



To merge or not to merge?  
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intelligence for law firms

# LAW FIRM MANAGEMENT

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# To merge or not to merge?

## 5 SUGGESTIONS FOR MAKING A GOOD DECISION

Last year marked the fourth consecutive year with more than 80 law firm mergers and acquisitions, according to Altman Weil MergerLine. That brisk pace has continued in 2017, with 28 combinations announced in the first quarter.

While merger announcements may garner headlines, less attention is paid to the fact that as many as half of law firm mergers fail to meet expectations regarding financial performance and other metrics. If your firm is mulling a merger, you can reduce your risk by taking into account five critical factors.

### 1. FIRM CULTURES

A combined firm's culture — including the people — is perhaps the most important factor when it comes to determining whether a merger will succeed. Firms that mesh well typically have compatible philosophies, personalities and work-life balances. This is particularly true when merging smaller firms, where a single person can have an exponential effect on the resulting culture.



Of course, firm culture involves more than just feeling comfortable with each other. It also includes matters such as perspectives on the

practice of law, strategic goals, work ethics, employment arrangements, use of nonattorneys, and human resources practices and procedures (for example, hiring, termination and performance evaluation).

### 2. COMPENSATION STRUCTURES

Your merged firm must secure widespread buy-in on a common compensation system. The system should provide for, among other things, partner compensation, retirement arrangements and pension plans, and productivity requirements.

Reaching agreement on a single compensation format can be complicated if the firms' current systems are based on different motivators — for instance, if your firm emphasizes hours billed more than rainmaking and your merger partner takes the opposite stance. Difficulty also can arise when one firm's attorneys are accustomed to receiving a larger monthly draw than the other firm's lawyers.

### 3. FINANCIAL APPROACHES

Compensation isn't the only financial matter you should consider before proceeding with a merger. Also, compare the two firms' approaches to borrowing and space utilization. Are risk appetites and billing rates similar?

Even if they're like-minded on those points, firms can clash if they have significant disparities on certain metrics. When attorneys bring different expectations about profits per partner, revenue per attorney, capital and realization, they may not be able to reconcile their positions.

### 4. CLIENTS AND CONFLICTS OF INTEREST

How does your firm's client base compare with the other firm's? If they're too dissimilar,

## GOOD — AND BAD — REASONS TO MAKE THE LEAP

Law firm mergers can be arduous undertakings for all involved. Before even exploring such an endeavor, take the time to evaluate whether your reasons are sound.

Mergers generally are worthwhile if they're pursued to:

- Expand into new practice areas,
- Increase strength in an existing practice area if you can't develop such experience and depth internally,
- Enter additional geographic areas,
- Stabilize your financial position or invest in the future,
- Prepare for expected retirements of senior attorneys by lining up replacement talent, or
- Improve client relationships (by, for example, providing services they need).

On the other hand, growth alone is a poor reason to merge with another firm. Mergers also are a bad option for solving profitability issues. Profitability problems usually stem from billable hours and realization more than overhead expenses, and law firm mergers tend to produce few economies of scale. In fact, they can actually hurt profitability. Finally, mergers won't eliminate problem partners or other personnel issues.

the merged organization could encounter arguments over rates, service and acceptable payment patterns.

Conflicts of interest are obvious potential stumbling blocks for mergers, too. Law firms can sometimes be naïve about the burdens and costs associated with resolving conflicts between their clients, especially when the conflicts involve major clients. Unfortunately, ethics rules related to confidentiality can prevent firms from identifying and addressing conflicts early on.

### 5. EXPOSURE TO RISK

Law firms entertain the idea of mergers for a variety of reasons. (See “Good — and bad — reasons to make the leap” at left.) One potentially “bad” scenario is merging with a distressed firm that's looking for a life preserver. These types of combinations can work, but they require thorough due diligence.

For example, you don't want to be responsible for substantial unfunded pension obligations. The financial benefits of a merger also could be undermined by:

- Pending legal claims against the other firm,
- High attorney turnover,
- Risky client matters,
- The loss of major clients (yours or the other firm's),
- Crippling debt,
- Aging receivables, and
- Uncollectible work in progress.

Financing and lease obligations related to redundant real estate, equipment or computer systems also merit consideration.

