An ALM Publication

THE AMERICAN LAWYER

americanlawyer.com

OCTOBER 2018

Major growth, more international members and momentum in China—change is afoot among the world's biggest firms.

Against the Odds

Ten years ago, King & Spalding set out to scale the Am Law 50 and become an ultra-profitable, international law firm. So far, it's working.

By Meredith Hobbs and Dan Packel

IN AUGUST, ROBERT HAYS, THE LONGTIME CHAIRMAN OF King & Spalding, arrived at the Atlanta-based firm's midtown Manhattan offices to update partners on the progress of the firm's latest growth plan, dubbed Strategy 3.0, which includes increasing net income by 50 percent in four years.

If that sounds remarkably ambitious, you haven't been paying attention to Hays—or his law firm—over the last decade. While many firms have struggled to hold the course since the recession, King & Spalding has surged ahead, barreling past $1 billion in revenue and achieving triple-digit profit growth. Maintaining that trajectory won't be easy. But the firm has made a habit of overcoming long odds.

Hays had been chairman for less than two years when he traveled to New York in September 2008 to deliver a similar update on Strategy 1.0, the firm's first-ever strategic growth plan. The American Lawyer had just published a profile asking whether King & Spalding could transform itself from a hometown powerhouse into a major national—or even international—force.

JOHN DISNEY/ALM

ROBERT HAYS,
CHAIRMAN OF
ATLANTA-BASED
KING & SPALDING


ROBERT HAYS

“People in the office were high-fiving each other about it,” Hays says. “I thought it was cool. Then I thought, uh-oh. What if it’s like the Sports Illustrated jinx, where they do the article on the team, and then the team loses?”

The next day, Lehman Brothers crashed.

Then the recession “turned the whole legal industry upside down,” Hays says.

The firm was grappling with over $100 million in debt accrued before Hays became chairman. At the same time, it was pursuing a strategy to sharpen its focus on high-value practices like international arbitration and white-collar defense, recruit top lateral partners to expand those practices, and open a slew of U.S. and international offices to stake out new turf.

King & Spalding had launched eight new offices under Hays’ leadership to expand its top practices to the Middle East, Frankfurt, northern California, Austin, Texas, and Charlotte, North Carolina, with more in the offing.

“It was a scary time,” Hays says. “You’ve got net income of $189 million and debt of more than $100 million, and the economic crisis is just hitting, and you see the banks going under.”

The firm missed its 2008 budget target due to the drop in demand and slowed collections. Revenue increased by 6 percent to $652 million, but profits per equity partner fell almost 12 percent to $1.23 million. The debt ballooned, Hays says, as clients lagged on paying bills. Six months later, in March 2009, the firm, which had about 875 lawyers, laid off 37 lawyers and 85 staff.

Even so, King & Spalding pressed on with the expansion plan and opened a Paris office that April to grow its marquee international arbitration practice beyond London.

“I got hate mail about it,” Hays recalls. People left him anonymous notes asking how he could be opening pricey international offices while laying people off.

GREAT LEAP FORWARD

In the decade since, King & Spalding has vaulted into the Am Law 25. It currently ranks 23rd in revenue and 22nd in profits per equity partner. That’s up from No. 40 and No. 41, respectively, for fiscal year 2007.

“We did the three things we said we would do,” Hays says: “Become a top 25 Am Law firm, transform geographically in the way we have, and achieve revenue and profitability growth at the same time. That’s extraordinarily difficult, especially in an industry that has been flat.”

The firm has borrowed no money, Hays says, to open 15 offices since he became chairman in 2006, when it had only four offices outside Atlanta, in Washington, D.C., New York, Houston and London. Now it has 20, half in international financial capitals. Since Paris in 2009, it has added offices in Geneva, Singapore, Moscow and Tokyo.

It took King & Spalding five years to pay off the debt, he adds, incurred, as at many firms, to fund operations during the good times of predictable collections. The firm accelerated partner capital contributions already instituted to provide working capital in 2007, and cut expenses by centralizing services and finding other efficiencies in office space and personnel.

Even as the legal industry became “more unstable and in ways more mercenary,” Hays says, the partners committed to what they called “the mission” of stewarding the firm’s future. He credits the grit and determination of lawyers and staff alike—the most pronounced in his 35 years at the firm.

“You’ve got to take a long-term view,” he says. “For so much of what we’re investing in, I tell our partners they won’t see the return themselves.”

King & Spalding isn’t the only regionally dominant firm that has tried to compete with the highly profitable national firms and Wall Street powerhouses atop the Am Law ranks. Kirkland & Ellis, Latham & Watkins and Gibson, Dunn & Crutcher are among the rare successes. But those firms have roots in the much larger legal markets of Los Angeles and Chicago. King & Spalding is the only one to do it from the South.

