

DISRUPTING THE LAW FIRM MODEL

Rimon, P.C.

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Since its inception in 2008, Rimon, P.C. has repeatedly been recognized for its innovation and excellence by sources like the *ABA Journal* and *Financial Times*. Its founders began their careers at a large traditional law firm, at a time when computer technology was developing by leaps and bounds. They saw first-hand that the old law-firm model had serious weaknesses, and the new technology had enormous potential — for disruption, and for improvement.

The Traditional Law Firm and Its Problems

Six Hundred Years of Habit

The traditional law firm, with its seniority-based hierarchy, can trace its structure back to medieval guilds and their system of apprenticeship. A young associate, like an apprentice, may join a traditional firm, and by working hard enough and billing enough hours, he or she eventually rises to the next rank: partnership. Once made partner, after about ten years of practicing law, the attorney reaches the next rank — and is asked to develop business for the first time. Here the guild model shows its weakness: business development is not a refinement of the practice of law; it is a different skill set. Associates make partner due to long hours in the office, not necessarily a strong ability to attract clients.

If the partner successfully transitions to the role of generating business, after many years he or she reaches the highest rank of the guild, and is asked to take on an administrative role. Once again the attorney is thrust into a position that has nothing to do with previous successes or interests.

In this model, seniority dictates practice. The legal profession is among the last clinging to this legacy.

The Castle

The traditional law firm's offices, like the feudal lord's castle, tend to be large, well appointed, impressive — and expensive to maintain. A law firm often spends about one-third of its revenues to pay for real estate and technology. Spacious offices in desirable locations, hundreds of computers, printers and copiers, and the staff to keep it all operating add up to high overhead. These costs tend to be fixed, while work levels and income may fluctuate.

Colleagues or Competitors?

With all its shortcomings, the large law firm has one key benefit: the ability to work with colleagues and to learn from them. At a large firm, attorneys specializing in many areas of the law can collaborate to bring clients a wide range of expertise.

That, at any rate, is the theory. However, the “up or out” model of the hierarchical law firm introduces competition within the firm that may work against collaboration and do a disservice to attorneys and clients alike. Competition among partners and other lawyers within law firms is rarely spoken of. It is inconsistent with firm messaging about “seamless collaboration” of lawyers across practice groups and offices. But internal competition exists; it is not merely a plot device in legal dramas on television.

For some law firm lawyers — particularly those who are inclined to devote effort, time and resources into building new clientele and business — internal competition may manifest in a frustrating and sometimes painful “business conflict.” This is where a lawyer is prevented from opening an engagement not because it creates an ethical conflict, but because it would, or potentially could, cause a relationship problem or embarrassment for another (more senior, powerful, or favored) lawyer or practice group.

This is, fortunately, not a frequent problem. But for some great lawyers, and especially for the 15% or so who are most actively working to develop new business, the business conflict and other instances of internal competition can be a bitter pill.

Working for Someone Else

Many firms have long-term financial commitments to current and former partners, such as multi-year compensation packages, and retirement programs that are unfunded in whole or in part. Partners who do not directly benefit from these fixed commitments may feel as if the profits from their hard work are diverted to enrich others. Lateral hires may be stymied, as potential new star attorneys (the lifeblood of firms) choose not to subsidize people they do not know and to whom they have no loyalty. And such long-term fixed obligations may threaten a firm’s very existence during economic fluctuations.

The Annual Rollercoaster

Traditional law firms typically distribute all their profits at the end or beginning of the year. This practice has been spreading outside the legal profession since the 2008 recession, accelerated by the passage of the Trump tax plan in 2017: employers give bonuses instead of pay raises in the belief that variable, short-term rewards are less risky to the business than permanent increases in labor costs.

In theory, this approach promotes stability. In practice, law firms have been using this strategy for years with mixed results. Other industries should learn from the

dangers that law firms have experienced. The annual-payout model seems almost designed to create upheaval.

First, the end-of-year results are predictable: attorney stress level goes shooting up in November and December, having nothing to do with the work product. Everyone knows they need to hit their numbers, resulting in questionable billing practices and attorneys who are now on edge and bitter at their current employers.

Secondly, partners with plans to move on have a great incentive to stay quietly until after big payout. This means the firm may have no idea how many of their partners will leave immediately after they pay out, precisely when the firm has taken on large amounts of debt to cover end-of-year expenses. These firms plan budgets for the coming year without a true picture of the changes in cost and revenue from unpredictable firm departures. The resulting crisis in cash flow has led to the collapse of many firms, large and small.

