

Risky Business

Rethinking Lateral Hiring.

February 2019



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ALM Intelligence



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Methodology

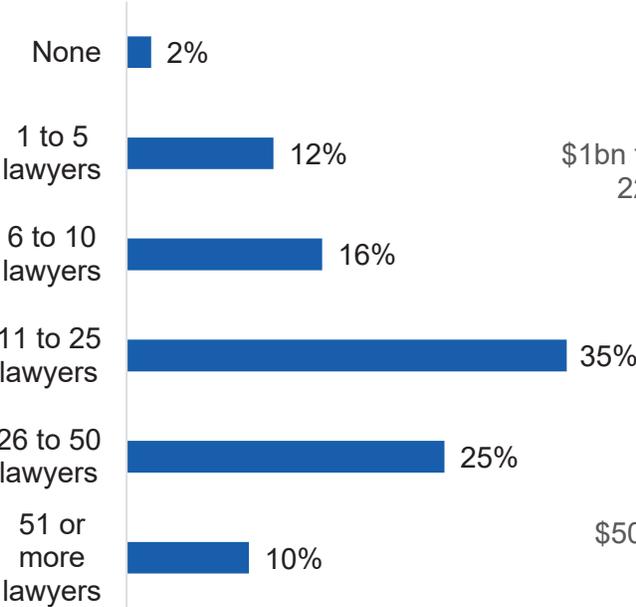
The data for the quantitative portions of this report came from a survey conducted by Decipher and ALM Intelligence as well as data from ALM Intelligence’s Legal Compass, which contains information on lateral hiring, law firm financial performance and geographic expansion since 1978.

The ALM Intelligence - Decipher Lateral Partner Hiring Survey gathered data from over a quarter of the Am Law 200. A broad range of firms were represented in terms of size, profitability, and lateral hiring activity (see Figure 1).

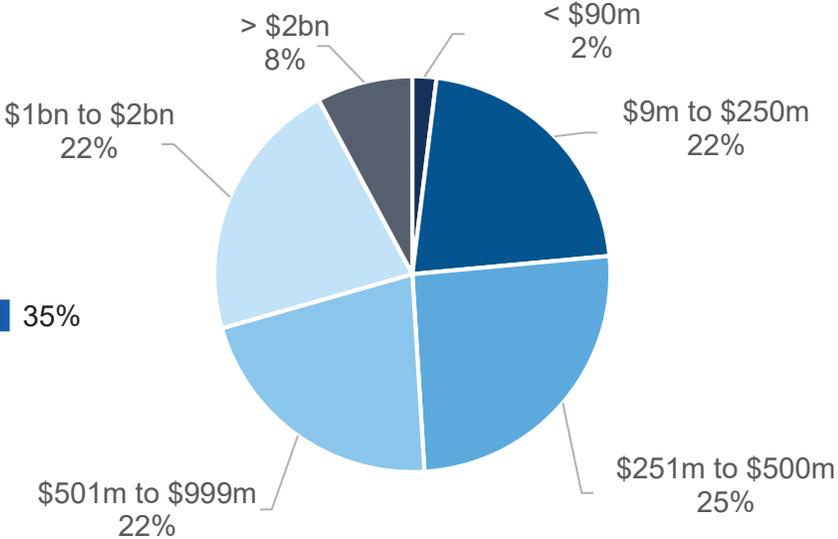
Over 50 one-on-one interviews were held with law firm leaders or other thought leaders with experience in lateral hiring. Interviews were held with over 40 Am Law 200 law firms representing a broad range of global, national, and regional firms. Interviewees typically held leadership positions within the firm holding titles such as managing partner, head of talent or lateral hiring manager. Topics discussed included, but were not limited to, lateral hiring strategies, due diligence, risk mitigation, and lateral partner integration.

Figure 1: The ALM Intelligence - Decipher Lateral Partner Hiring Survey

How many lateral partner hires has your firm made over the past 12 months?
Percentage of firms responding



What was your firm's revenue last year?
Percentage of firms responding





Introduction

The rewards associated with hiring lateral partners has made the practice an essential part of operating a successful law firm. However, the allure of increased revenue and profitability has dulled firms' senses to the immense risks inherent in the lateral hiring process. To some degree this is understandable. Hiring a lateral partner offers a quick and efficient solution to many of the thorniest challenges facing law firm leaders. For firms struggling with slow growth, lateral hiring offers the tantalizing prospect of new clients and new revenue. For those looking to expand into new markets, hiring provides a way to build scale in new services and new geographies quickly. To law firm leaders who have been struggling against difficult market conditions since the downturn and seek to grow their firm's market share, these opportunities have, seemingly, been too good to pass up.

