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Small is beautiful for law firms

Big firms are laying off while some smaller competitors hire

San Francisco Business Times - by Eric Young

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As large law firms crumble under the strain of the Great Recession, some smaller rivals see a chance to shine.

Spencer Brown

Firms like Hansen Bridgett LLP, where Andrew Giacomini is chairman, didn't hike associate salaries through the roof.

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Since the economic downturn began, most of the largest law firms have resorted to the unthinkable: large-scale layoffs of attorneys. Firms with global reach like **Latham & Watkins LLP**, Orrick Herrington & Sutcliffe LLP, **White & Case LLP** and Clifford Chance each have let go of more than 100 attorneys in the past year.

But a number of the Bay Area's small to midsize law firms — which range roughly from about 35 to 350 attorneys — have avoided layoffs. Some are even hiring.

The economic tumult has given clients the opportunity to comparison shop when seeking legal advice. Lawyers at smaller firms are capturing work that once went to big firms because the smaller shops offer a lower-cost alternative at a time when in-house legal budgets are getting squeezed.

"We've had more (requests for proposals) in the last six months than in the past few years from clients of big firms," said Kurt Kicklighter, managing partner of 200-lawyer **Luce Forward Hamilton & Scripps LLP**. "We never would have gotten our foot in the door before."

Luce and other smaller firms said the increased pitches for work are resulting in some wins. Luce nabbed some new real estate work from an international retailer, work that used to go to a much larger rival.

To be sure, smaller firms have not escaped the recession completely unscathed. They have had to cut back on expenses and a few have had attorney layoffs.

Softer blow

But overall, smaller firms' sufferings have not been as dramatic as those of the national and international giants. That is because large firms relied heavily on clients and work — like global banks that were heavily into subprime loans — that turned south during the downturn.

Smaller firms, which tend to have client bases composed mostly of middle-market companies, did not have as far to fall.

Big law firm revenue also relies on "leverage" — that is, a certain number of salaried associates per partner — to staff cases. When the work of a partner dries up, the quickest way to reduce the built-in expense associated with high leverage is to lay off associates. Smaller firms have lower leverage. Some even have more partners than associates, so salary costs overall are lower.

"It's not like we have such leverage that when the downturn hits it's magnified geometrically," said Dan Rapaport, managing partner at Wendel Rosen Black & Dean LLP, a 60-attorney firm where 80 percent of lawyers are partners.

Morgan Miller Blair PC, a 25-lawyer, Walnut Creek-based law firm, follows a similar model. "The significant cost savings comes from us staffing cases more leanly," said partner George Cabot. When companies hire Morgan Miller, they are usually working one-on-one with a partner with years of experience. "Almost all our attorneys are people that can run a case themselves."

Bulk up in downturn

While big law firms trimmed their ranks of attorneys, some smaller shops bulked up their lawyer ranks. At Miller Starr Regalia, "we're the biggest we've ever been," said Anthony Leones, a partner.

The 60-lawyer East Bay firm snapped up five partners in the past six months, including a construction lawyer who worked at the now-defunct Thelen LLP, which dissolved last year, and larger rivals like Bingham McCutchen LLP, which has almost 1,000 attorneys in 15 offices.

Farella Braun & Martel LLP, a 120-attorney firm in San Francisco, is 7 percent larger than it was a year ago, thanks in part to picking up lawyers from Thelen who specialize in family wealth practice.

Another element contributing to smaller law firms' relative strength are decisions made years ago that help keep costs down.

At Hanson Bridgett LLP, the San Francisco firm several years ago chose to have equal-sized offices for its partners and associates, said chairman Andrew Giacomini. That allows the firm to house more attorneys in a smaller space, saving money on its lease. In addition Hanson Bridgett, like many smaller firms, never hiked base annual pay for associates to $160,000 like their larger rivals. That has saved those firms thousands of dollars per year as base pay rocketed up 28 percent in three years.

Smaller firms also were early movers in another cost-saving arena: eliminating automatic pay hikes for associates. Instead, many base raises on performance. Luce Forward switched to that model two years ago. Now bigger law firms have followed suit.

Even as they seek to grow market share, some smaller firms said they are taking extra precautions against bringing on clients that might be troublesome down the road. At Gordon & Rees LLP, the 340-attorney firm has set up a committee to vet potential new clients. The group looks at basic data like whether the company paid previous attorneys and what the company's credit rating is, said Dion Cominos, firmwide managing partner of the San Francisco-based firm.

The law firm is also making sure collections don't slip. "We used to say client collection was the focus in September, October," said Cominos. "In February we said, 'the collection push is now.'"

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