

# *BCG Guide to Growth, Mergers, and Branch Offices*

**Summary:** Learn how to plan for growth in your law firm in this comprehensive guide.

## **The Growth Trend**

Being part of an organization of many lawyers has both rewards and penalties with respect to the work of the individual. The sole practitioner can come and go, take or refuse a case, work any hours he selects, and be in control of his destiny within limits of the need to remain in business. The organizational lawyer, like his counterpart in big business, has less freedom. He is the object of outside management forces which seek to control him. These forces may influence or decide his specific work, the level of available non-lawyer support, his working hours, and his compensation.

Above all, professional work in a large organization imposes a division of labor restriction upon individual lawyers so that they are more and more limited to working in specific areas of the profession. Some attorneys regard this limitation as a reward since it enables them to function at a higher skill level within a specialty. Other attorneys view these limitations as restrictive and obnoxious. But no matter how they are viewed by the individual, limitations are a necessary part of size and organization. Despite the preceding references to large law firms, the average size firm in America is still relatively small when compared to other businesses. The average law firm in the United States still consists of four to six attorneys. Firms of fifteen to twenty lawyers are considered the "big" firms in most non-metropolitan areas. What is considered large or small varies from place to place. In a town with a population of 10,000, the firm with fifteen lawyers is considered large, while in a city with a population of three million, the status of "large" is not reached until a firm numbers 200 or 300 attorneys.

Those firms interested in growing should note that their individual prospects for increased earning capacity bear some relationship to size but, because the individual productivity of each lawyer is limited by the number of hours available in each year, there is a law of diminishing returns. Greatly increased growth does not necessarily mean greatly increased income. It can, however, give a firm the means for maintaining existing clients by providing the ability to furnish a greater range of services and thereby assure the firm a continued stable earning capacity. If growth through the addition of specialists is not provided to clients, firms begin to lose those clients that are the fastest growing.

If the owners of a law firm desire to increase profits, they must review the number and productivity of non-owner billing persons, e.g. associates and paralegals. The amount of fees which can be generated by any one lawyer is limited to the available number of billable hours in the work year, and the amounts clients are willing to pay per hour worked. Increasing the number of experienced fee earners who are not owners, therefore, is likely to improve the firm's profits. This is commonly referred to as "leverage."

There are discernible and sound reasons for the development of larger working units within the legal profession.

Increasingly, law firms have used the device of merger as a road to quick growth. It is a useful though difficult path for those firms which want to acquire the potential for "big firm" status. Without comprehensive planning, the merger route is a hazardous undertaking.

## **Why Merge?**

Law firm mergers may be undertaken for one or more of a variety of reasons. Growth is one, but it is not the

only reason that law firms may wish to merge. Other valid reasons may include remedying age distribution problems, increasing specialties offered by the firm or diversifying the clientele of the firm.

As an example of one of the foregoing, a firm may have a block of partners above age 55 and a group of younger lawyers below 40, but no partners between 40 and 55. If the two groups are of a relatively equal size, there is a potential for concentrated attrition which may place a financial burden upon the surviving younger partners if payouts are to be made following death or retirement of the older group. A firm in such circumstances may seek a merger with a firm having predominantly 40 to 55-year-old partners. A firm with an overbalance of middle-aged partners or a shortage of senior partners may seek to merge with a firm or a number of specific individuals.

An established firm may discern a need among its clients to offer a greater variety of specialized legal services. For example, a general corporate firm may merge with a firm with an established tax department, or a litigation group may merge with a commercial practice in order to obtain a greater diversity of skills.

The types of clients a firm serves may influence its desire to merge. A firm may be substantially dependent on insurance company clients and feel threatened by the trend of no-fault auto insurance. It may, therefore, seek a merger with a busy firm practicing in other areas in order to obtain an interest in a different client list. Often a firm seeks to take in the practice of an older lawyer with a potential for generating probate estates.

## Locating Merger Candidates

Once a firm has made the decision to grow through a merger, it should follow a well-ordered long-range plan which defines the reasons for the merger and the required characteristics of a merger candidate. The firm's next step is to locate potential candidates.

Old school ties, bar association relationships and contacts gained through years of practice are often the sources of candidates. One of the largest recent mergers resulted from a chance meeting of two [Harvard Law School](#) classmates whose careers had taken them to different parts of the country. The mutual desire to have East and West Coast offices was a contributing factor in the resulting merger.

There are also merger consultants who are available to assist firms in locating candidates. These persons are particularly useful in seeking out firms in large metropolitan areas or firms in remote areas. They also can preserve the anonymity of the seeking firm during the process of locating interested parties. Some merger consultants have come out of the ranks of executive search firms and others from the traditional management consulting firms. The merger consultants are paid in a variety of ways. Some charge on an hourly basis. Others require a sizable retainer against which time will be charged. Still others charge on a contingency basis, dependent on the added value to the acquiring firm. Most charge on a combination of the foregoing, with hourly charges and a "finder's fee" after the merger is completed.