“King & Spalding is one of the more impressive firms that started out regionally, outside of New York, and has been able to maintain the market position [elsewhere] they have in Atlanta,” says MesaFive consultant Blane Prescott.

“One of the toughest challenges in the legal profession is to expand while maintaining market position,” he says. “You don’t want to get bigger but weaker and dilute your reputation.”

Over the past decade, King & Spalding’s revenue has increased 75 percent to $1.14 billion, while net income has jumped 167 percent to $505.13 million and profits per equity partner went up 111 percent to $2.6 million. The firm sharply increased profitability while expanding head count by only one-third—from 756 to just over 1,000 lawyers—and growing the equity partnership by 27 percent to 194 partners,

JOHN DISNEY/ALM

Mark Shapiro, a consultant at Blaqwell who helped the firm craft Strategies 1.0 and 2.0, thinks successful lateral hiring and integration have been key to the transformation. "It seems basic," he says. "But a lot of firms put a lot of effort into hiring laterals and then they let them sink or swim."

For expansion to translate into higher profitability, not just more revenue, a firm must recruit top players who attract high-value work in new locations, and it needs to integrate them, Prescott says. Splashy hires aren't enough. "Growth is really hard," says King & Spalding's COO, Derek Hardesty. If a firm succeeds in recruiting someone, he says, "your job is to make sure they succeed."

King & Spalding can claim a long string of lateral coups. It convinced the former U.S. attorney for Chicago, Zach Fardon, to open an office there last year, instead of returning to Latham as he'd been widely expected to do.

multinational banks and corporations including SunTrust, Wells Fargo, Credit Suisse Group, Medtronic and Johnson & Johnson.

Despite the strides toward national go-to status for both high-performing laterals and companies with high-stakes problems, the Atlanta contender is chasing even larger, higher-grossing, more profitable firms like Kirkland, Latham and Gibson. Hays has no problem going from an alpha dog in Atlanta to an underdog fighting for turf nationally and internationally. "I thought that we were verging on complacent, that we were underperforming relative to potential and that we were somewhat naive about the competition and what was happening in the marketplace," he told his partners at their annual meeting after he was elected chairman.

The firm is determined to close the gap. In 2015, King & Spalding broke into the elite club of Am Law firms deemed

"YOU'VE GOT TO TAKE A LONG-TERM VIEW," Hays says. "For so much of what we're investing in, I tell our partners **THEY WON'T SEE THE RETURN THEMSELVES."**

"Super Rich," with more than $500,000 in profits per lawyer and $1.1 million in revenue per lawyer. Over the past decade it's been one of the five fastest-growing in revenue, profits and equity partner growth of the 29 members, which include Gibson, Latham, Kirkland and a host of Wall Street firms.

Fardon is one of a number of high-profile new additions, including New York dealmaker Jim Woolery last fall and former deputy U.S. Attorney General Sally Yates, who joined in May to focus on internal investigations.

A distinctive ethos has underpinned the growth push, King & Spalding partners and observers say. The firm is remarkably disciplined, both financially and culturally. Loyalty is prized, and even the stars are team players. The balancing act that Hays has worked to pull off as chairman is to press for growth while preserving a culture of collegiality, teamwork and collaboration.

King & Spalding doesn't rest on its laurels. "We liked to talk about being 'constructively paranoid' as we grew," Hays says, without hubris about the odds in a competitive environment. One core quality is "a belief that we can do better," he adds.

"What differentiates King & Spalding from many firms that might have been seen as comparable a decade or more ago—and aren't now—is the discipline," Shapiro says.

That has included the discipline to shed practices and partners that don't fit the high-value strategy, such as the Georgia bond practice, widely considered the best in the state, along with labor and employment and more garden-variety corporate and real estate work. "Saying no to work during the recession was very hard," Hays says.

TIGHTEN THE FIT

King & Spalding's early growth mirrored that of venerable legacy clients, like The Coca-Cola Co. and SunTrust Banks, plus newer Atlanta entrants such as United Parcel Service, The Home Depot and Georgia-Pacific Corp.

While its corporate work came predominantly from Atlanta, the firm built a national reputation in the 1990s on its tort litigation practice, defending the likes of General Motors, GSK, Chevron and Equifax, and its white-collar practice, started by Griffin Bell almost 40 years ago, representing

"When I started working with them, it was not clear that they could compete with the Wall Street firms," Shapiro, of Blaqwell, says. "They thought they could. Now they do."

The 20-office network that King & Spalding has established stakes out an international framework to drive high-value work for key practices, such as Islamic finance, energy, infrastructure projects, health care, financial services, real estate finance and tech.

That said, the 10 offices abroad make up only 14 percent of the firm's lawyers. Five are still outposts with fewer than 10 lawyers, due to the firm's preference to grow through careful lateral hires, not mergers.

