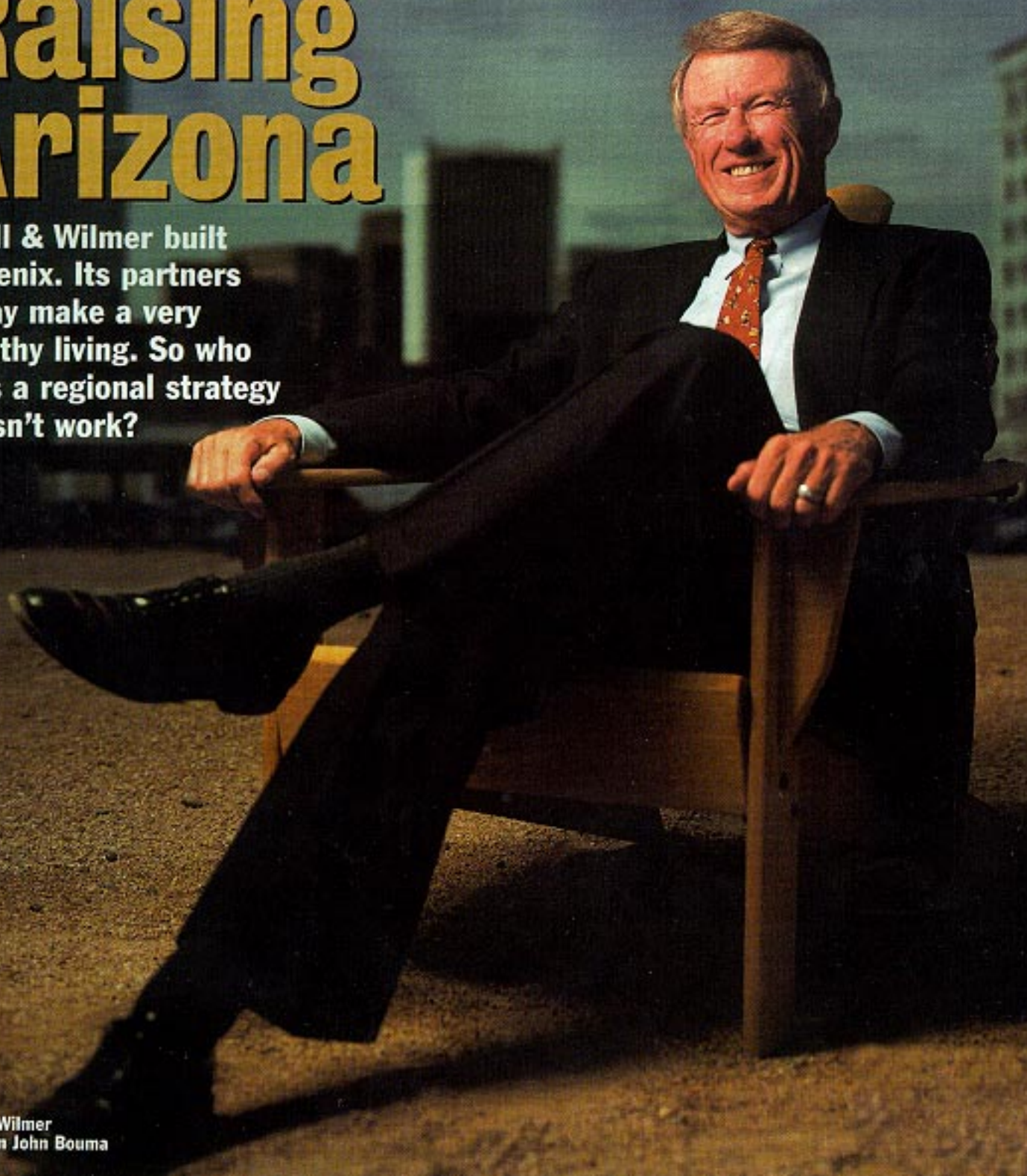


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Raising Arizona

Snell & Wilmer built
Phoenix. Its partners
today make a very
healthy living. So who
says a regional strategy
doesn't work?



