

Can Cultural Fit Predict Lateral Success?

A recent report by ALM Legal Intelligence provides some eye-popping statistics on the performance of lateral hires among the AmLaw 200. Analysis of their latest research suggests lateral recruiting is a risky growth strategy. Laterals among the AmLaw 200 have as much as a *47% failure rate*, are only *50% likely to stay five years* and 'failed' laterals cost the industry an *estimated \$2 billion a year*! The report goes on to estimate that the average cost of acquiring a lateral partner in 2018 was *\$2.3 million*, including one year of compensation, recruiter fees and other internal costs. Multi-year guarantees are even more expensive. Egad!

The research, based on interviews with law firm leaders, suggests that firms don't do a good job of figuring out the 'cultural fit' of the lateral with the firm. One law firm leader commented that "the group didn't think about how these people would fit in." As such, the report suggests that cultural fit needs to be amplified in the due diligence and integration processes. But does it? Does 'cultural fit' predict lateral success or is it the result of lateral success. More to the point, can cultural fit be reduced to a set of metrics to be evaluated and compared across individuals like 'personality' tests? Are personality tests reliable? I'd argue they are not. Personality and culture are fuzzy concepts.

It's hard to imagine a lateral who brings the majority of their book of business to a new firm *not* fitting in. As such, 'He didn't fit our culture' sounds more like an explanation than a cause. With stakes so high, we need to understand the causes of failure and the drivers of success. A focus on 'getting better at determining the cultural fit' as opposed to getting better at understanding practice and client dynamics is leading us further from a solution to the lateral hiring challenge. Culture follows rainmaking. Not the other way around.

In my work with laterals, and as the creator and co-author of the ALM Legal Intelligence Lateral Hiring Report in 2015, I've come to the conclusion that success is best predicted by the practice and client characteristics of the incoming lateral's book of business. The industry needs a common set of metrics to evaluate the potential for client mobility. No due diligence process in any other industry would be considered complete without such an analysis.

Further complicating our due diligence is the fact that what we look for in laterals is also, often times, the qualities that make it hardest for clients to switch firms. For instance, we look for laterals with a large book of originations. But a large book of originations is often the result of laterals who have cross sold numerous services into their client companies. That's a good thing for the firm who enjoys those deep ties throughout the firm. But not so good for a firm looking to buy those ties. Each additional practice area divides the chance in half that client company will follow the lateral. A single use practice is much more mobile than a practice which has tentacles into several different practice areas. This common-sense reality is rarely included in the analysis or in the due diligence process. Shouldn't these and other factors be included in the Lateral Partner Questionnaire and in candidate interviews? I suggest that they should and that they are long overdue as evidenced by the atrocious fail rate. Lateral hiring today is little more than a crap shoot.



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A whole new view of the viability of any candidate can be gained by examining the lateral's client relationships; each client company's likely risks and motivations for making a move; the cross-servicing depth and entrenchment characteristics; the economics and incentives available to encourage a move; and the client company's reliance on the lateral or other practice areas, among other criteria. The indicators of client mobility, while not yet scientific, do lend a degree of objectivity to the analysis. The above considerations are just a couple of the analysis points that need to be considered for a complete due diligence analysis. This type of analysis requires not only deeper, probing questions by the recruiter but an understanding of business fundamentals, business decision making processes and, to an extent, an investigative curiosity.

The individuals who conduct the due diligence interview can also be a problem. As owners of the business, Partners are most often charged with vetting lateral candidates. While it is easy to think that the practitioners of a practice are best suited to assess a competitive practice, experience shows that is simply not the case. In my years of coaching the most senior partners in the largest law firms in the world, I've found that lawyers often have a difficult time seeing the structural challenges inherent in their practices or in the practices of others. They have an even harder time identifying the best strategy to overcome those challenges. Even turned on the practice of a competitor they fare no better. The potentiality of a partnership with that competitor creates its own biases and blindness. A professional, objective assessment makes more sense.

Many firms view the challenge of lateral recruiting as a challenge of finding a supply of qualified candidates. That's only part of the problem. A larger challenge is formulating a sound vetting strategy. The truth is that law firms that don't have rigorous vetting procedures in place are most often the ones burned. Granted. A more rigorous vetting process will result in fewer hires. But those fewer hires will be more likely to work out long term and meet revenue expectations more consistently along the way. It has the added benefit of improving client satisfaction, enhancing the firm's recruiting reputation and improving the firm's investment ROI. More laterals is not better. Better laterals is better.

The due diligence process I have long championed requires a deep dive into the lateral's client mix, relationships and practice synergies. These are objective criteria that can be easily evaluated through the candidate interviewing process. What's more, the criteria changes depending upon the practice area. In most firms, the firm uses the candidate's projections for which clients will move to the new firm. Rarely, are the criteria discussed in advance of this analysis. Instead, firms take the word of the candidate that their clients will move. And more times than not, they are wrong.

As for cultural fit, I leave that evaluation to the partners since it is something too difficult to understand from the outside. But I also believe cultural fit is a self-fulfilling prophesy dependent wholly on the volume of client movement. In other words, it is a result, not a predictor.

Laterals are counted on to solve all kinds of problems for law firms from entering a new market to boosting revenues to infilling expertise. It behooves us to find a better solution framework and better up front analysis, especially when the goal of recruiting is to boost revenues. Maybe a loss of \$2 billion on revenues of \$17 billion is an acceptable cost of doing business for the industry. But lateral failures have hidden costs that may be even more costly in firm morale and client satisfaction. It's time the industry take a more thoughtful approach to lateral hiring and start a conversation inside the firm about the data points that can predict lateral success.



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