### PROCEED WITH CAUTION

Law firm mergers can create profitable synergies and successes that neither firm could accomplish alone. It's vital, though, that your firm first establish that it's compatible with a proposed merger partner. Firms that can't find common ground could run into serious postmerger troubles down the road. •

# Tips to improve attorney timekeeping — and your profitability

Timekeeping is a “necessary evil” for every law firm. Even attorneys who work on a contingent fee basis need to keep adequate documentation of their time to obtain court-awarded fees, and lawyers who charge on a flat-fee basis must track their hours to provide accurate time estimates and confirm they’re charging appropriate fees. So how can you get your attorneys to better track their time?

## ADAPT TO PERSONAL STYLES

For years, attorneys have been harangued about the importance of recording their time contemporaneously, often to no end. Instead of insisting they change their behaviors, consider adapting your timekeeping tools to those behaviors.

This could mean providing timers for those who do record contemporaneously, time capture (see below) tools for those who will reconstruct their time sheets at a later time, and mobile tools for those who accrue significant billable time out of the office. Whatever tool the attorneys choose, adapting your timekeeping system to their behaviors will make it easier for them to record time.

## PROVIDE THE RIGHT TOOLS

In addition to selecting tools that suit your attorneys’ personal styles, ensure the tools are appropriate for the type of work they do. For example, timekeeping software might include task descriptions such as “draft pleadings” or “conduct telephone conference with client.” Today, though, lawyers are just as likely to hold conferences via instant messaging or work on documents collaboratively through Google Docs or similar services. If this is the case, customize the task descriptions in the software if possible.

It’s also important that your tools be capable of effective time capture. Attorneys can easily, and understandably, forget to enter time or underreport time. Time capture capabilities monitor firm systems and attorneys’ devices for documents, phone calls, appointments, email/messaging and research to produce a journal of the day’s activities for the individual. In other words, these programs may not *record* time contemporaneously, but they will *capture* it contemporaneously. The lawyer will still need to eventually record the time.



## MAKE IT WORTH THEIR WHILE

It’s easy to look at timekeeping as an administrative headache. Your mission is to encourage attorneys to see it as much more. For example, if your firm requires minimum billable hours, remind them that their compensation is largely driven by the hours they bill and that they don’t receive credit for hours worked but not billed. You also could provide some type of incentive for recording their time — even if it’s only the knowledge that their performance evaluations will take into account compliance with timekeeping standards.

Consistency is essential, though. Attorneys are more likely to comply if performance measurements are consistent from month to month. If they're evaluated (and potentially awarded) on hours billed one month but on realization the next month, they'll have no consistent incentive to be conscientious about their timekeeping.

The failure to record billable hours affects more than the individual attorney. It also affects the firm's overall profitability and partners' payouts. Peer pressure can play a powerful role in getting

lawyers to comply with timekeeping expectations. Those at the top of the firm must make clear that timekeeping compliance is an organizationwide priority, nonnegotiable and with consequences for noncompliance.

### DON'T WASTE TIME

The measures above can help your firm minimize its "slippage," or billable time that never makes it onto clients' bills. After all, time that isn't billed is time — and money — lost. •

## Making the most of lateral hires

Many law firms use lateral hiring as part of their growth strategy. Such lawyers typically bring new clients, management experience and niche expertise. But recruiting and assimilating lateral hires can be expensive. According to a December 2016 ALM Intelligence report, while 96% of respondents said that hiring lateral lawyers with a client following was very or moderately important to the firm's revenue growth strategies, just 21% of laterals delivered half to three-quarters their expected book of business in their first year at the new firm, and 30% delivered less than half.

### DO YOU NEED A NEW LAWYER?

As attorneys retire or leave your firm, look closely for any gaps. Do you really need to hire a new lawyer, or can you redistribute the work?

If instead you're hiring to expand your offerings, be sure to articulate and quantify your expectations. Do you want the attorney to bring a book of business and contribute to increase firm revenues within a set time of his or her hire? If so, be sure that your expectations are realistic and that you provide the resources (such as administrative staff and a marketing budget) the lateral hire will need to meet these objectives.

Don't forget to consider what you can offer a lateral hire. Compensation is important, but candidates also want to know how working for your firm will both contribute to their professional development and affect their personal lives. Will you be able to deliver on any promises, such as a committee chair or flexible work hours, you make at the recruiting stage?

