

# PERSPECTIVES

Strategies to Manage Your Law Firm's Professional Liability Exposures

MSP L 0/06 "Practice Management Strategies Part 12: Non-Legal Services and Outside Directorships"

January, 2006

## Practice Management Strategies Part 12 Non-Legal Services and Outside Directorships

### Non-Legal Services

**Stick to practicing law** – As a means of serving client needs and as a way to increase revenues, some law firms have branched out into other professional and business endeavors.

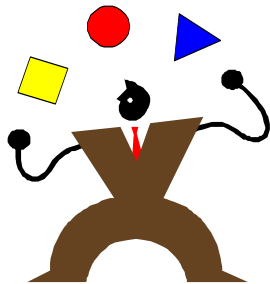
On the professional side, these include financial planning, accounting, lobbying, and consulting.

Law firm subsidiaries have included such far-flung business endeavors as restaurants and print shops.

Any time you stray away from your core expertise, your legal and professional liability risks increase substantially.

### Outside Directorships

**Promulgate and strictly adhere to a comprehensive written policy for your law firm as respects permissible outside involvements** – There should be written guidelines relative to what, if any, kinds of outside involvements



with clients are permissible. The ideal standard to have is that no lawyers are permitted to invest in, or serve as a director or officers of, any client.

Some law firms, driven by competitive pressures, seek to “lock up” a client by getting heavily involved in the client’s operations as a director or investor. The consensus is that any

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# 2006 Training Sessions

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- **OSHA Recordkeeping, Inspections and Citations**  
Friday, January 20th, 9:00—11:00 AM
- **Having the Right Safety Attitude — Changing Your Safety Culture**  
Friday, February 10th, 9:00—11:00 AM
- **OSHA 10 Hour Course — Part 1**  
Friday, February 24th, 8:00—12:00 Noon
- **How to Run an Effective Safety Meeting and Make Your Toolbox Talks Fun**  
Friday, March 10th, 9:00—11:00 AM
- **Sexual Harassment Training (AB1825 Compliant)**  
Friday, October 21st, 9:00—11:00 AM

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Contact **Stuart Nakutin** for information about upcoming training sessions:

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upside gain from this strategy is far outweighed by the omnipresent downside risk of incurring a usually indefensible professional liability claim.

**Avoid getting into business deals with clients** – Any involvement in addition to the lawyer-client relationship significantly increases your professional liability exposure.

For example, if you serve on the Board of Directors of one of your clients, you may end up with conflicting duties. On a given matter, you may have a duty in your capacity as a lawyer to maintain total confidentiality, but when

you put on your Director hat, you might have a duty of full public disclosure relative to the same matter.



Such multiple involvements are replete with the potential for problems and conflicts. A lawyer entangled in such multiple involvements is a “sitting duck” for professional liability claims.



**Be prepared to drown if you are riding on a sinking ship** – In looking back at the types of professional liability claims that have made national headlines, the predominant and most notorious class of these involve lawyers who have gotten integrally involved as directors or investors with financially troubled clients.



If you have multiple involvements with a client who ends up going bankrupt, rest assured that you will not walk away unscathed.

Disgruntled investors aside, receivers, trustees in bankruptcy, and government regulators will look to collect back losses any way they can, with professional liability insurance policies being a prime target, not to mention your personal assets. ✨

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