

T.E. Young Consulting Group

Assisting professional service firms to grow profitably

Why the surge in law firm spin-offs?

By Thomas E. Young

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It seems every month there is announcement that a group of partners are leaving their firm. What is causing the surge in spin-offs? Why so many recently? Why are firms who never experienced spin-offs now experiencing a few? There are many reasons. Some are new while others are as old as the practice of law.

A recent trend in the legal industry has emerged as a major reason. Many large firms have adopted a globalization strategy, believing a mega, multi-national firm will attract and retain blue chip international clients. Large firms are merging with other large firms both domestically and internationally. The goal is to attract additional domestic and international corporate work with the hope of cross selling large litigation matters. Where does this leave partners not part of the corporate practice or part of the litigation group? Where does this leave those partners not in agreement with the strategy? They are left to accept a supportive role to other partners servicing client needs or a secondary position in terms of importance, power and prestige within the firm. This loss of status is hard to accept for highly motivated partners, especially those not yet ready to retire. Thus, they consider looking elsewhere.

The internal dispute over compensation continues to be a prime reason for partners leaving the firm. The annual fight over splitting the pie has escalated to new heights during the last decade. Greed is in - collegiality is out. "What is in it for me" is more important than "for the good of the firm and my fellow partners". Partners with significant books of business know other firms will pay premium compensation assuming their business is portable. Their current law firm recognizes this fact and compensates significant rainmakers at the highest level. Since profits are a defined sum, any amount distributed to one partner is not available to be distributed to others. What is the effect on partners who have some business but not at the level as the top rainmakers? They feel unwanted, under compensated and quickly conclude that the grass is greener on the other side of the fence.

Partners practicing in high volume, low billing rate business struggle to co exist with high billing rate business. The cost structure necessary to produce an adequate profit, particularly associate salaries levels, in these practice areas is significantly different. Low billing rate business cannot produce adequate profits with high associate salaries. What the result? Partners with low billing rate business recognize they can produce high profits with the appropriate cost structure. These partners are spinning off and forming their own very successful and profitable firms.

Sometimes it makes sense for partners to leave and form their own firm rather than to stay and waste all their energy fighting the inevitable. Better to focus on developing clients and maintaining existing client relations in an environment and cost structure that fits their business.

About the author.....

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