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THE GLOBAL ISSUE

## MAN *OF THE* WORLD

Under John Conroy, Baker & McKenzie has raised its sights—boosting profits, tightening management, and working hard to lose its franchise image.

Will that be enough to climb into the global elite?

BY VIVIA CHEN

• **they came in saris, cheongsams,** and muslim headscarves—plus the usual black tuxedos and glittering gowns. After cocktails and tapas in the marble halls of the National Museum of Catalonia Art, they streamed into a Roman amphitheater for an intimate sit-down dinner for 400 colleagues and another 300 or so of their significant others.

If Baker & McKenzie ever wanted a sideline, party planning could be just the ticket. That soiree in Barcelona last spring was just one of the frequent global shindigs that Baker uses to unite its far-flung lawyers. This one brought together Baker's European and Middle East partners, just a fraction of the firm's 700 partners and its approximately 3,000 associates and counsel, who hail from more than 60 countries and speak 70 languages.

But English is the common language—and these days, the acronym on everybody's lips is "PPP." It's been the buzz ever since Baker's profits per partner hit the \$1 million mark in 2007. For Baker, crossing that line was a watershed event, marking its readiness to be a player in the league of major law firms.

Long derided as the firm that never met a location it didn't like, Baker & McKenzie is finally getting respect for pioneering the global law firm. Just when many major law firms with big financial practices are struggling in this economy, Baker is thriving, particularly in China and the emerging markets. For the past four years, the firm has seen double-digit revenue growth; for the fiscal year ended June 30, 2008, it broke \$2 billion in revenues. Moreover, its PPP has climbed an amazing 85 percent in the last four years; now \$1.2 million, it's up from \$1.06 million a year ago, and \$595,000 in 2003. Baker still lags behind the national and international norms—for 2007, the average PPP for The Am Law 100 was \$1.315 million, and the median PPP for The Global 100 was \$1.328—but the gap is closing. Baker has achieved these marks even as it has increased its equity partner ranks by 16 percent since 2004. And in its recent merger discussions with Heller Ehrman, a firm that might not have deigned to talk to Baker just a few years ago, the legal giant was in the driver's seat.

"There's never been a better time to be a Baker & McKenzie partner," said John Conroy, the firm's chair, in a toast to the firm's newly minted partners at a wine cellar in Barcelona last spring. Baker's enviable position, says Conroy in his office in Chicago this summer, is no accident: "The first word out of my mouth is 'strategy'; it permeates everything we do."

For much of its 60 years, the firm has struggled to find a coherent strategy. But in the last four years, Baker has made a mighty effort to integrate its vast network and shed its image as a loose confederation of offices of uneven quality. The plan, says Conroy, is to concentrate on its 200 key clients—including companies such as Accenture Ltd.,

PHOTOGRAPHS BY BILLY DELFS



Managing partner  
John Conroy:  
Baker is now  
"more ambitious."



Eli Lilly and Company, The Estée Lauder Companies Inc., and Unilever N.V.—and attract high-end transaction work, high-stakes litigation, and key advisory work. And the springboard, he says, is Baker’s preeminent position in emerging markets, especially China, the Middle East, and the Commonwealth of Independent States (CIS), the countries of the former Soviet Union.

More unified, focused, and prosperous than ever before, Baker is a story of determination and vindication. But it’s also a story in the making. Despite its progress and the prestige of some of its offices, Baker is seldom mentioned in the same breath with the Magic Circle or the top Wall Street firms. Moreover, it’s facing competition from other firms that have recently gone global. DLA Piper, for one, is a newcomer that seems hot on Baker’s trail. How Baker further integrates its network of offices, refashions its famous brand, and distinguishes itself from its competitors will determine its place in the global legal marketplace.

● **partners assert that baker’s** time has arrived. Over and over again, they describe

Baker as “a sleeping giant that’s awakened.” But the subtext is that Baker has been slow to capitalize on its global assets, and that it has to pounce before the opportunity goes away.

Depending on how you look at it, Baker is either cursed or blessed for being way ahead of its time. Founded in 1949 by Russell Baker and John McKenzie in Chicago, Baker opened its first overseas office in Caracas in 1955 when it was approached by a Venezuelan lawyer. Spurred by the demands of an early client, Abbott Laboratories, Baker opened seven offices by the end of the 1950s, including in Washington, D.C., Brussels, and Amsterdam. Today it has 70 offices in 38 countries. Rather than dispatching lawyers from the home office, Baker opened offices by acquiring local law firms that, for the most part, practiced local law—a strategy that has fostered decentralized autonomy rather than centralized control.

