

Why big US law firms are on a UK hiring spree

By Jane Croft

16th March 2018

British lawyers are jumping ship — but the magic circle is fighting back

When private equity lawyer David Higgins left Freshfields for Kirkland & Ellis on a reputed \$10m a year package, his move reflected dramatic shifts in London's law firms.

The 48-year-old last year became the latest star lawyer to defect to a US firm from the traditional "magic circle" — the elite cadre of London firms, privately owned by partners, who work on the most prestigious corporate deals.

Until recently, few lawyers who reached the top ever left the magic circle — and it is easy to see why. Step inside their offices and you could be inside an investment bank, with cavernous, marble-floored receptions and corridors of meeting rooms adorned with expensive modern art.

Trainees work long hours but can expect multimillion pound pay cheques if they are selected to become partners. Others decide the sacrifice is not worth it, especially as many may not become partners until their late 30s.

One ex-magic circle millennial lawyer recalls: "Some contemporaries used to say: I can't work any harder, so why don't I move somewhere that pays twice as much?"

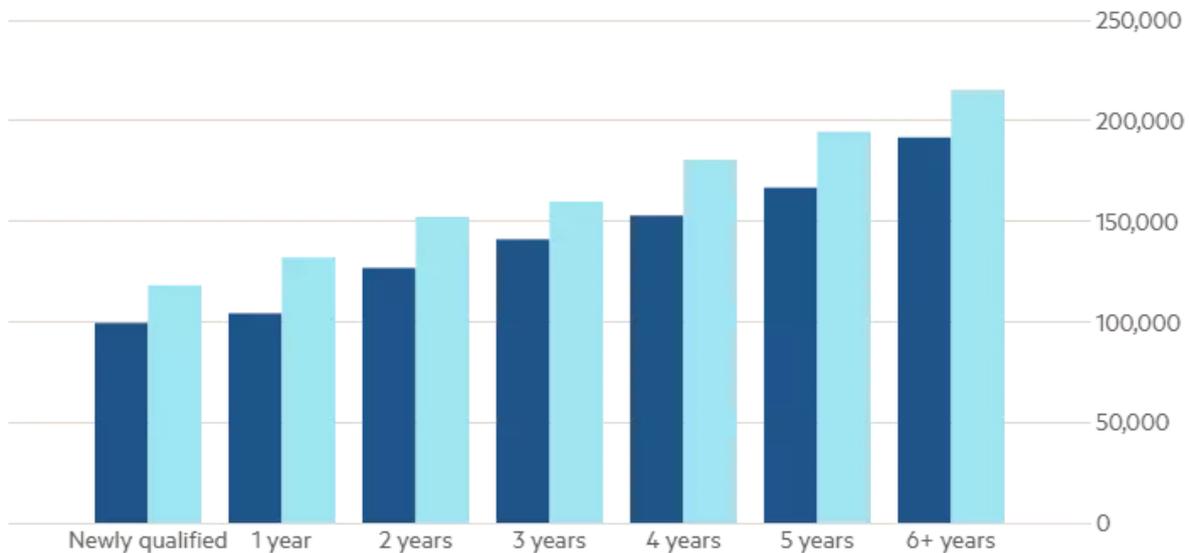
Now there are more opportunities to do just that. US firms with London offices are on hiring sprees — and magic circle firms are their first port of call. Americans promise more money and access to US clients in "red hot" areas, such as private equity or white-collar crime. These firms have links to US investment banks and private equity firms which have been raising record sums for more corporate deals. US law firms have benefited from advising clients in the recent buyout boom, as well as advising companies in complex regulatory probes.

Charlie Geffen, chair of US firm Gibson Dunn's London corporate practice, left Ashurst in 2014. He says lawyers who make the leap are more likely to work on global regulatory investigations opened by the US Department of Justice, such as Libor manipulation.

