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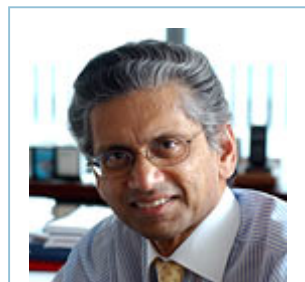
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No. 1 Task for Shearman Leader: Keeping the Firm in the Top Tier

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Rohan Weerasinghe
Image: Rick Kopstein /
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With its illustrious history and posh name, Shearman & Sterling strikes many as the epitome of the patrician, white-shoe New York law firm.

It is a perception the 1,013-lawyer firm's top partners have long cultivated, frequently reminding clients, law school recruits and just about anyone else that Shearman is a "peer firm" to the likes of Sullivan & Cromwell, Davis Polk & Wardwell and other elite firms.

Meeting with a reporter in one of the cozier conference rooms at Shearman's Lexington Avenue offices, senior partner Rohan Weerasinghe repeats the party line.

"I believe we are a top-tier firm," he said, "and I think we will remain a top-tier firm."

But that is exactly the question mark hanging over Shearman after a nightmarish past few years in which its cherished self-image was tarnished by associate layoffs, partner departures and signs of internal dissent, all capped by a growing profitability gap between Shearman and its erstwhile peers.

The numbers tell a good part of the tale. In 2000, Shearman's profits per partner of \$1.35 million put it clearly among the front ranks of firms. But the following year the firm was hit hard by Wall Street's slump and its figure dropped 30 percent to \$980,000. In fall 2001, the firm announced it would lay off about 10 percent of its associates.

There were, of course, firms that did worse, but Shearman does not compare itself to those firms. According to the most recent Am Law 100 survey of *The American Lawyer* magazine, virtually all the top New York firms had soared well past the \$2 million mark in terms of profits per partner by 2004. Meanwhile, Shearman continued to lag at its own 2000 level.

"We're very conscious of that," said Weerasinghe. "We're cognizant of the fact that, for the past four years, we've done well but not as well as our peer firms."

Chief responsibility for reversing that trend fell to the Sri Lankan-born Weerasinghe, 55, last June when the capital markets lawyer was first selected by Shearman's policy committee and then elected by partners to the firm's top leadership position.

The first nonwhite partner to lead a large New York law firm, Weerasinghe succeeded senior partner David W. Heleniak, who led the firm from 2001 until last May, when he joined Morgan Stanley & Co. as vice chairman.

The change has spurred talk of a fresh start for the 133-year-old firm. Indeed, if numbers memorialized Shearman's decline, they may now be pointing to its revival. The firm says its profits per partner grew 22 percent last year, finally pushing past its 2000 peak to reach \$1.4 million.

But Shearman still has far to go to catch up with its peers, not to mention the dozens of firms from Los Angeles, Boston and elsewhere whose profits per partner have soared past the \$1 million mark in recent years. Other signs of trouble persist as well: The firm in recent weeks has seen a number of high-profile partner departures, including that of a five-partner investment management practice to Wilkie Farr & Gallagher.

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Such departures point to the fact that, after four years of turmoil, disagreements about the firm's future direction are close to the surface, for while partners broadly agree on what has ailed Shearman during that time, they have very different ideas about what to do. Indeed, they have very different ideas about what it means for Shearman to be a top-tier firm.

STRATEGIC THINKER

Bridging those differences will clearly be Weerasinghe's greatest challenge. But if anyone can do it, it is Weerasinghe, said Rosemary Berkery, who started out with him as a Shearman associate and is now one of his most important clients as general counsel of Merrill Lynch & Co.

She recalled that, even as a young lawyer in the late '70s, Weerasinghe impressed her with his ability to think strategically.

"He was one of the few associates clients would look to as if he were a partner," she said.

Every bit the Shearman lifer, Weerasinghe joined the firm in 1977 after earning undergraduate, law and graduate business degrees at Harvard. He has spent virtually his entire professional life in the firm's New York headquarters, working with blue-chip investment banks. He speaks with authority on the firm's strengths, as well as its weaknesses.

He is clearly happy to tick off the evidence of the firm's strong presence on Wall Street and in public mergers and acquisitions. Among recent engagements, the firm advised Boston Scientific Corp. in its successful \$27 billion bid for medical device maker Guidant.