For partners, especially junior ones, the end of the year handouts must seem like a pure magic show. At many firms, only a few partners in the firm's leadership truly understand how the money is divvied up, and questions as to how the finances work are not tolerated. The different types of compensation systems vary by firm, but for many partners, they bring the frustration of a mystery.

Since most compensation structures have at least some subjective elements to them, the actual bonus amount is often a surprise. As is usual human behavior, most people believe they should get more than they end up receiving. Those who receive more than they expected (which are few) initially feel great, but then just assume they deserved it. Meanwhile, those who got less than they expected (almost everyone) are very disappointed and feel cheated. Once they get the bonus or their yearly draw, these disappointed partners and associates start looking for greener pastures and a bigger payday elsewhere.

With the information hidden, rumors can start, pushing partners and associates to the door. Departures fuel more rumors, in a vicious cycle that may threaten a firm's existence.

The Billable Hour

Traditional law firms pressure their attorneys to meet a pre-set quota of "billable hours" — i.e., attorney time for which clients can be charged money. But this "tradition" is a relatively recent development.

During the nineteenth century and the early part of the twentieth century, lawyers generally billed clients on a variety of different bases: a fixed fee on a per-matter

basis; a monthly retainer for all legal work; and contingency fees or a percentage of the value of the transaction. In fact, bar associations throughout the country published legal fee schedules and ruled that it was unethical for lawyers to depart from them.

Hourly timekeeping was first introduced in Boston in 1904 as a management tool to promote lawyer efficiency. In the following decades, this system spread among law firms as an internal time-management practice.

Then, in 1975, the United States Supreme Court, in a series of opinions, found bar associations' mandated fee schedules to be a violation of antitrust laws. Such fee schedules became mere recommendations, and law firms struggled with finding different methods for billing clients. One solution was to use the system of hourly timekeeping, already widespread, as a new basis for billing. And so the billable hour was born.

To improve productivity, law firms began adopting policies requiring attorneys to bill a certain number of minimum hours each year. It seemed like a harmless enough step — until the number of those hours began to rise steadily beginning in the 1980s. Firms raised their hours-billed requirements to maximize the profits of partners. By 2001, large law firms typically asked associates to bill between 1,950 and 2,000 billable hours a year.

The billable hour's appeal as a management tool is also its greatest threat. Treating legal services as a commodity that can be measured in units of time diminishes the importance of both the quality of the work produced and the results achieved. For example, one could not reasonably argue that an hour spent quietly preparing a routine corporate document has the same value as an hour spent closing a complex transaction involving many disparate players. Few other industries would thrive if they measured productivity by the time their workers spent without regard to what those workers created. The billable-hour standard invites inefficiency, to say the least.

The Client Rebellion

In recent years, and especially following the 2008 recession, clients — particularly those of significant economic clout — have been looking critically at traditional attorney-client relations. Clearly, the hourly billing process rewards inefficiency and places the risk of the legal engagement on the client, not the law firm. Clients are demanding radical change — hence the advent of the value-billing alternative fee arrangement (“AFA”).

In late March 2010, Eversheds LLP, a London “Magic Circle” firm, released the results of a survey it had undertaken of corporate counsel and leaders of major

law firms. The *ABA Journal* summarized Eversheds' report in a few critically instructive paragraphs:

"The legal landscape has changed permanently and more quickly than anyone imagined," the report says. In the new, post-recession legal market, general counsel has more status and influence in their corporations, fee levels will decline or stay the same, and legal work will become more efficient as tasks are outsourced and technology is used.

In this changed world, law firm structures may be vulnerable. Forty-six percent of managing partners said a reduction and change in premium legal work available would change law firms' shape and size. The larger firms reported long-term cuts in headcount and leverage, and possible changes to the "up and out" pyramid structure of law firms. Only 30 percent of the partners said they were wedded to the traditional partnership model.

In this new legal world, hourly fees are giving way to value billing that is based on the value of work to the client rather than lawyer hours expended, the report found. Two years ago, only 22 percent of in-house clients and 48 percent of partners surveyed saw value billing as a trend for the future. Now, 86 percent of clients and 88 percent of partners say they often or sometimes use value billing. Among the partners surveyed from the United Kingdom, 79 percent said the hourly rate was almost dead.

Among the most prominent advocates of the AFA in recent years has been Jeffrey W. Carr, Jr. While serving as General Counsel to FMC Technologies, he assumed a leadership role on behalf of private industry, arguing that corporate clients should dictate to outside law firms the terms of any engagement and that virtually every engagement demands "performance-based pay." During his tenure as corporate counsel, FMC Technologies saw its sales rise but its legal costs go down in step with its increasing use of AFAs.

