Surmounting the Lateral Partner Hiring Challenge:
Lessons Learned, Best Practices, and Tools for Success

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Emerging from the shadow of the Great Recession, law firms are returning to the familiar strategy of lateral partner hiring to generate growth. Faced with the challenges of a slow economy and an increasingly competitive market, firms see the acquisition of a book of business and the reputation of a partner at another firm as a method of gaining and defending market share. Unfortunately for managing partners, converting lateral partner hiring into revenue growth is anything but straightforward.

Figure 1. Lateral Partner Hires By Year, Am Law 200, 2000-2014
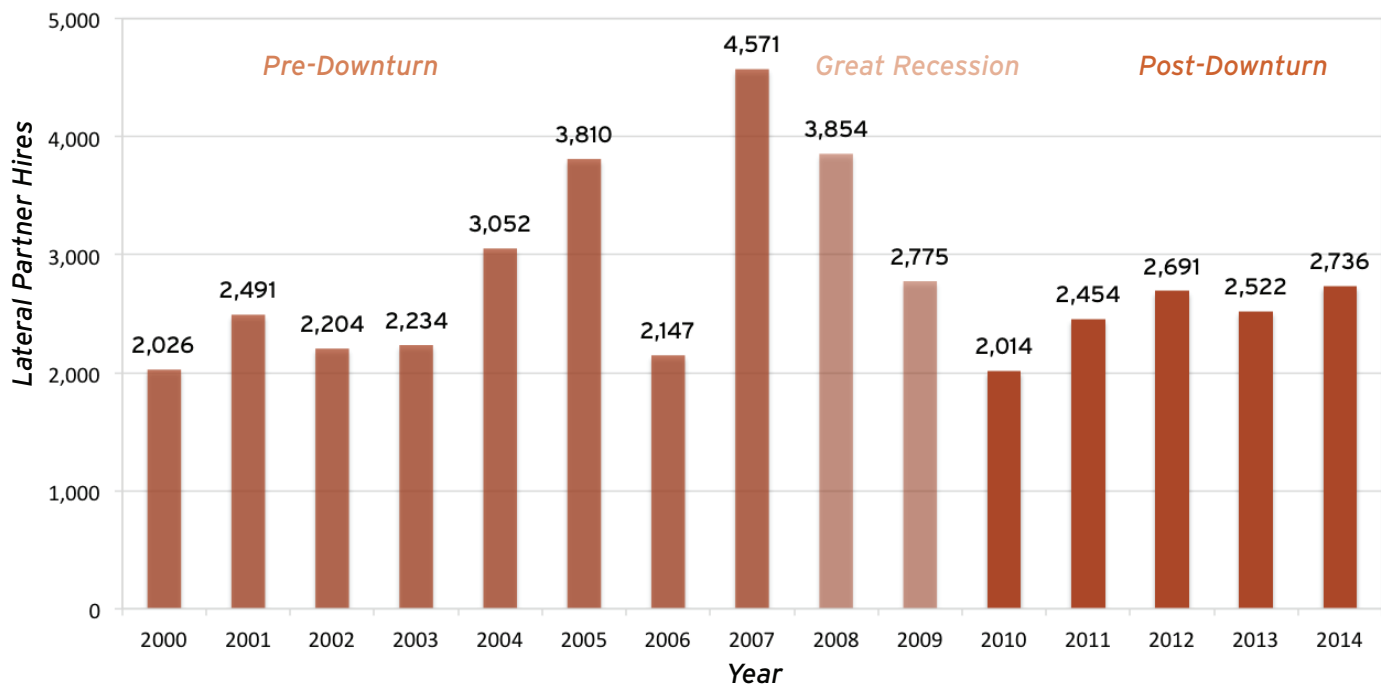
Source: *The American Lawyer Lateral Partner Report,* ALM Legal Intelligence, 2015.

Since 2010, lateral partner moves have increased by 36% (Figure 1). In 2014, the strongest year for partner hiring since the recession, more than 50 lateral partners were hired each week by the Am Law 200. ALM Legal Intelligence estimates these hires cost the Am Law 200 an estimated $1.3 billion in compensation alone.

