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LATHAM & WATKINS CHAIRMAN ROBERT DELL AND CHIEF OPERATING OFFICER LEEANN BLACK

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FIRM LEADERS SURVEY

Peer Approval

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AS SUCCESS STORIES GO, it's hard to beat Latham & Watkins's. Twenty-five years ago, the firm was based in Los Angeles, with a couple of offices elsewhere in Southern California and one in Washington, D.C. Today it has 22 offices around the world, and its gross revenues are second only to Skadden, Arps, Slate, Meagher & Flom's on The Am Law 100. From 1994, when current chairman and managing partner Robert Dell took the helm, through 2005, Latham's gross revenues rose 430 percent, compared to 149 percent for The Am Law 100 as a whole. A generation of firm leaders has watched Latham climb the Am Law 100 gross revenue rankings from ninth in 1994 to second in 2005, eclipsing Baker & McKenzie for the first time, and nipping at the heels of perennial number one Skadden.

Naturally, expansion is part of the story. The firm successfully moved into New York in the eighties, and has set its sights on overseas growth. Between 1994 and September 2005, head count rose 183 percent, from 518 lawyers to 1,615. (Average head count growth for The Am Law 100 as a whole during that time was 74 percent.)

But expansion hasn't come at the cost of the bottom line. Latham's profits per partner were $1.6 million last year, nineteenth among Am Law 100 firms, and revenue per lawyer was $875,000, about $150,000 better than The Am Law 100's average. Last year, Latham was one of only a few Am Law 100 firms to beat the curve in both revenue per lawyer and head count ["Growing Pains, May 2006]. The firm's management has been stable—it has had only three managing partners in nearly 40 years. And thanks to solid ratings in pro bono, diversity, and midlevel satisfaction, as well as strong financials, Latham has landed in the top ten of *The American Lawyer's* A-List every year since the list's inception in 2003.

It's little surprise then that when law firm leaders were asked to name the firm (other than their own) that they most admire for its management, they named Latham more than three times as often as any other firm. When told of the results, Dell quipped that his firm had "fooled the world." But a competitor, Morrison & Foerster chair Keith Wetmore, has another theory. "I think [Latham is] a firm that many would think of as the first, and thus far most effective, non–New York–centered, non–New York–originated firm to transition to being a top global firm," he says.

How has Latham stayed in a financial sweet spot while growing into a global megafirm? And how has the partnership maintained its cohesion while expanding around the world? Latham has grown strategically, targeting high-end corporate, litigation, and finance work in major capital markets. The firm has brought in consultants, spent hours in committee meetings, and nurtured a reputation for teamwork on complex deals and litigation. And, as some competitors say privately, occasionally it's gotten lucky. But more often, it seems, Latham makes its own luck.

If Latham's lawyers were asked to name the firm's most-admired managing partner, the late Clinton Stevenson would likely get at least three times as many mentions as the next contender. Stevenson, who died in March, headed the firm for 21 years, beginning in 1967, when Latham was a 34-lawyer outfit in Los Angeles. "We have been a firm that, well before other firms, thought about management," Dell says. Practices that Stevenson implemented have stuck with the firm to this day. There's still an extensive system of committees on which even rainmakers serve. Associates sit on all panels except the executive committee. Partners are paid performance bonuses out of a fund made up of 15 percent of the partner revenues. Stevenson "had great ideas," says John Walker, Jr., who succeeded Stevenson as managing partner. "They were not revolutionary in terms of business, but they were revolutionary in law."

Stevenson also brought corporate-style strategic planning to Latham. On his watch, Latham branched out from Los Angeles to Orange County, California, in 1972; Washington, D.C., in 1978; and San Diego in 1980. In 1982 the firm moved into Chicago by picking up 20-lawyer litigation boutique Hedlund, Hunter & Lynch, the home of second-year associate and future Latham chair Dell.

But Stevenson's most important and risky launch was into New York in 1985. "It has been a goal of the firm since 1985 to build a New York office as the center of the firm and a platform for global expansion," says Walker. "That's the capital of the law practice." Starting with about a dozen homegrown lawyers, Latham built the New York office on high-yield debt and private equity work ["Princes of the City," June 2005]. In its first year in New York, Latham picked up Kirk Davenport II, an associate from Cravath, Swaine & Moore, who has helped anchor the firm's relationships with Wall Street clients and who is now cochair of the firm's corporate finance practice. The addition of 31 lawyers from the failing Mudge Rose Guthrie Alexander & Ferdon in 1995 strengthened the office's litigation and intellectual property capabilities. Today, New York is Latham's largest office, and the firm's Washington, D.C., office rivals its Los Angeles office for second place.