## Merger Feasibility

Law firms contemplating a merger must review a number of important factors before proceeding far down the merger path.

### Client List

Depending on the community, the firm may have difficulty serving more than one client in a particular type of enterprise. It may find that a merger will place it in a conflict-of-interest situation with regard to certain client's matters. If a conflict question presents itself, often both firms must cease serving the clients involved. A matching or review of clients is, therefore, an early consideration in a merger.

### Financial Objectives

Lawyers and law firms acquire their own characteristics which are highly individual. Some law firms place great weight upon maximizing dollar production. Other law firms de-emphasize the financial rewards of practice and place values upon other things. Neither attitude is right nor wrong, but they can be very incompatible. A philosophical discussion on financial objectives should be high on the premerger discussion list.

## Philosophy

Firms, as a group of individual partners, may have substantially different philosophic approaches to the practice of law and to the relationships among the people practicing together. Some law firms have an academic orientation. Some have a public service attitude. Some spend a minimum of effort on background or research and are pragmatic in their approach to law as opposed to being scholarly and theoretical. Some emphasize personal freedom, others seek team effort and narrow specialization. Many law firms are not analytical about their practice philosophy and do not think to ask merger candidates their philosophy of law practice. Such an omission will quickly lead to conflicts, the source of which cannot always be easily identified.

## People

Some lawyers are people and employee oriented. Others have a cold and business-like, stand-off attitude toward the people who make up a firm. While both approaches may work, they will not merge well.

## Planning a Merger

Merger discussions should begin with a review of the potential for conflicts followed by full financial disclosure. Early questions in any merger discussion should be:

Will the combining firms work comfortably with each other? Are the work styles compatible?

The purpose of this section is to show the effects of various factors on [law firm growth](#) requirements if certain ratios of partners to associates are to be maintained. The section has discussed growth only in terms of adding new associate lawyers. Obviously, law firm growth also can be achieved by the addition of legal assistants. Growth in this manner does not in itself affect the partner-associate ratio. Law firms which wish to grow but find that contemplated growth, purely through the addition of lawyer personnel, will result either in unattainable growth rate requirements or a potentially unacceptable lowering of partner income, should give serious consideration to achieving a portion of their growth by the addition of legal assistants.

The growth rate derived via this formula is the "net" growth rate required by a firm and is somewhat less than the rate at which new associates must be hired. Because some associates leave the firm and will not become partners, the required hiring rate will exceed the desired net growth rate.

Firms which desire to maintain partner-associate ratios of less than 1.0 are faced with substantial growth requirements. Many law firms would find it extremely difficult to properly hire and train as many new lawyers each year as the maintenance of a partner-associate ratio of less than 1.0 requires.

Even a 1.0 ratio of partners to associates can require substantial growth if this ratio is to be maintained.

As firms increase in size, and as growth becomes harder to maintain, the number of years required for partnership usually is increased. Thus, small firms may make partners after 4 to 5 years of service while service requirements for partnership in large firms may be 8 to 10 years.

Eventually, however, the main thrust for maintaining an existing partner-associate ratio must come from

growth. If one ignores the rate at which partners retire or leave the firm, the degree of growth needed to maintain any given partner-associate ratio can be calculated quite simply by use of the following formula:

$$n \times 100 = \text{SNR}$$

Wherein n = Needed annual growth rate percentage.

S = Average ratio of hired associates who eventually make partner (success ratio).

N = Number of years of service required for partnership.

R = Ratio of partners to associates.

Note that the required growth rate varies inversely with the number of years required for partnership. In the foregoing example, if the number of years required for partnership is increased from 5 to 7 years, the needed growth rate to maintain the existing partner-associate ratio drops from 18% to approximately 13%.

**The needed growth rate also changes dramatically with changes in the partner-associate ratio.** Some larger firms may desire a ratio of two associates for every partner. Going back to the earlier illustration, such a partner-associate ratio of 0.5 would require a growth rate of 24% per year if the other factors in the illustration remained the same. Consequently, firms whose aim is to have two associates per partner usually have longer service requirements for partnership. However, even with a 7-year service requirement, a firm with a two associateper partner ratio would need to grow at a 17% annual rate if 6 out of every 10 new associates eventually made partner.

## Reasons for Growth Quality and Skills

American society is becoming more and more complex and increasingly regulated. New fields of legal endeavor are constantly coming into view over the legislative horizon. In recent years, such areas as environmental law, occupational health and safety, consumer law, wage-price control, and product safety have given rise to new areas of specialization and have provided work for new armies of legal experts. These newer areas take their place alongside more traditional areas of specialization--many of which also continue to grow.