Salaries for lawyers, in the UK, working in "magic circle" law firms

Data show minimum and maximum salaries, according to years of experience, in US\$ (converted from £ using latest exchange rate)

■ Minimum ■ Maximum



Source: Hudson — '2017 Legal Salary and Rates Guide, London'

© FT

“There has been an increased trickle of talent from English firms to US firms. Five years ago it was unthinkable, but US law firm culture is now much better understood,” he says.

Kirkland has hired at least nine partners in London, including Mr Higgins, from magic circle firms since 2015. Cooley, another US firm, set up its London office from scratch in 2015, hiring 20 partners at launch. Others hiring magic circle partners include Latham & Watkins and White & Case, which poached Patrick Sarch, Clifford Chance’s global banking co-head.

But Mr Higgins’ \$10m move is most startling. “That sort of number is not generally something you would see in the London legal market,” says Justin Stock, London managing partner at Cooley. “Everyone is talking about it.”

Top lawyers are already well paid. Profit per equity partner (PEP) — a key performance metric — at a magic circle firm such as Allen & Overy or Linklaters can be more than £1.5m, though star lawyers earn more. In a US firm they can earn \$3m or more.

For an associate lawyer one step below partner, switching to a US firm may mean the difference between being paid £120,000 at a UK firm or more than £200,000 at a US peer. Newly qualified lawyers working for US firms can earn up to \$180,000 — far more than the £80,000 at a London firm. Some, like Kirkland, pay London-based staff in dollars, insulating them from fluctuations of the pound after the UK’s vote to leave the EU.

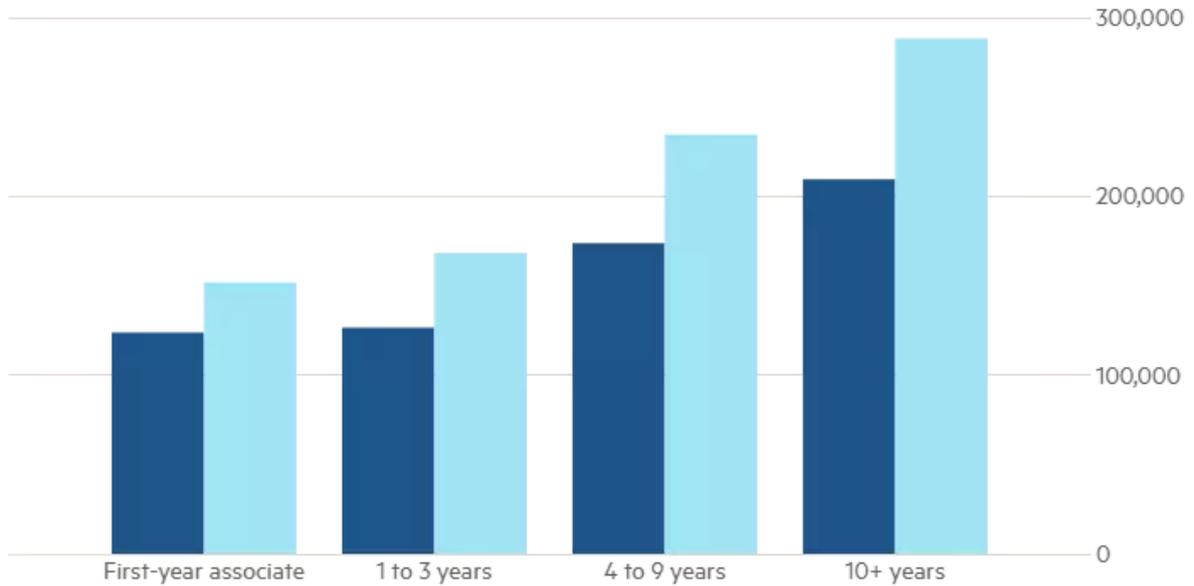
But US firms often demand longer hours than counterparts. One headhunter estimates lawyers at US firms clock up 2,200 hours a year, compared with 1,800 at magic circle firms.