When Walker succeeded Stevenson in 1988, Latham was at a precipice. Its biggest clients were in trouble. Hughes Aircraft Company had been acquired by General Motors Corporation, Drexel Burnham Lambert Incorporated went bankrupt, and business from Kohlberg Kravis Roberts & Co. dried up. More than 20 percent of Latham's revenue stream vanished, and softness in the legal services industry in the early nineties left little opportunity for new growth. Latham's profits per partner fell from $670,000 in 1989 to $455,000 in 1992.

Walker had wanted to diversify the firm's practice mix by expanding into environmental, telecommunications, and banking work. But the downturn required his attention. In 1989 he did away with the firm's uniform pricing structure—every Latham lawyer, from first-year associates to senior partners, had been billing at the same hourly rate. Three years later, in a controversial move, Walker laid off 43 associates without consulting the associates committee ["Latham Sheds Its Skin," June 1993]. The firm also dropped its lockstep compensation system in favor of one that awarded business development and expansion. "All of these things put the firm at risk," Walker says. He says he felt that the reforms were needed to ensure Latham's future,

LATHAM'S LANDSLIDE

By a wide margin, respondents to the Firm Leaders Survey singled out Latham's management for praise.

Other than your own, which two firms do you admire most for their management?

FIRM	MENTIONS
Latham	38
Orrick	11
Skadden	11
Jones Day	7
Reed Smith	6
Simpson Thacher	6
Sullivan & Cromwell	6
Morrison & Foerster	5
Wachtell	5
Cravath	4
Debevoise & Plimpton	4
Goodwin Procter	4
Hogan & Hartson	4

but worried about harming the firm's culture.

Leaner from the layoffs, Latham lawyers aggressively pursued their former Drexel clients to new addresses ["Latham's Leap Forward," April 1997]. The "Drexel diaspora" provided a foundation for the New York office. Revenue per lawyer grew from $455,000 in 1992 to $645,00 in 1999. Profits per partner rose from $455,00 to $1 million. But Walker did not preside over much of that recovery. In March 1994, two years into his second term as managing partner, Walker stepped down, setting the stage for Dell.

MORE THAN ANYONE, DELL embodies Latham's ability to develop leaders. As a young litigator, he served on the firm's associates committee, which is responsible for biannual performance reviews of each of Latham's associates. In the course of looking at each associate's work, committee members—about half of whom are associates—get a sense of the breadth of the firm's practice. Moreover, the committee evaluates the slate of lawyers up for partnership and makes recommendations to the executive committee. "The associates committee is a unique institution to us," Dell says. "When I talk to laterals, it's the one system [where] they pause and ask, 'Does it really work that way? Do the associates really have that impact?' And I tell them, 'Absolutely.' You have to be here to experience it."

By most accounts, Latham's associates committee is the nerve center of the firm and a training ground for leadership. Six current members of Latham's seven-person executive committee previously served on the associates committee. After making partner in 1985, Dell became the youngest chair of the committee ever.

Work on the associates committee set Dell up for future leadership opportunities. When Latham moved into San Francisco in 1990, Dell—a lifelong Midwesterner—was chosen to head the office. After initially hesitating, Dell set out to build a top-flight litigation practice through lateral hiring and building his own client base. By 1994 Dell had built the office to 35 lawyers, and when Walker announced he was stepping down, Dell, 43 at the time, emerged as one of three leading candidates to fill the post.

Dell's election showed that, 16 years after first expanding beyond its traditional base in Southern California, Latham was ready for a managing partner who resided outside of Los Angeles. "The fact that Bob was not in L.A. was a symbolic plus," says Walker. By remaining in San Francisco, Dell helped dispel the notion that Latham was a Los Angeles firm with a string of branch offices—a "one-firm firm," as management consultant David Maister puts it.

For his first year as managing partner, Dell maintained his litigation practice part-time, out of concern, he says, about ending up young and clientless. But Latham's partnership did not want a part-time chairman, and Dell has devoted his full attention to firm leadership since then.

Given Latham's geographic expansion, Dell spends much of his time traveling. He estimates that he spends 50–70 percent of his time on the road, meeting with partners, lateral candidates, and clients. He spends 25 days a year meeting in person with the firm's seven-member executive committee and holds an additional 40 meetings a year with the panel via conference calls. He also speaks frequently by phone with the firm's lawyer-managers—22 office managing partners, five global department chairs, and 27 committee chairs.

Twice a year all Latham partners come together for retreats, and the whole firm, including associates, meets every other year. At each meeting Dell gives a one-hour state-of-the-firm address, but he says the real business of the meetings occurs at about 100 breakout sessions that bring together practice groups and client teams from across the firm to discuss strategy.

