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LAW FIRM BUSINESS

Strength Through Adversity

A tragedy made a small firm rethink its culture. The result is a firm that has empowered all of its partners to be more equal participants in the practice

By Susan McRae
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BEVERLY HILLS — By the summer of 2006, shareholders of the nine-lawyer business litigation boutique Lurie, Zepeda, Schmalz & Hogan PC had been wrestling with restructuring the firm for some time.

Two major shareholders made most of the management decisions, causing others to feel excluded. Also, some senior associates perceived the shareholders were working as individual firms and not as a team.

Then a tragic turn of events in July of that year brought things to a head. Bruce J. Lurie, the firm's founder and major rainmaker, was severely disabled in a surfing accident, causing his colleagues to realize they could no longer wait to take action on the firm's challenges.

After a year of soul-searching, five shareholders and several associates gathered for a weekend retreat at the Portofino Inn in Redondo Beach to decide whether to continue as a firm or split apart and go their separate ways.

"Bruce was still bringing in business," said shareholder Steven L. Hogan, 57, referring to the pull of Lurie's name and that the injured firm founder had resumed collaboration with shareholders even before he regained his speech. "It wasn't like the years before when he was bringing in huge amounts, but he still was an important player and a consummate lawyer and somewhat of the glue that was holding us together.

"So we started talking among ourselves about what we were going to do."

The year before, Lurie, then 62, rented a beach house in Malibu for the month of July. It was an idyllic vacation. He spent the mornings working on his laptop and the afternoons boogie boarding with his 13-year-old son.

The day he was to return to work, he and his son decided to catch one last wave.

"All I remember is doing exactly what we always do," Lurie said. "There was a big wave coming, so we ducked under it. The next thing I know, I'm lying facedown in the water, unable to move, paralyzed."

His son pulled him to shore, a neighbor performed CPR, and he was flown to UCLA Medical Center. He awoke from a coma four days later, connected to a ventilator that enabled him to breathe and swallow. His broken neck was held rigid in a brace. After a month of intensive care, he spent another three months at a Denver hospital that specializes in spinal cord injury rehabilitation.

Lurie, Zepeda, Schmalz & Hogan PC
Beverly Hills
Number of attorneys: nine
Date formed: 1983
Specialty: Real estate, business and employment litigation, trusts and estates
Tips:
- Regularly revisit your firm's management plan and adjust it to encompass lawyers' needs
- Include a provision for succession of power if a partner leaves or becomes disabled
- Establish a power succession plan for younger lawyers
- Create an open-door policy, so everyone in the office knows what's going on, and no one feels excluded

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Fromn left seated, Kurt L. Schmalz, Steven L. Hogan, standing, Troy L. Martin, Wayne C. Arnold, Robert W. Denton, Bruce J. Lurie & Andrew W. Zepeda.

Slowly, he was weaned off the ventilator, something he said the hospital staff later told him they'd never seen happen to a person with his degree of spinal cord damage.

Lurie also had achieved some other remarkable feats. Even in intensive care, he managed to communicate with Hogan and other shareholders by sign language and later by cell phone when the ventilator was removed.

"I would say, 'Don't worry, the firm's going to be OK. You guys are doing a fabulous job of covering stuff. We are a team. We're going to get through this. I just need to rehabilitate.'"

During that time, the lawyers continued to work on the firm's internal problems. The following year they hired management consultant Andrew N. Elowitt of New Actions who helped guide them through the process and suggested the retreat. Lurie was well enough to attend the final day of the gathering in a wheelchair, and he gave a pep speech to a standing ovation.

Leading up to the retreat, Elowitt had conducted confidential interviews with all of the associates and senior staff so the shareholders could learn about other people's perceptions of their personalities and management styles. The findings were eye-opening, said Hogan, from perceptions that some shareholders were difficult to work with to views of others as being disorganized.

Perceptions didn't always reflect reality. For instance, they learned that people thought seeing a group of shareholders in an office with the door closed meant the firm was going under, Hogan said, "when we're in there talking about baseball."

"It turned us introspective, to figure out our shortcomings and strengths and how to better ourselves and improve upon our business model — and what was the best model? We needed to have open communication."

The lawyers took a hard look at the firm's management and business structure and made some big changes.

Lurie and Andrew W. Zepeda, now of counsel, had owned most of the shares, which caused some dissension among the others, who felt they often were overruled when it came to voting on annual bonuses, profit sharing and other management issues. After some negotiation, the shareholders realigned the power structure so that no one owned more than 50 percent. Because of Lurie's inability to fully participate in the firm, Hogan became the major shareholder. Lurie's shares were reduced by nearly half, and shareholders Kurt L. Schmalz, Robert W. Denton and Troy L. Martin received a descending percentage of shares based on seniority.

The new business model allowed more people to take on management responsibilities. It also paved the way for younger lawyers to gradually transition into those roles and for more lawyers to bring in a broader array of business.

The lawyers also realized that for the firm to continue to exist and grow, it needed to diversify. The practice was focused too narrowly in real estate litigation and business breakups. The shareholders kept those key practice groups, but added employment litigation, trusts and estates and general litigation. The firm also does a small percentage of intellectual property litigation.

"If you compared how we did last year to how we did before Bruce's accident — when we had two shareholders who were bringing in the vast majority of business, Bruce being one of them — we now have across-the-board people bringing in a good amount of business and taking the pressure off the others," said Martin, 39, who started with the firm in 1998 a year out of law school and became a shareholder three years ago.

Meanwhile, Lurie continues to recover. Because his spinal cord wasn't completely severed, he's been able to retrain his body and reroute nerves through daily repetitive-motion exercises. He's relearned how to move his arms and legs, and he's found a surgeon who makes house calls and is helping him regain the use of his hands.

Six months ago, Lurie was able to get on his feet and tentatively take a few steps by using a harness to steady himself.

He comes to the office when needed, but works mostly from home, where voice-recognition software on his computer aids with writing, and a dedicated phone helps him stay in touch with colleagues, particularly on management issues. He's also resumed working with clients. In fact, a few weeks ago he represented a client in a full-day mediation in a $16 million business dispute. Not only did he convince the other side to drop its claim, he said, but also to pay his client money.

A former shareholder at Fulop & Hardee, Lurie founded Lurie Zepeda in 1983. He said the firm's restructuring has made it better in so many ways.

"It's made everyone realize one day, things are going to change," Lurie said. "You never know when or how. Somebody may die. Somebody may leave. Somebody may become disabled.

"A firm that is going to be healthy has to plan for those contingencies."