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(c. 20,000)

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# Operations

PLANNING & EXECUTION

## BEST LAID PLANS

Whether personally or professionally, sometimes we all have to rethink our prior decisions. A recent survey of outsourcing trends in U.S. law firms by ALM Research — a division of ALM Media, Inc. and the publisher of *Law Firm Inc.* — revealed that some law firm executives may have come to regret their outsourcing choices.

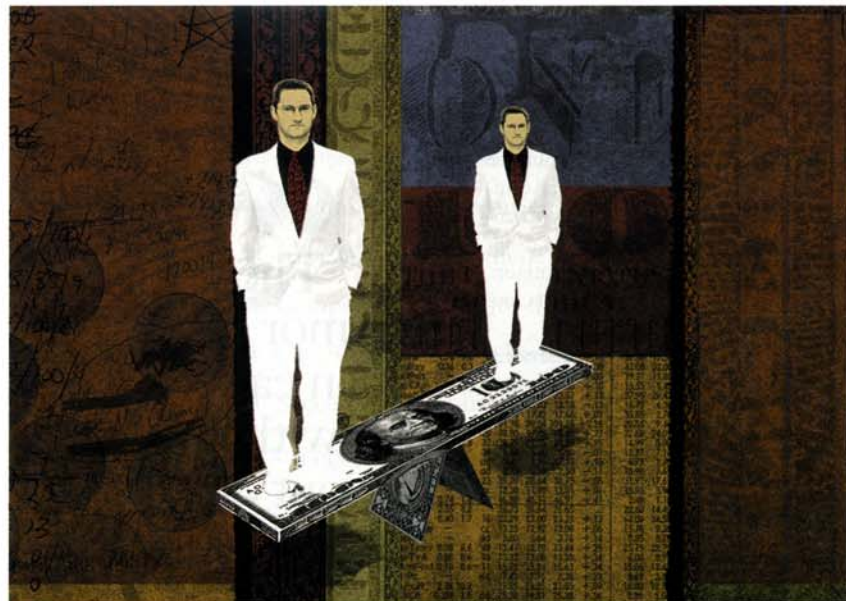
When asked whether their firms had outsourced an operational or administrative function, only to subsequently bring the job back in-house, one third of the respondents indicated that they had.

The respondents were a mix of law firm executive directors, CFOs and managing partners.

## HAVE YOU BROUGHT AN OUTSOURCED JOB BACK IN-HOUSE?



Source: ALM Research  
2006 Outsourcing Survey  
FOR MORE DETAILS ON THE SURVEY,  
SEE PAGE 36.



## Building Better Benefits

Key post-merger concerns for firm executives

By Steve Garmhausen

At least one aspect of Burns & Levinson's integration of its newly acquired firm, Perkins Smith & Cohen, was looking like a snap. There were few disparities between the benefits costs at Burns & Levinson, which employed 185 lawyers and staff in its Boston office, and those of its fellow Boston shop Perkins Smith, which had 75 employees. Leaders of the unified firm, created on Dec. 31, 2005, would not have to decide whether to shell out more to adjust one group of employees upward.

But something looked strange when comparing the salary columns for comparable positions across the two firms, says Paul Morton, executive director at Burns & Levinson. "We did a line-by-line comparison, and Perkins Smith employees' salaries looked higher," Morton says, "even though they were very similar on

an hourly basis."

The reason? Burns & Levinson's workweek is 35 hours, while Perkins Smith's was 37. As is often the case, a compromise was struck: The Perkins Smith folks would keep working 37 hours, but move to 35 once they began to share offices with their new counterparts.

Such simple, practical give-and-take helps law firm executives navigate some of the thornier issues that arise during mergers and acquisitions. The heart of the challenge for benefits decision makers, according to law firm executives and benefits consultants, is balancing benefits costs and employee morale.

### A Studied Approach

Working out a fair blending of benefits plans was so important to San Francisco-based Pillsbury Winthrop that, even though its acquisi-

tion of Boston-based Shaw Pittman became effective April 1 of last year, firm management decided to leave all benefits arrangements — including retirement, health, and vacation — unchanged and spend the balance of the year focusing on integration.

The deal last spring had created a firm of more than 2,000 lawyers and staff. A joint committee started by dissecting each firm's benefit plan, says Deborah Johnson, Pillsbury Winthrop's chief human resources officer. The committee also had a benefits consultant, Aon Consulting, conduct a market survey of benefits in each of the combined firms' major markets: New York City, Washington, D.C., Houston, Southern California, and Northern California.

"We looked at professional services firms and law firms of comparable size," Johnson says. "We wanted to be sure we were competitive." The survey looked at plan offerings, plan design, costs, and how contributions were shared between employees and their firms.

At the same time, the committee recognized that the rising cost of health insurance and other benefits meant that the firm could not simply raise all employees to the highest benefit level. It's typical for a law firm's premiums to increase 10 percent a year or more, notes Johnson. "Within those constraints," she explains, "we wanted to provide the highest quality benefits program we could." Though Johnson declines to get into specifics, she says there were disparities in different benefits areas, and the committee sought a middle ground.

### Rumor Control

But maintaining morale is not just about being generous. For lawyers and staff joining a new firm, uncertainty and the rumor mill can create a negative atmosphere, according to several benefits decision-makers. "There is a tremendous fear of the unknown, and most people have real discomfort with change," says Burns & Levinson's Morton. "The rumor mill can easily blow things out of pro-

portion and make them seem different than what they are."

