



BUSINESS OF LAW Profits rising, but that's not whole story

Consultants not as optimistic as partners

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Profits per equity partner and gross revenue may be back on the rise at law firms, but that doesn't mean that the legal industry has fully recovered, law firm consultants say.

Pain is still being felt by non-equity partners, associates, staffers and, ultimately, new law firm graduates who never landed jobs. As law firms continue to find creative ways to cut expenses and face pressure from clients to keep rates down, the industry may continue to reduce overhead for years to come.

"What is happening is the associates and the non-equity partners

are the ones that are feeling pain," said Joe Ankus, a longtime legal headhunter with Weston-based Ankus Consulting.

Ankus said law firms have largely maintained these employees' base compensation but have cut their discretionary bonuses and other perks in the last year. Extravagant continuing legal education trips to Las Vegas and Los Angeles are now a thing of the past, he said.

"There was some brief foray into reducing base compensation but that was met with a backlash," Ankus said. "You're seeing less emphasis on wining and dining and cuts in marketing budgets."

The experts paint a picture nowhere near as rosy as those painted

by 56 managing partners surveyed in The Daily Business Review's annual managing partner survey. Thirty-two percent of managing partners reported their firm's revenues increased slightly and 43 percent reported revenue per lawyer met their expectations. Thirty-two percent reported that profits per partner increased slightly while 35 percent state they expect profits per partner to increase slightly next year.

Yet 34 percent of those surveyed said they have received more requests for discounts from clients and 42 percent said they have taken steps to cut costs in the last year, including staff reductions, decrease in the entertainment and travel

budget, a reduced summer program and delayed associate start dates.

With continued pressure to discount bills, law firms have really only just begun to slash costs, warned Joe Altonji, a law firm consultant with LawVision Group of Chicago. That includes more of the dreaded “L” word — layoffs — as law firm leaders shift secretary ratios way up, from three to one currently to eight or 10 to one.

“They’ve done the easy stuff already; what they haven’t done is the hard stuff,” Altonji said. “Interestingly, the major firms are ahead of the game on this and the mid-sized firms are playing catch up.”

The recession has been hardest on those who lost their jobs and left the industry and recent law school graduates who never got jobs, he said. The field is correcting itself though and fewer people entered law school in 2011, he noted, adding that the path to making partner is not guaranteed as it used to be after eight years of hard work and strong billing.

“Becoming a lawyer is not a guarantee of a good life anymore,” Altonji said. “It’s becoming harder and harder to make partner. There is more of a trend toward using contract attorneys.”

The Daily Business Review’s Managing Partners Survey also

found law firm leaders more frequently turned to contract attorneys in the last year. Some managing partners who did not want to be identified said some associates have had their positions quietly converted into contract attorney jobs in the last year.

While the managing partners were not surveyed on the issue of morale of their lawyers, The Daily Business Review found some are concerned about maintaining morale in what they realize is a tough legal market.

Mark Hendricks, managing partner of Lydecker Diaz in Miami, makes an effort to keep morale among associates up. He hires a cross fit trainer weekly so all employees can work out together after work, from secretaries to firm leaders; sponsors a poker night for employees; treats associates to hockey games, concerts and Cirque de Soleil performances and makes sure associates see him going to court and even making his own copies.

“The attorneys here are energized, and I’m sort of like the cheerleader,” Hendricks said. “To motivate the troops, I try to keep them happy. We try to have a lot of patience when employees have personal problems. We pay them if they’re sick even if they’re not entitled to leave time.”

Most importantly, Lydecker Diaz

does not maintain any formal partnership track but has the flexibility to promote people based on their job performance. For example, Tony Tinelli started as an associate and was made an equity partner and head of the firm’s property division five years later.

Bob Hudson, managing partner of Baker & McKenzie’s Miami office, said his firm did trim salary and bonuses during 2009 but have returned them to former levels this year.

“I’m not going to say Baker & McKenzie didn’t do any belt tightening in other offices, but here in Miami, we didn’t let anyone go and we didn’t cut anyone’s salary,” he said. “We’re trying to move them forward into partnerships. We have had no morale problems.”

Cheryl Wilke, Fort Lauderdale managing partner of Hinshaw & Culbertson, insists her associates’ morale is high. In fact, they are enjoying the somewhat normal workdays that don’t require laboring 15 hours a day on big deals.

“They are so grateful to have jobs with a good firm with a good environment, and solid salaries,” she said. “They are grateful every day. There is good steady work that keeps people happy and engaged.”

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