

# Law Firm

## MANAGEMENT

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Winter 2011

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# Your firm's future depends on its succession plan

**D**an Taylor was the managing partner of the fictional 28-attorney firm Milford Taylor & Shapiro (MTS) for more than a decade. He was well-liked and ran the firm profitably, maintaining high client retention rates, operational efficiency and steady growth. Because Taylor was healthy and still in his 50s, it never occurred to anyone at MTS that the firm should plan how they'd replace him.

Then a heart attack forced Taylor into early retirement. MTS's biggest rainmaker and its litigation practice group leader — neither of whom had been groomed for firmwide leadership — began a bitter battle for the managing partner role. After MTS's executive committee chose the litigation group leader, the rainmaker left, taking key clients and prospects with him. Plunging revenues, poor morale and inexperienced leadership sent the firm into a downward spiral. Three years later, MTS went belly up.

This scenario may sound extreme. But it could happen to almost any firm that hasn't planned for leadership succession.

## Excuses, excuses

To create an effective succession plan, you might first consider the reasons your firm has put it off thus far. Has your current managing partner vowed that she'll never retire? Are other partners reluctant to broach the subject for fear they'll offend her? Does the pool of potential successors lack the required experience and skills? Are you worried that clients will take their business elsewhere if they learn your current leader may soon step down?

Some issues are easier to address than others. Many organizations, for example, simply haven't found the time to make a succession plan — they're too focused on meeting short-term goals to think about the future. If time is your firm's problem, consider devoting your next partner retreat to succession planning.

## Policies prevent conflict

Whether it's in a weekend retreat or over an extended series of meetings, the first step in succession planning is to develop policies that will enable a gradual transfer of power. This includes establishing an age, such as 62 or 65, when the managing partner is required to begin the multiyear process of transferring power and client work to his or her successor.

Such a policy will help your firm deal with managing partners who are unwilling to retire from the position or reluctant to share "their" clients. To head off potential conflicts,



## Keeping clients on board

When law firms fail to plan for succession and power struggles ensue, everyone's focus is likely to be on internal politics. Unfortunately, neglecting clients during periods of transition makes them more likely to take their business elsewhere. Clients may already be upset about the end of a trusted relationship with your retiring managing partner. Uncertainty about your firm's very existence will only fuel their anxiety.

So be sure to tell major clients about your firm's succession plan, and introduce younger partners and even promising associates to them long before the managing partner's retirement date. Showing clients that you have a deep talent bench and procedures for putting the best leaders in place will reassure them that your firm is stable and will always be able to focus its energy on their matters.

specify that the partner can begin drawing retirement benefits only when your firm's executive committee or new managing partner determines that the transition has been completed successfully. Keep in mind that such policies aren't intended to force partners into retirement, but to get them to start the often-long transition process.

Indeed, it's important to encourage retiring partners to remain involved — as advisors, mentors or even part-time practicing attorneys with reduced client workloads. Be sure your succession plan includes details about compensation, benefits and perks, such as club memberships, for retired partners who remain active in your firm.

### Grooming the next generation

Once formal transition details are worked out, create a training program for managing partner successors. Some lawyers are natural leaders — capable of inspiring confidence and effecting

compromise — yet on-the-job training remains essential. Law firms are complex organisms, and keeping them running and growing takes experience and a variety of personal and intellectual skills.

Training programs typically involve a mix of structured and unstructured steps. Mentoring associates and younger partners is a good way to spot leadership talent early. You can then assign the most likely candidates to be committee heads and project managers or to oversee support staff. Also consider candidates' legal specialties, client relationships, rainmaking abilities, financial acumen and time management skills.

Once a probable successor is identified, he or she should be included in significant management decisions and financial issues such as those related to budgeting and compensation. And as the managing partner nears retirement, the successor should get to know all major clients and take the lead in meetings with them.

Much of the successor's education, however, is likely to be informal. Some of the most valuable advice is communicated during casual lunches or golf outings.