FINANCIAL TIMES

Salaries for lawyers, in the US, working for large law firms

Data show minimum and maximum salaries, according to years of experience, in US\$

■ Minimum ■ Maximum



Source: Robert Half Legal — '2017 Salary Guide For The Legal Profession'

© FT

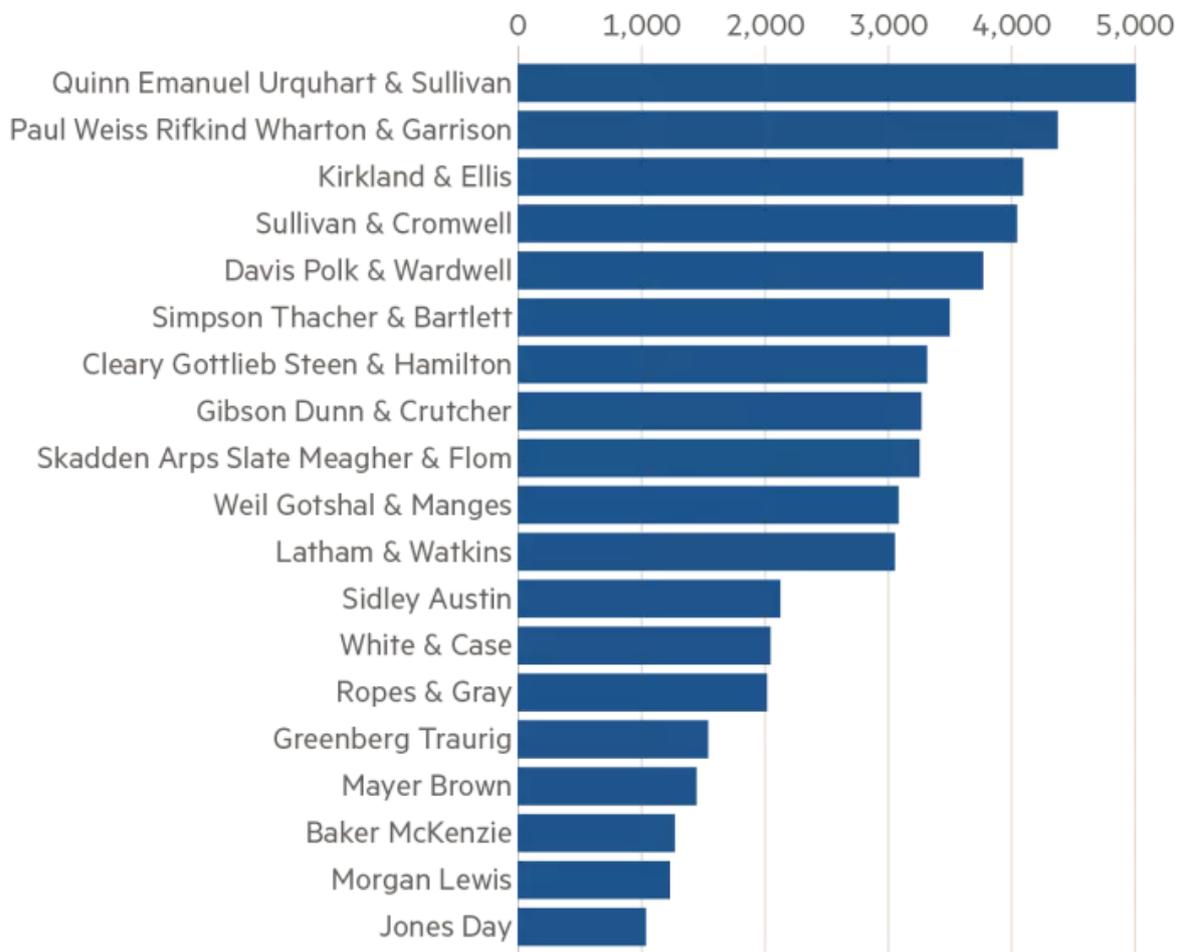


Justin Stock, London managing partner, of US law firm Cooley which hired extensively when it set up offices in London in 2015. © Charlie Bibby/FT

FINANCIAL TIMES

US law firms average compensation per partner in 2016

Profit per equity partner (PEP) in US\$ (k)



Source: The Lawyer magazine
© FT

Lawyers who switch to US firms can expect an entrepreneurial, fast-paced and “sharp elbowed” culture. Partners brought in on a guaranteed salary of \$3m for two years are usually expected to bring clients and hit billing targets of four or five times that amount. “You have to deliver otherwise you will be out within two years,” says one partner at a US firm, who did not want to be named. Others describe such guarantees as “like having a target on your back”.