Advancing technology continues to create vast numbers of patent applications, and issued patents lead to complicated licensing arrangements among business corporations. The tax laws are being changed and revised, giving rise to continuing and increasing needs for specialized legal expertise. Industrial and real estate development throughout the world requires ever more lawyers with high degrees of skill and specialized international legal knowledge.

The requirements for handling such endeavors are beyond the typical small legal group. Clients must turn to larger groups of lawyers and specialized "boutiques," which can provide the time and manpower to master new areas of expertise. At the same time, the overall amount of legal work required to make our complex society function seems to be continually increasing.

In this increasingly complex society, business clients who may have dealt with small firms or individual practitioners find that small firms do not have the resources to provide answers to emerging legal and regulatory problems. Consequently, unless small firms grow to meet the client demand, clients with complex business problems will tend to gravitate toward what they perceive to be larger organizations of lawyers.

Because they recognize the need for increasingly specialized legal services and for almost instant expertise in newly evolved areas of regulation, members of the business community may be swayed by the image of law firms as mirrored in their size alone. Except in those instances where a small firm is well known in a particular specialty, such as labor law, health law, or taxation, it may generally be regarded in the legal and business communities as an organization of limited resources. The larger congregation of lawyers, on the other hand, regardless of its actual internal organization, may be thought to have a departmentalized structure which can deliver complex and specialized legal services. Thus the outward appearance lent by sheer numbers will often have an effect on the clients who seek out a legal organization.

The presumption of special expertise is not limited only to the business community. The authors are put in mind of a conversation with the [managing partner](#) of a large suburban firm located in the Mid-Western United States, across a state line from a large city. The firm had been formed by pulling together a prominent insurance litigation firm with another firm of equal size, specializing in probate and small business matters. A year after the merger the partners were pleased that they were beginning to receive recognition from large law firms in other parts of the United States who located them in the biographical section of the Martindale-Hubbell Directory. These large firms, which forwarded local problems of major business corporations, assumed that the size of the newly created suburban firm indicated areas of expertise in corporate law--and acted accordingly.

### **Growth of Clients**

The most important factor in any law firm's growth is the internal growth of its clients. A law firm reacts to client needs. When client corporations acquire other businesses, not only is the law firm involved in the acquisitions, it may then be required to serve the enlarged corporation. When a local bank is a client, and many major firms rest upon the foundation of a good commercial bank or other financial institution, the law firm must grow to serve the needs of its bank client. That need may include the establishment of branch offices in other parts of the state if the client becomes a multi-location entity. This aspect of growth is totally beyond the control of an individual firm. Unless the law firm serves its clients promptly, the clients will eventually seek other counsel.

### **Momentum**

There is a built-in momentum to growth. In a period of economic expansion, coupled with a period in which businesses merge and concentrate, law firms will expand. This expansion provides forward motion for the established firm which will often carry it beyond its own desires for growth. Growth may be welcome to the proprietors of a law firm, or it may be foisted upon them by circumstances. In either event, they must anticipate and deal with it. Momentum may carry a firm beyond its goals and beyond its ability to regulate its own degree of growth. A firm must deal with its growth situation in the best way it can. It cannot bring it to a halt. But skilled management counsel at this point can be of substantial benefit in directing growth toward positive ends.

### **Controlling Growth**

Some firms and law departments have growth as an objective. Other organizations deliberately seek to avoid expansion. Whichever the objective, a unified plan should be developed.

Law firms (and law departments) need five or ten-year programs for planning purposes. Such long-range plans should be reviewed annually. Basic planning can be developed by an examination of past trends and a projection of the likely needs of the organization's existing clientele. While projections may, in some instances, be inaccurate, they will aid the organization in those aspects of business planning for which last-minute decisions simply cannot be made.

The two most crucial aspects of planning for growth involve providing space to house people and planning to



cope with the increasing number of people themselves. Space projections should be done for longer than five-year periods since leases typically may run for ten years, and because relocation is expensive, whether it involves a complete move to another location or expansion within an existing location. The recruiting time for outstanding young lawyers is now approximately two years, and there is a period of many months following hiring before a new attorney becomes even moderately productive.

Law firm growth may result as a consequence of the growth of the firm's existing clients. The aspect of growth cannot be controlled unless a firm wants to take the drastic step of turning away established clientele. This approach is dangerous because a firm which acquires a reputation for sending away prior clients may eventually lose more clients than it desires. For most law firms, therefore, that factor in their growth which results from the need of established clients for more services is not controllable, although the consequences of such growth can be planned for and such growth can be predicted, with some accuracy.

## Planning to Grow

Firms may seek growth deliberately. There is an old adage which holds that growth is essential to the general success of a business and that lack of proper growth may lead to stagnation and possibly failure. The legal profession largely has come to share this view as it applies to the growth of [private law firms](#). Lawyers have learned that they must grow with their clients in order to provide a proper level of service and specialized expertise.

