

The Lateral Market

2011 prospects looks promising, but many challenges remain

If one were to look at the number of partner moves in the last six months, especially compared to the last three years, the 2011 crystal ball looks unusually rosy. Our four month pipeline of partner candidates that are in the final stages of the interview cycle is three times greater than the past 30 months. I hear similar tales from other search firms.

There is no question that most law firm leaders are much more bullish about 2011-2012 prospects than the last few years. Most responded to the severe recession by sharpening their pencils and cutting costs to the bone, and I mean to the bone - firing talent, laying off and de-equitizing partners, gutting human resources and other administrative departments, decreasing the ratio of secretaries to partners, closing or consolidating offices, holding off on capital expenditures, back-burnering business development and marketing initiatives, not replacing people who quit - cutting, cutting, cutting - across the board and very little hiring. With a few exceptions, the lateral market came to a screeching halt. Resumes - even those of highly credentialed laid off associates and fired partners flooded the market. I heard stories of some applying for paralegal positions.

Things are coming back. Business is picking up. Deal flow is increasing and the world has not come to an end. Partners have a bit more spring in their step. In addition, law firm leaders recognize you can only cut so much. Some in their zeal to cut "fat," severed tendons and ligaments along the way. Deferred hiring decisions are now rebounding with gusto. The pendulum has swung back to increasing profitability through top line growth - adding lateral partners, well-trained associates and revenue to the bottom line. Decision-makers recognize that capturing outstanding laterals with solid client relationships, portable books of business and excellent reputations are a powerful method of accomplishing strategic and financial growth objectives - and increasing market share.

Law firms are clearly less risk averse to bringing on laterals as opposed to the last three years where many were at best treading water against a fast moving downstream current. Books of business are getting back to respectable levels. Quite frankly, some partners actually maintained nice practices and generated solid numbers even during the blizzard. In an odd twist, it is many in this group who got penalized and earned significantly less than they should have.

Hot Practice Areas

Intellectual property, especially in the life science, biotech and nanotechnology as well as technology/wireless and clean tech sectors are heating up. The employment sector - especially in employment class actions is on fire. Two of our retained searches (So. and No. Calif.) are in this area. The complex business litigation and insurance coverage (carrier side as well as policy holders) are busy. A number of law firms - large and small are searching for trial lawyers and strong litigation partners - in almost every practice area. In some cases, there is enough overflow of business to make the book of business

requirement less rigid. It's been a few years since we have had to turn away business, but that is now the case.

Many established firms here are back in the hunt. In addition, a number of major regional and national firms based outside the State - some with "low-hanging fruit" business opportunities have in the last few years opened up offices throughout Calif. Some are flying under the radar. Many offer not only interesting practice growth and leadership opportunities but make a compelling pitch that they have the wherewithal to make attractive offers.

Greater Due Diligence

Not all is rosy for partners thinking of moving. The bean counters, especially those who see the glass more half-empty than full are the new gate-keepers. Many are scrutinizing numbers like never before and have raised the book of business bar. Some take longer to make up their mind, stuck in the analysis-paralysis mindset and are not nearly as opportunistic as a few years ago. It's almost as if they'll lose their first born if they think that they may make a hiring mistake.

Decision-makers are scrutinizing the partner's relationships with clients to a much greater degree. The default position of many is that partners exaggerate their books, over-hype the nature of their relationships and take credit for success of other partners. Some of these firms have been burnt in the past and simply assume that most partners over-promise and under-deliver.

Yet, we have found that the firms that weathered the storms and did reasonably well the last few years have less hand-wringers, move quicker on making decisions and are able to take a longer view of the partners growth prospects - not just "what have you done lately"? While many continue to have a questionnaire as long as the Gutenberg Bible, they look at the big picture. In addition, since the financial crisis has eased, more firms are thinking strategically and looking at long term strategic fits - not simply buying books of business or focusing on immediate revenue production. Yet, in the post - recession era, many remain skeptical about the financial data supplied. We have lost deals where the firm used a magnifying glass about the size of a Griffith Park Observatory telescope.

The Lateral Partner Psyche

And then of course, there's the psyche of the partner -especially those who have spent most, if not all of their career at the same firm. Most were absolutely shell shocked by the severe economic conditions and negative impact on their practice and compensation. Some even took a beating despite maintaining strong hours and collections. Even those who knew it in their self interest to move their practice got spooked. Granted, the devil one knows is often better than the devil one doesn't, but many partners took it to extreme. That mindset is trending back toward pre-recession thinking - especially as partners realize that the "free agent system" is alive and well. In fact, the recession and how many law firms reacted or perhaps over-reacted demonstrated to partners that the one who can best control their destiny is themselves - not their firm. The shellacking that law firms went through brought home greater introspection and the realization that a partner needs

to be a bit more detached on whether the firm is meeting his or her career needs and financial requirements - not just "I've been here a long time and like the people.

Quite frankly, many partners see little difference from law firm A, B or C. And in many instances they are right. At least they know what they have - with all the flaws and "issues" at present firm. Partners today are also generally more knowledgeable of the market and focus more attention - as they should - on the firm's partner profits, revenue per lawyer, how well managed their firm is, how effective the firm is at allocating its resources and provide a platform to grow their practices.

As someone who earns a living by facilitating the moves of partners and groups, all I can say is "Thank God, the recession is over." In the two and a half decades I have been in the legal placement business, I have seen some major ups and downs. This down-turn was by far worse than I had ever seen - and many firms are not out of the woods yet. The well-managed firms that got their house in order will have more success in the 2011 lateral market. Partners looking to move will have many more options. Now maybe I'll be able to afford that vintage 1912 penny arcade machine I have had my eye on!

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