Baker took its first serious step at integrating its far-flung offices when Christine Lagarde became chair of the firm in 1999. “Lagarde did extraordinary things,” says one former partner. “She posed a strategic

**M&A partners Poh Lee Tan and Eric Lasry: Raising Baker’s dealmaking profile overseas**

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vision, revitalized practices and regions, and integrated the firm.” Under her leadership, a new generation of leaders started to emerge. (Conroy and current executive member Eric Lasry worked with her, as did Nicholas Coward, who recently left the committee.) She’s also credited with adding teeth to quality control and rallying people behind the firm. It didn’t hurt that she had tons of charisma. “When Christine walked into the room, you knew who was in charge,” says the former partner. Lagarde left the firm in 2005 to become France’s trade minister; she is now the French finance minister.

John Conroy had a hard act to follow when he became chair in 2004. While Conroy can’t compete with Lagarde’s élat, he gets praise from current and former Baker employees for his discipline and work ethic: A banking lawyer who served as managing partner for North America before he succeeded Lagarde as the firm’s chair, Conroy spends much of his time

globe-trotting away from his wife and seven children in the Chicago suburbs. “I don’t have a home time zone,” he says. Conroy is so consumed with work, says one former colleague, that he’s oblivious to popular culture: “He’ll say he’s never seen *Seinfeld* or heard of Paris Hilton.” Always neatly turned out with a crisp white handkerchief in the breast pocket of his suit, Conroy is soft-spoken, but “he can out-argue anyone,” says the alum. That tenacity undoubtedly came in handy when Conroy started pushing his ambitious agenda.

Conroy set the \$1 million PPP target. Amazingly, until that goal was set in 2004, Baker paid scant attention to profit, says Paris-based Eric Lasry: “There was a mentality that you didn’t need to focus on PPP.” When Conroy challenged his partners to meet the \$1 million PPP target by June 2008, “people just smiled,” remembers Lasry. Hitting that mark—one year ahead of schedule—through unblinking attention to the bottom line is a big deal, though probably more to Baker’s partners than the outside world. “It has bolstered confidence and made us more ambitious,” says Conroy.

Of course, Conroy’s \$1 million challenge delivered a larger message: Success—and the partners’ profits—depends on unity. To promote integration, the executive committee streamlined the firm’s 30-odd worldwide practice areas into 11 units (including antitrust, banking/finance, insurance, intellectual property, and M&A), each with its own head, and launched the

## BAKER BY THE NUMBERS

NUMBER OF LAWYERS	3,626
REVENUE	\$2.19 billion
PROFITS PER PARTNER	\$1.2 million
REVENUE PER LAWYER	\$605,000
EQUITY PARTNERS	711
OFFICES	70
COUNTRIES	38

(For the fiscal year ending June 30, 2008)

themselves are subject to similar audits. The result is “more accountability,” says New York partner Clyde “Skip” Rankin III, former managing partner of Coudert Brothers, who joined Baker in 2005 after Coudert fell apart. “It is more bureaucracy, but it’s better,” says Rankin. “I wish I had audits at Coudert; it might have nipped problems at the bud.”

In 2004 Baker launched its current talent management program by hiring industrial psychologists—an innovation from its Australian office—to interview associates about their work and training. The goal is to retain promising associates. Despite initial resistance (“I thought it was crazy, a boondoggle,” says executive committee member David Hackett about his early reaction), the program is now enshrined at the firm. In 2007 Harvard Business School professor Boris Groysberg wrote a case study about Baker’s program, touting its effectiveness. “When you’re this big, you need consistency and systematic ways to evaluate and compensate people,” says Groysberg. Now the firm has a global talent management team of more than 25 people (in 2004, it had eight).

Baker is also investing in partner leadership training. So far, it has sent 60 partners at all levels of seniority to a custom-tailored weeklong program in Colorado run by the Center for Creative Leadership, an institution with a large following among corporate leaders. The program is so popular at Baker, says Conroy, that there’s now a waiting list.

None of these programs are cheap, says Conroy, though he declined to name a price. (On its Web site, CCL’s list price for a five-day program is \$6,800 per head.) “You have to create a high-performance team,” he says. “Quality and profitability are two sides of the same coin.”

• **the dual focus on profit** and quality, say Conroy and his partners, have pulled the firm to new heights. “Ten years ago, we didn’t have matters that would have made *The Wall Street Journal*,” says Hackett. “Ten years ago, we wouldn’t be in the league tables.”