Latham added a second partner to full-time management in 2002, electing Washington, D.C., litigator Mark Newell to be the firm's first vice-chairman and chief operating partner. Newell has not been formally designated as Dell's eventual successor—Dell says there are several people at the firm who would be capable of that—but both men say many of their roles and responsibilities are interchangeable. Generally, though, Newell tends to handle matters within the partnership, freeing Dell to focus more on strategic planning, lateral hiring, and potential acquisitions.

Latham's nonlawyer C-level executives—a chief real estate and facilities officer, chief information officer, chief financial officer, chief marketing officer, chief human resources officer, chief library and records officer, and chief administrative officer—all report to LeeAnn Black, the firm's New York–based chief operating officer. Black joined the firm as finance manager of the New York office in 1987; since then, her role has grown to involve oversight of firmwide finances and an administrative staff of about 1,900. She is also an ad hoc member of the firm's executive committee.

In 1999 Black headed a drive to make Latham's financial returns accessible to the firm's lawyers by computer. The firm has had a policy of financial transparency since Stevenson's tenure, and the upgrade was an attempt to match that philosophy with the latest technology. Since 2003 the system has provided personal tax information, including K-1 forms, for all partners. Latham partners now have access to financial statements within 24 hours of the closing of the books at the end of each month. Both partners and associates can track the pace of billings by office and department in real time. (Associates can see their own billings and per-office averages, but

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not those of other associates.) Collections data is also available online.

Latham's growth under Dell has come in spite of a lateral-hiring process that is unwieldy at best. Candidates take a tour of Latham that can involve stops at upwards of eight offices and interviews with more than 100 of the firm's lawyers. It can take a week or more to complete. Latham partners say that the process is an attempt to maintain a true partnership, even as the firm takes on the size and spread of a corporation.

Through lateral hiring, Latham has landed a steady stream of rainmakers. Biotech specialist Alan Mendelson jumped to the firm from Cooley Godward in 2000. Mergers and acquisitions partner Charles Nathan arrived from Fried, Frank, Harris, Shriver & Jacobson in 2001; in 2005 he was joined by Barry Bryer, a rare defector from Wachtell, Lipton, Rosen & Katz. In November, Latham landed Sean Berkowitz, the director of the U.S. Department of Justice's Enron Task Force. In fact, three of the five current global practice chairs at Latham came to the firm as laterals—litigation chair Peter Wald (from Heller Ehrman), environmental chair David Hayes (from Hogan & Hartson), and finance chair Victoria Marmorstein (from Coudert Brothers).

Still, Dell acknowledges that the firm misses out on some top-flight laterals because of the process. Some candidates complain that they cannot take five or six days off from their practices to interview, especially when offers from other firms are already on the table. But he and other Latham partners say the lost opportunities are more than made up for by the process's cohesive value. "A lateral gets a very clear picture of what the [firm's] culture is," says Miles Ruthberg, a Los Angeles litigation partner who came to Latham from Heller Ehrman in 1996. "There's a reason Latham partners 3,000 miles apart from each other say the same things. There are certain ways of doing things that some people share and buy into."

BY THE END OF THE NINETIES, Latham's management faced a choice. Having expanded into the nation's major financial centers, the firm could move into secondary capital centers in the United States or strengthen its global reach. The firm opted for the latter, lured by a wave of high-yield bond work hitting the European market. Latham brought in consultants from McKinsey & Company in 1999 to gauge the firm's ability to succeed internationally. After interviewing clients and lawyers at the firm, McKinsey consultants deemed the firm suited to expand in early 2000.

Latham moved boldly, engaging in merger talks with the London firm Ashurst in 2000. Although no merger occurred, the talks helped whet Latham partners' appetite for European expansion. "Those discussions and meeting a lot of people from Ashurst helped people understand the European marketplace much more," says Latham London partner and executive committee member David Miles. The firm went on in 2001 to add 40 lawyers from German firm Gaedertz in Hamburg, and 80 lawyers from Dutch firm Stibbe in Paris. Latham has gone from 33 lawyers practicing outside the U.S. in 1999 to 438 in 2006.

More than a decade into his job, Dell has something in common with the leaders at Skadden and Orrick, Herrington & Sutcliffe, the firms that tied for second place on the survey's most-admired question—a long tenure. Dell and Skadden's executive partner Robert Sheehan have held their respective posts since 1994, and Orrick's Ralph Baxter, Jr., has been his firm's chair and chief executive officer since 1990. "There's kind of a Darwinian element to this," says Baxter. "If you aren't successful, and if the partners don't regard you as someone who can be, you won't last a long time."

Now 54, Dell says that he may consider running for another five-year term as chairman when his current term ends in 2010 but that it's too early to commit. "That depends first and foremost," he says, "on how my partners feel about me, which can change and can change rapidly." For now, Latham's partners seem content—and Dell's counterparts at other firms have noticed.

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