Snell & Wilmer
chairman John Bouma

The VALLEY of the Sun King

FRANK SNELL ALMOST NEVER MADE IT TO ARIZONA. After graduating from law school at the University of Kansas in 1924, the former Eagle Scout was headed for Connecticut to take a job with the insurance giant Hartford Group. But, in a scene reminiscent of a Eugene O'Neill play, a rich uncle from the West happened to visit just before Snell was due to leave: "What, a young man going east in these times?" the uncle exclaimed. "Come to Arizona, boy, and you'll never regret it."

Snell did, and he didn't. In 1938 he founded a law firm in Phoenix with fellow midwestern transplant Mark Wilmer. It is hard to imagine that any law firm played as crucial a role in the development of a city as Snell & Wilmer did in Phoenix. Indeed, it can be argued that but for Snell & Wilmer, Phoenix as it exists today wouldn't even be possible.

In the early 1950s Phoenix was bumping up against the limits of its water supply. The state had sued California to establish rights to Colorado River water, but the case was stalled. Enter Mark Wilmer. Though Wilmer thought the case was "a hell of a mess," he agreed to take it on. He immediately shifted the case from an argument that Arizona needed the water for business development to focus on an obscure provision in a decades-old federal statute that led to the building of the Hoover Dam. That statute included language indicating that Arizona was entitled to a much higher percentage of the water than it was using.

After a six-year battle, including two arguments before the Supreme Court, Wilmer prevailed over California and its high-profile counsel Northcutt Ely, securing an ample water supply for Arizona's expanding population. Wilmer was hailed as a hero all over the state. Today water is so abundant in the desert city that outdoor misters operate continuously all over downtown.

While Wilmer won court cases, Frank Snell cut deals. As the premier transactional lawyer in the state, Snell was instrumental in

Snell & Wilmer lawyers brought water to the desert and made Phoenix bloom. Along the way, they built a firm that is rich, powerful, and perhaps the nation's most secretive.