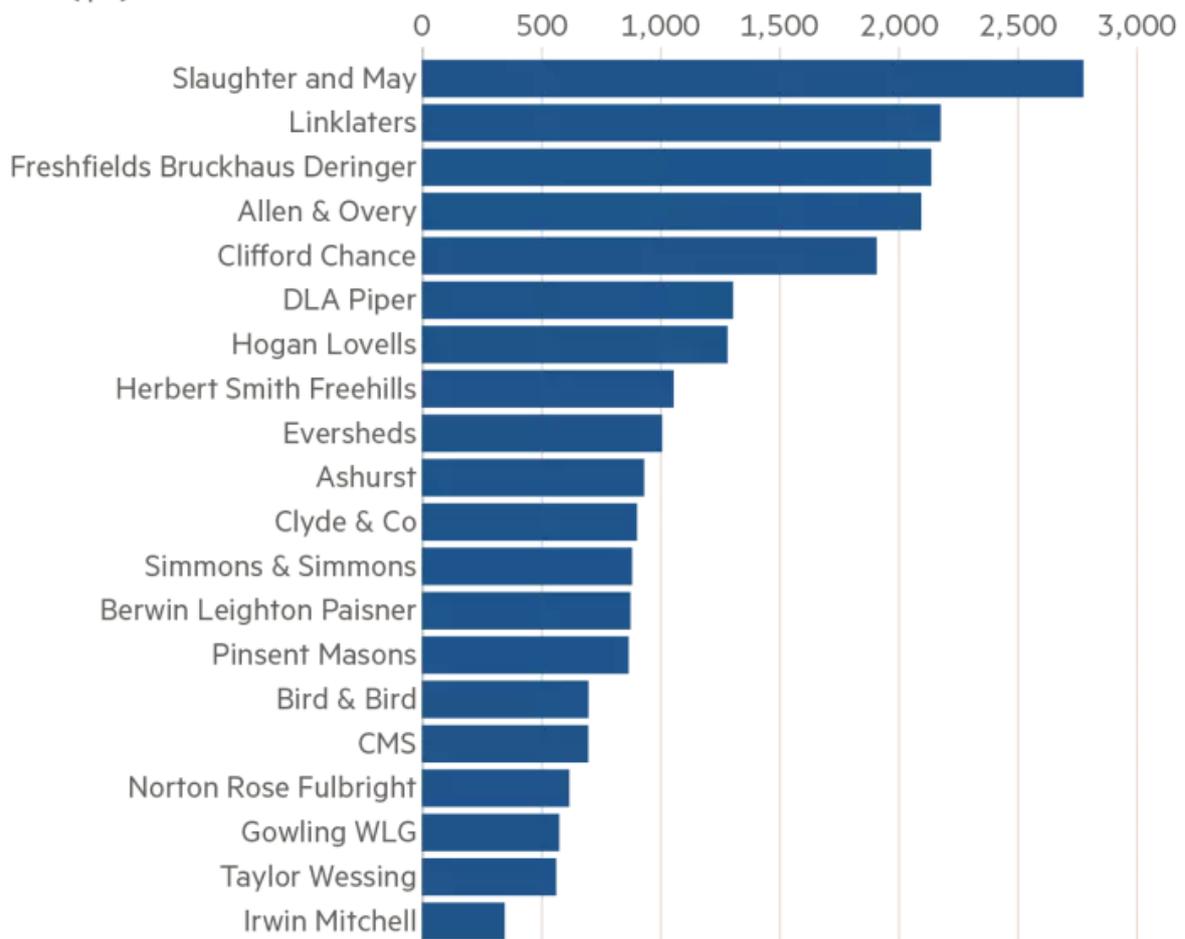
US and UK firms operate different remuneration structures. Some US firms with offices in London operate an “eat-what-you-kill” system, in which lawyers take home earnings from the deals they do. Magic circle firms and some elite US firms such as Cravath, Swaine & Moore and Debevoise have modified “lockstep” systems, where income rises steadily to a maximum level over 15 or 20 years of partnership.

