2017

Talent Systems for Law Firms

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Talent Systems for Law Firms

by William D. Henderson

Talent Systems reflect both the past and future of great corporate law firms. In the year 2017, however, talent management professionals must grapple with the present; in doing so they can become among the most important strategists and leaders within the legal profession.

My academic research on the legal profession began when I entered the legal academy in 2002. Thus, it substantially coincided with the rise of talent management professionals within large U.S. law firms. Although we did not start in the same place, we ended up focusing on the same topic.

Several years ago, after reading the first 12 pages of Volume II of the Cravath, Swaine & Moore firm history,1 my views on lawyer selection and development were permanently changed. Those 12 pages laid out in simple prose the business principles responsible for the rise of the Cravath firm. Those principles comprised the “Cravath System,” a detailed set of interconnected practices on how the firm successfully hired, trained, promoted, and retained the legal profession’s most capable business lawyers.

Although the System was designed for the prevailing business conditions of the early 20th century, the existence of a sophisticated systems-level approach was both striking and surprising. I then learned from my fellow law professor, Marc Galanter, that other established business lawyers in this same time period were making essentially the same discoveries. For example, Louis Brandeis had developed and implemented similar practices at his law firm in Boston (then Brandeis Dunbar & Nutter, today Nutter McClennen & Fish). Likewise, by the late 1920s, the partner-associate training model was firmly established at Jones Day in Cleveland. We know this because Marvin Bower, who built the McKinsey management consulting firm, acknowledged that his four years at Jones Day provided the basis for McKinsey’s legendary model for hiring, training, and promoting consultants.2

As Professor Galanter quipped, “We call it the Cravath System because Cravath had the best historian,” referring to name partner Robert Swaine, who wrote the firm’s history shortly after Paul Cravath died. Galanter’s larger point, however, was that numerous successful corporate law firms circa 1910 to 1920 were constructing the partner-associate training model as a way to adapt to, and capitalize upon, changing (and very favorable) market conditions.

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When it comes to an emphasis on legal talent, history is poised to repeat itself. Specifically, over the next ten years, legal talent management professionals will move into a much more strategic role within U.S. law firms, at least within firms with a realistic chance of surviving the battle over market share that is now gathering steam. This is because large clients will more aggressively seek out law firms that can solve highly complex legal problems at a value-add price. And firms are much more likely to make the cut if they have adopted a systems-level approach for attracting, developing, and deploying their talent in client-focused teams. Legal talent management professionals will be needed because law firm partners lack the tools and perspective to make this happen by themselves.

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This article is fundamentally a strategy document that is focused on two separate constituencies. The first constituency is the talent manager or the law firm professional development or hiring partner (talent management professionals) who find themselves at a firm with an open leadership structure that is willing to experiment and listen to new ideas. The second constituency is the ambitious talent management professionals who are questioning whether their current law firms will be among the winners in the current battle over market share. This raises a question that is fundamentally existential: “Do I want to cast my lot with law firm partners who, despite their well-meaning nature, are too entrenched in old ideas or, alternatively, lack the leadership resolve to have difficult conversations with the partners over the necessity of investing in talent?”

For this second group, my counsel is that the only way you can influence your firm in the right direction is to force a dialogue with senior leadership, speaking in the language of business and the self-interest of the firm. Their reaction (which may include firing you) will give you the information you need to guide your own career. Note that the leverage you have is not much different than that of a capable lateral partner — in this market, you have options.3

1. Managing Talent through a Talent System

Let me start with some terminology. Figure 1 provides definitions for a Talent Model and a Talent System.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent Model</td>
<td>Competencies used for selecting, developing, and retaining lawyers.</td>
</tr>
<tr>
<td>Talent System</td>
<td>Strategic: Using design principles to connect together the</td>
</tr>
<tr>
<td></td>
<td>firm’s talent model in service of the firm’s strategy.</td>
</tr>
<tr>
<td></td>
<td>Operational: Monitoring and improving talent management</td>
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<td></td>
<td>performance through the use of metrics.</td>
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</table>

Figure 1. Definitions

3 Law firm talent management is a heavily gendered field, which adds an enormous layer of complexity to power dynamics within law firms. That topic is too big for this article, and I lack the expertise to fully untangle it. But I feel compelled to acknowledge it and to state unequivocally that it has to be called out and confronted for the long-term good of the legal profession.

