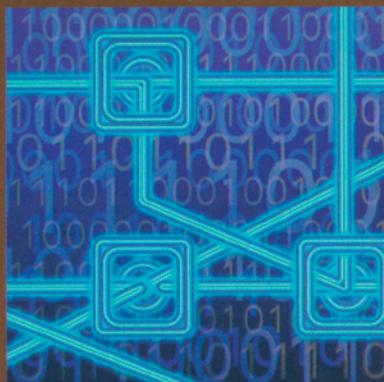


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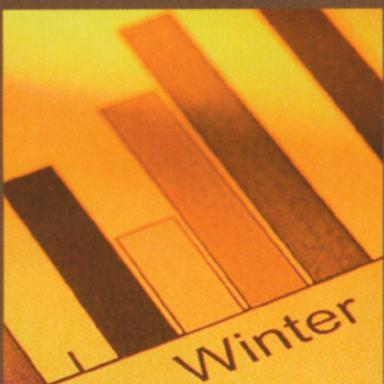
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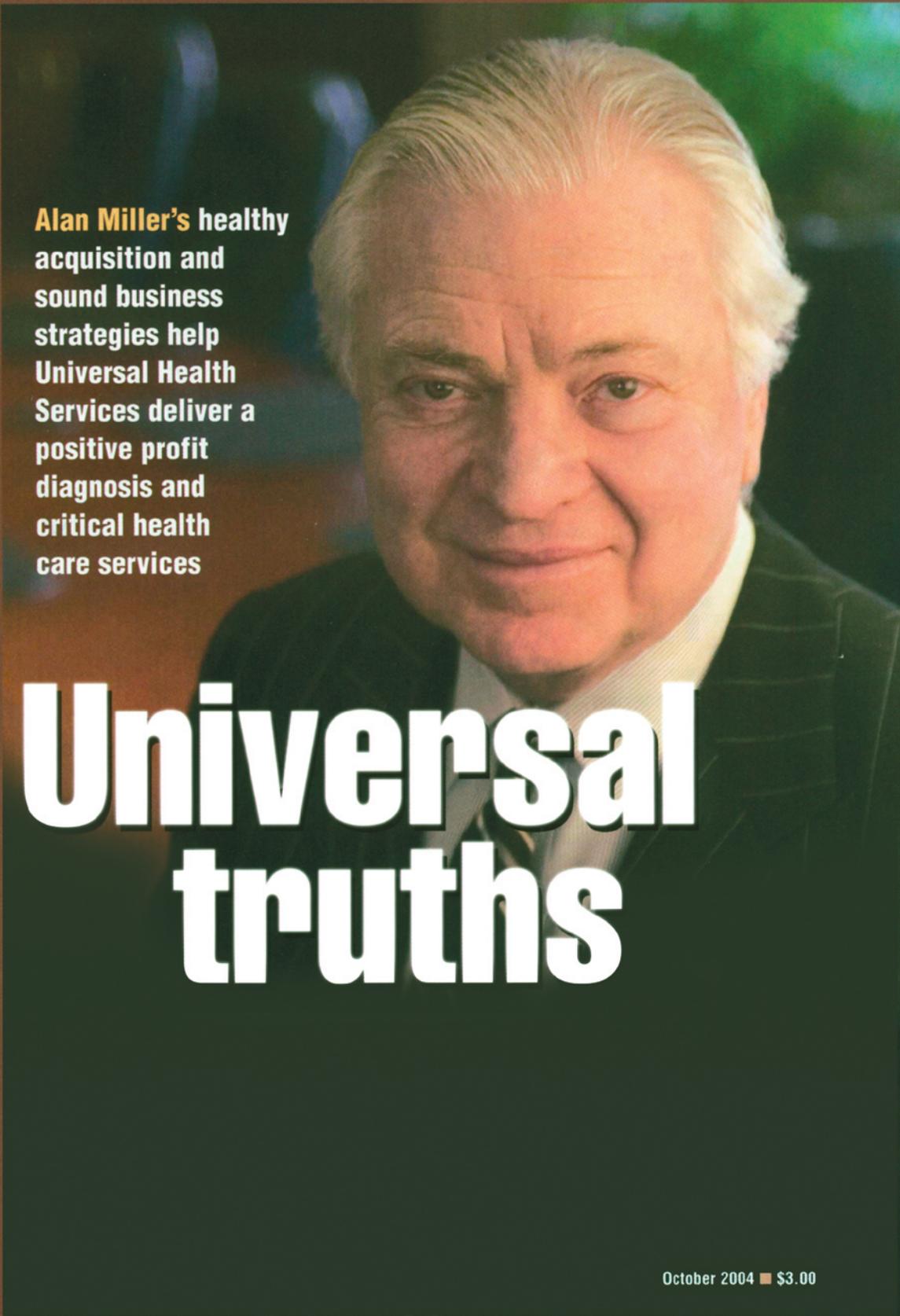


ONE ON ONE

Sheldon Bonovitz, CEO, Duane Morris LLP

Alan Miller's healthy acquisition and sound business strategies help Universal Health Services deliver a positive profit diagnosis and critical health care services

Universal truths



The case for innovation

Duane Morris CEO Sheldon Bonovitz fosters an entrepreneurial environment by getting his attorneys to think like business owners.