The growth of law firms is important for client retention. It also has a substantial impact on earnings, and particularly on the earnings of partners (or shareholders). Surveys of law firm economics show that the average earnings of lawyers (partners and associates as a group) increase with firm size.

The difference in earnings of partners or shareholders in private law firms increases even more dramatically with firm size.

According to traditional patterns of compensation in law firms, young lawyers receive lower compensation than the value of their net production for the firm, while senior lawyers typically have higher compensation than their own net production. Lawyers in mid-career, as a group, tend to have compensation which is generally comparable to their net productivity.

This traditional pattern of compensation can be sustained only if a firm maintains its ratio of young lawyers relative to its number of senior attorneys. This can come about either by growth, where the major portion of growth takes place by hiring young attorneys, or via a high turnover of associates. The latter method of maintaining the partner to associate ratio in a firm is not favored by most firms but is taken as a matter of course in some.

Since under the traditional pattern of compensation, the partners (especially the more senior partners) make a profit from the work of associates, an increase in the ratio of partners to associates typically will result in a decrease in earnings for the partners. Therefore, stabilization of the partner-associate ratio is desirable. Such stabilization is affected by the following factors:

- The rate at which the firm adds new associate lawyers--usually in entry-level positions.
- The number of years required for associates to become partners.
- The turnover of associates.

When a firm desires to retard growth, it has two principal means: (1) its fees policies and (2) its acceptance of new clients.

The level of fee charges can be a decided controlling factor. When a firm desires to reduce its volume of work, it can do so selectively by increasing its fees in specific activities in which it wishes to reduce its load. For example, a firm which does not want to handle divorce work may simply quote a fee substantially above the going rate in the community. This does not mean that when a regular client requires services in this area the firm cannot accommodate his particular situation, but by raising rates it will discourage the walk-in divorce matter.

There are, of course, some firms which categorically refuse to accept certain types of legal work. Some firms validly reject any legal activity in which the payment of a fee is contingent upon the result, and hence uncertain. This includes subrogation cases and collection work. It is not uncommon for firms to refuse to handle criminal matters even for established clients. Many established firms have learned to refer such matters gracefully to other lawyers who welcome the business.

A firm may validly refuse to undertake assignments for new clients. However, such a process cannot be over-used in the normal, business-oriented law firm. If a firm totally rejects all new clients it will, as its older clients leave, cease to grow and eventually may suffer the economic consequences of its decision. On the other hand, there is no obligation for a law firm to accept every assignment offered to it. When a firm's management determines that a new assignment would jeopardize the timely and proper performance of work for its existing clients, it may indeed have an obligation to reject the offered assignment. The control of growth requires a considered and careful central management over fees and new client assignments of a law firm. Not all law firms--not even all larger law firms--have such established lines of authority.

Here are some questions firms should ask themselves when going into a merger:

- What expenditures will be required to effect the merger?
- What are the projected five- and ten-year financial results?
- Can a name be found for the proposed entity which will be agreeable to the prospective partners?
- Can the sequence of names on the letterhead be determined without bloodshed?
- Will younger associates feel threatened in their aspirations for partnership?
- Is the time span from employment to partnership substantially the same between the firms? If not, how will the possible inequity between the [senior associate](#) of one firm and the younger of the other be resolved?
- Are the compensation schemes, particularly as they pertain to the partners, compatible? If not, what will be the consequence of jacking up the lower of the proposed merger partners to the level of the higher paying firm?
- What are the management philosophies of the prospective partners? Is one firm unmanaged and one highly organized? Will one or the other of the partnerships be amenable to substantial management change?
- What is the degree of specialization in each of the firms? Will the developed specialties complement each other? Will senior specialists be able to function with each other in a new departmental structure?
- Where will the merged firm be located?
- Are the income distribution plans of the two firms compatible or can a new plan be readily agreed upon which will provide a satisfactory system for a merged firm?

- Are the clients of the two firms compatible?
- Are all of the merger candidate lawyers desired by the acquiring firm or will some be excluded?
- Who will manage the merged firm? Will there be a period of participatory management during which both firms will be represented on the governing committee? What new structures and committees will be required?
- Will the way in which work is assigned change after the merger? Does one firm have department heads who make work assignments while the other allows every lawyer to decide what he or she will handle?
- How will the assets of both firms be valued and equalized? How are differences in the amounts of work in process and accounts receivable going to be handled?
- Is the benefits structure of one firm significantly different from the other? If so, how will this be resolved?
- Is the salary structure for associates relatively the same, or will one group of associates have to receive salary increases to bring them up to the level of the other firm? The same question must be asked about staff salaries.
- Will there be any adverse tax consequences? This is particularly troublesome in the merger of partnerships and professional corporations.
- Will the word processing and computer systems of the two firms work together or will the introduction of new and expensive equipment be required as part of the cost of the merger?
- Will the merged firm create a base for additional work which neither firm has had in the past? For example, a firm which may receive business litigation referrals from accountants but which has not had expertise in tax or pension planning may find that a merger with a firm having this expertise can provide additional referrals.

