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'We Have That Equal Responsibility': One Am Law 50 Firm's Approach to Lateral Integration

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What You Need to Know

- While integration has proved to be a challenge for growing law firms, K&L Gates has crafted a credit system designed to encourage integration and collaboration across the firm.
- Citing its nonduplicative credit system, global strategic growth partner Craig Budner has helped K&L Gates' merger and lateral growth stick, even as other large firms shutter offices due to lack of integration and profitability.

Successful growth for any law firm is difficult; for firms such as K&L Gates, which has 48 offices spread over five continents, that difficulty is magnified on a global scale. But K&L Gates' global strategic growth partner Craig Budner has found ways to handle that challenge, particularly by helping the firm find ways to unify its multitude of offices operationally.

Connecting new offices and building profitability across a broad geographic footprint was a challenge faced, and failed, by a few notable names this year, particularly with a spate of firms shuttering locations in South Africa and China. Integration proved a fatal factor in several of those cases.

Rarely are technical operations highlighted in a firm's successful integration. Some firms bypass the need to integrate certain aspects of operations altogether with a Swiss verein model, which allows for separate profit pools and regional office autonomy while united under a single firm name. As K&L Gates expanded from Pittsburgh and Seattle to around the globe, it went the opposite direction, crafting one unified profit pool for



Photo: Diego M. Radzinski/ALM

the firm and structurally incentivizing the spread of client work among multiple attorneys.

So far, it's translated into a secure spot in the Am Law 50 for the firm, where revenue has stayed above \$1 billion for the last 14 years, with one exception. Built from the remnants of multiple mergers across the early 2000s and 2010s, integration proved vital to the success of the firm's growth.

"The key to those mergers was that even though the K&L piece was a common thread among them, these weren't acquisitions. These were mergers where the partners in leadership at the merger target were very integrally involved in the beginning of managing the broader firm," said Budner, whose firm, Hughes & Luce, **merged with K&L Gates in 2007.**

Budner praised the firm's approach to that merger, which involved an invitation to the K&L Gates partner retreat even before it was finalized.

“A few of us presented about our culture and who we were,” he said. “It gave people a sense of who the merger partner was.”

“If you’re not comfortable enough with these new partners to understand them, their strengths, their clients, it’s not going to work,” he concluded.

Budner described the firm’s acquisition process in terms of several hallmarks of good merger hygiene: thoroughly vetting new additions or firms, looking for synergies between the prospect and the firm, and finding commonalities among the client base. Once new attorneys join the firm, Budner puts a team that includes client development professionals around these laterals “so they succeed quickly.”

“This is a 50/50 proposition. We’re not the ‘show me’ firm, where we bring in the lateral and say, ‘Show me your book and how you’ll help us.’ We’ve got a vision for you. You have a vision on how you’ll expand. We have that equal responsibility,” Budner explained. “What that does is partners trust their clients with the broader firm. When that happens, it’s a little more tricky for partners to move and pull out.”

Yet that doesn’t fully address the issue of attorney territoriality over clients. In a field where one’s book of business is directly equivalent with one’s value to and power within their firm, siloing of clients is a common impediment to integration, as well as to longer-term concerns, such as succession planning. But Budner indicated the firm’s credit structure helps resolve this issue.

“There are different kinds of law firm models out there—ours drives integration,” said Budner, who noted that 54% of the firm’s revenues came from matters sourced by a lawyer in a certain practice or office while handled by a lawyer in a different practice or office. “That spiderwebbing of relationships creates a stickiness factor that, we hope, creates a retention opportunity for those who invest with us.”

Credit Where Credit’s Due

Behind that number is a credit system that rewards the splitting of work among multiple attorneys. Budner divided K&L Gates’ system as a series of cumulative, nonduplicative credits for work brought in and performed. Attorneys at the firm can claim more than

one type of credit for each client, choosing between client origination credit, matter origination credit, and matter responsible credit, with credits totaled in an integration index.

“Let’s say I have a great client—they use me for litigation, and now they have a corporate deal, I’m motivated to cross sell that because I’m the [client] originator,” Budner explained. “Why is the other lawyer motivated to take that on with the same urgency and responsiveness that they would if it were their personal client? They get matter origination credit on that end.

“If you treat those forms of credit on par with client origination, it means that you’re rewarded for being the kind of partner willing to roll up [your] sleeves and work on another client’s matters,” Budner concluded.

Further incentivizing collaboration, an attorney’s integration index, a measurement of how willing they are to spread work among their colleagues, based on credit division, plays into how they are compensated.

Another element of K&L Gates’ integration strategy is its singular profit pool. Rather than having multiple profit pools divided among offices, the firm’s profit is centralized, making compensation decisions holistic and ultimately based on the judgment of the firm’s management committee.

“The profits of the firm are awarded to equity partners based on global production. When [profits] are separate, you would have an outsized decision-making authority rest with the regional or local managing partner,” Budner said. “We sit as a management committee of around 15 partners and get feedback from all the other leaders, including office managers and practice leaders, who chime in with what the numbers might not show.”

Ultimately, K&L Gates’ goals for integration, according to Budner, are first to ensure that its attorneys are connected to their colleagues across the U.S. and around the world, second to make sure they’re meeting their initial goals for bringing on clients, and, finally, to start expanding their practices.

“It’s feeling like they can kick their feet up on the desk and own the place, that they’re heard and listened to,” he said. “That’s the critical piece to all that financial success.”