# Law Firm MANAGEMENT

Origination blues
Giving partners credit where credit is due

Keep your eye on costs with a recovery system

Eye on associates
How to build better business developers

Pulse check: Is your firm in financial trouble?

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# Origination blues

## Giving partners credit where credit is due

When a valued partner left the fictional firm of Smith Richardson & Barthel (SRB) last year for a firm across town, everyone in his office was shocked. Larry Bowen had devoted 20 years to SRB and seemed happy in his position. Even if his rainmaking activity had dropped off significantly over the past couple of years, Bowen had originated some of the firm's most prestigious clients.

But his colleagues had assumed the lead with many of these clients and captured larger shares of their legal business, which the firm recognized at compensation time. Bowen, on the other hand, got what he considered the short end of the stick. When he accepted an offer elsewhere, several SRB clients went with him.

Could this happen at your firm? It could, if the way you recognize — and compensate — partners for client origination isn't perceived as fair.

### Timely issue

Although client origination has long been considered one of a partner's core responsibilities, disagreements over credit are less likely when business is booming. In a soft economy, however, lawyers can easily become possessive about clients. You could have a situation where one partner claims origination credit for bringing a client through the door, another for growing the client's account and a third for performing most of the client's legal work.

Formal scorekeeping isn't necessary for every firm. Small firms, for example, usually consider origination a team effort that deserves shared recognition, and this equitable approach can be very successful. But as firms grow, they need to take up the recognition question, especially if partners are squabbling — or worse, leaving — because they don't feel they're getting the credit they deserve.

### Policy decisions

How you track and recognize client origination will depend, in large part, on your firm's size and values. For example, if your large firm tracks many clients and individual matters, you may want to recognize both the partner who introduced the client as well as the lawyers — often in different practice groups — who have initiated new matters and assumed lead roles. This approach recognizes that the attorney-client relationship changes over time. While you appreciate the original rainmaker, you also reward current successes.

To prevent resentment on the part of the client originator who might think he or she deserves credit in perpetuity, establish limits. For example, a litigator who lands a client with a major class action lawsuit might receive origination credit until the case closes or, alternatively, for a period of, say, five years. After that, recognition for new matters by other litigators is shared or goes entirely to the originator of the individual matter.

Or consider phasing out credit over time. During the first five years, the client originator might receive 100% credit; then credit decreases by 20% in each subsequent year. At the 10-year mark, the entire firm or the partners who currently service the client share origination credit.

### Credit into dollars

Origination recognition matters for many reasons — prestige, influence, leadership opportunities — but no reason is more important to partners than how credit affects their share of profits. For this reason, your firm's compensation committee will probably want to assume responsibility for it by:

- Communicating formal and informal policies to partners, including how client origination affects compensation decisions,
- Tracking client and matter origination, as well as the revenues attached to them, and
- Investigating complaints and resolving disputes between partners.

It's important that your committee remain flexible. In some cases, for example, it may need to weigh the consequences of an unhappy partner leaving against a strict application of policy.

### Make some decisions

Origination recognition is a complicated — and touchy — issue, but law firms need to address it at some point. Maybe your firm decides that origination should be a collaborative effort for which partners share credit. Or it may conclude that recognizing individual partners is critical to keeping them. Either way, make sure your attorneys understand how credit is tracked and applied, particularly when it comes to compensation. ▣

# Keep your eye on costs with a recovery system

Two things boost law firm profitability: increased revenues and reduced costs. If, like many firms these days, yours is having trouble with the revenue portion of this equation, it's time to concentrate on cost controls. A cost-recovery system can help you do that.

### Add it up

Serving clients' needs can add up: Legal research, courier service, overnight package delivery, printing and copying, scanning, and telephone calls and faxes are just a few common daily expenses. If your firm bills a flat rate for these items, you may be missing out on potential revenue by leaving some recoverable costs unrecovered.

Tracking office expenses through a cost-recovery system helps show you — and your clients — where the money is going. It also enables you to recoup costs without overcharging clients.