4 For excellent analysis and commentary on legal talent models, including examples, see Scott A. Westfahl, You Get What You Measure (NALP, 2008); Peter B. Sloan, From Classes to Competencies, Lockstep to Levels (Blackwell Sanders Peper Martin LLP, 2002); Heather Bock and Robert Ruyak, Constructing Core Competencies (ABA, 2007).
as possible. As any director of professional development knows, B and C Players require more time and attention than A Players, who typically earn that designation because of their self-directed ability to continuously learn and adapt.

- At Time 3, there is an exit event where an associate is (1) promoted to partner, (2) retained as counsel, (3) outplaced, ideally to a client, or (4) has exited the firm prematurely before the firm has recouped its investment in recruiting and training.

In Figure 2, undesirable outcomes are depicted in red because they impose costs on the firm that exceed any corresponding benefit. As shown in Figure 3, the general operating principle of the Talent System is to minimize the red and strike the optimal balance with the remaining categories.

### B. An Historical Example: The Cravath System

A Talent System is not something new. It was the central strategic feature of the original partner-associate model. To illustrate the point, let’s consider the business logic of the original Cravath System, which was designed, implemented, and overseen by the firm’s leader, Paul D. Cravath. The following passage is summarized from the first 12 pages of the firm’s history.5 Figure 4 is a visual depiction of the Cravath System originally drawn by Professor Marc Galanter.6

In brief, the core innovation of the Cravath System was the hiring of law graduates directly out of law school and paying them a high salary in exchange for full-time work. This was done to avoid “the inefficiency of and divided loyalty” of the prevailing practice of having junior lawyers pay for their desk space and training by allocating a portion of their time to firm work while trying to develop their own business (p. 6). Cravath preferred new graduates because they had not yet acquired bad habits from other offices. Over a period of years, Cravath junior lawyers were put through a rotation system that exposed them to numerous areas of substantive law. This rotation system enabled them to observe and learn how to delegate, supervise, and manage client relations. Far from being tossed into a deep pool

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5 See Swaine, note 1, supra.
to see if they could swim, Cravath junior lawyers “are taken into the shallow water and carefully taught strokes” (p. 6).

According to name partner Robert Swaine, there was a profoundly important business purpose to this massive investment of time: “Cravath believed that the man who learned to analyze the component parts of a large problem involving complicated facts, and to do each detailed part well, becomes a better lawyer faster than the man who is not taught in such detail” (pp. 4-5). In addition, Cravath resisted hiring mid-level or senior lawyers from outside the firm because of his belief “that the office and its clients would get the best service from men confident of unimpeded opportunity for advancement” (p. 5).

For this model to work, attrition had to be relatively low and controlled. Junior lawyers “who are willing to stay only a year or two are not desired,” as the Cravath System could not accomplish its training “in that short time” (p. 7). Lawyers hired into the system were “expected to remain as long, but only as long, as they were growing in responsibility” (p.7). In general, if a lawyer stayed more than six years, it was because Cravath promoted them to partner. Cravath strictly enforced the up-or-out principle because he believed that a lawyer who was no longer growing professionally created barriers for advancement for others and generally tended to lose ambition. “It is much better for the man, for the office, and for the clients that he leaves while he still has the self-confidence and determination to advance” (p. 7).

Fortunately, because of the superior training they received, Cravath associates had many career opportunities available to them with clients, other law firms, in business, or academia. For those who remained as partners, the entire purpose of the Cravath System was to create a team-based approach toward superior client service. “The problem of the firm is to do effectively the business that comes to it; by so doing that business, more comes in.” Hence, in stark contrast to law firms circa 2017, “business-getting ability is not a factor in the advancement of a man within the office at any level, except insofar as that ability arises out of competence in doing legal work, as contrasted with family or social connections” (p. 9).