(The firm seldom makes the front page still, but in 2007 Baker was ranked in the top ten for deal count in mergers and acquisitions in the Bloomberg L.P., Thomson Financial, and mergermarket Ltd. league tables. In the debt and equity category, its securities practice garnered 11 top ten rankings from Bloomberg and Thomson Financial.)

Indeed, in certain practices and regions Baker holds its own against top-tier firms. The London office’s emerging market practice, focused on capital markets work, competes against firms such as Cleary Gottlieb Steen & Hamilton and Latham & Watkins, says New York recruiter Jon Lindsey. (Baker worked on 13 CIS deals in 2007, including a \$600 million debt offering for a Kazakhstan national gas pipeline company and a \$500 million Ukrainian bank offering.) The largest office of the Baker empire (300 lawyers), London has highly respected practices in tax, employment law, and intellectual property. Its ongoing assignments include intellectual property work for Unilever and L’Oréal SA and employment work for Accenture. Though focused mainly on the midmarket, the office is quite lucrative. Executive committee member Lasry says London “achieved \$1 million PPP years ago.”

But the place where Baker is a real powerhouse is Hong Kong and mainland China, where there are close to 300 lawyers. Conroy attributes the success to being on the ground early, starting in Hong Kong in 1974. (The firm officially opened in Beijing in 1993, followed by Shanghai in 2003.) “We started doing China work from Hong Kong, even before we went into China,” explains Poh Lee Tan, the head of the Hong Kong/China group and a member of the firm’s executive committee. “We’ve been there for the long haul, and it’s been highly appreciated by the Chinese government,” she says, alluding to Baker’s close relationship with China’s state-owned enterprises. This year, the Beijing and Hong Kong offices advised China Railway Construction Corporation Limited (CRCC) on an offering that raised more than \$5.4 billion, the second-largest IPO worldwide to date.

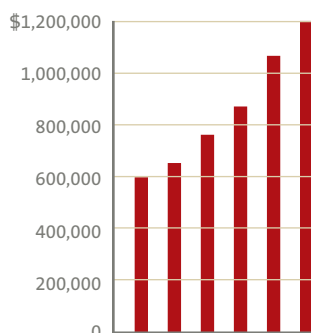
An energetic and stylish woman—she travels with a suitcase full of shoes—Lee is a 24-year Baker veteran who specializes in M&A and intellectual property. Though fluent in Mandarin and Cantonese, she neither reads nor writes Chinese. But that’s hardly kept her back. She says Baker’s Hong Kong office has already “made the leap from the midmarket to the top-market.” Unlike the case in established money centers, Lee says it’s “not that hard for us to penetrate the investment banks in Asia.” Asia is a lot more fluid, she adds, with fewer established ties between law firms and banks.

China and London’s success highlights a conspicuous gap in Baker’s international arsenal: its lackluster New York office.

kind of exhaustive quality control and talent management programs that might even pass muster with devotees of Six Sigma.

For instance, quality audits, an idea that began in the Hong Kong office, are now standard throughout the firm. In these weeklong exercises, practice unit partners and staff professionals visit each office, interviewing everyone from receptionists to partners about client service. They also conduct postmortems on cases and transactions, surveying clients about work quality and service. The practice units

BAKER’S PPP 2003-08



Since the late 1980s, Baker has been trying to make it a credible presence. Until it picked up 70 mergers and acquisitions and securities lawyers from Coudert in 2005, the practice was an amalgam of insurance, tax, and intellectual property. Alumni of the New York office say that the union was bumpy at first, but that it has settled into a passionless but tolerable marriage. “It’s not a trouble spot,” says a former partner. “It’s just one of the other offices.”

For any firm trying to be a major league global player, New York cannot be just another office. And Conroy knows this. “New York is a priority more than other markets,” he says, noting that there are laterals in the pipeline. The Coudert group, he contends, is “doing well”: It recently completed a \$131 million M&A deal for Siemens Corporation. Overall, the New York office is “night and day from where we were,” Conroy says. But he concedes, “It’s a work in progress.”

Undoubtedly, it can’t help Baker’s lateral recruitment that the legal market still perceives the firm as a collection of local offices, each run as its own profit center. Moreover, Baker still has an “eat-what-you-kill” reputation.

But Conroy says those notions are simply outdated. In the last five to ten years, Baker has made major changes on the compensation front, he says. All revenues now go into a worldwide pot, he says, from which partners are paid; afterward, some partners’ compensation are adjusted based on their office, practice group, or region. These adjustments, says Conroy, gives the system flexibility, allowing fine-tuning according to local market conditions. Another innovation is the adoption of a “subjective” compensation system, says Conroy, that takes into account factors beyond client generation and billings, such as cross-selling efforts.

