



ATTORNEY SEARCH

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Opening Branch offices

Growth is essential to the long-term survival of any business. American and foreign law firms have grown by marketing to the public, acquiring lateral partners with portable practices, merging with other firms, and starting branch offices.

Law firms around the world have opened thousands of branch offices over the past decade. While many of these branch offices have been successful, numerous branch offices have also suffered failure. Every American, Asian, or European firm that seriously competes for work from multinational corporations is considering or has already pursued plans to open a branch office.

This article discusses important factors firms need to consider before opening a branch office and some of the common obstacles they are likely to encounter along the way. As will be discussed later in this article, one of the most important tasks a firm can undertake to ensure the success of a branch office is to hire attorneys from the local area.

I. Why Open a Branch Office?

Firms open branch offices for many reasons, including servicing a single client, penetrating a new market, or preventing competitors from “poaching” existing clients in a particular area. A firm needs to outline and identify its specific reasons for opening a branch office. For example, a firm may identify that an area in which it believes there will be significant growth in the future and in which the firm may have numerous contacts with prospective clients may be a good area in which to open a branch office. These reasons would help support a desire to pursue “branding strategies” in a desire to be considered a national or international firm and further justify a branch office.

A firm expanding to another market should have a serious commitment to its new office. Whatever the reasons the firm is choosing to open a branch office, these reasons should be part of a cohesive strategy. At its most fundamental level, this means that the firm must understand what services it intends to provide in the branch office, what types of clients it is seeking to service, and its capabilities to do the work it is seeking to do in the marketplace.

While there are numerous statistics on branch offices, firms that have branch offices will generally earn more than firms without branch offices. For the parent firm, the new office can provide an opportunity to improve partner income, add additional associates, and create new opportunities for partnership. Although this is certainly an intelligent growth strategy, as discussed below, it is important to note that opening branch offices can be a drain of time and money if done improperly or for the wrong reasons.

II. The Problems with Opening Branch Offices

A. The Failures of Branch Offices

Many firms have had bad experiences with branch offices. Partnership defections, high overhead, and the inability to meet projections for getting work can cause branch offices to fail. A more serious and less evident problem is that branch offices experiencing difficulty will often take a severe toll upon management. Firms that do not approach the opening of branch offices rationally often find themselves with far more headaches and drains on their profits than they anticipated.

Firms that are starting branch offices should be realistic in terms of the client base they believe the branch office will be able to generate. For example, many firms have opened branch offices only to find that the work they believed would appear has not materialized. Additionally, branch offices can often be a tremendous drain on the main office, as they can take substantial time to grow. Many deals being sought through the branch office may take much longer to materialize than originally anticipated. Without a large client base, the economic effects of waiting for work can often be devastating to the bottom line.

B. Barriers to Entry for Branch Offices

Whether a firm is opening a branch in another area of its home country or in a foreign country, there are going to be many barriers to success that are not immediately evident.

Domestically, there will always be some barriers to entry for any firm seeking to open a branch office. In many highly developed markets, there may be excessive competition from local firms or a very small potential client base. Any time a firm opens a branch office, it must be able and willing to respond to the fact that its entry into a new market will not necessarily be predictable. For example, many firms that have historically been leaders in their home areas have entered markets assuming that they will also be leaders in these new areas. This is not always the case. In the 1980s, for instance, several New York law firms came to Los Angeles with the expectation that Los Angeles would become a major international financial center. When Los Angeles failed to meet these expectations, a substantial number of these New York firms' branch offices failed. The New York firms that prospered often focused their efforts and resources on developing business in the litigation and real estate fields, despite the fact that they had no intention of doing so when they originally opened their branch offices.

Similarly, several firms that have come to New York in the past 10 years found that institutional New York firms, such as Cravath Swaine & Moore and Sullivan & Cromwell, had long-established relationships with their clients and were already performing the bulk of the corporate-related work that these new firms were seeking to do. More recently, many firms throughout the United States have relocated to Silicon Valley with great expectations, and while there are certainly some success stories, it is notable that our sources tell us many of these firms are suffering substantially at present.

Internationally, firms opening branch offices can face massive obstacles. Many London firms that have recently entered the United States have been unable to produce the work they expected and have no choice but to discuss mergers with local firms in order to see some measure of success. One example is Clifford Chance, a London firm that merged with New York-based Rogers & Wells in January 2000.

