wide range of practice areas to a select few — may seem counterproductive, it can be one of the best strategies for holding your own. A law firm that specializes in a given industry, for example, can develop an understanding of that industry in a way that will elude competitors lacking the same focus.

Specializing is advantageous because it:

- ▶ Enables your firm to be more efficient and productive as a result of concentrated experience and tailored training,
- ▶ Attracts lawyers who are passionate about or skilled in a given area of law, and
- ▶ Allows you to better evaluate and select clients.

Most important, you can gain market leadership and charge premium rates, which may result in your firm receiving the higher levels of profitability that other firms enjoy.



Attract — and keep — talent with a culture that fits

To compete with mega firms and stay profitable, you also need to attract and keep top talent. Smaller firms often use culture as a selling point. A firm's culture can be defined by its:

- ▶ Pay structure,
- ▶ Management approach,
- ▶ Space assignments,
- ▶ Office environment,
- ▶ Dress code, and
- ▶ Mentoring program.

Even the influence the firm's partners have within the industry is an important aspect.

At one end of the cultural spectrum is the profit-driven culture. This type of firm values billable



FIGHT FOR BUSINESS BECOMES INTERNATIONAL

As markets and opportunities continue to open up in Europe, India, Latin America, China and other fast-growing economies, some U.S. law offices are looking at ways to expand into these regions to create and manage legal teams while drumming up international business. Firms that already have a presence in these countries are enhancing their operations or opening additional offices.

Why go global? Many law firms choose to do so to keep up with the demands of corporate clients that are switching to outside counsel with international connections. According to consulting firm Hildebrandt International, there is growing evidence that corporate clients are attracted to U.S. firms because of their perceived “can do” attitudes and highly service-oriented approaches to client relations.

hours, rainmaking and premium billing — anything tied to profits. Associates might be viewed as profit centers, and the firm’s mode of business tends to be “sink or swim.”

On the other end of the spectrum is the service-driven culture. This type of firm places significance on the value — from a client’s perspective — of hours worked, the quality of the work product, and client service and satisfaction. Associates are valued as future partners, and time is spent investing in developing their skills.

Typically law firms fall somewhere in the middle of the cultural spectrum, incorporating aspects from both ends. For example, a firm may emphasize rainmaking over other responsibilities, such as pro bono work or cross-selling services, while also focusing on including associates in bigger projects and mentoring them. Culture can even vary from one department or practice to another.

Culture is one factor that can greatly influence the perception of a firm as a good, or not so good, place to work. How would you describe your firm’s culture? To get an idea about what your firm values, ask around the office. It’s also important to talk with clients, colleagues, friends and those outside the profession.

By understanding and verbalizing your firm’s culture, you’ll be better able to attract lawyers and other staff whose value systems match your practice’s. More important, when deciding between candidates with similar skills and experience, you’ll be in a better

position to determine which one may be more successful in your firm.

Knowing your firm’s culture will help create an optimal work environment where partners, associates and staff will be comfortable and thus more productive, which increases retention and ultimately enhances the bottom line.

Be selective about clients

You may think that being selective about the clients your firm accepts thwarts the goal of maximizing revenues. But short-term dollars gained as a result of taking on clients that don’t support your firm’s strategic goals can lead to the erosion of your firm’s values and even threaten its sustainability.

For every client, ask:

1. Why are we using our resources on this client?
2. Will the work conflict with larger opportunities that are critical to achieving other business goals?

If the answers don’t make sense within the framework of your firm’s objectives, it might be best to decline that client.

Stand your ground

If you have focused practices and solid management and you provide top-notch service to your clients, your firm can succeed no matter what its size. Law firms that can set themselves apart in these and other ways, both internally and externally, can gain a significant advantage and successfully maintain their independence in a competitive field. □

How to measure your firm's performance

Applying financial metrics within the framework of the Law Firm Business Model — developed by professional services firm management guru David Maister to express the fundamentals that determine law firm profitability — is a useful way to measure the overall effectiveness and efficiency of your firm.

The Law Firm Business Model uses key metrics to help you track your daily financials, analyze the past, and gain valuable benchmarking information to help strengthen your firm's current and future financial performance. Although no one metric can stand on its own, all are useful in pointing out trouble spots.



5 metrics

Simply put, metrics define what is to be measured. According to the Law Firm Business Model, there are five key metrics that influence law firm performance:

1. Productivity or utilization: client hours recorded,
2. Blended rate: average hourly billing rate,
3. Realization: revenues divided by standard value of time recorded,
4. Margin: partners' profits divided by revenues, and
5. Leverage: ratio of associates to partners.

Regularly measuring and reporting on key metrics and comparing them to current and prior financials

will help you determine if your firm's financial performance is improving, remaining steady or declining. It also points out other areas where objectives are being met and those needing greater attention.

