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Industry Watch

THE ART OF BEING INDEPENDENT

By Jill Redhage
Daily Journal Staff Writer

SAN FRANCISCO — Described as irreverent, fiscally conservative and independent, San Francisco's 57-attorney law firm Shartsis Friese doesn't do a lot of things that its big firm competitors do.

According to firm management, the firm has never ushered out an underperforming partner in its 34 year history. It doesn't take on debt. The firm has very low turnover, and it hasn't lost a partner to another law firm in 17 years. On top of that, it doesn't dole out perks for its partners, except parking privileges at its offices in One Maritime Plaza, just three blocks from the San Francisco Bay. And unlike many attractive merger targets before it, the firm has refused to be acquired by a slew of larger suitors.

"We're outliers in a lot of ways," says Arthur Shartsis, senior member of the firm's management committee and de facto managing partner. No one formally holds that title.

"We let him think he's the managing partner because he needs that and it makes him happy," quips Robert Friese, the firm's co-founder.

Shartsis, a complex commercial litigator, is not one to care about titles, but he does care deeply about the direction of his firm. Partners say Shartsis, 63, has been a constant and active guide as the firm has defined itself as an independent and profitable legal shop.

One reason large firms covet Shartsis Friese is that it competes with them for high-value and high-profile business. Among the firm's clients are: Adobe Systems Inc., Advanced Micro Devices, Comcast Corp., Home Depot USA, Gruber & McBaine Capital Management and the state of California. The firm is representing the California Department of Insurance in the retrial of a fraud lawsuit stemming from the sale of the Executive Life Insurance Co. to French investors in 1991. And in April, its corporate attorneys sealed up $261 million in acquisitions for Waste Connections Inc., the country's third largest waste management company. Half of the firm's attorneys are litigators, while half are corporate attorneys, and the firm has strong real estate and private equity practice groups.

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Arthur Shartsis is the senior member of the management committee and de facto managing partner for Shartsis Friese. The firm has a unique operating philosophy, avoiding perks, allowing partners to determine their workloads and not taking on debt. The strategy has paid off in high partner profits and low turnover.

Shartsis and Friese founded the firm in 1975. As a third-year associate at Morrison & Foerster, Shartsis wanted to be his own boss. He pitched the idea of starting a practice to Friese, then with the Securities and Exchange Commission, whom he'd clicked with when they met through a mutual friend. Shartsis' wife Mary Jo, a litigator at the firm then known as McCutchen, Doyle, Brown & Enersen joined them the next year. Shartsis stepped into the managerial role.

Over the years, crafting the firm into its current form has been a shared endeavor. Partners say all of the firm's 29 partners contribute to the decision making through consensus, and various attorneys play leadership roles in the practice groups and on committees. Even associates have a representative on the management committee.

"[Shartsis] has been the most visible and the most active in guiding the firm," said Tracy Salisbury, co-chair of the firm's litigation department and a member of its management committee. "But this is not a one-man show."

Partners say Shartsis contributes strong views about the firm's identity and strategy, but he's not interested in dictating how the firm should be run. His contribution is to keep tabs on developments in the legal industry and reassess where the firm stands, then plead his case for decisions he thinks the firm should make.

Shartsis has driven the firm's dogged adherence to its conservative fiscal management, its model of controlled growth and to doing what it does best—practice law. The firm's lawyers spend as little time as possible on administrative work — not more than 2,500 hours per year collectively — by placing most administrative responsibilities in the hands of the chief operating officer, Paul Feasby. The firm's six-person management committee only meets if Feasby needs it to do so. Often he'll simply poll the committee members informally if he needs their input, or he'll announce how he plans to deal with a challenge and ask if anyone objects.

"We've figured out how you enable people to practice law without interference," Shartsis said, "and that you don't spend a lot of time on things that don't benefit either the business operation or the legal operation of the firm."

In one instance, in 2000, the firm launched a committee to explore the possibility of starting its own venture fund, like other law firms were doing. Shartsis said he questioned it: How would they tell some clients they wanted to invest in them, but not invest in others? Who at the firm was qualified to make sophisticated investment decisions? His questions helped inspire the group to pass on the endeavor. Then the dot-com boom went bust, and a lot of other firms lost a lot of money.