Apprehensive employees might be tempted to leave, and that is certainly best avoided, if only for financial reasons, he says. Headhunter fees can easily be 25 percent of a replacement employee's annual salary. And then there is the downtime and the time invested in training the new employee, Morton notes.

Proactive communication is crucial to heading off unhappiness in the ranks,

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says Stephen Ferber, director of human resources and administration at 390-attorney Buchanan Ingersoll, in Pittsburgh. "We try very hard to understand the new employees' prior plan and get out ahead of them as to what the differences are going to be," Ferber says.

Within a day or two after the announcement last May that Buchanan Ingersoll would merge with 150-employee intellectual property boutique Burns, Doane, Swecker & Mathis, based in Alexandria, Va., Ferber and his staff started meeting with employees.

It did not matter that he did not have all the answers, Ferber says. "There is absolutely angst out there," he says of merger situations. "We're not perfect, but we try very hard to at least do our due diligence and have as many answers as we can."

### Swift Communication

In June, Buchanan Ingersoll agreed to merge with Pittsburgh-based Klett Rooney Lieber & Schorling, which employs 250 lawyers and nonlawyers. Ferber and the chief operating officer of Klett Rooney, Nolan Kurtz, planned to start visiting offices of both firms in several cities for preliminary information sessions as early as the week following the announcement of the merger. "These informational sessions will be the first communications, but will obviously be followed by others, as our integration efforts continue to unfold," Ferber says.

Pillsbury Winthrop's Johnson agrees. The January 2001 merger that created the firm — between San Francisco-based Pillsbury Madison & Sutro and New York's Winthrop, Stimson, Putnam & Roberts — demonstrated the importance of early and regular communication, she says. When managing last year's merger, the HR department took heed of the lessons learned in 2001; for example, it started explaining what the new benefits program would look like in October, three months in advance. "There was an extensive communication and rollout plan," she says. "We met with each office's staff, partners, and associates."

The firm used an intranet FAQ page with a search tool and opened a benefits help line. Pillsbury Winthrop also held Q&A conference calls and encouraged partners, employees, their spouses, and domestic partners to call in. Also, benefits experts were made available by phone (both in-house staff and also a benefits advocacy group — CareCounsel based in San Rafael, Calif.) to answer questions. According to the firm, the annual expense for CareCounsel was about \$50,000. Regarding other costs, all told, says Johnson: "The work we did on our intranet so that it would be a good resource, along with other communication tools we developed, probably cost about \$30,000."

Efforts begun last year continued through the first quarter of this year. "We  
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## Benefits

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realized that a significant number of our partners and employees had an entirely new benefits program," Johnson says.

Where does the power to make benefits decisions lie? It varies from firm to firm. Pillsbury Winthrop's two-firm committee consisted of partners, benefits managers, a retirement savings plan manager, a chief operating officer, and a human resources director.

At the smaller Buchanan Ingersoll, on the other hand, historically most of the decisions have been based on Ferber's recommendations as director of human resources. "If I have significant issues, I raise them to the chief operations officer," says Ferber. In the case of the merger with Klett Rooney, he says, the firms have had joint discussions and agreed to eventually move into existing Buchanan Ingersoll benefits plans based on their merits.

### Potential Deal Breakers

While blending benefits such as health insurance and 401(k) plans is almost always manageable, pensions, which are usually used for lawyers rather than nonlawyers, are another story. Managing directors and executive committees focus on them early in negotiations because they can entail a huge expense, says Anthony Provenzano, counsel with Miller & Chevalier, in Washington, D.C.

Pension plans can be as significant a consideration as profits per partner, and they have been the cause of many a scuttled courtship, he says. Of special concern are the unfunded future commitments to which a target firm is bound — in other words, how much it will have to pony up to pay for future retirements. But just as problematic can be nonqualified pension plans, which are typically funded from current earnings rather than from a trust, Provenzano notes.

For a deal to make sense, pension accruals — the contributions accounted for, if not immediately paid for — must be manageable, and that is one area

where the size of the law firm merger partner is key. Larger firms have more pension plan participants as well as a much longer "tail," meaning lots of retired partners and senior partners who are close to retirement, says Provenzano. "These things can drive down a potential partner's profitability."

In Ferber's 12 years with Buchanan Ingersoll, the firm has absorbed several smaller shops in part or in whole. So for the most part, new employees have simply been migrated into its pension plan and other benefits.

On the other hand, a small firm that is not especially eager to merge may demand that its pension formula be maintained. Though blending the benefits of a large buyer and a small target may seem simple, differing cultures may complicate matters, says Jennifer Berman, a managing director for CBIZ Human Capital Advisory Services, in Chicago.

Small firms often have more flexible policies for matters such as paid time off and disability leave, says Berman. Salary policy is a cornerstone of corporate culture — employees of an acquired firm may be used to merit-based pay, performance-based pay, or "having their butt in a chair and getting a raise each January," she says.

The bottom line in merging benefits is fairness, and being small and flexible allows a firm such as Burns & Levinson the leeway to focus on individual cases, says Morton. For instance, to accommodate certain new associates and staff (but not partners that pay for their own benefits) who faced higher health plan contributions, the firm adjusted their salaries upward to cover the cost.

"We're not such a large firm that there is a formalized structure," he says. "The important thing was to retain and make happy all the employees in the new group, while not alienating people in the existing group." **LF**

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