To a firm long accustomed to individual office profit centers—a carryover from Baker’s old strategy of expansion through merger—revenue pooling remains a radical idea. Partners at Baker say that pooling caused a huge uproar when the executive committee first proposed it to the North American offices (U.S. and Canada) in 2003. Though it ultimately passed with 94 percent of the North American partners’ vote in 2003, it ruffled a lot of feathers—especially those of high-earning partners. “It led to a dramatic change in the partnership composition,” admits Conroy. But the profit-integration effort was well worth the trouble, says Conroy, because it demonstrated that Baker is a unified operation. “It dramatically changed our ability to attract talent,” he says, alluding to the Coudert group.

Not everyone buys Conroy’s rosy view. “[The compensation system still] rewards the wrong kind of behavior,” says one



alum, pointing to partners who still hog client credit and billable matters and argue over shared expenses. It also makes recruiting laterals difficult, says a London-based recruiter. “They are a hard sell,” this headhunter says of Baker. “They are hugely disjointed.” Moreover, some alums say that the profit pooling system is random. “Anybody can pool if they want to,” says one alum, adding that the system is “mysterious.” The bottom line, says another, is that there “are still 40 separate compensation systems.” What Conroy calls the “complexities” of the compensation structure, others see as a series of disparate systems that are still a long way from real integration.

Ironically, one of Baker’s major competitors defends Baker’s less-than-tidy system. DLA recently abandoned its own plans to integrate the finances of its 65 worldwide offices. Francis Burch, Jr., one of DLA’s joint chief executive officers, says that

Executive committee member David Hackett: “Ten years ago, we didn’t have matters that would have made *The Wall Street Journal*.”

“very few global firms use one operating entity” and that integrating finances worldwide would create all sorts of tax, regulatory, currency, and risk management issues. “The marketplace will credit Baker & McKenzie’s early commitment to a global strategy,” says Burch. “It will appreciate Baker’s structure and management.”

Generous words—especially coming from a firm that’s giving Baker a run for its money. Among firms operating in Baker’s midmarket sphere, DLA poses the biggest challenge. (Other close competitors include Jones Day, White & Case, and a few European firms, such as Salans.) DLA is relentlessly aggressive about expansion. Recently it lured corporate finance partner

Roger Meltzer from Cahill Gordon & Reindel. By contrast, Baker has few star laterals of that sort; the closest is Paul McNulty, former U.S. deputy attorney general. “We’re focused on high-end talent,” says Conroy, but, he adds, “I don’t believe in a star culture.”

• **baker & mckenzie wins** the prize for brand-name recognition in the international arena—though that fame can be a double-edged sword. In the legal market, Baker

## WHAT MIGHT HAVE BEEN

**ORIGINALLY, BAKER & MCKENZIE WAS THE PURSUER:** A year ago, through an intermediary, Baker chair John Conroy sought out Heller Ehrman for a possible merger. Heller’s chair, Matthew Larrabee, was interested—“but didn’t think his partners wanted to sign up with a 3,000-lawyer firm,” says a source close to the negotiations. Six months later, as Heller started bleeding partners [“Stop-Loss,” May], Heller found Baker a lot more attractive. When Conroy and Larrabee finally met this spring, a match seemed imminent. But in August, Baker pulled the plug.

Larrabee cited conflicts as the reason for the aborted merger in a voicemail sent to his partners in August. But the conflicts were only part of the problem, says the negotiations source. To resolve them, the new firm would have had to shed clients—particularly in the insurance sector—and revenue. According to the source, Heller’s revenue was “already a moving target,” because its partners were leaving even as the merger talks continued.

Plus, says David Goodwin, a former Heller partner who jumped to Covington & Burling in July, Baker faced the prospect of paying “stay” money to keep some of Heller’s high producers, including litigators Robert Rosenfeld, Marie Fiala, and M. Lawrence Popofsky, and corporate partner Stephen Tonsfeldt.

Baker’s non-U.S. partners balked at the deal, says Goodwin, who followed the talks through friends at Heller. They “were unwilling to make an investment that would benefit the U.S. offices,” he says. But the source close to the negotiations insists that there was no internal dissent, adding that the decision to kill the merger was unanimous on the Baker side.

In the end, the negotiators were a bit sad that the merger failed. “There was a lot of good chemistry and shared values and aspirations,” says the source. For Baker, calling off the merger meant losing a chance to boost its U.S. litigation and emerging technology practices. And Heller, now exploring other merger options, missed out on a kinder and gentler merger partner. By all accounts, Baker was willing to take all of Heller’s 600 lawyers. Says Goodwin: “Baker wasn’t looking to do layoffs, while other firms are only looking to take the cream.” —V.C.

and the word “franchise” still go together.