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### Make a choice

If your firm has yet to create a formal succession plan, don't put it off any longer. Leadership succession isn't a matter of if, but *when*. The only question is whether the transition will be seamless and successful or fraught with conflict and risk your firm's future. ■

# Why law firms need legal administrators

**L**awyers don't go to law school to become business administrators — management just comes with the job of being a partner. But given the increasingly competitive legal landscape, most attorneys need (and would probably prefer) to focus on clients rather than administration.

Enter the legal administrator. This professional is trained to manage the business end of a law firm, freeing up attorneys to do what they do best: Practice law.

## Do a little math

Every law firm can be divided into two disciplines: 1) the practice of law, and 2) administration of the firm's business. Responsibilities associated with the latter can easily overwhelm practicing attorneys and can involve:

- Supervising billing and collections,
- Purchasing supplies,
- Administering payroll,
- Overseeing financial reporting, and
- Hiring and managing associates and support staff.

Generally, the bigger the firm, the more likely it is to need a legal administrator. Those with more than 10 attorneys should definitely consider it. And even if you have fewer than 10 attorneys, you should calculate the cost of *not* having an administrator.

Take the billing rate for each of your attorneys and multiply it by the number of hours they spend annually performing administrative functions. Is this amount more or less than you would

pay for a legal administrator? If the amount is equal to or greater than the cost of an administrator, the decision is clear. If it's less, but you intend to continue to grow the firm, you may still want to hire someone.

## Core competencies

The key to hiring the best administrator for your firm is to develop a job description. It should outline the responsibilities of the position and the necessary competencies the individual will need — such as an advanced degree or previous experience with a firm of the same size.

At a minimum, applicants should have a BA; a degree in law firm management is desirable. Experience in the field is also crucial — especially if your firm has never had a legal administrator. Some firms seek candidates with an MBA or a CPA credential, but they aren't necessary for most midsize to small firms. And keep in mind you'll likely have to pay a higher salary for such qualifications.

Consider interpersonal skills as well. A successful administrator will need to effectively deal with attorneys, staff and people outside the firm such as vendors. Along the same lines,



make sure your candidate's demeanor suits your firm's culture. Someone from a firm of several hundred may not fit into a 15-lawyer office.

### **A juggling act**

Depending on the size of your firm, your administrator should be able to perform or oversee a range of activities. For example, legal administrators in smaller firms typically fill the role of human resources manager. This includes hiring and supervising support staff and administering employee benefits and compensation. It may further encompass tasks such as creating mentoring programs and running the firm's summer associate program.

Financial management typically is a large part of a legal administrator's job. Such responsibilities might include budgeting and planning, preparing financial statements, collecting receivables, monitoring billing time, and interacting with the firm's outside accounting and investment advisors.

Mundane as they are, facilities and operations issues also demand an administrator's time. This includes space planning, maintaining

office equipment, ordering supplies and managing records.

### **Look inside or out?**

Occasionally someone in-house, such as a paralegal or legal secretary, is interested in and appropriate for the administrator job. But in most cases, firms are better off hiring a professional with proven experience.

One place to start is the Association of Legal Administrators, whose mission is to improve the quality of management in legal services organizations and enhance the competence of legal administrators. Its website, [alanet.org](http://alanet.org), includes information on the role and a career center where employers can post ads for open positions.

### **A firm is a business**

If you're reluctant to make the financial commitment to hiring a legal administrator, consider this: Profitability increases when employees concentrate on their core competencies. For lawyers, this means law. For legal administrators, it means the many tasks associated with running a successful business. ■

## **Retaining legal talent**

### **Telecommuting and flexible work options are critical**

**I**n *Working Mom* magazine's 2009 list of the 50 best law firms for women, 62% offered lawyers the option of full-time telecommuting. The ability to work from home has become an increasingly desirable benefit — not only for women or parents of young children, but for all employees seeking a better work/life balance. Because you spend considerable time, money and energy recruiting the right people, it's important to also give them incentives to stay. One way is to offer telecommuting and other flexible work options.