Formula for success

One important measurement for law firms is average income per partner. The Law Firm Business Model can be expressed as a formula for determining this important figure:

$$\begin{aligned} \text{Average partner income} = & (1 + \text{leverage}) \\ & \times \text{blended rate} \\ & \times \text{utilization} \\ & \times \text{realization} \\ & \times \text{margin} \end{aligned}$$

To test the outcome of various scenarios, you can plug projected or target numbers into the formula. Let's say, for instance, that you're changing how your fee earners track time worked and you project that each partner will be able to improve accuracy to pick up about half an hour a day in billable time, increasing utilization from 1,800 hours to 1,930 hours per year. This change won't increase costs, so your margin will also increase. That means the increased revenue goes directly to the bottom line.

Consider nonfinancial metrics that also impact your bottom line. For example, look at how well partners are achieving their marketing goals and whether business development is on track.

You can also use the formula to assess the potential impact of more strategic changes, such as how starting a new practice area, opening a new office or recruiting a targeted partner from another firm might affect your firm's bottom line.

Developing your own metrics

Unfortunately, the Law Firm Business Model doesn't provide a complete financial picture. Some financial metrics important to a law firm aren't considered here. So you'll want to look at others, such as unbilled fees (works in process) and billed but uncollected fees (receivables).

Similarly, you should consider nonfinancial metrics that also impact your bottom line. For example, look at how well partners are achieving their

marketing goals and whether business development is on track.

Moving forward

Measuring your firm's performance is important to see where you are and help you determine what you need to achieve to move forward. If you don't measure your performance, you may continue to make the same mistakes or miss out on opportunities to grow your firm and set it apart from others. ☐

Dealing with a dangerous virus

Remedies for the “disengaged-staff” syndrome

Your firm's success depends largely on everyone being fully engaged. But many firms are plagued with just the opposite situation: disengaged lawyers and staff members who are satisfied to do just enough work to get by or more interested in their retirement plan than the firm's business development plan. If you're not careful, the symptoms of the disengaged can spread like a cold and quickly infect others. And mediocre — or worse — productivity isn't the only problem. Disengagement also can result in the loss of lawyers and staff who had the potential to be excellent contributors to the firm.

Is this virus breeding in your firm? Fortunately, there are steps you can take to reverse the symptoms, or prevent them in the first place.

A first-aid kit

An attractive benefits and compensation package may have wooed promising lawyers and staff to your firm, but it probably isn't enough to keep them enthusiastic about their work and retain them.



Lawyers and other employees want many of the same things in a position, which include:

- ▶ Interest from management in their professional development and well-being,
- ▶ Advancement opportunities,
- ▶ Feeling like part of a team, and
- ▶ Stimulating and rewarding work and client interaction — in particular, many lawyers want to be able to specialize.

But many law firms fail to fulfill these fundamental needs, as can be seen by increasing attrition rates. (For more on this, see “Associate attrition rates on the rise” on page 6.) So how can you motivate your most valuable assets to keep them productive — and at your firm? Here are some remedies:

Assess lawyer and staff engagement. Be aware of the ways in which lawyers and staff members demonstrate commitment to their work and to the firm. Do they volunteer for tasks outside the scope of their responsibilities? Do they suggest and take the initiative to implement new ideas, systems and protocols? Do they work collaboratively?

Create the right environment. You need to foster an environment that makes everyone — from rain-makers to support staff — feel that they're an integral

ASSOCIATE ATTRITION RATES ON THE RISE

Associate attrition rates have increased significantly, according to a National Association for Law Placement (NALP) foundation study. It found that, in 2005, 78% of fifth-year associates had changed firms, up 25 percentage points from 53% in 2003.

Although associates' rating of law firms as places to work rose slightly in 2006 to 4.06 (on a scale of 1 to 5), from 4.0 in 2005, overall associate satisfaction remains basically unchanged, according to the NALP study.

This may partially account for why nearly two-thirds of third- and fourth-year lawyers surveyed by NALP said they don't know if they'll be at the same firm in five years as senior associate or partner. The statistics improved among fifth-year lawyers for whom partnership seemed to be a realistic prospect, with about 50% saying they'll stay at their firm. Interestingly, approximately 54% of third-, fourth- and fifth-year associates say they aren't sure they'll be working at any firm — big or small — in five years.

part of your firm. You can do so by expressing the importance of every individual's contributions, value and expertise with verbal praise, bonuses and employee recognition programs.

Also, challenge and nurture lawyers and staff to use their talents and improve their abilities by providing training and career development programs. And be sure to do regular performance evaluations, talking with everyone about their strengths and weaknesses and how they can help accomplish firm goals. This will help them establish their own objectives for professional development and advancement.

