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# PARTNER UP

New Partners 2015

## Missouri firms rethink the traditional business structure

Spencer Fane partners James Dankenbring, left, Gerald Greiman and Frank Neuner Jr. stand next to associate Megan Meadows in the firm's Clayton office. The firm's new model calls for staffing with more partners than associates, which goes against the traditional law firm business model. Photo by Karen Elshout

**By Catherine Martin**
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Spencer Fane Britt & Browne is taking on an increasingly competitive legal industry by changing its business model.

St. Louis managing partner Frank Neuner said the firm has embraced a new model for partners — staffing much more heavily with partners than associates, which is contrary to traditional law firm models. As of the end of 2014, the firm had a partner to associate ratio of 3-to-1.

"We did it, in large part, due to feedback we were getting from our clients that this is the sort of model that they like," Neuner said.

A partner-heavy model means leaner staffing on projects, which removes layers of communications of approvals, and means the client is "primarily dealing with a person … familiar with their business and their challenges," Neuner said.

Spencer Fane isn't the only firm rethinking its partnership structure. Real estate firm Cushman & Wakefield's Legal Sector Advisory Group recently released its second Legal Sector Survey Report, which revealed a 17 percent increase in respondents that believed traditional partnership structures will be completely reorganized.

### Ahead of the curve

Missouri Lawyers Weekly data show that some other Missouri firms are moving gradually to a more partner-heavy model, at least in the past five years or so.

Some of that might not be intentional, said Ward Bower, a principal at legal consulting group Altman Weil, but is the result of slow or no growth. If a firm already has lawyers in the pipeline to make partner, it will still make those lawyers partners because the firm doesn't want to risk losing them. But if the firm doesn't have enough work coming in, they won't hire many associates, therefore skewing the ratio in favor of partners.

For other firms, it is intentional. Kansas City-based McDowell, Rice, Smith & Buchanan has used mostly partners, and few associates, for more than 30 years, according to firm chairman R. Pete Smith.

"It works well for us and for our clients," Smith wrote in an email.

As of late January, McDowell Rice reported the firm had three associates, up from the one associate the firm reported in Missouri Lawyer Weekly's The Firms 2014 publication. The firm reported 32 partners for that publication.

The firm uses a model of having a single attorney, whose background fits well with the clients' needs, work each case, which eliminates the need for associates, he said. McDowell "does not throw multiple people at a file unless the issues are so complex or the case is so big that more than one person needs to be involved," Smith said.

For clients, that can have significant benefits, including a smaller bill.

"Having more experienced and substantial lawyers working directly on the file and in all substantive aspects results in a better product that is less disjointed and more economical," he wrote.

And for the firm, Smith said the model has an edge over the traditional "pyramid" model.

"Lawyers have deluded themselves thinking that the 'Pyramid' model is best because it has the people below them working and filtering profitability up to the lawyers," he wrote. "We discovered that our partners work harder and better and we make our money on the quality of that work, and not on associates."

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# ‘Lawyers have deluded themselves thinking that the ‘Pyramid’ model is best’

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When asked why more firms might be moving toward that partner-heavy model recently, Smith speculated that “they probably realized what [McDowell] did.”

“Having more powerful lawyers eliminates the need for so many lawyers,” he wrote.

## Benefits

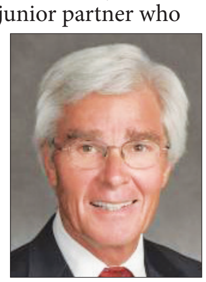
At Spencer Fane, Neuner described similar benefits for clients.

“We’re hearing that this provides the best value for them, even though the partner billing rate is higher, because the expertise they have is going to render advice in a much more cost-effective manner,” he said.

The model also lends itself to better associate development because associates get more one-on-one time with partners, Neuner said.

Loyd Gattis, who joined the firm in September 2008 and made partner in late 2013, knows that to be true.

“I benefitted, personally, from direct contact and mentoring and advice from senior partners from day one,” Gattis said. “I think the reason I was able to advance quickly through the firm was that I had that kind of mentoring, as opposed to a place where the first-year associate reports to the third-year associate who reports to the fifth-year associate who reports to the junior partner who reports to the senior partner.”