Shartsis has also encouraged the firm's no-perks policy, which he says limits partners' feeling of inequality, not to mention whining and backstabbing. That means no special funds for buying drapes, and corner offices get taken in the order in which they become available by the next partner awaiting an office. The firm doesn't provide cell phones, and it doesn't do retreats.

Inspired by the collapse of New York law firm Finley, Kumble, Wagner, Underberg, Manley, Myerson & Casey in 1987, Shartis Friese partners chose never to take on debt. The firm has set aside between $1 million and $1.5 million to cover a short month, and its partners don't take a draw if there's no money to do so. That reminds them that they're owners, Shartsis said. That happened for the first time in 10 years in February after a large January draw. If the firm's profits fall short one year, the partners suck it up.

Shartsis also helped pioneer the firm's unique compensation system about 20 years ago. It came in part from the partners' realization that they weren't "tough enough" to spit out people who didn't perform as well as others.

The system relies on a formula that is universally applied to all partners that differentially weighs billable hours, administrative hours and business generation. Shartsis says it allows partners to show up, work hard, generate business and be "showered with dollar bills," or to spend the year playing golf or rearing a child and get paid less. The differences in pay can be dramatic – one partner at the firm can make four times what another partner makes. Yet however the partners choose to work, they're welcome at the firm for life once they've passed the high bar to partnership.

Shartsis is also a long-time proponent of controlled growth. The firm's attorney numbers rise by an average of 3 percent per year. It takes on only about two attorneys per 2,000 résumés. Shartsis' inspiration for such control came when the American Lawyer magazine began publishing profits-per-partner statistics for the country's largest law firms in the late 1980s. Shartsis Friese wasn't large enough to be on the list, but its earnings made it the third most profitable firm in San Francisco, Shartsis said. For many years he watched the numbers, and each year the firm would have ranked among the top five firms in the region.

"So I thought, 'Why do I want to be big?'" Shartsis recalled. "We're happy. We like what we're doing. The practice is interesting. We're all having a good time together. It really was for me a pivotal moment in where the firm was going. We settled into this very careful, controlled growth, elite practice area program, and we just sort of locked into it."

Part of not growing is not merging, which Shartsis refuses to do because it doesn't make financial business sense — he says his firm is often more profitable than its suitors — and because he likes the freedom. That decision has been noted across the local legal community.

"Look how fiercely independent he is," says Paul Dawes, a litigation partner at Latham & Watkins in Menlo Park and a friend of the Shartsises. "The consolidation in the legal industry is enormous!"

Erick Howard, a litigation partner at Shartsis Friese, said Shartsis is not just a business-minded leader. He also makes the firm "a place that you can enjoy practicing law." He accomplishes that by showing interest in his colleagues' professional development, trusting their input and giving them real responsibility, Howard said.

"He's demanding, but he's demanding in a way that makes you think you can easily do it," Howard said.

When Salisbury, the co-chair of the litigation department, joined the firm from Morrison & Foerster in 1986 as a third-year associate, she was struck when Shartsis asked her opinion about a case and asked her to edit a brief that he wrote.

"He recognizes that he can gain a lot from the people around him," Salisbury said.

Shartsis takes his interest in monitoring outside of the firm, spending about 100 hours each year coaching the undergraduate mock trial teams at UC Berkeley.

Howard says that Shartsis' passion for his hobbies also helps shape the character of the firm, making it a place where interests outside of the law are supported. Shartsis has written two screenplays, which he's currently shopping to producers in Hollywood. He hops the globe with his wife, most recently to Botswana for a safari, where he practiced another passion, photography. The couple fly-fishes in Idaho and cultivates wine grapes in Napa Valley, which they sell to winemakers Whitehall Lane and Ramey Wine Cellars.

Otherwise, it's work, work, work."

Art and I are both planning on working forever," Friese says. "We're planning on going to the grave in the elevator of One Maritime Plaza."