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Midsized Maneuvers

Rate pressures bring laterals running

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With eight lateral hires this year, Sheppard, Mullin is not exactly buckling under the weight of the recession. Rate pressure at larger firms is driving partners to look around for better prospects, said Sheppard Chairman Guy Halgren.

"We hear a lot from lateral candidates: 'My current firm is pricing me out of my market,' Halgren said. "It's definitely one of the things that's a major point in every lateral conversation: 'How much flexibility will I have on my rate?' Our rates are generally lower than the firms from where our candidates join us."

While lateral moves at the top firms have nearly frozen, midsized firms like Sheppard, Mullin, Richter & Hampton; Buchalter Nemer and Allen Matkins Leck Gamble Mallory & Natsis, are regularly cranking out new-hire press releases.

While the motivations for partner moves are numerous and often complex, sources said midsized firms are seizing on several opportunities in the current economic downturn: Clients want lower rates; partners want more control; midsized firms that didn't go gangbusters on expansion in the boom times still have the resources to invest in smart hiring; and midsized firms are convincing partners they are more financially stable.

Besides, if your practice never needs that office in Dubai, why make your clients help pay for it?

"The regional firms tend to not have the overhead of these huge international firms," said San Francisco recruiter Avis Caravello. "For the right practice, the rates can be more attractive, and it can perhaps offer an opportunity for at least maintaining one's practice if not growing one's practice in this current climate."

Halgren said he's seen more lateral interest than in any other of his eight years at Sheppard's helm; and more than ever before, candidates want to know a lot



JASON DOY

SEEING OPPORTUNITY: Sheppard, Mullin Chairman Guy Halgren says the recession's rate pressure is bringing Big Law laterals to midsized firms.

about the firm's financials and its rates. He has scooped up 26 laterals over the past 12 months.

Halgren says a conservative growth strategy is paying off for 460-lawyer Sheppard as client-rich partners flee from bigger firms that have been bludgeoned by the financial crises.

Buchalter Nemer CEO Rick Cohen said the No. 1 reason the 155-lawyer firm has hired eight laterals since January is that partners are literally "being chased away by high rates at their firms."

"It is being driven by the knowledge of these attorneys that they need to remain competitive and they can't remain competitive at the rates they are being asked to charge," Cohen said.

Partners in practice areas like real estate, labor and employment, and intellectual property are more likely to be on the prowl for a better situation, he said.

"They have a lot of clients, but they don't have a lot of clients that are willing to pay the national firm rates," Cohen

said.

Firms that are able to hire were not affected by the recession as deeply as many of the larger AmLaw 100 firms, said consultant Richard Gary. With an upfront cash investment of at least "several hundred thousand dollars," lateral hires are an expensive proposition.

"They have the resources right now to invest in practice expansion, and they obviously are doing so. I think it's a function of the relative financial health and resources available," Gary said.

The recession has reinvigorated enthusiasm in the midsized model, which at one point was universally thought to be on its way out, Cohen said.

"Ten or 12 years ago, many people questioned whether there was enduring space in the market for a midsized firm like us," he said. "That debate has been put to rest in this cycle, and I don't think that debate will re-emerge for some considerable time."

Another factor driving partners to move

down the AmLaw tier is that hard-to-pin-down partnership “feeling” and a disillusionment with the centralized management model.

Partners want more control over the administration of their practice and less oversight coming from “farflung committees” that are constantly tracking billables and expenses, said recruiter Peter Ocko of Major, Lindsey & Africa. Or they’d rather focus more on practicing law than following that “strategic plan” handed down from an unknown partner on the other side of the country.

“They see [in a mid-sized firm] a firm that’s not going to micromanage them

and introduce them to 14 different administrative partners,” said Ocko, who has recruited for Sheppard, Buchalter and most other Los Angeles-based firms.

Cohen has heard from a lot of attorneys in satellite offices of international mega-firms looking for a change.

“Apparently the atmosphere of a branch office can be very oppressive, because they feel like decisions come from afar and they don’t feel like they have very much input into those decisions,” he said.

Halgren said of his partnership, “We are not a town hall, but we are definitely a democracy.” The partnership has voted on no less than 46 items over the past year,

on every major financial commitment, every lateral partner and every change to the partnership agreement.

“I do think that some people have looked at the size of the firms they were in and decided that that does not provide them with value,” Halgren said. “A lot of the candidates that we’ve been successful at hiring really wanted to get in a situation where they knew their partners and could get involved.”

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