By Dustin S. Klein

One look at the artwork that adorns the walls of Duane Morris LLP and the message is clear — this is not your typical law firm. The original works are painted and drawn by self-taught artists and inspire a creative atmosphere, says Sheldon Bonovitz, who holds the very un-lawyer-like title of CEO.

Art holds a special place at Duane Morris. The firm's marketing materials compare the law to art, saying it is "seen differently by different people, constantly changing, and in many instances, open to interpretation." But the real explanation is that the artwork, which is literally everywhere, is simply a reflection of Bonovitz and the firm itself.

"It's kind of edgy," Bonovitz says. "What you really want to do is create a physical environment and intellectual environment where there is a lot of energy."

Duane Morris is a 100-year-old organization with more than 550 attorneys and 20 offices nationwide. It prides itself on innovation and entrepreneurship in an industry in which case law, precedent, high-profile clients and billable hours are the typical driving factors.

"We promote our entrepreneurialism, and it carries through our lawyers," says Bonovitz. "Lawyers join our firm because we do this."

But Duane Morris isn't innovative because it looks at the law in a different way than its competitors do. Rather, Bonovitz and his staff look at the entire practice of lawyering through the eyes of their clients. They apply lessons learned to the launch of new businesses in industries that are in need of creative thinkers.

"We're probably the leading firm in the country in fostering ancillary businesses," Bonovitz says. "The strategy is to leverage our infrastructure and resources to generate another source of revenue from our knowledge base. That sort of entrepreneurialism filters down into the lawyer force."

Among the businesses Duane Morris has launched through a wholly-owned subsidiary are a malpractice insurance company,

American Health Care Provider Services, and a money management firm, Westcott Financial Advisory Services. Both arose from needs that were not being served by others.

Smart Business hit the law books with Bonovitz to discuss how Duane Morris fosters entrepreneurship and innovation throughout its ranks.



Q: As CEO, how do you nurture innovation?

We talk about what our philosophy is and how important it is to understand what being an owner is, what making money and losing money is, because that's what our clients do. We tell our lawyers to put themselves in the clients' position and act like them. We have a contingent fee program, and they (the lawyers) know we're risk-takers.

We look at things in terms of time value of money, and risk-adjust our proposals. We also have a very aggressive sales and marketing force. That reflects our innovation.

Our partners meet three times a year face-to-face, and we have programs that feed on this. They meet in practice groups and interdisciplinary practice groups, so they're meeting to discuss marketing and business generation. That's all entrepreneurial; they're not talking about the latest case.

When recruiting, we stress the innovative environment. We're very long-term-thinking and invest 10 percent of our income in our growth. That's money that would otherwise be income (to the attorneys). We expense about \$7.5 million a year in our growth, and we invest about \$2.5 million to \$3 million in firm capital.

We're investors and we're builders, and when we're recruiting, that will resonate with a certain group of lawyers, so we get people who want to build an institution.

Q: Does this innovative philosophy contribute to a collegial culture?

Yes. The other aspect of it is that when we bring lateral partner candidates in, we intensely spend time with them, so that not only do you see the objective tests — like the fact that we cross-sell into our clients with no territorial thinking — but we also talk about our 'no jerks' rule. We want to get people in who are nice. We're not interested in jerks, no matter how much business they may bring in.

Q: How do your attorneys learn from attorney/client relationships and translate that knowledge into new business opportunities and revenue streams?

Our businesses are run by professionals who are not lawyers and are stand-alone businesses. They're really walled off from the firm. One group practices law, the other engages in various business aspects.

Our health care lawyers recognized a need in Pennsylvania on the part of physicians who needed medical malpractice insurance. Companies were going out of business, so doctors were being left without insurance alternatives. And those that were left were outrageously priced and increasing.

So our health care group defined the need.

Our insurance group devised the structure to satisfy that need, which was the formation of an insurance exchange — an insurance company regulated by the Pennsylvania Department of Insurance, like any other insurance company, but the capital is provided by the physician insureds, who contribute 50 percent of their first year's premium to capital.