Suppose, for example, your firm starts equipping photocopiers, scanners, printers and fax machines with control terminals that require users to input client account numbers before they can be used. Even if you can't make 100% of these activities billable, an increase in the percentage of billable activities from, say, 50% to 75% will provide immediate — and significant — savings.

## Software essentials

Cost recovery software — either standalone or integrated with proprietary research databases — is essential for cost tracking, client validation and bill-back functions. Such software can collect and store information from everything from control terminals to telephones to computers. It enables system administrators and other authorized users to add or delete billing codes and perform other functions as needed.

Administrators also can review billing information daily and create customized reports. For example, pop-up screens tied into your client code system will request information from the user, such as a client number, before the user can begin a search.

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Any search conducted by a firm member can be dissected in a report that indicates the client, the user, the database accessed, the amount of time spent and other relevant information.

Software and systems vary, so be sure to shop around so that you get the features your firm needs. And ensure the software you choose is compatible with your other management systems.

## Newer is better

To remain competitive and better serve your tech-savvy clients, be sure to keep pace with advancing technology. Assess your existing software, ongoing license costs and the actual use of the software, and consider upgrading to current versions if your systems are more than five years old. Old software may have compatibility issues with other management systems and lack adequate security and support.

Newer software generally offers better usability and features. For instance, you'll have real-time access, which allows you to see work in progress for any project at any time and bill more accurately, helping to cut costs while increasing profitability.

An up-to-date and well-designed system's cost-cutting benefits can add up to more funds to invest in other technologies that will help your firm run more efficiently and productively. It also helps ensure your firm is in compliance with any federal or state statutes that require extensive financial reporting and electronic record keeping.

### Clients benefit, too

The advantages for your firm's bottom line are clear, but clients may be less enthusiastic about your new or upgraded cost recovery system. Be sure you provide a schedule of rates for everything from printouts to courier service to new clients, as well as rate revisions to existing clients. Such transparency communicates to clients that your firm is budget conscious and has considered their budgets as well. ▣

Eye on associates

# How to build better business developers

No one attends law school so they can go into sales. Yet, for most lawyers, effectively selling their firms' services and their own legal expertise — otherwise known as business development — is essential to a thriving career. Unfortunately, finding clients and maintaining those relationships aren't skills that come naturally to most attorneys, so your firm needs to provide associates with networking advice and rainmaking tools.

### Voice of experience

Start with your firm's mentoring program. Experienced partners already are accustomed to advising rookies about firm practices and procedures, time management skills, and career development. If they aren't sharing their rainmaking secrets, they're doing only half a mentor's job.

Associates are unlikely to know where to start, so mentors should explain how they overcame their own anxieties about soliciting business and share some of their greatest successes — as well as stories about the client that got away. Mentors can help associates get their foot in the door by introducing them to current clients, inviting

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them to tag along on meetings with prospects and even asking them to join their own social or athletic clubs.

## Internal and external networking

Associates should be encouraged to take advantage of networking opportunities — inside and outside the firm. Internal efforts generally involve getting to know attorneys in different practice areas who may need to refer existing clients to other members of the firm.

External networking is much broader. One of the best ways for lawyers to meet potential clients is to use the social connections they already have, such as membership in alumni organizations and fraternal, religious or affinity groups, as well as community interaction at, for example, school board or neighborhood watch meetings.

Volunteering to speak to these groups about a pressing legal issue can be a particularly effective way to get the word out. Lawyers also need to tell other professionals they know and patronize — including CPAs, bankers, business brokers, financial planners, insurance agents, and even doctors and dentists — that they'd welcome client referrals.

Increasingly, the Web is a business development opportunity no professional can afford to ignore. Associates can begin to make a name for themselves by regularly posting about their own niche expertise or hot-button topics on legal forums or their own blogs. And social networking sites like Facebook and Twitter make it easy to keep track of current and prospective clients and their activities that might call for legal advice.