Opening more offices isn't a priority. The aim is to build on the existing platform and better connect partners across offices and teams. "We're tightening the fit," Hays says.

In the last five years, he adds, the number of matters with timekeepers from at least five offices has doubled to 40 percent.

Fardon, in Chicago, says that in his first year he's pitched and billed time on matters with lawyers in Atlanta, Washington, New York, San Francisco and London. "Integration is kind of a boring word," he says, but "a huge part of protecting [the] culture and ensuring long-term financial success."

"It's a differentiator—and something the firm does very well," Fardon says. "You become part of that larger fabric, and strengthen the fabric."

Other Strategy 3.0 focuses are developing new leaders firmwide and doubling down on promising areas of expertise. Hays is "skeptical about law firms' ability to predict the future," says Hardesty, the COO, but "very big on betting on individual partners' passion … and strengths."

Granta Nakayama, for instance, an expert in vehicle emissions and air pollution law, joined with his partner Ilana Saltzbart from Kirkland in 2015 to build the environmental health and safety practice. A year later he was lead counsel for King & Spalding's Volkswagen engagement, advising on environmental law in its massive emissions scandal.

BIG TARGETS

In August, Hays was in Atlanta preparing for a lengthy midyear update to his partners the next day on Strategy 3.0, which he would again deliver from New York.

Brandishing an eight-point agenda, he said he would focus on "taking market share, targeting and winning good clients, and doing great work." King & Spalding launched Strategy 3.0 in January, led by its nine-person policy committee, after engaging Shapiro to facilitate previous iterations.

"I'm going to tell them that we're off to a good start, but last year was not so great in certain ways," he says.

The firm made budget in 2017, with 7.7 percent revenue and 5.5 percent profits per equity partner increases, but only after a midyear lag. A second-half push took it over the line, fueled by a major engagement from Equifax to handle its critical data-breach litigation.

So far, this year's financials are on track, but it's no time to slow down. "We need to get bigger and more profitable," Hays says. Strategy 3.0 targets a 50 percent increase in net income by summer 2022.

Hays planned to share year-to-date financials with his partners, benchmarked, among other things, against three- to five-year targets and strategic peers in the Am Law 50. Some law firm leaders avoid that kind of transparency, he says, because it makes a firm harder to manage and they risk losing control.

"We just put it all out there," Hays says. "That's how you get better."

COHESIVE OR CUTTHROAT?

For some, there's a sense that King & Spalding's ambitious goal-setting has come at a cost. A former partner describes the firm as a "wonderful place to work" as a senior associate, and a "lot less pleasant of a place" as a young partner.

"I certainly felt like its cohesive culture was under fire," he says. "I felt like it was a collegial, great place and it ceased to be that way. It became very cutthroat."

The firm's push to get to the next level meant its expectations for junior partners changed, the ex-partner says, and one thing sacrificed was patience for developing a practice.

"Firms like King & Spalding that want to be in this group are finding themselves in a cycle that they can't control. It's really short-sighted," the departed partner says. "If it all falls apart in eight years, the people they brought in as laterals don't care. They'll just go to the next firm."

Hays, a trial lawyer by training, quickly reaches for his pen and a legal pad when told that some former partners have complaints. "I want to hear this," he says with enthusiasm.

He jots down six points as he listens, then replies that he agrees with half and disagrees with the rest.

"Of course our performance standards are higher," he says, noting that the firm's partnership has expanded, despite the inevitable exits.

"In fact, they're going to get higher," he adds. "We're increasing [the focus] on partner contributions in firm leadership, and we want people who are excited and attracted by that idea. We want people who are leaders of the enterprise—not just lawyers down the hall."

"WHEN I STARTED WORKING WITH THEM, it was not clear that they could compete with the Wall Street firms," consultant Mark Shapiro says. **"THEY THOUGHT THEY COULD. NOW THEY DO."**

Hays rejects the idea that the firm has become less patient with younger partners. They do tell him the standards are hard to reach, he says. "But I don't hear, 'If you just gave me one more year [I'd make it],'" he adds. "Instead, I hear, 'This has been a good firm for me, but now I'm doing something else.'"

Strategy 3.0 continues the firm's practice of "upgrading and shedding," Hays says.

King & Spalding added a record 36 partners this year, as of August. Meanwhile, of the 24 partners who'd left at that point, 10 went to other firms, and the rest headed for government, in-house positions or other endeavors.

"Many don't make it. Some do," Hays says. "We did a poor job with that person for them not to understand what the basis of success in the partnership is."

PART OF THE GLUE?

Strategy 1.0 overhauled the firm's equity partner compensation system to promote collaboration and team-building.

"We blew up our comp system," Hays says. "We were in the Stone Age."

To discourage credit-hoarding, King & Spalding expanded eligibility for origination credits—but it only awards them for three years. After that, new clients are considered the firm's.