But many US firms say their remuneration structure is more nuanced, and in some cases recognises collaboration. Latham & Watkins for example has a system where 85 per cent of partner pay is on a lockstep basis and 15 per cent is performance related.

FINANCIAL TIMES

UK law firms average compensation per partner in 2017

PEP (\$k)



* Amounts — profit per equity partner (PEP) — converted from £ to US\$ (k) using latest exchange rate

Source: The Lawyer magazine

© FT

Luring rainmakers can bring its own strains. One example was US law firm Dewey & LeBoeuf, which became the biggest law firm collapse in US history in 2012 after it went on a hiring spree. It guaranteed the salaries of about a third of its 300 partners at a time when it could not increase its revenue.

Despite the attractions of US firms, magic circle firms have held on to most of their partners. They have instigated changes to reward star lawyers.

But Mr Higgins's move came after Freshfields announced it would introduce a system that would enable top performers to make an estimated five times more than those at the bottom. It starts in May.

Many UK firms say lockstep is an important factor in their collegial glue. "Lockstep drives our culture and we are very comfortable with it," says Charlie Jacobs, senior partner at Linklaters. "It means we can put our clients first and it means they get the best people from the firm advising them, not just the lawyer with the relationship."

FINANCIAL TIMES

Magic circle partners are often eased out in their mid-50s to make way for younger lawyers. By contrast, lawyers at US firms see that as the age when their experience is just becoming useful in advising chief executives.

“The perception that UK law firms exit their partners in their late 50s has been played upon by many of the US firms, especially in London, allowing them to recruit high quality partners in their late 40s and early 50s well before any discussions have started in their existing firms,” says Tony Williams, founder of consultancy Jomati and a former managing partner at Clifford Chance.

For ambitious UK lawyers, the decision to switch to a US firm can often come down to a personal calculation.

“For some partners, doubling or even trebling their compensation can be attractive because it means they can accelerate their retirement,” says Tom Wilkinson, managing partner of legal headhunter Wilkinson. “A young partner can think: either I can be on OK pay for the next 15 years, or I can spend the next 10 or five years on spectacular pay, and then retire.”

Explainer: How lawyers are paid

What is lockstep?

A sliding scale of remuneration, which rewards partners depending on how long they have been at the firm. Once a partner reaches the top of the ladder they cannot go any higher. The difference between the top and bottom of the lockstep can vary widely, and some lawyers start a partnership on a salary before becoming a full equity partner.

What are the advantages?

Lockstep can create a collegial, mutually supportive culture. Lawyers introduce clients to other members of the firm with additional expertise, rather than keeping clients to themselves. Client relationships are with the firm rather than the individual.

What are the disadvantages?

Star performing partners are not rewarded in line with their performance, and can leave. It is harder to deal with under-performers.

What is the “eat-what-you-kill” system?

Lawyers are rewarded according to what deals they bring in. However in practice many systems are more nuanced, taking into account additional factors such as co-operation with other lawyers.

What are the advantages?

A meritocratic system that rewards star performers.

And the disadvantages?

The system encourages aggressive competition to win clients and discourages shared relationships.

What are hybrid models?

Some firms operate a lockstep-type model with an element of merit-based remuneration. Firms can strengthen the value of equity points by handing them out less often.

What are the advantages?

Some of the advantages of merit-based pay and rewards loyalty.

And the disadvantages?

May still not be enough to retain stars.

Available Online: <https://www.ft.com/content/0532a6ae-25f0-11e8-b27e-cc62a39d57a0>