

What if you didn't hit budget in 2016?

By [Michael D. Short](#) on March 1, 2017

As we continue to review and dissect 2016, something feels a little different to me. My recent conversations with law firm leaders suggest that [the winners and losers](#) (of market share) phenomenon that we first identified back in 2013 is now moving beyond a slowly developing trend. The growing gap is becoming apparent in the comments from law firm leaders.

For the “winners,” we are still hearing from those firms that continue to have “one of their best years ever,” if not their best. These firms have consistently increased both revenue and overall profitability over the past several years in a very strategic manner and continue to look for new ways to keep this trend going.

The different feeling, for me, comes from two other small but growing segments of my little sample of firms (for which I claim no representative value with respect to the legal marketplace as a whole).

The first is a small but noticeable uptick in the number of firms that achieved their 2016 budgetary goals via some combination of –

- A holiday miracle (e.g., unanticipated payments from a contingency matter or a very old A/R);
- A dramatic reduction in current year expenses;
- Postponements of much-needed capital improvements; and/or
- Not pre-paying expenses that were pre-paid going into 2016 – thus highlighting the difficulties of 2016 while putting significantly more pressure on 2017 at the onset.

The second is a relatively smaller but more noticeable uptick in the number of firms that, after long runs of fiscal success, suddenly missed their budgetary goals by an uncomfortable amount (5% or more). These misses, while generally communicated in advance within the firms, still came as “shocks” or “surprises” to the Partners in these firms...often because they had heard such warnings in prior years but management and/or holiday miracles somehow addressed the potential shortfalls. Unfortunately, these past year-end successes desensitized the Partners to the warning messages that came in subsequent years because, somehow, “it always works out for us.”

So what is a law firm leader to do when a firm suddenly ends a nice streak of fiscal successes with a significant shortfall against budget?

The first step is to assume the following practical realities about the situation –

1. Everyone inside the firm knows what happened, and by everyone I mean *everyone*. Many firm leaders assume that the Partners are great at maintaining the confidential nature of the firm's finances, thus protecting the Associates and staff from worrying about the health of the firm. The truth is that some Partners cannot help themselves while others feel it is their obligation to keep their teams apprised of such information. Both scenarios create an internal “information superhighway” that is lightning-fast with respect to the distribution of sensitive information;
2. Information gleaned from the information superhighway is usually much worse than the reality of the situation. An overheard comment in the hallway of, “looks like we're going to be down a little bit this year” can quickly become,

- “the firm’s in serious trouble” after only one or two hand-offs of the information;
3. Those who get their information from informal channels will gravitate toward the worst interpretation of the information that they hear...that “the firm’s in serious trouble”;
 4. Headhunters know. Every person ever placed within the firm feels a little sense of trust in, and loyalty to the headhunter who did the placement. As such, the headhunters are part of the information superhighway;
 5. Many, but not all, headhunters will view your down year as a wonderful business development opportunity and promote the “firm’s in serious trouble” theme to get resumes moving;
 - o To be fair, I know a few search agents who always act in a professional manner that is not dependent upon misinformation. I respectfully refer to these people as search agents rather than headhunters. Sadly, I believe they are in the minority.
 6. Every firm will have a down year at some point. It’s impossible to maintain an upward trend forever. A one-year “miss” can be explained and handled. A miss across two consecutive years, however, will be viewed by many as a dangerous downward trend. If at all possible, do not miss budget two years in a row.

Given these ugly assumptions, what is a law firm leader to do? I offer the following roadmap as a starting point –

1. Quickly identify and explain to your Partners exactly what happened. Was the shortfall due to an unanticipated opportunity (e.g., a lateral group or acquired firm) that came with a short-term cost in return for long-term gains that for some reason was not explained up front? If so, carefully get that message out via meetings with Partners, Associates, and then staff to a) acknowledge what happened and b) correct all mis-interpretations about what happened. If not, proceed to the next step.
2. Create an achievable and easily explained plan to make budget in 2017 and communicate this plan via different messages to different groups within the firm. Partners will, obviously, get all of the details while Associates will get a higher level summary and staff will get less.
3. Appoint a small group of spokes-people within the firm to meet, confidentially, with anyone who still has concerns after the meetings referenced in step 2, above. Skeptics abound in all law firms and unsatisfied skeptics are often the primary feeders of (mis)information into the internal information superhighway.
4. Prepare talking points for when (not “if”) someone receives an inquiry from the press and remind the whole firm that all inquiries are to be directed to appointed spokespeople and NOT handled informally.
5. Track progress and provide updates throughout the year. The key to getting through all challenging times is managing expectations.

Important note – If the root problem of the downturn is significant and the solution requires drastic measures combined with a change to the firm’s culture...bite the bullet (and call us for guidance). Baby steps rarely work and often do more harm than good.

Good luck and best wishes for the rest of 2017.