

## California Minority Counsel Program 2020 Conference Session 2C Outline

**Title:** *Law Firm Economics: How Money Gets Made and Shared.*

**Description:** For lawyers: learn the basics of law firm economics, from origination and billable hours to collections and distributions; how to use that understanding to advance your legal career; and what you need to know as a minority lawyer to help you navigate the system.

### **Overview/Outline:**

#### **1. Understanding the Mechanics of Law Firm Economics**

- a. Breaking down a firm's Partnership Agreement – How partners pay themselves and how revenues then flow through the firm.
  1. How does a typical partnership agreement work in most major law firms?
  2. What are the pros and cons from a COO's perspective?
  3. What is an example of an alternate partnership agreement? i.e. How is this generally structured in your firm?
  4. What are the pros and cons?
  5. To what extent do the partner compensation/distribution models apply differently to different practice divisions (i.e. litigation vs. transactional) and different areas (e.g. labor and employment)?
  6. Do the rainmakers always make more money?
- b. Breaking down associate compensation and eligibility for partnership.
  1. What are the formulas generally used?
  2. Is it better for associate compensation to be tied strictly to billable hours or to be determined more holistically?
  3. How important is new business origination in determining associate compensation?
- c. Measuring a firm's profitability and an individual attorney's profitability.
  1. What is the criteria typically used to evaluate each?
  2. How do time write-offs work and what is their impact on firm profitability and an individual attorney's profitability?

#### **2. Now That You Know the Mechanics, What to Do with Them**

- a. What are the most important business performance metrics and at what times?
  1. Can you de-mystify the following terms?
    - a. Origination
    - b. Utilization
    - c. Hours worked
    - d. Collections on billed time
  2. How do you know as an attorney which performance metrics to focus on as an associate? As a partner?

- b. The role of a partner mentor and client relationship manager.
  - 1. Can you win at law firm economics as an associate without a partner mentor? If not, what role do they play?
  - 2. To what extent do client relationship managers determine compensation potential and advancement for other attorneys in the firm?
- c. The In-House Perspective.
  - 1. What are clients able to see in terms of the inner workings of law firm economics?
  - 2. Of these aspects, which are most important from the client's point of view? For example, are you concerned when there's a lot of turnover at a firm and you're not interacting with the same lawyers as they progress through their careers?

### 3. Challenges Faced

- a. Frustrations with a law firm's economic model.
  - 1. What do you do, specifically as a minority attorney, if you've mastered your law firm's economic model but it doesn't seem to be yielding more compensation or opportunities for advancement for you? And what if it's because of management rather than your own individual profitability?
- b. Conflicts over credit/origination.
  - 1. How do you handle this as a partner?
  - 2. How do you handle this as an associate?
- c. Write-offs and write-downs.
  - 1. How do you handle this as a managing attorney?
  - 2. How do you handle this as a junior attorney?
- d. COVID-19/Economic Downturn.
  - 1. How do minority lawyers weather this storm?
    - a. Clients unable to pay their bills.
    - b. Law firms furloughing/laying off employees.
    - c. Management hiring/promotion freezes.
- e. The In-House Perspective.
  - 1. Do clients have any responsibility to track or intervene on behalf of diverse attorneys working for them to ensure they get credit and are compensated fairly?
  - 2. What can clients do to help minority lawyers navigate these challenges?

### 4. Conclusions

- a. Career advice for minority lawyers about understanding and working with law firm economics.