These and other factors need to be carefully considered and resolved before a merger decision can be reached. Often consultants can provide a third-party, objective analysis of the likelihood of resolving many of the issues before the groups considering a possible merger; but even when consultants are involved, the process requires considerable effort from the lawyers of the merger candidates.

It is obvious from the number of tasks to be handled that a great deal of legal and administrative time is required to make a merger a reality. Both administrators were involved in handling the merger consolidation. After the two firms physically were housed in the same offices, one of the administrators became the [new firm](#) administrator and the other one became the financial manager for the firm. The months between August and December were also difficult for the two partners primarily responsible for the merger. They met with the joint management committee almost daily during that period. The cost in terms of unbilled fees was heavy. However, several years after the merger, both firms believe that their joining forces was one of the best moves either of them had ever taken.

## Mergers between Firms in Different Locations

Inter-city mergers of law firms have become commonplace. A popular type of merger is one with a firm in a state capital or in Washington, D.C. The requirement for on-site services with respect to government-related legal matters has provided a major impetus for such arrangements. With a capital affiliate, a firm in a remote city is able to provide integrated services to its clients without the need to affiliate outside lawyers in the



capital city on an ad hoc basis. The capital city lawyers, in return, are assured of a steady flow of work in their specialties. Both are consequently stronger.

There have also been a number of city-suburban [firm mergers](#). As clients have moved their personal domiciles farther and farther from the city's center, a number of major firms have found it expedient either to establish branch offices with their own staff or merge with established practices located at sites convenient to clients. Many firms have taken the merger approach as the simpler alternative to the establishment of a functioning suburban organization.

While inter-state mergers are less common than intra-state mergers, more of them are occurring. It is not uncommon for a large New York law firm to have an office in Houston, San Francisco or Miami, for example, as the result of a merger with a firm in one of those cities.

The problems facing the law firm which seeks to become a national institution are enormous.

One of the basic problems involves the varying state jurisdictions which proscribe the ability of lawyers to practice interstate. The variety of laws from state to state and some of the court imposed jurisdictional requirements complicate the process. The very name of the law firm, for example, will be governed by court rules in each state, and many states will prohibit the use of names of lawyers not admitted in that jurisdiction.

Another problem created by multi-branch operations is that of professional errors and omissions insurance coverage. Most policies ensure firms only for practice in the United States and Canada, and some restrict coverage to only one state or jurisdiction. This vital protection should be carefully reviewed as each branch office is opened. Firms with international branches or which have practices outside the United States may have to secure separate coverage for the work done outside this country.

Multi-location mergers are far more difficult to operate than mergers which permit the firms to move into a common domicile. The remoteness of location will foster "me and they" thinking among the components to the merger. Consequently, the partners in such a merged firm must give especially careful consideration to the establishment of methods of communication and to the true integration of practices.

Increased attention must be paid to methods of written communication between the firm's offices, including the exchange of personal information of the type normally published in a "house organ." Several partnership meetings must be scheduled each year to include lawyers in all locations.

Financial controls and integrated compensation planning are an important factor in the consolidation of a merger. Most firms which have experienced this type of juncture have placed all billing functions in a central location, providing the branch locations with a disbursements account only.

In order to reinforce a merger of firms in different locations, the new firm must constantly strive to remind all of the partners of the added value gained by the merger. The new entity must be greater than its component parts in order for the merger to benefit all those involved.

## Establishment of Branch Offices

The most common type of branching is branching within a metropolitan community or branching from one town into a nearby town. Quite often, the impetus to start the second office is client need. A firm may serve a client or group of clients which have business interests or domiciles in locations not convenient to the firm's main office. The firm may establish a branch to serve these clients and, hopefully, to encourage new clients to choose their conveniently located firm for representation.

Some firms, in particular firms in small cities, establish branch offices in nearby, semi-rural communities in order to make their services available to a broader population base.

It is always difficult to estimate the potential benefit of branching. Certain costs are necessarily increased. These include additional rental, increased call formanagerial time, new telephone charges, greater library facilities, and sometimes less efficient use of support personnel. If lawyers commute between offices, the time lost in commuting must be considered. However, a substantial increase of paid legal work can more than overcome the cost effects. This is the potential which a branch office holds forth which can make it an attractive undertaking.

The capital needs for a branch operation, if it is developed as a conscious effort from another location, may be substantial. A New York-based firm, for example, desiring to set up a Los Angeles branch, will have to have available resources equal to twice the income of the partner in charge in order to set up a single-lawyer office in a distant location. Unless the client base is already there, this kind of burden is substantial.