That provides the capital base to fund the insurance company. The insurance company is a virtual insurance company with no employees. Duane Morris, through two tiers of subsidiaries, owns the company that provides the services to the insurance company — the claims administration, underwriting of risk, placing reinsurance, financial operations, staffing in terms of records. The service business is paid a percentage of the gross premium of the insurance company.

This is our second full year, and the insurance company will probably write about \$20 million of insurance premiums and the management fee is a little over \$4 million. We've replicated this in Florida and just filed in New Jersey. We have a very qualified, very senior staff who have equity in these businesses. Virtually all the profit will be gleaned with a very small investment on the part of the firm.

We also have a joint venture with a health care consultant that we're just forming that will enable the new company created to enter into very large and substantial contracts with hospital and health care systems throughout the country that will help them with innovative ideas to save money. The other partner is a 20-person health care consultant. We have 32 or 33 health care lawyers, who have the network and relationships.

Q: How do the nonlegal service businesses operate in conjunction with Duane Morris?

Duane Morris is a law partnership, a Delaware LLP. It owns an LLC called Westcott Holdings LLC. Westcott Holdings LLC owns the various businesses that are stand-alone businesses that we've helped create. One is called American Health Care Provider Services, which is an LLC, which is our parent service provider, which owns New Jersey, Pennsylvania and Florida health care service providers. The executives in each of those service organizations own a percentage of them.

Westcott also owns Westcott Financial Advisory Services, about 55 or 60 percent. The executives own about 40 percent. It's a money management firm with between \$800 million and \$1 billion under management.

If you took our family of businesses, about 90 to 95 percent of the clients are nonlaw firm clients, so we don't really sell into our (law firm) client base.

Q: What unique challenges do you face because of this philosophy?

A decade ago, we had about 200 lawyers and were a regional law firm that, on average, grew 2 percent to 5 percent a year. We had revenue of \$60 million to \$70 million. This year, we have about 575 lawyers, and our revenue will be in excess of \$260 million. We're a national firm in 11 or 12 major markets.

The challenge 10 years ago was to do what you're doing and continue to do it well. If we did that, we'd be profitable. Today, the challenge is to manage our growth so that we can be a full-service provider of legal services throughout the country, getting quality lawyers in these various offices.

We've probably grown faster than any other law firm in the country that's grown other than by merger. We haven't had any mergers. It's all been by adding twos, threes and fives. One of the challenges is to manage current expectation of the partners, as well as build for the future.

Q: The firm boasts more than 20 offices. How do you effectively communicate with your staff, and how do you present a clear, unified vision of the organization's goals and objectives?

With the Internet and e-mail, you really can almost do things seamlessly as far as providing a client with services from any office. We break into practice groups, so virtually every one of these offices has a member or more in a practice group. That practice group meets anywhere from weekly to monthly.

Our partners meet monthly, and three times a year at weekend retreats. It's been very successful.

Q: Many law firms specialize in only a small handful of practice areas, but Duane

Morris is very diverse. How does that position you in the marketplace?

Our strategy is to be a full-service firm and service the complex and specialized needs of a broad client base. The diversity gives you a certain cushion in a business that's very cyclical. Generally, in a law practice, if you have a conventional law practice, your corporate and real estate practices are very cyclical because when the economy is weak, those two practices are generally weak.

And in a weak economy, your litigation and bankruptcy practices thrive. There are some practices that are more neutral, in terms of being affected by the economy. One of the advantages of diversity is that you're buffered against the cyclical nature that exists in the economy.

We also adjust our expectation levels for the practice groups based on the cycles almost on a quarterly basis. Right now, bankruptcy is slowing down and the corporate practice is picking up.

Q: What criteria do you use when determining where to open new offices?

We say, 'What are the major markets, and what are the markets that will help the international practice? What is the greatest opportunity for synergy among markets?' We measure the flow of business between offices, and overall, more than 20 percent of our revenue is interoffice.

Out of \$260 million, more than \$50 million of revenue is obtained because we have a particular office. We don't care if an office is an importer or exporter, we just want to see the interrelationship and synergies of that office as it relates to other offices.

Q: How do you measure their success?

We expect our offices to be cash flow positive once they get past their start-ups. That means you take our cash revenue, minus our projected cash partner compensation and all expenses, including overhead, and we expect the revenue to exceed compensation plus overhead.

We disregard the first four months and expect them to be cash flow positive after that. **HOW TO REACH:** Duane Morris, (215) 979-1000 or www.duanemorris.com