### SHOULD YOU ASSIGN A MENTOR?

Failure to quickly assimilate lateral hires into the business and culture of your firm can easily lead to premature departures and lost clients. In fact,



the integration period is when most firms win or lose their lateral hires.

Assign a mentor or sponsor — such as a practice group leader or senior partner — to guide your lateral hire through the first year at your firm. Experienced partners can help new hires get to know colleagues, particularly those with similar interests, and meet existing clients and learn about their needs. Working together with human resources, mentors can help laterals publicize their move and market their services, learn the firm’s processes and technology solutions and resolve conflicts or problems.

For lateral hires who bring clients with them, sponsors need to do everything they can to ensure these clients become firm clients. Although the vetting process likely started at the recruiting stage, sponsors should help new hires review their client book for any conflicts of interest or liability issues — as well as cross-marketing opportunities.

The sponsor job can be demanding. Consider incentivizing your sponsors so that they’ll feel responsible for the lateral hires’ smooth integration and professional well-being.

### WILL THE NEW HIRE FIT IN THE FIRM CULTURE?

The best advice for retaining lateral hires applies to all of your attorneys: Create a healthy work environment. This starts by promoting teamwork, open communication, professional development opportunities and recognition — financial and otherwise.

According to the ALM Intelligence report, “Cultural fit is the most important decision a hiring firm will make.” If the lateral hire fails to fit in culturally, the relationship may fail “regardless of the candidate’s legal skills or business acumen.” You can increase loyalty to your firm by helping lawyers balance their work with personal interests and obligations. Offer flexible and part-time hours — even for partners — and the option to telecommute, as well as benefits such as child care.

### BUCK THE ODDS

Even with lateral hiring risks, modern law firms follow the practice. To achieve your revenue or expansion goals, be sure your expectations for lateral hires are realistic, and integrate them successfully. With this in mind, hiring and retaining a lateral attorney can lead to success. •

## Get smart: Relationship intelligence for law firms

New business is the lifeblood of every law firm, but few attorneys enjoy cold-calling. Firms with effective relationship intelligence systems, though, can arm their lawyers with valuable information that gives them a leg up on the competition.

### UNDERSTANDING RELATIONSHIP INTELLIGENCE

Relationship intelligence generally refers to a firm’s collective knowledge about existing and

prospective clients. This includes information about people and businesses and their industries, competitors, and activities. Your firm can build its relationship intelligence database when attorneys add such information as:

- Meeting agendas and notes,
- Contact and client notes,
- Information from external sources,
- Matter management updates,



- Conflict of interest notices, and
- Accounts receivable data.

When properly harnessed, your firm can leverage this information to secure new business from existing clients (the oft-neglected “cross-selling”) and win new matters from current nonclients. You can also use the information to prevent client defections and minimize the negative consequences of attorney defections, including reducing the odds of losing clients when their servicing attorneys depart.

*When properly harnessed, a law firm can leverage information to secure new business from existing clients and win new business from current nonclients.*

And it can help your firm better manage its resources. For example, an attorney might be thinking about pitching a company in your database. Then she notices that every previous proposal has been rejected and that the company never accepts event invitations. She could likely better deploy her efforts

pursuing an existing client with emerging needs in a different practice area that are currently going unmet.

### GETTING OVER POTENTIAL HURDLES

Attorney resistance can pose a formidable hurdle to effective relationship intelligence. “What’s in it for me?” an attorney who owns a client relationship might ask. Your firm’s

leaders can tackle this predictable resistance by not only declaring an expectation about information sharing but also visibly sharing their own information. Tying intelligence sharing to compensation never hurts either.

As your firm grows, informal sharing of relationship intelligence becomes more of a challenge. Attorneys may not even know all of their colleagues, let alone which of those colleagues might possess useful information on a client or prospect.

Fortunately, numerous client relationship management applications and systems are available to get around such hurdles. Automated systems that mine information from email, calendars and other sources also increase the likelihood of participation by already reluctant attorneys who can be further turned off by the need for manual entry.

### DO OR DIE

Firms that take a strategic and structured approach to relationship intelligence are more likely to strengthen existing client relationships and create profitable new ones. Some of your attorneys might resist sharing their hard-won information initially, but the bottom-line results will speak for themselves. •



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