That characterization was never fair—even in the old days, asserts former executive committee member Coward, who’s been at Baker for more than 25 years. That misperception, he says, is partly Baker’s fault: “We let other people define us.” But he thinks clients don’t harbor such misconceptions. “There’s a bifurcation between how we are perceived by clients and the legal market,” says Coward.

Indeed, Baker has some big fans. Marc Firestone, general counsel for Kraft Foods Inc., praises Baker’s “strong sense of client service.” Though Baker has been primarily servicing Kraft’s multinational needs (commercial work, tax, labor, and counseling work), Firestone says he would consider the firm for “different projects,” including major transactions.

Unfortunately, Baker can’t always count on satisfied clients for more high-profile work. For instance, Baker got heaps of praise for its role in a series of complicated sales and spin-offs for American Standard Companies in 2007. Mary Elizabeth Gustafsson, the head of American Standard’s legal group at the time, calls Baker’s performance “outstanding.” Led by London partner Kirsty Wilson, Baker provided project management support, including tax and accounting analysis in more than 50 jurisdictions; more than 600 Baker lawyers in 50 offices worked on the matter. (Skadden, Arps, Slate, Meagher & Flom was the lead transactional counsel.) Gustafsson says Baker provided “seamless” support, working closely with Skadden, to the point “you couldn’t tell which firm was which.”

So does that mean she’ll reward Baker with a more prominent transactional role in the future? Well, not exactly. “I would use them again for internal structuring; it’s very tedious work,” says Gustafsson, now deputy GC of Ingersoll Rand Company Limited. But for the sexier transactional stuff, she’ll go back to Skadden. “It’s difficult for any firm that’s not Skadden to do public M&A,” she says. “There’s no time for learning those skill sets.”

In 2006 Baker won a high-value litigation for NetManage, Inc., when the U.S. Court of Appeals for the Ninth Circuit held that the Los Angeles County Sheriff’s Department infringed the company’s software copyright. The case was a big victory for the software industry, limiting customers from using software beyond what was originally authorized. NetManage’s then GC, Stephen Mitchell (now in charge of global licensing for Hewlett-Packard Limited), praises Baker’s Silicon Valley partner Tod Gamlen for winning the precedent-setting case, but says he continued to regard Kirkland & Ellis as “our bet-the-balance-sheet firm.” Mitchell adds, “I’m not saying Baker wasn’t up to

snuff,” but says that he thinks of Baker for certain roles: “When somebody sues you in Russia, who are you going to call? They are the McDonald’s of law firms. I know they will feed me, and I know it will be consistent.”

• **back in chicago** this summer, Conroy doesn’t deny that clients still overlook Baker for very top-tier work. But he says Baker is competing for high-value work—and getting it. He cites Baker’s role in Abbott Laboratories’s purchase of part of Guidant Corporation in a deal worth \$6.4 billion; in a role reversal, he says, Baker was Abbott’s M&A counsel while Skadden served as the company’s corporate counsel. Conroy adds that GCs are noticing that Baker can deliver, but that general perceptions are still out of sync with reality. His solution? Work harder: “We have to outperform [other firms], especially initially.”

But it’s an open question how far Conroy or anyone else can push Baker toward greater ambitions without changing one of the firm’s hallmarks: its consensus culture. Even in the old days, when Baker was content to be a loose confederation of autonomous offices, the firm strived for consensus rule. Partners proudly call Baker a firm of “evolution, not revolution,” and they generally reject the idea of autocratic rule. “Change can’t be mandated from the top,” says Coward. Though major decisions are now made by committees rather than direct partner votes, the firm is “respectful” of all viewpoints, says Conroy: “The word ‘domination’ doesn’t exist in our vocabulary.”

Some contend, however, that the democratic style is stunting Baker. That consensus culture, say some alums, is why Baker can’t pony up the big bucks to haul in a first-rate corporate team in New York or get rid of partners who don’t share nicely. The non-U.S. partners, for example, were skeptical of the merger between Baker and Heller Ehrman.

Poh Lee Tan, for one, is doubtful that Baker can complete its transformation into a world-class firm without altering some of the firm’s sacrosanct traditions: “The consensus-driven culture has served us well; but going forward, it may not be enough.” What’s needed, she adds, is “a more rigorous approach” that gives “agility across the board, whether in investment [in offices or practice areas], lateral hiring, or mergers.”

Baker has to push the transformation even further. In other words, a revolution is overdue.

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