## Costing and Estimating

In the determination of whether or not to open a branch office, a careful analysis must be undertaken including all of the continuing cost items mentioned above, plus the one-time cost of announcements, additional directory listing, if desired, etc. Projections must be made as to the income goals desired and expected from the new undertaking. Before a final decision is reached, the enterprising firm should write down both expected added costs and expected new revenues, projected for a one, two and three-year period. These preliminary estimates should be used as a standard against which the success of the new office is measured. In order to know how well projections are being met, careful separate records must be maintained.

Generally speaking, a new office should be opened on a probationary basis. Its continued existence should be periodically re-examined during the first few years to determine whether or not it is an economically sound enterprise. There are, as in all things, other intangibles to be considered. The effect of the existence of the branch office upon current and potential client relationships, the community in general, and the image of the firm should be gauged and considered.

## Communications

A firm with offices in two or more locations has substantially greater problems in maintaining good communication and in keeping a unified spirit than a firm in a single location. Location is an important factor in human relationships.

In order to maintain cohesiveness and unity of purpose among the firm's own staff, a multi-location firm must make extra efforts. Some legal organizations with branch offices issue newsletters containing biographies and pictures of people newly employed and people who have left, plans of the firm in terms of space and growth, brief statements of new assignments either for clients or for non-profit or pro bono organizations, births, deaths, and the like. Information of this sort needs to be disseminated throughout the firm to make everyone in the firm aware of the human story around which the law firm is built. When distance makes personal contact impossible, a newsletter will help.

To maintain the proper management, communication must be frequent and management must be centralized in one office. Each location needs to have a liaison individual who reports frequently to the headquarters office and through whom personal instruction and information can be carried to personnel located at branches.

Intercommunication to avoid possible conflict of interest situations is especially critical in the multi-office situation. The offices of the firm must exchange new client information daily. To facilitate this, telephone timelines or regular reporting via email may have to be established.

## Financial and Management Control

As a general rule, financial controls should be centralized in a single headquarters location. All bills should be issued from one office and paid to that office, no matter where the work has been performed. Branch offices need the ability to make disbursements on client matters, but all other disbursements should be handled from a central office. The foregoing is particularly true of payroll. Centralized finance provides a unifying force and should be considered carefully by a multi-office law firm.

The promulgation and maintenance of uniform internal policies is of especially great importance for the multi-office firm. Personnel policies, as well as internal procedures for handling work, should be the same, or substantially the same, in all locations. Employees will exchange information. Substantial deviations in personnel benefits from office to office can have an adverse effect on the firm.

## Specialization

It is not uncommon for the large city firm with branch offices to insist that certain work is handled by designated specialist-lawyers at the main office. For example, suburban offices may collect information for estate planning, but the central office will prepare the estate plan and ship the completed material back to the suburban office. The same kind of device can be used for any technical area, including legal research, tax analysis, incorporations, etc. With this approach, the suburban office acts as a "feeder" and as a convenient meeting place for lawyers and clients, while most of the work is actually performed in the central headquarters.

In other branch office situations, the branch firm will maintain its own specialized functions and legal experts. This is particularly true for branch offices located in state capitals or in Washington DC, which have permanent administrative law specialists in residence. Where the branch office is of sufficient size, it may contain certain specialists, such as litigation attorneys, who function relatively independently of the main office. Even in this situation, however, the main office may provide the litigators with centralized research.

## Unification

There are stresses in the multi-office firm which do not exist in single office firms. Strong partners will be more easily tempted to separate from the main partnership body when they have a going organization under their control at a branch location. Communications are far more difficult to maintain and face-to-face meetings are less frequent. To hold the main and branch office together requires extra management effort and repeated demonstrations of the fact that the unified firm is greater than its component branches would be. It is a challenge, but it can be a rewarding challenge when met.

## Special Problems of Growth

### Loss of Communications

As firms become larger, it is vital that more attention is paid to improving internal communications. Good communications channels are required to retain a feeling of unity and common objective. It is important, for example, to use a staff employee's name when addressing that person. Yet, in larger firms, the professional staff may have difficulty remembering the names of all of the secretaries or word processing operators. One solution to this is nameplates on desks or on the jackets of messengers.

The structure needs to be changed with growth. A [large firm](#), especially one on two floors of a building or in several locations, must find a substructure to facilitate communications and supervision. Department heads may replace the senior partner as unit leaders, or a resident managing partner at a remote location may replace the single managing partner of the firm. In turn, the unit leaders must meet to communicate and retain a coordinated method of operation.

Manuals for personnel policies, document preparation, systems and procedures, and organization are important communications media. House organs provide information about the firm, its clients and its people, and are an important communications tool. Bulletin boards, widely used in industry, are a possible source of communications, although they also require a good deal of monitoring.

Informal communications may be provided by firm sponsored recreational activities, like sports clubs, bridge groups, and an annual picnic or party.