There's no limit to how many partners can claim credit, Hardesty says, whether from an initial client connection, helping land the matter or doing the work. As a result, origination credits total three times the actual value of the firm's new client work. That incentivizes partners to bring in as many people as necessary on pitches or RFP responses—several mention occasions with as many as 15 lawyers in the mix.

Tom Sprange, now the firm's London managing partner, says that soon after he joined from Steptoe & Johnson in 2011, "three of the biggest names in international arbitration"—partners Doak Bishop and John Bowman in Houston and John Savage in Singapore—asked him to join a pitch for a major case against the Indian government. He, too, won origination points.

"It sounds like a small thing, but I think it is a massive advantage for how the firm works," Sprange says.

King & Spalding also shifted the focus to reward partners for contributions beyond revenue generation. High-dollar billings, Hays says, "is one piece of the performance model, but how do you execute strategy with existing and new clients? Are you bringing in lateral partners and associates?"

Partners gain points for working with other partners to build the firm and developing younger lawyers. There are penalties for neglecting to give others credit or doing nothing with a leadership role, Hardesty says. "Are you part of the glue of the firm?" is the pressing question, he says.

When Hays interviews potential partners, half their questions are about the compensation system. "The more sophisticated say they are asking because [it] is the best indicator of how they will do at the firm. I like them for it," he says.

Appellate partner Jeff Bucholtz is wary of lateral candidates whose sole interest is high profits. New arrivals must care about helping their partners succeed, he says, which includes being willing to hop on planes at short notice or break from routine to make introductions and share contacts.

A lateral who wants to sit in their office and focus on their own clients "is not going to work out as well," Bucholtz says.

And King & Spalding doesn't wait for lateral candidates to knock on its door. After President Donald Trump fired Fardon as U.S. attorney for Chicago, he fielded a plethora of offers, including a call from Wick Sollers, who heads King & Spalding's government matters practice from Washington.

"I was amazed by how the firm had transformed from when I was there," says Fardon, who worked with Sollers as a new King & Spalding associate in 1992. "Then, it was an Atlanta powerhouse law firm with a couple of new satellite offices in Washington and New York and a few pockets of strength in terms of practices. That was about it."

The firm's profit and revenue growth are "striking," he says. "It's another [thing] for lawyers to have each other's backs—wanting each other to succeed." The opportunity to build that brand in Chicago convinced him.

Fardon added 12 lawyers in his first year, including former Latham colleagues. One Chicago recruiter, Kay Hoppe, says she has resumes from candidates who represent $100 million in business. But Fardon says the growth ambitions won't outpace cohesiveness: "We're careful who we bring in and why."

King & Spalding
2008
GROSS REVENUE
$652M
2017
GROSS REVENUE
$1.139B

EYES ON NEW YORK

Woolery, another star recruit who heads the M&A and corporate governance practices from New York, has chops as both a rainmaker and a recruiter of other big names, especially in New York's high-dollar corporate and deal arena.

An earlier push to build the New York office unraveled in the mid-2000s, and the firm hemorrhaged nearly half of its attorneys after a 2005 peak of 185. Partners who left around then complained to The American Lawyer in 2008 that all the big clients and control came from Atlanta.

"All the power was in Atlanta. They didn't want to bring in a big name … or make any changes that would upset the power balance of the firm," one said.

That seems to have changed. Woolery is one of the rare partners to leave Cravath, Swaine & Moore. He jumped first to JPMorgan Chase, then in 2013 to leadership at Cadwalader, Wickersham & Taft, but departed to co-launch hedge fund Hudson Executive Capital before resigning in late 2016. After weighing both banks and law firms for his next career choice, Woolery bought into the King & Spalding culture, which he calls high-performance without sharp elbows. "That is a unique needle-thread," he adds.

The office's head count is back up to 170 and one-third of this year's lateral partner hires have been in New York.

"To be successful, you have to find these anchor partners," says New York legal recruiter Mark Rosen of Mark Bruce International, invoking Woolery and private equity partner Jonathan Melmed, whom Woolery recruited with a team from Morrison & Foerster. Having profits per equity partner above $2.5 million helps, he adds.

"They've got a great foundation to build off of now," Rosen says.

A cohesive culture may help distinguish King & Spalding, but can an increasingly international firm with a growing number of star personalities hold onto that collegiality now that it's "playing in the World Series," as Woolery puts it?

How well King & Spalding's current leadership manages to develop new leaders outside Atlanta will be critical. "One common factor in successful firms is great leadership. It's undervalued by law firms," says Prescott, of MesaFive.

King & Spalding has no retirement age, but at 60, Hays is busy cultivating the next generation of firm leaders. Coinciding with the rollout of Strategy 3.0, he started a new three-year term in January—his fifth since 2006. "I don't want to wear out my welcome," he says.

Email: mhobbs@alm.com or dpackel@alm.com