And the steady flow of work from the major underwriters seems in no danger.

"When we think of who are the top firms, Shearman & Sterling is always on the list," said Berkery.

But Weerasinghe is also forthright in identifying litigation and private equity as areas where the firm is weak compared with other leading New York firms. Given how some private equity transactions have come to dwarf public M&A deals and how lucrative white-collar, securities, antitrust and patent litigation have all been in recent years, it is easy to see how Shearman has suffered. Hit hard when Wall Street sputtered in 2001, Shearman was then unable to ride two of the strongest currents of the recovery.

Moreover, unlike most of the other leading New York firms, Shearman has pursued a strategy of international expansion, and it now has more than one third of its lawyers in overseas offices. While some of those offices, notably Düsseldorf and London, are extremely profitable, others, particularly in Asia, remain costly investments.

COMPENSATION STRUCTURE

But if the challenges facing the firm are clear, how Shearman should deal with them has been a source of controversy -- even acrimony -- among its partners.

To boost underperforming practices, many partners and ex-partners argue the firm needs to abandon its white-shoe pretensions. They feel the firm should aggressively recruit lateral rainmakers and put a greater emphasis on business development in both partner promotion and compensation.

Though the firm does not have lockstep compensation, in which partners are paid strictly according to seniority, Shearman maintains a relatively narrow spread of partner compensation. So partners who originate a lot of business are not paid a great deal more than partners who bring in relatively little.

The system's critics say it alienates the partners the firm now needs most. According to a number of partners and ex-partners, examples include prominent defectors like Barry Barbash, the head of the recently departed investment management practice, and former antitrust chair Steven Sunshine, who now heads the practice at Cadwalader, Wickersham & Taft.

In one partner's view, Shearman's pay practices likely mean the firm will be "too cheap" to recruit the sort of star who could make the firm a player in private equity. According to the firm's dissidents, tying partner compensation more closely with business origination is one of the major steps the firm needs to take to strengthen its weaker practice areas.

That the firm has not taken such steps already, they say, owes to resistance from an old guard of firm lifers weaned on large institutional clients in the financial sector. According to their critics, such partners do not understand what it takes to build new practices. Safely ensconced in both firm leadership roles and relationships with large banking clients, they have failed to support their partners in more entrepreneurial practices, instead blaming them for the firm's underperformance.

"People who grew up at the firm have a sense of superiority, a sense of manifest destiny," said one former partner who joined Shearman laterally. "They don't understand why things aren't improving. They'll say stupid things like, 'We need to work harder.'"

Heleniak embodied that mindset to many partners, and the firm's divisions surfaced forcefully months before his departure. An anonymous memo -- believed to be penned by a partner -- circulated within the firm stating that the partners were "tired of being financially damaged and embarrassed" and called for the resignations of Heleniak and his management team.

"For 3 years they did nothing," the memo said. "For 3 years they stood like a deer caught in the headlights. For 3 years we have accepted nothing more than wishful thinking. ... The leaders of this firm have failed to protect us while all other firms have managed to excel."

Given his background at the firm, Weerasinghe could easily be cast in the same mold. He clearly possesses a conservative streak, which he displays when he angrily condemns the anonymous memo as "very unpartnerlike."

"I was disappointed that someone would put something in writing and send it out like that," he said. "I think it was very counterproductive to what he or she was trying to do."

He also defends Heleniak, noting the latter's tenure spanned the period that took in the dot-com meltdown, the Sept. 11, 2001, terrorist attacks, Enron, SARS in Asia and a host of other crises that affected business. He also says his predecessor deserves credit for spearheading a strategic planning process aimed at identifying and addressing the firm's weaknesses.

"I am very much intending to continue those initiatives," he said.

CHANGING A CULTURE

But Weerasinghe is also clear he hopes to close the door on the divisiveness of the recent past.

"Those were four years of significant turmoil," he said. "I am coming in at the end of it."

He sees a lot of that turmoil stemming from a lack of communication between firm management and the rank-and-file partners. To rectify that, he has spent much of the past several months visiting Shearman offices around the globe, meeting with partners and associates. The effort and Weerasinghe's personal style have won praise, even from firm dissidents.

In Berkery's view, it is not surprising that Weerasinghe would reach out.

"There's a tendency for law firm partners to become very insular," she said. "He's aware of that danger, and he avoids it."