## Setting and reaching goals

Of course, having a conversation or getting someone to "friend" you on Facebook is only the beginning of the business development process. It can take years before a prospect walks through the door as a client. So associates need to set short- and long-term goals for themselves and persist until they reach them. ▣

### Make the most of events

**Industry conferences, association meetings, charity fundraisers and social events all provide lawyers with excellent networking and business development opportunities. How do you make the most of the situation? Follow the three P's:**

**1. Plan. You can't attend every event, so carefully choose the ones you do. If, for example, your firm is hoping to attract new real estate transaction clients, attend a conference for brokers and mortgage bankers that provides plenty of meet-and-greet time.**

**2. Prepare. Find out who'll be attending and where you can find them — for example, teaching a workshop or playing in a golf tournament. Prepare your introduction so you'll know how to engage your prospective client when you actually meet.**

**3. Pursue. While an aggressive attitude is likely to put people off, you do need to be assertive and persistent. Don't hesitate to talk to strangers at events — you never know where it might lead. And be sure to follow up any conversation with a phone call or e-mail inviting the prospective client to lunch, and by adding him or her to your firm's mailing list.**

# Pulse check: Is your firm in financial trouble?

So maybe 2011 wasn't your firm's most profitable year. But you seem to be staying afloat in a slowly recovering economy.

Are you sure about that? Financially troubled law firms don't always realize they're troubled until it's too late. By taking a quick pulse check, you can identify early signs of ill health — while there's still time to treat them.

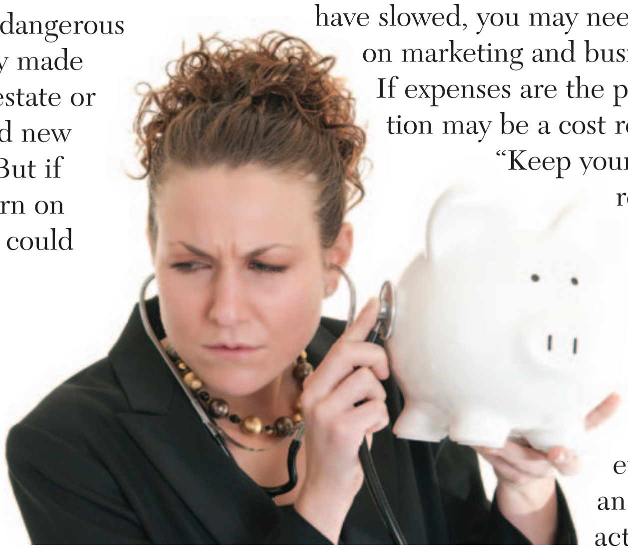
## Review financial statements

The first, best place to look for signs of distress is your firm's financial statements. If you don't already, use them to track quarterly and year-to-year trends that might not otherwise be obvious, such as a long, slow decline in top-line revenues.

Also review statements for:

- Aging work-in-progress and receivables,
- Increasing write-downs and write-offs,
- Line of credit increases, particularly at year end when cash collections should be higher, and
- Significant debt or deferred debt obligations.

Rising expenses are another dangerous trend. You may have recently made major expenditures for real estate or upgraded technology or hired new attorneys and support staff. But if you don't begin to see a return on these investments, your firm could be in trouble.



## Look for subtle signs

While many firms already use financial statements to detect profitability issues, they may pay less attention to the more subtle warning signs. For example, do you primarily serve an industry niche that's rapidly consolidating? This could mean fewer clients and less work in the future. Or have merger talks with another firm broken down? That firm may know something you don't.

Internal turmoil is another red flag. This includes frequent and unresolved disagreements among partners over leadership, compensation and business strategy. When partners, particularly your firm's biggest rainmakers, begin defecting to other firms or even take unexpected early retirements, it's not just a red flag but a flashing emergency light.

The mood among associates and support staff can be another key indicator. If accounting staff and personnel with direct client contact seem stressed out or associates and paralegals seem bored because they don't have enough work to fill the day, the firm probably isn't very healthy.

## Action is essential

After conducting a cursory health assessment, you may suspect — or even conclude — your firm is at risk. Act immediately. If revenues have slowed, you may need to refocus energies on marketing and business development. If expenses are the problem, one solution may be a cost recovery system. (See "Keep your eye on costs with a recovery system" on page 3.)

Whatever you do, don't wait for things to get worse. Call in accounting and other experts to evaluate the situation and help you devise an action plan. ▣

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