New employees often feel lost when they report to work in a large law firm or corporate legal department. Careful orientation and introductions all around are important. The industry has long recognized the need for follow-up and training during the first months of a new employee's tenure on the job. A "buddy" system may be used effectively to provide a means of showing continuing interest in the progress of a new employee. Office administrators or personnel supervisors can schedule regular follow-up meetings with new employees over the first six to ten months of employment to achieve a similar result.

Newly employed associate lawyers are often the most overlooked in the communications area. Busy firms sometimes have the tendency to show the associate his office, give him some work and let him go from there. Some firms have training and follow-up plans which are observed more in the breach than in actual adherence. Such inattention to associate communication is not generally the result of forethought, but rather of the pressure of business.

Those firms, however, which have implemented regular training and review plans have realized the benefits to be derived from this effort. One growing firm which has operated under the general philosophy that the associates are the future of the firm and deserve planned and constant attention has experienced almost no turnover by resignation from the associate staff of the firm for more than twenty years. The firm allows its associates to work in a variety of areas of law until such time as an associate feels that (s)he has found a niche in the practice. It has departmental meetings for general educational purposes and for review of workloads and case assignments, and associates participate actively in these meetings. The firm holds regular reviews of performance with all associates on at least a six-month interval schedule, where honest and constructive criticism is offered. Every associate employee in this firm knows how he or she is viewed by the owners of the business, and the associates have responded well.

Where growth has meant the development of branch offices, communications problems intensify. In seeking answers to improved branch office communications, several techniques have been tried. Improved technological communications are available to provide instant transmission of information on new clients, documents which have been prepared, and generally to put the branch in immediate visual contact with the home office. The internet and email can be used to transmit draft documents and time and billing information.

Utilizing email and the internet is beneficial, because of the reduced hesitation to pick up the phone to talk to another lawyer at the home office. It can produce a marked improvement in internal communications.

In summary, the addition of people creates a need for increased attention to communications methods and techniques.

## Conflicts and Adverse Interests

The large law firm has a particularly difficult problem to solve in monitoring potential claims against it for conflicts of interest between existing clients or for adverse interest because of prior work performed for a former client. Discipline and systematic review are required to minimize troubles of this kind.

## Recruiting Associates

The most common way law firms grow is through recruiting and hiring associate lawyers. In smaller firms, recruiting often takes the form of reviewing unsolicited resumes submitted from local [law school graduates](#). From the crop of resumes, the firm chooses applicants to interview. Either the firm's management committee or all of the partners talk with the applicants and gradually reach consensus on the best candidates for the firm.

In larger firms, recruiting has become a fine art. Recruiting committees, and in some cases full-time recruiting coordinators, spend many hours seeking out the best law school graduates, visiting law schools to interview students, following up with visits to the firm, entertaining candidates and, eventually, making hiring offers. In the larger law firm, the time devoted to recruiting may rival the time devoted to the management of the firm as a whole.

Despite the fact that the number of law school graduates has risen rapidly during the past few decades, the competition for the "cream of the crop" remains strong. Recruiting is a time-consuming and expensive part of management in medium-sized and large law firms, with many lawyer and staff hours devoted to securing the "right" new lawyers.

Law students' perceptions frequently are derived from what first- and second-year associates tell their former classmates and from what law professors convey to students. If a new associate finds that the employer demands too much, does not provide challenging work or does not contribute positively to the maturing of the associate's legal skills, the firm's image at that associate's alma mater can be damaged. The job of recruiting and developing a good associate workforce does not end when hiring offers are accepted. It is a continuous process, touching all issues of internal firm management, ranging from associate evaluation systems and practice assignments to partnership admission standards. As associate salaries reach amounts that were unthinkable only a few years ago, those firms looking for the best law school graduates might do well to review how they train and develop associate talent.

One step which some firms have taken is to involve young associates in the recruiting and interview process. The trust this kind of assignment presents to the associates involved often creates an enthusiastic and effective recruiting effort.

Other firms have funded a professorship chair at a law school in order to improve their standing among potential recruits. Having a professorship named for the firm brings the firm's name before the student body in the context of scholarship and reputation, one of the higher criteria cited by law students.

Still other firms have hired persons to work closely with associates to ensure their job satisfaction during the years before they enter the partnership. The function of such persons is to monitor demands on associates' work time, to even out workloads, to handle problems quickly and to develop associate lawyers' talents as rapidly as possible. Such steps can have a profound effect on future [law school recruiting](#) effectiveness.

A common staffing strategy is the sponsorship of "summer associateships" for law students entering their second and third years. Such programs afford the employer and the student an opportunity to become acquainted. Well-run programs also enable students to develop practical skills and to see how legal theories



they have learned in the classroom apply in actual practice. Here, too, the quality of the experience is more important than salary. A firm that seeks to use its summer program productively as an inducement to employment must be certain that summer associates are given real and valuable experience and training.