Though Weerasinghe rose in the firm working with the biggest and most stalwart financial sector clients, he has escaped being branded as a member of the old guard.

Among the firm's critics, Weerasinghe is typically seen as walking the middle ground on the firm's executive committee between two more conservative members, co-managing partner and M&A lawyer John Madden and executive compensation specialist Linda Rappaport, and two who joined the firm laterally, Düsseldorf-based co-managing partner Georg Thoma, one of Europe's top deal lawyers, and London office head Kenneth MacRitchie.

Weerasinghe and Madden, who was co-managing partner under Heleniak and widely regarded as a front-runner to take the top job, both dismiss suggestions that the firm's management is anything but united in its approach.

Weerasinghe says the committee takes a consensus approach to issues. Madden agreed. "There's a strong commitment to approaching things in a coordinated fashion," he said.

But it is no doubt useful to Weerasinghe that some at the firm see him as "a breath of fresh air." It is helpful as well that he cuts a different figure from the imposing, white-haired Heleniak, who appeared to have arrived from central casting for the role of law firm senior partner.

An ex-partner who was highly critical of Heleniak predicted the even-tempered Weerasinghe would ease firm tensions.

"He is a gentleman," said the former partner. "If he had been in charge when I left, I might still be there."

But Weerasinghe also has a reputation at the firm as a demanding boss, working his capital markets associates extremely hard. Another former partner said this trait burnished Weerasinghe's image as someone who did not merely coast on the firm's existing relationships but strengthened them and leveraged them in pursuit of new business.

"He is a developer of business, and he knows what it is to be entrepreneurial," said the ex-partner, who predicted Weerasinghe would take the firm in the right direction, though not without encountering some bumps along the way.

"He's got a hard job in front of him," the former partner said. "He's trying to change a whole culture."

Weerasinghe's hands-on approach will likely make it easier for him to dole out the strong medicine the firm needs, as many complaints about prior action have focused on the secrecy of the policy-making process.

There is little disagreement now that the 2001 associate layoffs were necessary to address overcapacity at the firm. But there is also strong feeling that they were mishandled, with rumors of favoritism in the process circulating without correction both before and after the layoffs were announced. There were also promises that the layoffs would be a unique event.

According to a number of ex-partners, the firm then went on to mishandle a "purge" of partners deemed unproductive in fall 2004. One partner said the decisions seemed to have been made in secret, and some of those affected had not appeared to be any less productive than many who were spared.

Weerasinghe, a policy committee member at the time, disputed the description of a purge. He said there had been talks with individual partners about what the firm wanted them to do to help achieve the productivity goals of the firm's strategic plan.

"Some people came to the conclusion that they would prefer to leave," said Weerasinghe. He declined to specify the number of partners so affected. He said the firm would continue to stress productivity in its lawyers.

DEBATE OVER LATERALS

One former partner said he was also uncertain of the number of partners who had left over productivity issues, but he said he

believed it was sufficient to be considered a major factor in the performance boost the firm saw in the last year. He said the firm still had enough inefficiencies to achieve substantial improvement in its results through cost-cutting alone.

"Rohan will be a hero when the year-end results come out," the former partner said. But though he praised Weerasinghe as a "decisive" leader, the former partner said he believed the firm's present lawyers largely lacked the "will" to take the firm forward. He said the firm needed a strong infusion of lateral talent to truly turn things around.

The idea that the recruitment or promotion of big-name partners can transform a firm's fortunes has gained currency at many firms in recent years. But lionizing individual partners can have a corrosive effect on law firm culture. Most of the top New York firms to which Shearman compares itself have lockstep compensation precisely for that reason.

Laterals are welcome at Shearman, Weerasinghe says, but he thinks the firm should focus on attracting those whose practices fit with the firm's existing strengths.

He stresses the firm's efforts to leverage its market position among financial institutions to build litigation and private equity at the firm.

He acknowledges the firm has trailed rivals like Simpson Thacher & Bartlett and Debevoise & Plimpton in the private equity area but says the firm's depth of transactional expertise obviates the need to build a practice in the area from scratch.

"We don't have the presence we should," he said. "All the pieces are there. I think [clients] will begin to see what we can do."

The firm's European offices, he notes, are building relationships with private equity funds that may produce work in New York.