One cost that many American law firms do not consider is office space. While there are substantial costs for travel and other associated expenses in opening branch offices, the costs for office space in markets such as London and Tokyo often far exceed costs in the United States. Even where a firm can afford office space, there may be other obstacles; in areas such as China, firms may have to wait for many years before getting approval for office leases.

Due to the lack of hours required of many foreign lawyers and the compensation of foreign partners being equal to or greater than that of American attorneys, profitability may be difficult without a large and developed client base. In addition, firms that have opened branch offices in other parts of the world often face obstacles that are not immediately apparent. For example, in Japan, an American lawyer can only provide advice on the law of the jurisdiction to which he/she is admitted. And in the U.K., American lawyers have only been able to partner with foreign lawyers since 1992.

C. Firm Management is Often a Serious Concern for Branch Offices

When a firm opens a branch office, there are also going to be substantive issues about the management skills of the leaders of the firm. While branch offices of firms can benefit from the marketing exposure and the firm's established reputation, the firm may have issues related to its ability to deal with the particular cultural sensitivities of the new market or the integration of lawyers into its institutional culture. Most branch offices are staffed both with attorneys from the main office of the firm and attorneys who are hired locally by the firm ("native talent"). Firms therefore need to be alert to the sensitivities of integrating new attorneys into their branch offices and ensuring that those who were relocated feel like they are still part of their firms.

Of all the reasons given for the failure of branch offices, one of the reasons we hear most often is that there is a serious lack of commitment on behalf of the home office. This is something that is very likely to cause partner defections once the branch office is established. It is extremely important for a firm to show a serious commitment to the development and successful operation of its branch office.

III. Staffing Strategies for Branch Offices

On one hand, clients may want to see a certain number of attorneys in the office before they begin dealing with the branch office. Conversely, the branch office of a firm practicing in a highly specialized area such as intellectual property may often be profitable despite the fact that there are only a few attorneys in the branch office due to a client's confidence in the firm to do specialized work.

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Nevertheless, law firms depend upon people. The ability of firms to service clients depends upon the ability of the firm to lure people to its branch office. The fact that a firm may be able to attract partners with substantial portable business to its branch office can allow an office to quickly become profitable, as well as establish a fundamental foothold in its new area.

Once a firm opens a branch office, it is faced with many considerations that may not be immediately evident. These considerations can be addressed through aggressive recruiting strategies. For example, within the past few years-particularly on both coasts in the United States-law firms have increasingly faced pressure to provide advice in areas in which the law firm has not previously practiced. In order to continue providing services to its clients and develop their branch offices as profit centers, firms may be faced with an immediate need for attorneys who are familiar with this area of practice.

Following are some of the more common strategies firms can use for the staffing of their branch offices.

A. Dispatch Your Own Attorneys

Typically, law firms staff branch offices by dispatching their own attorneys to the new locales. This is quite expensive because many firms have to offer expensive perks, such as short-term housing allowances and frequent trips home. Additionally, relocating attorneys overseas can have staggering costs, including private schools for the attorneys' children, bar study stipends while attorneys take otherwise billable time off to study for the bar exam, and even Cost of Living Allowances ("COLA") to cover the added taxes and expenses of living in the new area.

When a firm is seeking to establish a branch office, firm management needs to take some time to speak with existing attorneys in the firm about any connections they may have in the new area. Sending an attorney with a concrete connection to the particular state or country in which the firm is considering opening a branch office can be an outstanding strategy. In addition to having some interest in relocating, these lawyers will be less likely to be viewed as "carpetbaggers" and more likely to be readily integrated into the new area. Lawyers within the parent firm with local contacts are also far more likely to stay in the branch office, feel a loyalty to the home office, and show more potential for further growth.

Even with local contacts, integrating an attorney into a new location can be difficult. The attorney may need time to integrate into the area and may only be seeking short-term objectives in the new market. In most cases, branch offices will need to add local attorneys in order to assure success.

B. Grow Your Own Attorneys

Most branch offices will at some point hire new law school graduates to staff their offices. The strength of hiring local lawyers is that they are more likely to remain in the area where you hire them and they can also be sources for networking in the local legal community.

Nevertheless, law school graduates need extensive training, and firms must devote a substantial amount of resources to make new associates productive. Several studies have shown that law firm associates generally do not generate any profit in their first year and may not show the firm any profit until the beginning of their fifth year. Additionally, a newly established branch office may not yet have the resources to train new attorneys. Until the branch office becomes more established, this is not the best option.