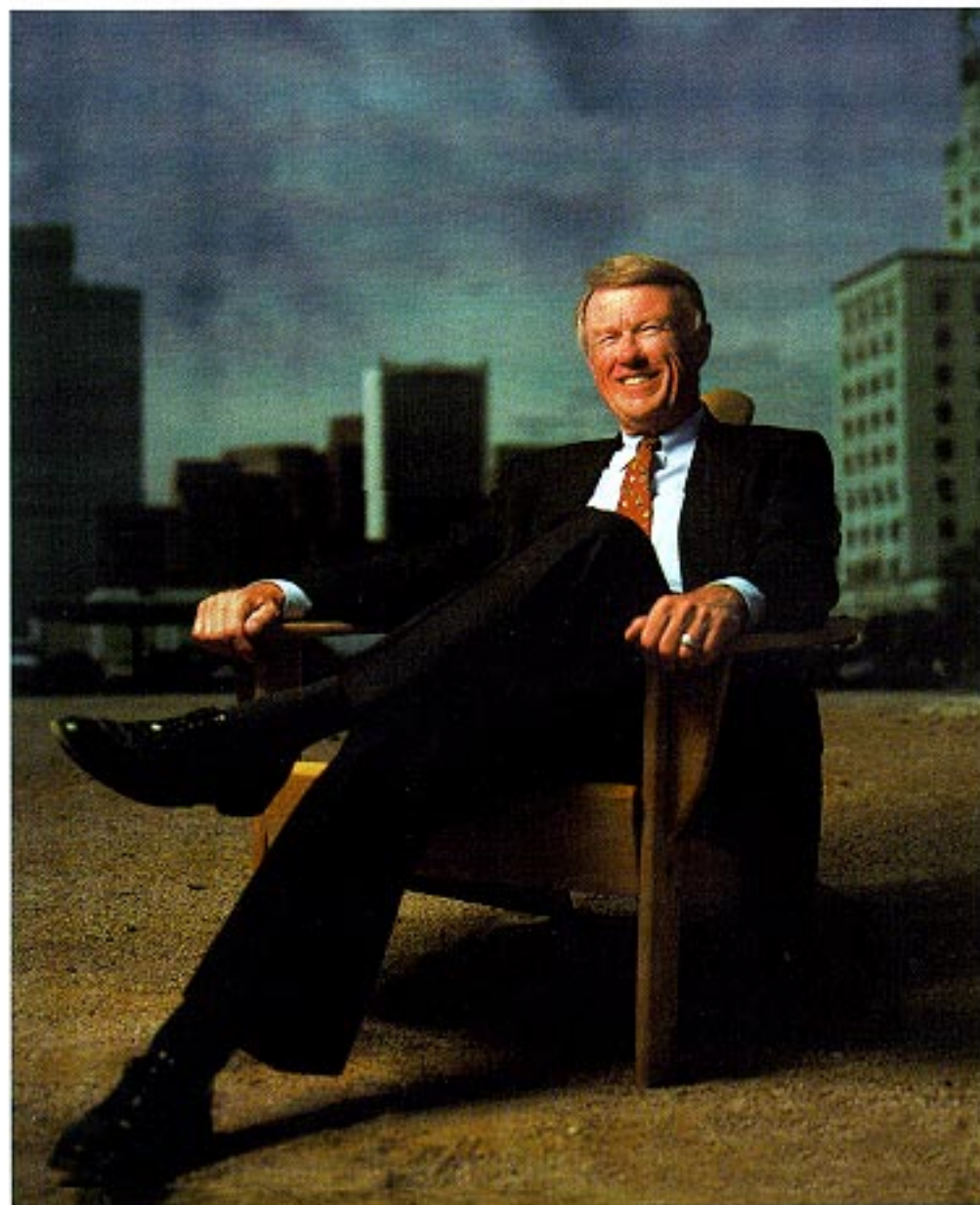
By Douglas McCollam

creating Arizona Public Service, the state's largest public utility (it's still a client of the firm). Snell was also one of a triumvirate of men that included Eugene Pulliam, publisher of the Arizona Republic, and Walter Bimson, founder of the Valley National Bank (now Bank One Corporation), who set the agenda on civic affairs. In the early fifties, the clout of the three men was so great that when Las Vegas casino operators began taking options to buy hotels in town in anticipation of the legalization of gambling, a word from "the big three" with state legislators was all it took to scuttle the deal. (To this day, Phoenix is sometimes derided as Vegas, without the gambling.) Ultimately the three became the core of a formal organization called the Phoenix 40, which still plays a central role in the life of the city.

In 1994 Snell and Wilmer, both in their nineties, died within three months of each other. The men were eulogized in page-one obituaries as civic giants who helped transform Phoenix from a dusty desert town to what is today a thriving metropolis of 3 million, the country's seventh-largest city.

As Phoenix grew, so did Snell & Wilmer. With almost 300 lawyers, the firm is not only the largest in Phoenix, but the largest between Dallas and Los Angeles. Capitalizing on the lack of local competition, Snell & Wilmer has spread throughout the Southwest and Rocky Mountain regions, opening offices in Tucson, Salt Lake City, Denver, and Irvine, California.

So far the firm's regional strategy has paid big dividends. Snell & Wilmer's depth and geographic reach have allowed it to operate



In the feudal state that is Snell & Wilmer, chairman John Bouma "is the king," says a former partner. Photographed by J.H. Bowles

as a true general practice firm, providing litigation and transactional services to more than 8,000 clients, including Bank One, Pinnacle West Capital Corporation, General Motors Corporation, and Honeywell International Inc. It is lead counsel for Burr-Brown Corporation in its pending \$7.6 billion acquisition by Texas Instruments Incorporated, the semiconductor industry's largest transaction to date. The firm has one of the nation's leading product liability defense practices, is rapidly expanding its intellectual property department, and is assuming a lead role in the burgeoning area of Indian law.