What is most compelling about the Cravath System, and what made it so endurable, is that every stakeholder — partners, clients, and associates — were made better off through its operation. The Cravath System was also a well-developed example of a Talent System, an innovation that became the heart of the firm’s strategy and can be credited with nearly one hundred years of forward momentum and with creating the strongest brand in the legal industry. Not surprisingly, some variation of the partner-associate training model was adopted a very long time ago by virtually every major U.S. law firm.

C. The Challenge of Ahistorical Partners

One of the greatest impediments to talent management professionals in law firms is that partners have an ahistorical view of the partner-associate model. As a result, partners fail to grasp the model’s business logic and misconstrue, ignore, and generally fail to support its most important features. This situation has become endemic among large law firms because the partner-associate model worked extremely well for more than three generations. Ironically, at the same time that today’s partners collect the late-stage financial rewards of the original model, they become more and more blind to that model’s original logic and power.

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By way of illustration, similar to Cravath, large law firms today continue to preference graduates from so-called national law schools. Yet, the original rationale for this preference was the admissions requirements of national law schools, which required undergraduate education (the beginning of the transition from the LLB to the JD degree). It was Cravath’s view that junior lawyers “should have a thorough preliminary education in the arts as well as in the theory of the law” and that “disci-
plined minds are more likely to be found among college graduates than among [those] lacking in formal education” (p. 2).

Likewise, Cravath placed considerable importance on law school grades, believing that a candidate “who had not attained at least the equivalent of a Harvard Law ‘B’ either had a mind not adapted to the law or lacked purpose and ambition” (pp. 2-3). Yet, the Law School Admission Test (LSAT) did not exist until 1948, nearly a decade after Paul Cravath’s death. During the first several administrations, the students enrolling at national law schools tended to score the same or only marginally higher than the entire test-taker population. This suggests that Cravath’s emphasis on grades was a filter used to screen for legal aptitude.

As ABA-accredited law schools gradually mandated an undergraduate education and increased their reliance on the LSAT for admission purposes, the business reason for this filter was significantly reduced. Indeed, in a talk given at Harvard Law in 1920, Cravath confided to students that to become a “lawyer of affairs” a student must possess “character, industry, and intellectual thoroughness, qualities that do not go to make for charm but go far to make up that indefinable something we call efficiency. Brilliant intellectual powers are not essential” (p. 266).

Yet, by the late 20th century, most law firm partners came to associate the Cravath System with an emphasis on academic credentials. Because the demand for sophisticated corporate lawyers at established firms was outstripping the supply, they paid no price for this shallowness of understanding. This eventually led to salary wars for elite law graduates that would, by 2008, raise the ire of corporate clients and cause many to impose billing guidelines that refused to authorize payment for first- and second-year associates. Since that time, many law firms have responded by (1) hiring fewer entry-level lawyers, (2) relying more on the lateral associate market, (3) retaining senior associates through permanent counsel and non-equity partner positions, and (4) relying more heavily on lateral partner hiring as opposed to internal partner promotion.

All of these steps are fundamentally at odds with the business logic of the original Cravath System. Do they reflect a new business logic that, like the original system, is fully attuned to the business conditions of the day and designed to give the firm a long-term competitive advantage? Or do they reflect the difficulty of having to develop a competitive strategy for the first time in several decades?

2. The Politics of Change

When I first started in the legal academy, I had a strong belief in the power of facts and reason. And by publishing in academic journals, that approach got me over the tenure hurdle. Yet, it has been only through my hands-on work with law firms that I have learned the much more delicate art of timing and finding ways to help clients confront painful facts. This is a difficult crossroad because understanding the nature of a problem is only the first step in finding and implementing a solution. Law firms, particularly in the year 2017, are fragile institutions. In many cases, the economic engine of the firm is primarily men 55 years of age or older who have a loyal client following. Managing partners have very little authority over this powerful constituency.

Stated another way, what I have written in section 1.C is the difficult truth. Because effective legal talent management professionals must be systems thinkers, the information is useful. But, by itself, it has very limited power to help, much less save, a law firm. Instead we need ingenious methods to help a firm transition itself into a new Talent System. This is a task that belongs

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to talent management professionals, as law firm leaders lack the time and perspective to do it on their own. In the years to come, successful talent management professionals will ascend to the role of strategic advisors within law firms, obtaining influence on par with any member of the executive committee.