R. Pete Smith, chairman, McDowell, Rice, Smith & Buchanan

Spencer Fane had a ratio closer to 2-to-1 back in 2010, according to MOney 20.

“We are able to be real selective in hiring the best associates, and with the understanding that when we hire somebody, we view them as a future partner with the firm, rather than an associate we may only have with us for a couple of years to help with staffing,” Neuner said.

Altman Weil’s Bower agreed that the partner-heavy model benefits the firm, in that it’s easier to retain people, and benefits clients who prefer having partners work on their files.

Bower said that’s part of the reasoning behind the creation of a second tier of partners: non-equity partners.

Having non-equity partners can make a firm look more top heavy, but “at the same time they have a lot of partners that can still be leveraged,” Bower said. Spencer Fane did not report any equity partners until the 2013 issue of MOney 20, when the firm reported 36 equity and 27 non-equity partners. The year before, it had reported 60 equity partners.

Firms “generally don’t disclose to the outside world who is equity,” and who isn’t, Bower said, so that distinction doesn’t make much of a difference to clients. And having all equity partners can have a downside, he said, because all equity partners have voting rights.

## New partners by practice area

Our survey found 131 new Missouri partners in 2014, comprising 89 newly promoted partners and 42 lateral hires. They break down into the following practice areas, with the biggest increases in red.

| Practice area | Promoted partners | Percentage | All new partners | Percentage |
|---|---|---|---|---|
| Litigation | 15 | **17%** | 19 | 15% |
| Business litigation | 12 | 13% | 15 | 11% |
| Business law | 11 | 12% | 19 | 15% |
| Real estate and construction | 10 | 11% | 24 | **18%** |
| Tax and estate planning | 8 | 9% | 8 | 6% |
| Intellectual property | 7 | 8% | 10 | 8% |
| Health care | 6 | 7% | 10 | 8% |
| Employment law | 6 | 7% | 9 | 7% |
| Product liability | 6 | 7% | 7 | 5% |
| Banking and finance | 4 | 4% | 5 | 4% |
| Other | 4 | 4% | 5 | 4% |

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*Ward Bower, principal at legal consulting group Altman Wei*

“I’ve seen some firms, as they become top heavy, unable to do some of the hard things a firm needs to do in a tough economic environment,” Bower said.

Neuner said Spencer Fane hasn’t encountered much of a downside with its model. The firm is able to deal with larger projects through temporary contract lawyers or paralegal support, he said.

“On a day-to-day basis, our model we find is best,” he said.

## Sticking to tradition

The partner-heavy model may, however, make more sense for some firms than others, Bower said.

“Firms that do some highly technical specialized work, they find that they have a model where they’re going to have to have more partners simply because those are generally going to be partner level [work.]”

Bower pointed to such examples as sophisticated tax law and securities law. Spencer Fane practices in a number of areas including corporate, bankruptcy, data security and employment law.

For other firms, the traditional associate-heavy model might make more sense.

Brown & James, for instance, focuses mainly on corporate and insurance litigation. The firm reported 63 associates and 43 partners in the data it provided for the 2014 The Firms.

Managing Principal T. Michael Ward, however, said the firm isn’t intentionally heavy on associates and stressed that associates are hired based solely on the work the firm has to get done.

“We don’t hire in terms of thinking in terms of ratios or things of that sort,” Ward said. “Our main function is how to best economically provide efficient legal services.”

The way the firm hires is similar to what Neuner described at Spencer Fane, with “the objective and hope” that all associates will become principals, Ward said.

T. Michael Ward, managing principal, Brown & James

And the way the firm staffs cases doesn’t sound too different — sometimes there are just one to two attorneys on a case, Ward said. But that varies from case to case. Sometimes there are three or more attorneys on a case, such as for a “document intensive” file.

Ward did say there was some benefit in using associates; they have lower salaries, which means less overhead.

“There’s no magic, no secret or any preference. It’s simply a product of the amount of work we have and to ensure files are appropriately staffed and ensure we have the appropriate number of lawyers to work on them,” he said. MO