Despite the rapid growth, Snell & Wilmer retains much of its original culture — one rooted in its founders' midwestern values. Perusal of the firm's partnership listings is more likely to turn up graduates of Iowa, Kansas, and Notre Dame than Boalt Hall, Stanford, or Harvard. Part of that is simply a matter of proximity, but there is a sense that the firm actively replenishes its midwestern stock. "For a while there, it seemed like if you came from Iowa, you just showed up and got in," jokes one former associate who

worked on recruiting matters.

In fact, chairman John Bouma — the chief architect of the firm's rapid growth — was a lawyer who showed up from Iowa. Bouma had just finished a two-year stint in the Army Judge Advocate General Corps at Fort Huachuca, Arizona, when Snell & Wilmer hired him in 1962. Bouma advanced rapidly, making partner in four years; he was named to the executive committee at age 35, and by age 45, he was chairman of the firm.

Today Bouma has the rough-and-ready presence of a man who has spent much of his adult life fishing and hunting in the desert Southwest. At 63, some paunch has crept onto the litigator's long frame, but the impression still is one of barely contained vitality. His eyes are the requisite gunslinger-blue, set in craggy sockets of parchment brown. His voice is a round baritone trapped by a slow-working jaw, so that it sometimes sounds as if he's talking, as one lawyer put it, through a bowlful of marbles.

Like the firm's founders, Bouma works hard to preserve Snell & Wilmer's midwestern traditions. He is prone to offering bits of homespun wisdom. One such motto — "if you want to be successful, you've got to know the territory" — comes from the play *The Music Man*, a 1957 musical set in a small Iowa

SNELL & WILMER

Home office: Phoenix

Number of lawyers: 295

Gross revenue (1998): \$97 million

Profit per partner (1998): \$410,000

Clients: Bank One, Pinnacle West, General Motors

town much like the one where Bouma was raised. The saying nicely sums up Bouma's management philosophy: Snell & Wilmer's territory is the Southwest; Bouma's is the 300 lawyers and five offices he manages.

One of the values Bouma insists on from his lawyers is lack of pretense. At Snell & Wilmer all partners are expected to answer their own phones and personally greet visitors in the reception area. But lack of pretense should not be confused with laxness. Despite Phoenix's legendary 100-degree-plus heat, there are no casual days at Snell & Wilmer. And the firm adheres to an open door policy — literally. Working behind a closed office door is verboten.

The firm also abhors debt. According to Bouma, the firm has never had it and never will, at least as long as he's in charge. That means that all expenditures, even big-ticket items like new offices and technology upgrades, are funded out of operating income, not revolving credit. Predictably, this makes the partners extremely

cost-conscious. When Snell & Wilmer realized that it could use a card entry system to funnel visitors to its top floor, the firm did away with receptionists on the other seven floors.

Similarly, when it determined that technology had made maintenance of a full law library an unnecessary and expensive luxury, it closed down the library. The firm is currently converting the space into new offices.

Still, Snell & Wilmer's growth has led to some dislocation and uncertainty. For one thing, geographic and practice group expansion has forced the firm to compromise its preference for home-grown talent. During the last ten years, the hiring of laterals has exploded, most acutely in the firm's intellectual property practice. Five years ago it had just a handful of lawyers doing IP work. Today it has about 30 and would "hire ten more on the spot," if it could find them, according to IP partner Howard Sobelman.

The firm's partnership is divided almost evenly between nonequity, or "income," partners, and equity partners. No one joins Snell & Wilmer as an equity partner. Rising associates who come up the firm's seven-year partnership track must spend an additional three years as income partners before being eligible for an equity partnership.

Likewise, incoming laterals, no matter how big their book of business, must wait a minimum of three years before becoming eligible for equity partnership. Though income partners are paid as well as, and in some cases better than, equity partners, they do not get to vote on key partnership matters, including who serves on the executive and compensation committees. The vetting period, according to Bouma, ensures that new partners understand and accept the Snell & Wilmer system before they are allowed into the inner sanctum.

An important part of the Snell & Wilmer system is centralized rule. When Snell stepped down as chairman in 1972 after running the firm for 34 years, he was replaced by a five-person executive committee. Although that committee is still in place, Bouma is recognized as the final authority. "Think of it as a feudal state," says one former partner. "John is the king, then you have some powerful barons with some autonomy over their areas, then knights who want to be barons, then a bunch of squires and serfs who don't know much at all."