In litigation, a favorite example of what Weerasinghe wants to see replicated is the firm's stepping into the role of defending Morgan Stanley against financier Ron Perelman's claims that the investment bank misled him about accounting fraud at Sunbeam Corp., whose troubled stock he acquired when it bought his stake in camping-goods maker Coleman. Morgan Stanley publicly fired its last firm, Kirkland & Ellis, but a Palm Beach, Fla., judge nonetheless punished the bank for discovery foul-ups by granting Perelman partial summary judgment, and a jury later awarded him \$1.45 billion. Morgan Stanley is appealing.

The partner handling the case for Shearman is Steven Molo, who joined laterally less than two years ago from Winston & Strawn in Chicago, where he had been one of that firm's top litigators. The newcomer says he was drawn to the firm because it was one of the "great, great names of Wall Street." He does not buy all the talk of decline at Shearman; he still sees an "unparalleled franchise."

"Some things need to be done, but we have to make sure they're done in a way that stays true to our core strengths," he said.

Part of what feeds faith in those core strengths is the feeling that Shearman has been down this way before. In the 1980s and even to the early 1990s, the firm's white-shoe image obscured the fact that most of its work was in bank finance. The dull but steady work of drafting credit agreements for syndicates of banks was a far cry from the high-powered roles taken at the time by Sullivan & Cromwell or Skadden, Arps, Slate, Meagher & Flom.

GLOBAL STRATEGY

The firm's senior partner in the 1990s, Steven Volk, continues to receive praise for completing an almost seamless transition into the high-end M&A and capital markets work that has become the firm's trademark. Virtually all who were Shearman partners at the time lament the passing of those heady days, but they have taken different lessons from the period. Some think the firms' sputtering in recent years revealed limitations that were dormant under Volk; others see the whole period of growth as proof of the firm's inherent adaptability.

And then there is the global card. The firm that has invested so heavily in overseas offices is still waiting for that investment to give it an edge over the other New York firms, most of which have either approached international expansion tentatively or avoided it altogether. Weerasinghe says he remains committed to the firm's global strategy.

"I think I may put greater focus on Asia as an area of opportunity for the firm," he said.

But Asia in particular has been a puzzle for many U.S. and British firms, which have found the goal of gaining experience and market share generally conflicts with the goal of making money.

Weerasinghe has some experience of the difficulties Western firms can encounter in the region. He previously took a lead role in getting Shearman involved in an ill-fated joint venture with a Singapore law firm. The venture folded amid personality conflicts and other disputes in 2002, though the firm maintains a presence in the city-state that it still hopes will become the hub of a thriving practice servicing Southeast Asia.

"It was a learning experience," said Weerasinghe of the Singapore venture, but he adds that it has not soured him on further efforts in that region, as well as the rest of Asia, especially China. The firm has an office in Beijing and is applying to the Chinese government for a license to operate in Shanghai as well.

But they are far from the only ones doing so. Indeed, everywhere the firm operates, in New York as well as Asia, Shearman is facing a far more competitive environment than it did two decades ago. Its traditional peer firms may now be the least of its worries.

Twenty-seven firms, including non-New York firms like Los Angeles' O'Melveny & Myers, Philadelphia's Dechert and Boston's Goodwin Procter, had higher profits per partner than Shearman in 2004. The 11th most profitable firm in the nation five years ago, Shearman was tied with Boston's Bingham McCutchen for 28th place.

Many of these firms have made expansion in New York their highest priority, in some cases leveraging Shearman's name and reputation in the city by poaching its partners. Chicago's McDermott, Will & Emery recruited Shearman partners to boost its New York corporate practice. London's Linklaters launched a New York litigation practice with a group of former Shearman lawyers led by Paul Wickes, who is now the Magic Circle firm's U.S. managing partner.

The arrival on the scene of dozens of relatively new competitors complicates Shearman's efforts to restore its glory. A skeptical ex-partner said the firm would be challenged to retain and recruit top partners, especially since most competing firms were willing to pay much more.

"Why would anyone go there?" he asked. "There's nothing inherently desirable about Shearman except an old-line name."

Of course, an old-line name, especially one that continues to be attached to some of the biggest deals around, remains a formidable asset in a status-conscious profession. But to the extent the firm may have coasted on that in the past, it certainly can do so no longer.

In Weerasinghe, the firm has found a leader who everyone agrees has never coasted on anything.

"I might have a reputation for being demanding and tough," he mused. "I expect I'll be managing the firm with rigor. I am very focused on managing this firm."

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