

# LIVING IT UP

Legal recruiters are rolling in new-found dough due to skyrocketing salaries for associates at major California firms. But some ask, will these good times last?

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Delia **Swan**, a Los Angeles-based recruiter with **Swan Legal Search**, recently received an exclusive request from an L.A. law firm to find its intellectual property group a fourth-year patent prosecutor. The firm, **Swan** says, was willing to pay the fourth-year associate a salary of \$250,000. In addition to the normal 25 percent cut of that base yearly salary the recruiter would receive as her fee, the firm also offered her a huge cash bonus.

Law firms are so desperate for legal talent that these bonuses are becoming more common, according to **Swan**. "We have been offered these bonuses from corporate clients as well," she says.

It's obvious that associates have benefited from the attorney labor shortage and the extensive salary raises – with first-years earning as much as \$160,000 – sweeping law firms nationwide. But **Swan's** experience illustrates that there's another professional group that stands to directly benefit from the raises as well: legal recruiters.

Although headhunters welcome the increased placement fees, they also fear that the associate raises may hurt them in the long run. Law firms, for example, could restrict hiring now that attorneys are so expensive. And now that placement fees are so much higher, law firms might start trying to recruit lateral attorneys without the aid of headhunters.

"It's pretty soon after the [associate salary] hike and we don't yet know all of the consequences," explains Julie Qureshi, a recruiter with Solutus Legal in Palo Alto. "So far we're not seeing a tremendous amount of drop-off in terms of the number of candidates we bring in... We were bracing ourselves for a huge slowdown and haven't seen it. Attorneys at midlevel firms that can't match [the salaries] are flooding" recruiters with resumes.

And law firms' demand for corporate, technology and intellectual property lawyers "is so great that firms are willing to pay a headhunter for even mediocre candidates," Qureshi adds. "If they don't, they're losing money because they can't service their clients. As long as law firms have tons of clients, they'll pay [legal recruiters] for candidates."

Although the salary increases were designed to help curb associate attrition at big firms, the raises may not be fulfilling that goal. Indeed, recruiters are "still seeing a lot of associates wanting to leave law firms," Qureshi says. "They've hit their saturation point and in-house jobs are what they want." Corporate legal departments have raised salaries too – "just enough to entice people" away from firms. As a result, headhunters remain busy.

"We're going to be making more money," Qureshi says about the legal recruiting industry. "But I don't know about

long-term. Firms keep a tally [of recruiting expenses] per year. After the first year with the pay hike,” firms may want to cut down in headhunting fees. “That’s when it might start affecting us. Talk to me in six months.”

For now, Los Angeles’ **Swan** calls the legal recruiting business “frenetic.”

Not only do attorneys want to join big firms where they’ll earn more money, but they are eager to join those firms doing Internet and start-up company work, she says.

“So even though many firms are now matching the recent salary increases, the publicity over the massive increases has had the effect of focussing more attention on the firms specializing in high-tech work,” **Swan** explains. “Indeed, many people who have never practiced corporate law now want to retool so that they can participate in the next big IPO.”

As a result, there’s “even more work for recruiters.... Everyone is inundated,” **Swan** says. Specifically, legal recruiters are swamped with candidate screening and due diligence. “And the recruiting administrators at the firms can barely catch their breath.”

Solutus Legal’s Qureshi notes other changes that have taken place since the salary raises. For example, firms are taking longer to evaluate and make decisions about lateral hires. Although Qureshi used to hear back from firms on candidates after a couple of days, “now it’s up to four weeks – even if the firm wants to see the candidate.”

Headhunters are also getting deluged with resumes from New York- and Washington, D.C.-based attorneys who want to move to California, where suddenly the compensation is significantly higher. **Swan** describes “a surge in business” from out-of-state attorneys.

These East Coasters are using headhunters because they’re unfamiliar with the California legal market, Qureshi adds.

“The short-term effects of the salary increase are obvious: Higher salaries equate to higher placement fees,” says Larry Watanabe, a Southern California-based recruiter with Watanabe & Nason. “The long-term effects appear more troubling. Many associate-based recruiters are short-sighted and are overjoyed with the ‘new market.’ However, many may pay in the long run. In many ways, recruiters were better served prior to the increases.”

For the time being, law firms handling major corporate transactions and IP matters are willing to pay premiums for lateral attorneys, Watanabe explains.

“Those elite firms and practices are often in a position to bill at premium rates and structure lucrative fee arrangements,” he says. “They can more readily manage and justify the salary increases.” to service those firms, headhunters “have been coming out of the woodwork,” particularly those focusing on associates.

But the roaring high-tech economy doesn’t necessarily translate to all practice areas and all firms, Watanabe says. Indeed, he expects the number of attorney placements to slow. At the very least, firms will more closely examine lateral candidates. For example, a Los Angeles office of a New York-based firm recently needed home-office approval to hire one of the Watanabe’s lateral candidates, something he hadn’t encountered before.

“Firms will need to closely scrutinize their lateral associate hiring needs, which may very well result in fewer overall lateral associate hires,” Watanabe says. “The expense to the partners of lateral acquisitions has now increased dramatically. Unless unequivocally and entirely justified,

lateral hiring will be very closely examined. A number of firm chairs have said they won't hire associates unless they absolutely have to."

In particular, firms with practices outside of labor-starved corporate and IP will closely guard lateral hiring, according to Watanabe.

The current market conditions are in many ways unstable, he adds. "Many firms who have been treading water during this 'boom economy' simply cannot afford to justify salary increases," he explains.

"Right now, we have a good relationship with head-hunters and we're in need of their services," notes Anders Stenstedt, co-chair of the attorney personnel committee at Morrison & Foerster in San Francisco. "It's still a seller's market for associate services and we're still actively looking. We're using headhunters when they can bring us qualified candidates."

Morrison, Stenstedt says, is receiving an increasing number of resumes directly from candidates without legal recruiters. But headhunters will remain a vital part of the firm's recruiting efforts. For the time being, Morrison will pay the placement fee of 25 percent of the attorney's yearly base salary, Stenstedt says. However, "We're always looking for ways to improve our efficiencies and cost profile," he adds, so eventually the firm might consider alternative ways to compensate legal recruiters.

In general, with respect to the booming economy, recruiter Watanabe insists the bubble will burst.

When it does, "the recession of the late '80's, early '90's will pale in comparison to this market," he says. "With the increased salary structure, layoffs will be severe and massive. Recruiters who are not extremely well-positioned in the market will

fail. ... I tell associate-based recruiters, 'Don't spend everything you're taking in now.'"