## **Merger Financial Systems**

The trend toward expansion of law firms through the establishment of branch offices or merger has created a need to integrate one or more offices in a financial accounting and reporting system. Multiple offices increase the need for proper and timely recording and summarizing of business transactions (bookkeeping) and systems design, control and information analysis (accounting).

Generally speaking, it is necessary to provide some bookkeeping capability in a branch office. However, accounting functions such as general ledger posting generally remain centralized.

There is no single correct method or system of accounting for all firms or instances. Basic decisions must be made regarding the type of system to be used and whether or not central or decentralized recording and reporting are required. A number of factors that should be considered when making these decisions include:

### **Firm Organization and Philosophy**

Firms that are organized or think of each branch as a profit center will have more of a need for decentralized accounting and bookkeeping functions. This is necessary to provide onsite management with requisite information in order to make business decisions. Firms that do not consider branches as profit centers, but as indistinct parts of the organization, will need less branch office bookkeeping/accounting capability.

### **Number of Branches**

As the number of branches increases, the need for stronger, more centralized control increases. If growth in terms of offices appears to be likely, central control should be implemented as soon as possible to facilitate such expansion. Central control does not mean central performance of all bookkeeping functions, but decision making and authority with respect to the system's operation should rest centrally.

### **Size in Terms of Lawyers**

Increases in the size of a branch dictate the need for on-site bookkeeping and accounting ability. Lawyers in branch offices should not be burdened with a bookkeeping system that inhibits the practice. Therefore, the ability to produce client disbursement checks and provide basic client information is essential. This can be accomplished with properly designed systems that are fully integrated with the home office accounting and management system, especially with email and other forms of internet communication.

### **Geographic Location**

Generally, the more remote the branch office, the greater the need for on-site bookkeeping and accounting capability. Branch offices cannot afford to receive information necessary for billing or accounts receivable follow up on an untimely basis. Therefore, distance plays a part in determining systems design. There is a large difference between the needs of a suburban office and one located in another state.

### **Billing**

If billing is to be done decentrally by branch, then each branch will need the capability of recording and retrieving client financial data.

### **Automation**

Any time an organization automates its accounting functions, stricter, more centralized control is required. If a firm is to use a central computer, branch offices will need to be fully integrated with respect to financial transaction recording and reporting. Attempted automation of non-compatible systems will only lead to chaos

and a breakdown of the accounting system.

There are several points that must be remembered no matter what systems or methods are decided on. Care should be taken to ensure that:

(a) A central entity is charged with ultimate control, management and monitoring of systems no matter the size, location, firm philosophies, organization, etc. In order for good accounting principles to apply, such central control and monitoring is a requirement. It is preferable to maintain general ledger accounting and the preparation of firm-wide financial reports and payroll at one central location.

(b) Decision-makers located either centrally or decentrally must be provided with timely financial information needed to make decisions with respect to the branch office.

(c) Systems and procedures must be designed to give branch lawyers flexibility in terms of check writing, billing, etc., as required by the practice. Any system that inhibits the practice of law, no matter how well controlled, will not be accepted and thus, will be inefficient. As a minimum, branch offices should be provided with miscellaneous petty cash, check writing ability for client disbursements, and a trust account.

(d) Compatible systems utilizing the same chart of accounts for each branch should be used. Generally, this is no problem with new branches opened by a firm. However, where firms have merged, problems do arise. Bookkeeping personnel in each firm generally are familiar and comfortable with the present chart of accounts and endeavor to maintain the status quo. This situation causes problems in the preparation of meaningful and timely management reports.

### Monitoring Branch Office Success

It is axiomatic that information is maintained on the volume of work, fees, and overhead of a branch operation. It is important, however, that careful thought is given to the way in which such information is distributed or used.

In some firms, each branch is viewed as an independent profit center and its "net profit" is monitored carefully. If a profit is not in fact produced over a period of time, the branch will receive criticism and may even be abandoned. In other firms, the approach taken is that of a single, unified firm, which happens to have offices in more than one location. The profitability, or lack thereof, is just one consideration in an analysis of the success of the branch. In these types of firms, management may feel that the branch is necessary for reasons such as the maintenance of a relationship with a major client whose work is done at the home office as well as the branch office, or [because the presence of the branch adds prestige and clients to the main office](#). Such firms may accept a reasonable amount of loss as another cost of doing business.

The very fact that a branch office is physically at another location and the lawyers at the various offices do not work together on a daily basis makes a branch more vulnerable to financial or other criticism. Partners who would not treat departments or practice areas at the home office as profit centers because this would impair the camaraderie within the firm or hurt the feeling of a group of fellow partners, will willingly "zero in" on a branch operation which is not as productive as they feel it should be. In addition, lack of contact makes the branch more open to criticism.

If a multi-office firm wishes to maintain a "one firm" feeling, the financial information on branch operations should be restricted to those who can handle it wisely so that the information is used positively for the good of the firm as a whole and not as a weapon for one office to use against another.