Do Distributed Law Firms Make Sense Post-Pandemic? The Answer is Emphatically YES!

by Ed Wisneski , Esq.

After a 20-year career as an associate and partner in an AmLaw 50 firm and seven years as a partner recruiter, I joined Rimon PC as its Hiring Partner. The opportunity arrived by happenstance – I had submitted a litigation candidate to the firm, and CEO and Founding Partner Michael Moradzedeh had been looking for someone to fill my current role who had been a partner and also understood partner recruiting.

It was March of '21, right in the middle of the COVID-19 pandemic. Leaders of many traditional firms who had been adamantly opposed to having their lawyers and staff work remotely had spent the past year scrambling to do exactly that. Rimon was founded in 2008 as a cloud-based, mostly "virtual" firm, and as such, was one of a few firms that were in a unique position to continue operations practically unchanged. As BigLaw partners discovered the many benefits of remote work, including eliminating unnecessary commutes with little or no drop off in productivity (in fact, 2020 ended up being the best year that many law firms ever had – followed by an even better year in 2021), distributed firms like Rimon saw a significant increase in headcount.

Recently, I was asked whether distributed firms still present an attractive option in a post-pandemic world now that a majority of law firms have transitioned from fully remote back towards the office, most settling on a hybrid approach (in a recent survey, more than half of respondents reported that their firm had established a policy that requires lawyers to come in at least three days per week), and others such as Husch Blackwell and Fennemore Craig having created programs to hire lawyers in locations where they do not have offices.

The answer is emphatically "yes," and the reason has almost nothing to do with the ongoing tug-of-war between remote and in-office work. Rather, distributed law firms continue to thrive for the same reasons that they were created in the first place: (1) they allow partners to retain far more autonomy over their practices with far less bureaucracy; (2) they allow partners to keep a much higher percentage of their originations through a formulaic approach to compensation; (3) they alleviate the problem of ever-escalating rate pressure, allowing partners the freedom to set their own rates or enter into alternative fee arrangements; and (4) they provide all of the above while still serving as full-service firms for their clients. And the proof is in the pudding: Rimon has added more than 70 lawyers in the past 18 months, most of whom came from BigLaw.

More Autonomy, Less Bureaucracy

As law firms have grown to include hundreds or even thousands of attorneys, bureaucracy has followed along. In addition to being subject to billable hour quotas, partners — who are intimately familiar with their own practices, clients, industries, and opportunities — are disempowered from making the major decisions that affect the growth of their business.

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Indeed, partners who have decades of experience servicing their clients and creating value for their firms are not entrusted to make fundamental decisions that affect their practices and their lives, including hiring lateral partners or associates, deciding with which clients to work, and even deciding where to physically work. Instead, these decisions are often made by distant committees or executives who may have no true insight into a given partner's practice and clients.

In distributed law firms like Rimon, rather than the attorneys seemingly existing to serve the firm, the firm exists to serve the attorneys, who in turn are empowered to practice law the way they think is best for their clients and themselves, with as little interference from firm management as possible. The firm provides its attorneys all the tools they need to best serve their clients, including helping attorneys collaborate with each other and with clients, giving them administrative and technical support, and helping them with business development and marketing services.

While partners pay a percentage of the fees they collect for these shared services, they also get to make their own determination as to whether to spend on services needed to benefit their own individual practices, such as associates, paralegals, specialized software, or personal business development costs. This system is inherently fairer than in a traditional firm. For example, in a traditional firm, individual partners pay a portion of the salaries of *all* of the firm's associates, no matter how much or how little the partner utilizes associate time. Conversely, in a distributed firm, a partner who utilizes one full-time associate pays only for that associate and turns them into a profit center for themselves.

Finally, because most distributed law firms are primarily cloud-based (although some like Rimon have physical offices in several strategic locations), attorneys choose where they want to work.

Rate Pressure, Rate Pressure, Rate Pressure

In the never-ending quest to increase profits per equity partner, BigLaw billing rates have been soaring. Hourly rates have climbed at record levels in recent years, with the most recent data showing they rose by about 9% in the first quarter of 2024. This may be fine for the largest clients who have "bet the business" litigation or multi-billion dollar mergers, where a $1,500+/hour partner is a mere line item on a balance sheet.

But for many BigLaw partners, the annual phone call to longstanding clients to announce yet another significant rate increase has become

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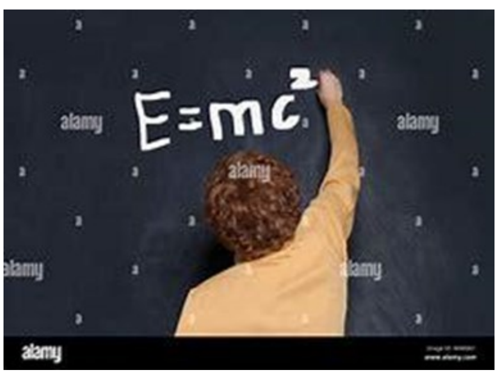
untenable. One of Rimon's recent candidates is a partner in a midwestern city office (not Chicago) of one of the largest law firms in the world. He told me that he has been practicing corporate law for over 30 years,

representing many of the same clients for over 20, and his mandated billing rate for 2024 exceeds $1,400. "My clients, many of whom are my friends, have told me they can no longer afford to use me," he said, "I have to make a change."

Distributed law firms like Rimon allow partners to set their own rates so that they can remain profitable without alienating clients – or losing them altogether. Because distributed firms have formulaic compensation models that allow them to take home 70% or more of what they bill and collect, lowering one's billing rate does not mean lower compensation. Indeed, in most cases, a partner like the midwestern MP can significantly lower his rates and make more money than he does at his current firm.

Distributed firms also allow partners to enter into alternative fee arrangements with their clients. Flat fee and monthly retainer arrangements are commonplace and often benefit clients who want some predictability in the amount of their legal spend. They can also be very lucrative for partners and firms alike.

It's Formulaic



Attorneys are like everyone else: They want to maximize their earning potential, and they want certainty in their compensation. It can be extremely disheartening at year end when a BigLaw partner receives word from her firm's compensation committee that, despite a strong year of origination and collections, her raise is less than expected because the firm itself narrowly missed target growth numbers, or because of some other reason out of the partner's control. Indeed, there are many BigLaw partners who feel as though their significant books of business are almost irrelevant to the leaders of their very large firms. Winners and losers often appear to be chosen, not based on skill or merit, but on political decisions made by executive/management committees.

In distributed firms, compensation is formulaic, rather than a black box calculation, which typically measures factors including seniority, expectations, and perceived benefit to the firm. Partners keep a significantly larger percentage of the fees they collect, which is aligned with modern companies who recognize the value of business development, and also are compensated transparently on the hours they work on other partners' originated matters. This transparent formula almost always leads to individual partner compensation far in excess of what traditional firms pay.

Goldilocks

In essence, distributed firms like Rimon are like Goldilocks' porridge: They provide attorneys with the tools necessary to represent sophisticated clients on complex matters across multiple disciplines without BigLaw's obvious drawbacks, while also providing the flexibility, work-life balance and career autonomy historically reserved only for solo practices or small shops. As such, the model continues to capture the essence of what the legal profession aims to achieve—excellence in service and justice, while also aligning with the evolving professional landscape. Over time, distributed firms will be referred to less and less as "virtual," "remote," "distributed," or "hybrid," and be recognized more and more for what they simply are: Modern law firms that are true competitors to BigLaw.

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