In a 2010 interview with *Law360*, Mr. Carr gave advice to outside law firms that is direct, succinct and beyond misinterpretation:

Change and do it now. Learn to focus on delivery of value by reducing your costs to remain profitable as opposed to leveraging the pyramid and focusing only on top line revenue growth. To quote a former U.S. Army chief of Staff, "If you dislike change, you're going to dislike irrelevance even more."

Increasingly, clients see AFAs as a tool to ensure efficient delivery of quality legal services at predictable rates, consistent with the current market and with the law firms themselves assuming a degree of the risk in such engagements. And with the demand for legal services significantly lower than the existing supply, clients are in a position to call the shots.

The Digital Revolution

Two hundred years ago, the Industrial Revolution brought down the old guild system by automating skill through technology. The resulting economic changes allowed for more efficient business models and the ability to specialize: those who prefer to administer focus on administration, those who enjoy sales and business development make that their careers, and so forth.

Now we are in the midst of a new revolution driven by the power of digital technology and the Internet. Already we are experiencing a new way of working that allows for even more specialization and freedom. Attorneys no longer need to be tethered to their desk. Cloud computing allows attorneys to work from anywhere, with instant communication and a vast amount of information at their fingertips.

But the Digital Revolution is having as profound an effect on business models as the Industrial Revolution did in the past. Automation has a long history of replacing blue-collar workers; now, increasingly sophisticated automation technologies have begun their march through the white-collar workplace. The McKinsey Global Institute, in its November 2017 report examining the effects of automation on the workplace, predicts that one-third of American workers may be out of a career by 2030. Identifying a number of likely “winners” and “losers” in the new global economy, McKinsey sees lawyers, accountants and other professionals as relatively safe from automation. For lawyers, being cited as a future survivor of the automation earthquake may seem reassuring. But close followers of the legal industry realize that survival requires change.

In law firms, the broad and disruptive impact of computer technology has already begun, moving upward from support staff toward senior partners. The legal industry has adopted new labor-saving technologies that reduce time and manpower requirements in both legal and administrative work. Law firms have pared down their support staff and aggressively looked to move the back office to cheaper locales — whether that is West Virginia or India. In doing so, law firms are following their clients. Companies have embraced the technologies that allow them to cut staff and outsource functions. Having made their own operations “lean and mean,” businesses have begun to expect the same from their

professional service providers. This new attitude has resulted in major upheaval in the legal landscape.

Clients are pressuring firms to move away from higher-paid associates for the more basic work, such as documents reviews and productions, that has been a critical part of associate training (and a money-maker for firms). Instead, firms frequently give such assignments to lower-paid contract attorneys — who, unlike associates, don't get paid when there is no work to be done. And technology already exists that is capable of inexpensively automating legal tasks such as research, document drafting and review, due diligence, and discovery. The McKinsey report notes this phenomenon, with a concern that high-wage “safe” occupations may face downward pressure on wages due to automation.

Traditional law firms have built themselves on leverage and hierarchy depending on billable hours by more junior associates and staff. Now they are facing a new economy that includes competition from robots and global outsourcing. Unless they fundamentally change their revenue and employment models, more efficient automation can destroy these law firms.

The future, in the legal industry, belongs to decentralized and nimble law firms which are intentionally built to avoid the old model of leveraging young associates and billing by the hour. The attorneys who founded Rimon, P.C. recognized the immense potential, including the functional ramifications, of digital technology, and seized the opportunity for innovation. Our structure allows for more tailored billing, giving us an incentive to invest in more efficient, and higher-quality, processes for legal output. We were quick to embrace software robots and automation across the firm. Adaptability is built into our DNA.

The Rimon Way

Rimon, P.C. went virtual in March 2008. We have created a new model of a law firm that combines the key strength of the traditional firm with the new flexibility of the Digital Age. Our model includes the elements that more and more clients — and attorneys — are seeking.

The World Is Our Office

Our cloud-based technology means that our attorneys can work from anywhere in the world, with very little equipment — a smart phone can be enough. Email, cellphones and video conferencing allow our clients to communicate directly with our attorneys at any time. Our e-rooms allow attorneys to work together in real time with clients and colleagues. Even support staff can often work remotely,

which allows us to attract talented and experienced people who are looking for greater flexibility in their working life.

Community and Collaboration

We realized early on that even in the Digital Age, attorneys are still human. Community and informal interaction are key to a positive work environment, to innovation, and to preservation of the one great strength of a law firm — the ability to work with your colleagues and to learn from them.