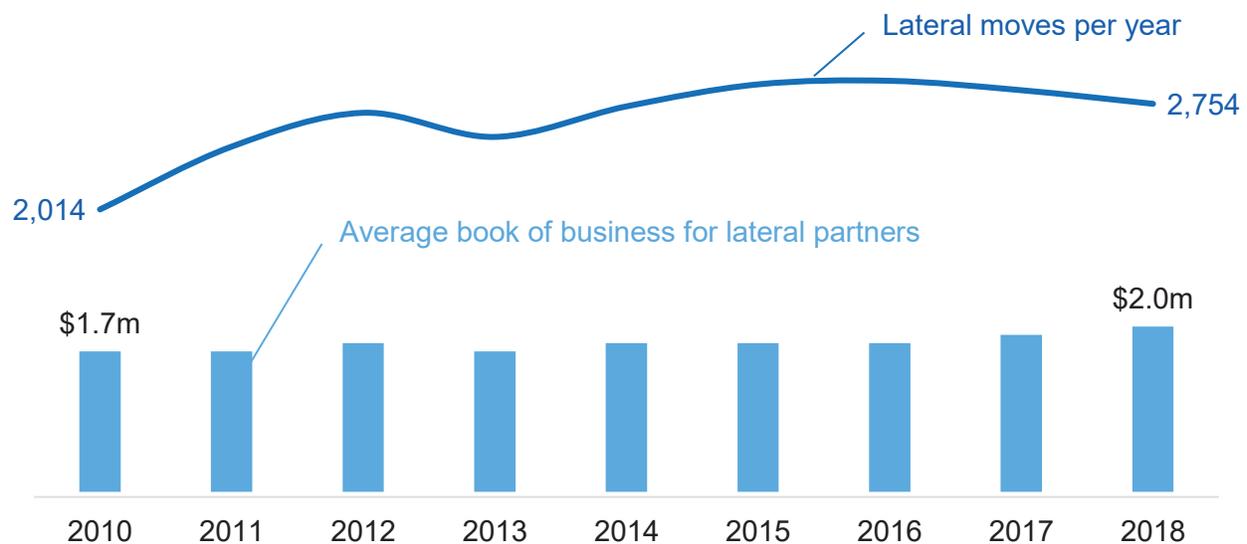
The total book of business moving through the lateral markets, from 2014 to 2018, is estimated to be \$17.1 billion for Am law 200 firms.

Here's the problem. The cost of acquiring lateral partners is incredibly high as are the failure rates. Why have most firms been willing to accept such low returns? Part of the problem is that defining what constitutes a 'failed' lateral hire is extremely difficult. No single study is detailed enough to accurately measure the many ways a lateral hire can 'fail'. Measuring 'failure rates' requires understanding the individual components of 'failure', which are fragmented across many sources. For instance, one study¹ by Hugh Simons, a former chief operating officer of Ropes & Gray, legal market researcher and commentator, and ALM Intelligence Fellow, found that almost half of all laterals do not even last five years at their new firm. The ALM Intelligence - Decipher Lateral Partner Hiring Survey, which features input from a quarter of the Am Law 200 and was part of the research for this report (see the Methodology section for more detail) found that nearly 70% of hires underperform in bringing their expected book of business. Such low success rates are particularly striking given the sky high costs of hiring laterals. ALM Intelligence estimates hiring a lateral partner in today's market averages \$2.3 million dollars, with the most coveted partners costing well over \$5 million. These figures suggest that the return on investment in the lateral markets is low.

¹ Global Lateral Hiring by The Numbers: A Look Behind the High 5-Year Attrition Rate, Hugh Simons, The American Lawyer, February 2017

Figure 2: The Importance Of The Lateral Partner Hiring Market

Lateral moves and average book of business of lateral hires
For Am Law 200 firms



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In addition to poor retention rates and financial considerations, large law firms are more scrutinized than ever before. Firms are being forced to police the behavior of their partners, address the growing cost of staff and associate turnover, and conform to the client's values on issues like diversity and pay equity. Revelations over the past eighteen months connected to partner misbehavior, and the empowered voice of the #MeToo movement have highlighted risks which law firms have, up to now, largely ignored. Law firms face significant risk from issues related to work place harassment and malpractice. Settlements in these types of cases can be enormous. The damage such cases do to a law firm's brand can be even greater. While any partner can commit these actions, there is some evidence to believe lateral partners may be more likely to be "bad actors." This evidence, along with the data presented in this report, suggests law firms should tread very carefully when considering lateral candidates.

The solutions to these problems are relatively straightforward. This report argues that law firms must start treating lateral hires as their own clients treat the hire of senior executives. Firms must see lateral partner hires as significant investments that will shape the future of the firm. Candidates must be consistently and thoroughly vetted from all angles. The business case for each hire must be examined and quantified. The risks related to these prized individuals must be investigated, understood, and, when possible, mitigated. Many firms may argue they are already

doing such investigations. Interviews with dozens of managing partners and heads of talent from Am Law 200 firms, which were held as part of the research process for this report, suggests some firms are following best practices. Those interviews also reveal that the due diligence process at most firms leaves much to be desired. Law firms vetting processes are uneven, incomplete, and, in most cases, merely skim the surface

“It takes leaders with a certain maturity and self-confidence to have their instincts tested with third party data about a candidate. Facts are our friends even if, or perhaps especially when, they are counter to our expectations”

- Hugh Simons, former COO of Ropes & Gray

To assist law firms in the process of overhauling their lateral hiring programs to improve success rates and reduce risk, this report examines the opportunities and the challenges law firms face in lateral hiring. The ultimate goal is to assist law firms with the evolution of their lateral hiring programs to a point where the risks and opportunities of each hire are fully understood and incorporated into the business plan, maximizing the chances of success, not only for the firm and the lateral, but for all stakeholders – staff, associates, clients, and leadership.

Figure 3: Almost All Firms Hire Lateral Partners

Percentage of law firms by number of lateral hires per year
Average of moves for Am Law 200 firms between 2014 and 2018