3. A News Systems Approach

Making the transition to a Talent System requires that a legal talent management professional possess four attributes:

A. Vision. A clear vision for a Talent System that has the potential to create a long-term competitive advantage for the firm;

B. Management Acumen. A strong grasp of law firm strategy, financials, and operations sufficient to hold one’s own with other C-suite executives;

C. Courage. The courage to present and advocate for one’s own vision of a Talent System despite predictable and strong resistance from a subset of partners wedded to the past;

D. Pragmatism. A pragmatic realism that can sequence the Talent System build in a way that delivers early results and thus momentum toward more ambitious investments in talent.

This is a formidable set of qualifications, yet readers should not be dissuaded. We need to fully specify this role before we can help some of our most dedicated and talented colleagues grow into it. And when they do, it will permanently elevate the career paths of law firm talent management professionals.

A. Vision

Designing a Talent System is fundamentally an exercise in (1) simplification and (2) visual communication. This is because every element of unnecessary complexity adds to execution risk and thus provides a foothold to the many persons in the organization who would like to resist the forces of change. My own rule of thumb is that any system that cannot be expressed on a single sheet of paper is too complex to be a strategy for a large organization.

For purposes of illustration, Figure 5 elaborates on the previous example of a Talent System, layering in specific action steps that correspond to each of the three corresponding phases.

Figure 5.

A narrative for Figure 5 might runs as follows. “During the Selection phase, our goal is to identify junior career lawyers who have the potential and values alignment to succeed in our firm. If we get selection right, we will get a significantly larger return for the substantial time and money we invest in lawyer development, increasing the average quality of the typical mid-level and senior-level associate working for the firm. We will know that lawyer selection and development is moving toward optimization when we become the preferred recruiting grounds for our clients hiring in-house counsel yet the best lawyers remain with the firm to become partners or opt for a non-partnership track position in a way that benefits both the firm and the lawyer.”

Perhaps the most striking feature of Figure 5 is that it contains not a single component part that is not currently being used by a talent management professional somewhere in the U.S. or U.K. Yet, a Talent System presumes a level of coordination and inte-
Any legal talent management professional is right to ask whether they can reasonably prevail against such a powerful, entrenched group of lawyers. The only way to find out, however, is to try.
Despite all this experience, education, and external success, Connie was frustrated in her Chief Officer position because firm leadership was reluctant to “gamble” on evidence-based methods for lateral partner hiring. So, instead of helping her firm make better informed high-stakes decisions related to the firm’s profitability and culture, her role was little more than “professional scheduler.” Connie thus made the calculation that her firm was not ready for a Talent System and began searching out other chief-level positions.

At some point in this process, Connie began to wonder if all large law firms were not, in fact, stuck in the same rut. As a result, Connie began to think seriously about leaving the legal industry in search of an environment that would fully utilize her skills, passion, and vision. Outside of law, large investments in Talent Systems were relatively common. During this time, Connie was in the running for the top talent position at a major global law firm. Yet, consistent with her experience at other firms, the partners seemed to run hot and cold, expressing enthusiasm one moment, and then letting weeks pass with no communication. When the firm finally reconnected with her, she told them she was no longer interested in the job, as the firm had demonstrated the very type of managerial dysfunction that she was determined to avoid.

Much to Connie’s chagrin, the firm pleaded with her to stay in the search, pointing out that her confidence and directness were the very attributes that the firm needed to reach the next level. Connie now controls a budget of several million dollars and has real authority to make talent management decisions affecting over one thousand personnel on two continents. And yes, she does believe she is making a substantial contribution to a new Talent System at her firm.

There is no guarantee that courage to assert yourself and your vision will be rewarded by powerful decision makers. Yet, we can be confident that the most successful firms in the coming years will be employing more talent management professionals like Connie. And courage is likely the lynchpin for getting noticed.