For this reason, we decided to have small-scale brick-and-mortar offices, placed in strategic areas close to clusters of our attorneys and clients. They serve as bases for our attorneys to meet clients, to meet with each other, and to just hang out.

Rimon's partners meet twice a month at our corporate office in San Francisco (in person, by video, or by teleconference) to discuss deals we are working on, and to brainstorm on ways to better serve our clients. These sessions allow us to bring the expertise of the cross-section of practice areas to every deal, giving our attorneys a more holistic approach to their representations. It also allows our attorneys to know each other personally. This personal interaction is key to a collegial work place where attorneys know they can trust the work of their colleagues. This not only makes our attorneys happier people, it exponentially increases collaboration between attorneys.

Stability and Savings

Our careful mix of the virtual and the human comes at a very low cost. With a light overhead, the firm is more stable, so attorneys as well as clients benefit from the savings.

No Billable-Hour Quotas

Rimon has completely abandoned the billable-hour requirement. As a result, attorneys no longer have an incentive to be inefficient — for example, to do routine work that could be done less expensively by paralegals. Clients see their costs go down, while attorneys are free to focus on what they love (such as business development or counseling), and to keep their work and life in better balance.

Alternative Fee Arrangements

With no pressure to bill a certain number of hours, Rimon attorneys have the billing flexibility that clients want. We offer a variety of alternative fee arrangements, including fixed fees, a reduced hourly fee against which a

premium fee is paid upon the successful conclusion of an engagement, contingency fee arrangements, capped fees and, yes, hourly fees where our clients feel it appropriate. We avoid any surprises by enabling our clients to log in at any time on our extranet and see exactly what is happening with their matters. We monitor our billing budgets closely and are happy to remit bi-weekly billing summaries.

We communicate with our clients to understand their situation and carefully craft the scope of our work. We also try to reach a mutual understanding of tasks that may be outside the scope of a particular engagement, and how such out-of-scope work might be priced if our client calls upon us to handle it. To arrive at a fair and reasonable price for our services, we also seek to understand how our clients assess the value of the finished product we are to deliver.

We strive to fully comprehend our client's expectations for our performance — and take every opportunity to exceed those expectations.

A Simple Formula for Attorney Compensation

In response to the problems with the traditional annual-bonus model, we created a new compensation system for Rimon Law. Our attorneys get regular payouts throughout the year — no big lump bonuses or draws that would force us to borrow money or empty our coffers. The compensation model is also fully objective, based on two factors:

- *Work Product.* The traditional law firm business model pays attorneys based on a black box calculation, factors of which typically include seniority, expectations, and perceived benefit to the firm. The calculation is often speculative, arbitrary, and perceived to be “unfair.” Rimon’s solution to this problem is to compensate attorneys based on work they have done — direct value to clients. If they work more, and the clients are happy with the work, they get paid more. As simple as that. This way attorneys know exactly what they are getting and they are motivated by clients’ needs and satisfaction.
- *New Business.* Under the traditional law firm business model, attorneys are recognized and compensated for bringing business to the firm — but the compensation is not often clearly tied to the value. Attorneys who produce a lot of business rarely keep a majority of what they bring in, while attorneys bringing in less business and doing less work often end up making more money. This unpredictability creates a disincentive to bring in business. Rimon’s solution to this problem is to compensate attorneys directly for bringing in clients. Attorneys are not pressured to develop business, but they know that they will receive a large portion of business

they develop. This brings our firm in line with modern companies who recognize the value of business development.

Rimon attorneys know exactly what they will get paid, and actually get paid much more than at traditional firms. This has led to an incredibly high retention rate with growth of 30-40% year over year for the last ten years. From time to time, an attorney leaves Rimon, but their departure does not have a huge financial impact — and the yearly mass exodus is unknown.

No Hierarchy

As numerous psychological studies have found, hierarchy in itself causes high levels of stress and poor health consequences. Rimon decided to eliminate the hierarchy. Our goal is to make the firm serve the attorneys, so that the attorneys can focus on serving the clients. The firm works hard to give the attorneys all the tools they need to serve their clients. This means helping attorneys collaborate with each other and with clients, giving them administrative and technical support, and helping them with business development and marketing services.

Up ... or Not

Along with the pyramidal business model, Rimon has rejected the narrow “up or out” path that attorneys at traditional law firms must follow. Rimon attorneys make their own paths. Those who live to work, and those who seek a different work-life balance, can both find a place at Rimon. This flexibility allows us to attract talent at all stages of life and career.

Happier attorneys and better served clients:
that is the Rimon way.