What if Our Best People Join the Competition?

By Henrich Greve

Readers of the business press have been watching the slow decline of the famous New York law firm Dewey and LeBoeuf, which took on too much debt and is reported to be investigating financial misconduct by one of its leaders.

Most troubling for a law firm, which lives on the expertise and customer networks of its leading partners, it has experienced an increasing stream of defections by its partners to other law firms. To many observers, the doubling of departures in four months (8 in February, 22 in March, 40 in April, and 81 in May, according to Wall Street Journal) is a signal that the end is near.

What if it had not been a rush like the one we are currently seeing, but instead fewer exits? We might think that a firm would withstand a smaller stream out, as job movements are a common sight on most industries. But if these are key personnel, a case can be made that even a smaller number of exits is dangerous. So which is it? In fact, Wezel and coauthors have looked at exactly this issue (for accountant firm partners), and found some interesting effects.

First, departures do harm the firm – a plausible first result. Second, departures of individuals were much less damaging than departures of groups. This is not just because groups are “bigger”, but also because their experience working together means that they add up to more than the sum of the individuals. Third, reasonably, the effect is worse when they depart to a nearby competitor. Fourth, and perhaps most surprising, the damage to the firm that they depart is greater when they start a new firm than when they join an existing one. What makes this surprising is that existing firms are often stronger competitors to begin with, and adding more expertise to current competitors seems to create a greater threat. But a startup is worse than a greater threat; it is a new threat.

This may not quite be news that rescues Dewey, which seems to have a bigger set of problems than the departure of a few partners. But, for other firms it may be useful to know that retaining key employees is not just good one’s own competitive strength; it also avoids strengthening existing competitors or creating new ones.

Spector, Mike and Jennifer Smith. 2012. “Bankruptcy Specialist at Dewey Heads for Exit.” Wall Street Journey, May 13 2012.
Wezel, F. C., Cattani, G., & Pennings, J. M. 2006. Competitive implications of interfirm mobility. Organization Science, 17(6): 691-709.

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