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If these investments had strong rates of return, the hefty dollar amounts that law firms have been pouring into lateral hires would be of litt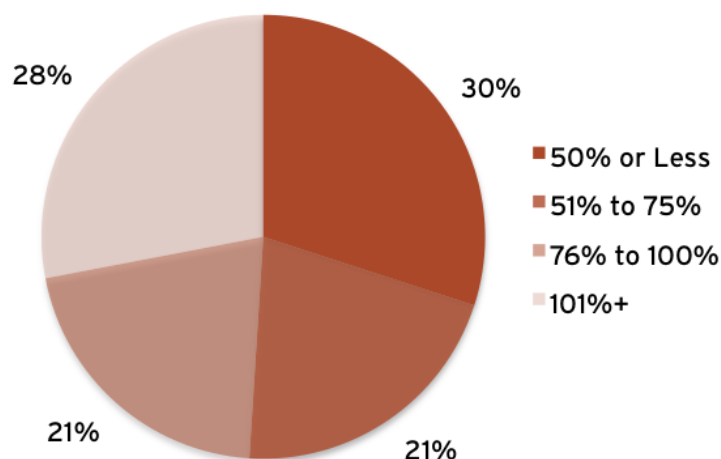le concern to managing partners. Data from recent years indicates, however, a highly inconsistent level of return on lateral partner investments. ALM Legal Intelligence's research, informed by a survey of the NLJ 350 and dozens of interviews with law firm managing partners and recruitment managers, suggests that law firm investments into lateral partner hiring have break-even rates of as low as 50%. Survey respondents reported that while 28% of candidates deliver more than their promised book of business, 30% delivered less than half (Figure 2). While experiences vary significantly from candidate to candidate and firm to firm, ALM Legal Intelligence estimates that the net effect of these difficulties could be shrinking law firm profit margins by as much as 3%.

Figure 2. Percentage of Lateral Partners by Realized Client Billings

- 50% or Less
- 51% to 75%
- 76% to 100%
- 101%+

Source: *2015 ALM Legal Intelligence/Group Dewey Consulting Lateral Partner Hiring Performance Survey.*

These findings provide strong evidence for why many law firms told ALM Legal Intelligence (in interviews and survey responses) that they were dissatisfied with their lateral partner hiring programs. ALM Legal Intelligence's research in this area indicates that the success of a firm's lateral hiring program is highly connected to the way that firm defines its hiring needs, vets candidates, and onboards new hires. The findings described herein suggest that firms are aware of many of the practices that could support higher success rates, but few firms have developed a comprehensive infrastructure to support the lateral hiring process in a way that creates consistent and successful outcomes.

Law firms have evolved significantly in some areas of the lateral partner hiring process. Since the downturn, for example, there appears to have been a shift away from long-term salary guarantees as firms have adopted a more rigorous approach to assessing the financial risks that accompany a hire.

In other areas, levels of law firm sophistication are more varied and generally depend on how closely the firm has scrutinized its current processes. Nearly 40% of firms, for example, report that they do not specifically identify the expertise they require from lateral candidates, instead relying on general profiles. This lack of specificity, interviewees reported, can lead to deviations from the firm's strategy toward opportunistic hires that promise, but do not always deliver, revenue gains. Additionally, a third of firms reported they have no formal integration plan, and a majority of those that do have a formal plan reported that their plan focuses on administrative issues with little mention of business planning.

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Firms on the leading edge of lateral hiring program development have looked to introduce a holistic and process-oriented approach – one that stresses accountability, objectivity, and repeatability. Most importantly, leading firms are ensuring they are well positioned for the long run by anchoring their lateral hiring processes on clearly established strategic objectives.

This report details each phase of the lateral hiring lifecycle from needs assessment to post-hire integration. While highlighting opportunities and challenges, it also reviews the range of hiring practices active in large and midsize law firms. The report also includes a series of tools to help law firms assess the portability of a candidate's book of business, help onboard new hires, and assess the effectiveness of the firm's lateral hiring program as a whole. The central aim of this work is to forward the discussion on this important topic and recognize practices which have been shown to support increased success.

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RESEARCH METHODOLOGY

The methodology used for this report consisted of a combination of research tactics, including results of ALM Legal Intelligence and Group Dewey Consulting's *2015 Lateral Partner Hiring Performance Survey*, four weeks of one-on-one interviews with managing partners and recruitment managers at major law firms, data analysis of ALM Legal Intelligence's proprietary data sources, the authors' practical knowledge from working in the legal industry, and a review of the body of research conducted by others on the topic of lateral partner recruiting and integration.

ALM Legal Intelligence and Group Dewey Consulting (GDC) collected information from more than 50 law firms and spoke with leading recruitment agencies and consultants who work with law firms on topics connected to lateral partner hiring. Interviews typically lasted 45 minutes and covered a range of topics related to the needs definition process, candidate selection, compensation, and post-hire integration.