C. Acquire Experienced Local Lawyers

In order to have a satisfactory local presence, it will often be necessary for the firm to acquire lawyers in the area. There are a number of ways that a firm can approach the acquisition of these lawyers.

1. Word-of-Mouth Recruiting

One way many branch offices have acquired talent is by contacting in-house counsel and their clients in the area and asking them for references for local talent. Many attorneys who are being relocated to a branch office may also have already had extensive contact with lawyers from other firms in the area. Additionally, every attorney in a law firm graduated from a law school, and their fellow alumni and colleagues are all good contacts and sources for information. While many law firms do not have a problem with this type of recruitment, there are many firms that will not recruit directly from other firms. These types of limitations certainly would not prevent a firm from recruiting from a firm that is dissolving; however, many firms avoid direct recruiting altogether.

The reputation of an attorney hired through direct word-of-mouth recruiting is generally not too difficult to establish because there is an underlying assumption that a General Counsel or an attorney in your own firm would not recommend someone of whom he/she does not think highly. However, if the new attorney does not work out, the firm may be put in the position of alienating the attorney or client who made the recommendation.

2. Using a Search Firm to Recruit

Hiring laterally has been an important factor in the expansion of most international law firms within the United States, Asia, and Europe from the 1980s to the present. One of the greatest challenges firms face when opening branch offices is that they may often have a difficult time finding star talent, particularly for partner positions.

This difficulty can be overcome by consulting with a local or national search firm. There are real advantages in using a recruiter to identify and contact suitable candidates. Search firms often have a database of attorneys who might be interested in working for your firm, and they have access to attorneys who already have the requisite training and are committed to the market in which the firm is opening the branch office. The success of many law firm branch offices has been due to their reliance on search firms that recommend candidates of the highest caliber. The costs of using recruiting firms can be justified due to the rewards that hiring local attorneys with training can bring.

A search firm is beneficial because the search and recruiting process will often ensure that the firm becomes aware of the available attorneys in the market. The daily job of a search firm involves processing resumes, speaking with attorneys in the market, and studying the legal market. While some search firms simply cold-call associates with the prospect of "bombing" their resumes to local law firms, the search industry at its highest level is an extremely complex business driven by very sophisticated databases and constant contact with both partner- and associate-level attorneys in law firms. Good search consultants also have extensive experience in assisting branch offices establishing their presences in other markets.

3. Advertising

Another vehicle for attracting excellent candidates can be advertising. There are several methods of advertising that can provide excellent candidates, including Internet job-posting boards and printed ads. In markets such as Hong Kong, advertising has always been an excellent way to attract candidates. However, in most senior-level searches, advertising simply will not be an effective way to identify and recruit top candidates.

Firms should be aware of the adage that the best candidates are usually too busy to be searching for a position. Out of every 300 candidates who contact our firm in response to a particular advertisement, less than .5% of those candidates may be a good fit for the particular position. Because most firms generally interview at least five candidates for a given position, this will mean that they will potentially have to sift through and evaluate more than 1,500 resumes and hundreds of phone inquiries to find suitable candidates. Reviewing the responses that come in from advertising is an enormous administrative task, and some large law firms have recruiting departments staffed with people whose only task is to respond to inquiries. Add up this administrative cost, the cost of hiring advertising agencies to create ads, and the cost of the ads themselves, and many firms simply conclude that advertising is not worth the small benefit it provides.

The benefit of using a search firm is that a good search firm employs both advertising and traditional search methods to find a suitable candidate.

D. A Combination Approach

The best means for staffing a branch office is through the use of a combination approach. By combining search strategies and staffing a branch office with local attorneys, the chances of that office's succeeding can be maximized. This combination approach can also have the effect of allowing the integration of the firm's branch office with local lawyers more effectively.

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IV. Conclusion

Due to a variety of factors, many firms have pursued the strategy of opening branch offices. It is important, however, that firms approach the opening of branch offices with clearly defined goals and with the understanding that succeeding in the new market will by no means be an easy task.

One of the most important components for any firm starting a branch office will be the recruitment strategy it employs. Through relocating its own attorneys, growing its own attorneys, and hiring local attorneys, a firm is most likely to experience success in its recruitment and retention of talented attorneys and in the overall growth and profitability of the new office.