It's also important to assign staff members to cross-functional project teams that address, for example, technology enhancement or community outreach. This will allow you to get feedback from lawyers and other employees about the different factors that

help engage and retain staff members and what your firm can do to be more successful in these areas.

Encourage initiative. Most lawyers and other staff members, when treated with respect and consideration, will perform effectively, even going beyond their assigned responsibilities. So encourage them to provide input on what their contributions should be and to assess their work during one-on-one staff meetings and performance evaluations.

Show your own commitment. Setting the firm's tone by establishing a common work ethic and shared values is important to getting your staff engaged. You can demonstrate passion for your work, your clients and the firm by inviting staff to participate in an after-work volunteer project on behalf of the firm, circulating a positive write-up or article about the firm or one of its clients and regularly sharing information about the firm's goodwill, community participation and other successes.

Share firm details. Discussing the day-to-day operations and costs of running your firm with lawyers and other pertinent staff can help them feel more committed to the firm and give them invaluable information to do their jobs. Remember to keep lines of communication open with associates and staff about important developments in the firm, such as getting a major client or hiring a new partner.

Be an equal opportunity awarder. When bonuses, salary increases and other awards are determined, be sure to include all staff — not just lawyers — who contributed to your firm's successful year. The support team, IT manager, marketing director and payroll administrator all contribute to the bottom line. Also, publicly acknowledge their efforts in your firm newsletter, in a memo or at a firmwide meeting.

Deal promptly with disengaged employees. Determine why staff members have become disengaged and evaluate what steps can be taken to revitalize them. If all attempts fail and performance is an issue for an employee, you'll need to determine if terminating his or her employment is the best option for everyone involved. But first review

your firm's HR policy on performance evaluation and feedback.

Act like a team. Regularly organize all-firm community activities, such as refurbishing a home for the needy, creating a public garden or participating in a charity walk, to foster relationships and a team environment.

Preventive care

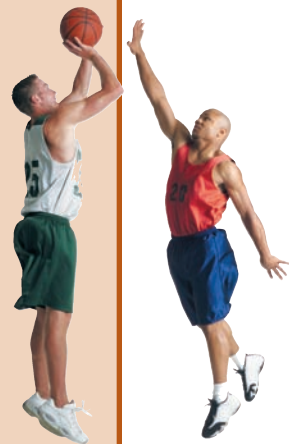
Develop goals and activities designed to enhance the engagement of your lawyers and staff now to prevent the threat of disengaged or departing employees later. Providing your staff with more opportunities to learn, grow and feel valued can be challenging, but it's necessary to the vitality of your firm. ☐

Golf isn't your game?

Try these 10 tips for building client relationships

Developing and maintaining your client relationships may have become a predictable process. After all, business lunches and golf outings are the norm across all industries. To help your law firm stand out, build a deeper rapport with clients and drum up more business, consider these 10 alternatives:

- 1. Play a game of tennis or basketball.** If golf isn't your or your client's game, consider scheduling a doubles match at your tennis or country club or a hoops scrimmage at your athletic club.
- 2. Catch a fish.** Ensure a unique and memorable experience with fly-fishing. You can hire a guide to provide lessons and the necessary equipment.
- 3. Charter a boat or a helicopter.** Give your clients the chance to see the city as they've never seen it before: Set up an architectural or other sightseeing tour by boat or helicopter. Top it off with lunch in the afternoon or hors d'oeuvres and cocktails in the evening at an upscale restaurant.
- 4. Visit a museum.** Arrange to have a docent give a private showing and conclude the outing with lunch in the museum café.
- 5. Enjoy afternoon tea.** Invite a client to take a break from his or her busy day to partake in an assortment of decadent teas and finger foods. And enjoy some music as well — hotels often have musicians performing classical music or jazz.
- 6. Get literary.** Select a popular book and ask the author to give a private reading at a local bookstore or restaurant. Invite guests to read the book in advance and participate in a lively and engaging discussion.
- 7. Go to the movies.** Rent a movie house and show a film of your choice. Popcorn and cocktails along with a discussion about the film can punctuate the evening.
- 8. Have a glass of wine.** Choose an upscale wine store and feature several different stations of wine and appetizers.
- 9. Start cooking.** Share the opportunity to learn some tips for the kitchen with a fun and informal cooking class, which may be offered at a restaurant or gourmet grocery store.
- 10. Help them relax.** Take a client to the spa for the therapy treatment of his or her choice, and top it off with a healthy spa lunch.





Robert L. Israeloff



Arthur Sanders



Michael J. Garibaldi

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For Further Information call: Robert L. Israeloff, Arthur Sanders or Michael J. Garibaldi at (516) 240-3300 or (212) 239-3300.



Israeloff, Trattner & Co., P.C.

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1225 Franklin Avenue, Garden City, New York 11530-7904

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