### **The cure for long hours**

The legal profession is notorious for its long hours, high expectations and mental stress. A recent study conducted by The Association for Legal Career Professionals found that more than 70% of surveyed lawyers experienced significant problems balancing their jobs with personal and family needs.

Offering telecommuting options can help your firm retain valuable associates, nonequity partners and even, in some cases, equity partners, who might otherwise leave the profession or

take their skills elsewhere. The weak economy has recently kept many attorneys in jobs they don't like. But as the labor market improves, these professionals can be expected to look for positions that better meet their needs — including time to care for children and elderly parents, pursue hobbies, volunteer, exercise and generally enjoy the fruits of their labor.

### Benefits of home

Telecommuting offers benefits for both employees and employers. Freed up from what, for many Americans, is a multihour round-trip commute every day, attorneys have more time to devote to client work. And in many cases, they're more productive without the noise and distractions of a busy office. Because technology makes offsite communication and document sharing both simple and inexpensive, there are few practical disadvantages.

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Telecommuting employees also can reduce your firm's overhead expenses — you'll need less office space and use fewer resources. What's good for your firm is also good for the



environment: Fewer commuters on the road means less pollution.

But telecommuting may not work for every firm — for example, those that hold frequent face-to-face meetings. And some firms worry that telecommuting attorneys won't work as hard as those in the office. Although many studies refute that assumption, you could consider offering the option only to those who have been with your firm for several years and have a record of billing a certain number of hours.

### Menu of flexible options

Full- or part-time telecommuting isn't the only flexible work option to consider. Depending on your firm's culture and client work, you might offer:

- Compressed work schedules, where employees work longer days, but fewer days per week,
- Flexible schedules, where employees choose how to distribute their work hours over the course of a day or week,
- Extended maternal and paternal leave time,
- Unpaid temporary leave,

- Sabbaticals to pursue additional education or research relevant to your firm's work,
- Lower billable hour requirements for a correspondingly reduced salary, and
- Partial or phased retirement.

This last option is particularly important if you're concerned about a "brain drain" as baby boomers retire in large numbers. Unlike previous generations, today's retirement-age

workers often want or need part-time employment. And your firm is likely to benefit from the experience and wisdom of these attorneys.

### Act now

Don't wait for the labor market to heat up before developing attorney retention strategies. Show your firm's lawyers that you understand their need for a better work/life balance, and you're likely to gain their loyalty over the long term. ■

## Secret of survival: Good cash flow

One of the major reasons some businesses, including law firms, have survived the recession while others haven't can be summarized in two words: cash flow. As basic as it sounds, you need enough cash on hand to make payroll, pay vendors and cover debt. But this can be tough when new matters are only trickling in and you're having trouble collecting on closed ones.

If you have deadbeat clients, collections should be a major priority. But there are a couple of other things your firm can do to maintain healthy cash flow:

**1. Put it in writing.** Law firm income statements typically provide an inaccurate picture of cash flow because they reflect income and expenses only for tax filing purposes. So to prevent cash emergencies, incorporate cash flow forecasts into your annual budget.

Then monitor cash flow throughout the year. Your firm's bookkeeper or controller should regularly prepare an updated cash flow statement reflecting all cash inflows and outflows, regardless of whether they're taxable income or tax-deductible expenses. This includes payments for office furniture and equipment, debt repayment and partners' draws.

**2. Follow some basic rules.** Simple office procedures can also significantly improve your cash flow. For example, checks should be deposited daily — this helps reduce the chance of theft or loss and can minimize loan interest and bank fees. Also, have your bank "sweep" your account daily to ensure excess funds are applied against your line of credit.

Another of the best weapons against occupational fraud can also keep your cash flowing: Require that all checks over a certain amount be reviewed and signed by an equity partner or the managing partner. This enables partners to stay in touch with how the firm's money is being spent, so they're more likely to be proactive about cash flow.



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