While Bouma laughs off such talk, he concedes that the firm is not a "town-hall democracy" and that it strongly believes in centralized administration. To illustrate the point, Bouma recalls a time when he was recruiting a big-time rainmaker from another firm. Negotiations were nearly concluded when the lawyer demanded the authority to hire and fire his own secretary. "No way," Bouma responded. "That's not the way we do things." The decision was tough, Bouma recalls, because the lawyer would have filled a big need that the firm had at the time, but Bouma didn't blink. "Once you start making exceptions, you're in trouble," Bouma says. Years later the partner did join Snell & Wilmer — on Bouma's terms.

Bouma feels that the key to maintaining control is ruling with a light hand. "I never liked being managed, and I don't really like to manage other people," he says. Though the firm disfavors titles and committees, Bouma allows the firm's practice group leaders to supervise their lawyers without too much interference, while he concentrates on business and administrative matters. According to Phyllis Hawkins, the doyenne of Phoenix's legal recruiters, the system works well. "They really don't have a lot of turnover," she says. When asked to pick three adjectives to describe Snell & Wilmer, Hawkins thought for a moment and replied, "Large, well-run — and secretive."

Ah yes, the secrets. For starters, all access to financial information within the firm is strictly controlled.

Partners — equity partners, mind you — are not given a detailed accounting of the firm's performance. "Everything is presented in terms of percentages — '2 percent up here, 5 percent there,'" says one former partner. "You don't get breakdowns on things like average hours, average billing, and realization rates, or how certain practice groups are performing." That tight control was not loosened even when it was revealed last year that Snell & Wilmer's chief operating officer, Thomas McKeever, had stolen about \$2.5 million from the firm to feed a gambling habit. "We instituted some accounting controls, but things went on pretty much unchanged," says Bouma. McKeever pled guilty to theft and is currently serving a seven-year prison term at the Arizona State Prison Complex in Douglas.

McKeever referred questions to his lawyer, who declined to comment. Through its corporate entity, General Investment Company, the firm has sued McKeever for restitution.

INFORMATION REGARDING PARTNER COMPENSATION is even more closely guarded than firm finances. For more than a decade, only Bouma and partner Richard Mallery, who comprise the firm's two-person compensation committee, have known what individual partners are paid, and among the lawyers, only Mallery knows what Bouma makes. "The only real limit there is John's good conscience," admits partner Warren Platt, who sits on the firm's executive committee. "At some point, you've got to trust people." Adds former partner Peter Santin, "You've got to hand it to John. How many people in the world can say they run an institution that brings in [almost] \$100 million and yet don't tell anyone what they make?"

Bouma's partners know that the system seems a little kooky to outsiders. So why do they accede to it? A big part of it is tradition. Like some countries, Snell & Wilmer has no real history of democracy, and many of the lawyers seem more comfortable under a strong hand.

"The question is, What kind of knowledge is important? Is it really important to know what others make, or just that I'm well-compensated?" says partner Douglas Seitz. "There's a trade-off, but there is a lot of trust in the people who run the firm." Partner Matthew Feeney argues that secret compensation actually aids clients. "It converts personal clients into firm clients, so you don't lose time bickering over the work. I admit, though, it would be hard to go from an open system to a closed one."

Irwin Stelzer, an economist who has spent more than 20 years as a paid consultant for Snell & Wilmer, says that he is both impressed and mystified by the way the firm works: "It's a tribute to John that he can satisfy [all those] rather greedy people without trouble breaking out." Stelzer says he was concerned that the large amount of lateral hiring that has fueled Snell & Wilmer's expansion might compromise the firm's culture, but it turned out that some of the laterals are the system's strongest proponents. "This system allows you to focus on being a lawyer," says Charles Pulaski, Jr., who came in as a lateral in 1986. "You don't get the negatives associated with negotiating fee-splitting or origination credit." Environmental litigation partner G. Van Velsor Wolf, Jr., agrees. "I never liked compensation politics and the idea of competing against other lawyers," he says. "I'm comfortably paid."