D. Pragmatism

Part of the process of successfully creating a Talent System within a law firm — in addition to vision, management acumen, and courage — is to sequence the build in a way that delivers early results and thus generates momentum toward more ambitious investments in talent. Stated another way, legal talent management professionals must be ruthless pragmatists, always comparing costs and political capital being expended today against the benefits coming back to the firm. For better or worse, in the early stages of the build, long-term benefits should be viewed as the functional equivalent of no benefits at all.

For illustrative purposes, let’s assume our blueprint for a Talent System is set forth in Figure 5. Let’s also assume that our political and advocacy skills have successfully created an environment where there is potential strong buy-in among leadership and influential partners. The only hurdle to implementation is identifying and effectively selling the right initial starting point. Among the many component parts of a Talent System (see Figure 5), which one best fits the bill?

To simplify this task, consider the four-item decision checklist below. Assume you have identified a short list of talent management initiatives that will grow your political capital if implemented successfully. Now compare those options along the following four dimensions:

1. **Cost.** Calculate the cost in time, money, and emotion for all stakeholders, giving extra weight to leaders and influential partners. Although initial discussions will focus on dollars out the door, the initiative will fail if implementation requires too much time or emotion from lawyers. Draw upon your experience within the firm to calculate an exchange rate between time, money, and emotion.

2. **Complexity.** There is no other way to put this — complexity kills. Initiatives that involve too many steps should be redesigned and simplified; likewise, initiatives that depend upon cooperation and communication with a large number of stakeholders.
of stakeholders should be deferred. In all cases, start small and grow by rolling the snowball.

3. **Value of Benefits.** Again, return to the metrics of time, money, and emotion. Higher profits and time saving are certainly compelling to partners, but don’t underestimate the power of emotion. In my experience working with law firms, the single best predictor of lawyer satisfaction is whether the lawyer is proud to work at the firm.

4. **Timing of Benefits.** Among skeptical lawyers, a benefit that takes five to seven years to materialize is a benefit that may never materialize at all. Thus, until you have a treasure chest of political capital, focus on short-term wins. Note also that emotional returns on talent management initiatives tend to be experienced immediately.

To illustrate the application of this checklist, let’s apply it to engagement surveys, which in my experience is a promising potential starting point.

- **What is the cost?** Time: Attorneys must answer a survey that takes between 6 and 15 minutes to complete. Money: five figures to an outside research firm. Emotion: leadership must expend political capital by endorsing the survey and sending out an initial communication and reminders (all written in advance by the talent managers).

- **What is the complexity?** Low. Click on a hyperlink in an email, point and click, and write words in the text boxes. The research firm does the actual analysis.

- **What is the value to the firm?** An engagement survey answers many questions that affect morale, which in turn affects attrition and the ability to effectively recruit additional talent. Also, such a survey provides the ability to isolate real differences between offices, practice groups, lawyer title, and demographic groups (old/young, diverse/majority, male/female, lateral/homegrown). Invariably, communication will emerge as an area of weakness in your firm, and within those results, you’ll have a veritable roadmap on how to improve it.

- **What is the timing of the benefit?** Relatively quick, since each survey inevitably reveals low-hanging fixes that can be quickly and inexpensively implemented, thus giving emotional relief to stakeholders that they are being listened to. Engagement surveys also lay the foundation for long-term gains by enabling longitudinal metrics to monitor progress at the firm level and within subgroups.

4. **Conclusion**

This article makes the case that Talent Systems reflect both the past and future of great corporate law firms. In the year 2017, however, talent management professionals are stuck in the present. Thus, they must grapple with the difficult task of helping their organizations make sufficient investments in talent so the firm leadership can control its own destiny within a market that is in the process of consolidating. Through this process, talent management professionals will become among the most important strategists and leaders within the legal profession. Indeed, within 20 years, the Cravath System will be replaced with something new, yet the systems thinking that made it work will prove to be endurable.

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**About the Author**

William D. Henderson is Professor of Law and Val Nolan Faculty Fellow at Indiana University Maurer School of Law, where he teaches courses on the legal profession, project management, business law, and law firm economics. His research, which focuses on the empirical analysis of the legal profession and legal education, has been published in leading law journals, including the *Stanford Law Review*, the *Michigan Law Review*, and the *Texas Law Review*, along with leading publications for practicing lawyers and talent management professionals.