Stelzer has no doubt that ignorance can be bliss. "I remember years ago going to a partner dinner at Kaye, Scholer, [Fierman, Hays & Handler] that happened to fall on distribution day," he says. "It was a disaster. Even the wives were getting into fights."

But would Stelzer, the hardened economist, work at a shop where he wasn't given data on the performance of the firm or what his partners were being paid? "I have to say that if someone tried to hire me under those terms, I'd have a problem with it," he says.

And, of course, some lawyers at Snell & Wilmer do have a problem with it. As with any process that is conducted in secret, there are suspicions of unfairness. One former partner who asked not to be named says that he always suspected that Bouma played favorites: "If you were one of his boys, great. If not, better luck next year." Almost all of the more than two-dozen partners and former partners interviewed for this article confessed that they are not exactly sure how compensation is determined. Stelzer says that when he attempted a regression analysis to correlate a partner's compensation to hours billed, he couldn't make it work. At a firm retreat, the whole compensation system was satirized in a video featuring Bouma throwing darts at a board to determine salaries.

While Bouma admits that the process is not completely scientific, he denies that he plays favorites, and Stelzer, who sits in on some compensation deliberations, labels the accusation "unadulterated bullshit. John is one of the fairest guys I've known." Stelzer says that Bouma will consider human factors in addition to simple formulaic approaches: "If a lawyer has a down year because of personal matters, John accounts for that and won't penalize him." Another advantage of secret compensation, says Bouma, is that if lawyers are underperforming for an extended period, their compensation can be cut without undressing them in public.

Such diplomacy is one of the reasons Bouma has managed to stay on top for the better part of two decades. Partner Edward "Bud" Jacobson, who has been with Snell & Wilmer since 1950, says that Bouma is "the kind of person that I'd send to Camp David because he could get the warring peoples to agree." Jacobson equates Bouma's growth in the job of chairman to that of a "gladiator who becomes a statesman." Stelzer says that, underneath his "corn-fed demeanor," Bouma is one of the most sophisticated managers of people he has ever met.

But diplomacy only goes so far. While most partners at Snell & Wilmer seem accepting of the benefits of secret compensation, more are dubious about the lack of available hard information on the firm's overall performance. "That's something I do hope changes more in the future," says equity partner Steven Pidgeon, who came to the firm as a high-profile lateral in 1994.

Some partners, like Peter Santin, got tired of waiting for change. Santin was a rising star at Snell & Wilmer in the early 1990s. A homegrown talent, he seemed marked for stardom at Snell & Wilmer. But that all changed, Santin and others say, when he started to challenge the system — and John Bouma. "He became a pain in the ass," says one person familiar with the firm. "He was always was talking about how many Styrofoam cups were used or shutting the lights off at 7 p.m."

Santin concedes the point cheerfully. "I was a pain in the ass on that stuff," he says, laughing. "But that's because some of the only hard information we got were on those costs."

Santin says that when he began standing up to Bouma in partnership meetings, he quickly wore out his welcome. "To be in that system, you'd better be a true believer," he says. "If you're not, you better leave. I wasn't a believer anymore." Santin left along with two other partners in 1995 to found Phoenix's Santin, Poli, Ball & Simms.

To Bouma, all reference to him as a despot is wrong. "If people want me to go, I'll go," he says. "I don't need a coup or anything." But there appears to be little chance of that, and, if Bouma lasts a

long as Frank Snell did, he could spend another decade at the helm. "John is going to be very hard to replace," says Stelzer. "I'm not sure anyone can play his role in the future." Platt thinks the situation will be analogous to when Snell stepped down 30 years ago: "You'll have a committee for a while, then someone will step forward and assume control."

But all that's in the future. For now, the Sun King sits squarely on his throne, holding the reigns of power in a powerful grip. Like the man in the song says: "To be successful, you've got to know the territory." And at Snell & Wilmer you can bet John Bouma does — every blessed inch. ■