

Brexit: The Must Do's for Law Firms

By Tony Williams

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The Brexit result is clear, we now have a new Government and law firms need to adjust to the new environment. Multiple uncertainties remain: what exit deal will be done with the EU and when, what new trade deals will be done and with whom, how will the financial services sector respond, what will happen to the residential and commercial property markets, at what level will sterling be, will foreign direct investment into the UK decline, will M&A activity remain subdued, will private equity investors and others go bargain hunting, will the UK flirt with recession and will the Chancellor develop a new economic plan? And these are just the UK centric uncertainties. There are a myriad of other geo political and macro-economic uncertainties across the world.

Faced with such a range of unknowns it would be understandable if law firms sat on their hands until the dust settles, but this could be a costly or even fatal mistake. They need to be clear, strategic and relevant in such a time by addressing the following:

1. **Stay close to clients.** Many clients are having to face the same uncertainties. They do not expect (or will not believe) anyone to have all the answers but they will need help to identify the issues that will impact them, the potential scenarios and the appropriate courses of action to both mitigate the impact of any change and to identify new opportunities that such change produces. Lawyers, who can cope with uncertainty, develop relevant and business focused scenarios and credible and executable solutions will be of real value. Furthermore, given that business sentiment is a key driver of activity and hence legal fees, understanding the risk appetite or otherwise of major clients will give law firms a strong indication of future work streams.
2. **Invest in staying relevant.** Law firms will need to spend considerable unchargeable time understanding the impact of Brexit on specific clients and industries and on developing solutions and tools to help their clients. Given that major corporate structural changes may take up to two years to complete many clients may need to start implementing their contingency plans well before the final shape of the deal with the EU is clear. Firms need to understand the likely range of issues from data privacy, regulatory approvals, corporate structures, capital requirements, employee mobility, the choice of regulator, import controls and duties, supply chains and intellectual property rights and be able to help clients to prioritise their actions. This may require considerable research and development efforts by law firms. The nature of many law firms Brexit communications to date shows that there is plenty still to do if firms are going to remain relevant to their clients.
3. **Maintain Utilisation.** One paradox which has existed for the last few years is that many firms have continued to increase lawyer headcount but hours worked and revenue per lawyer have generally remained static and at levels below those achieved a decade ago. Once the summer is over, firms will be able to get a better idea of the likely levels of utilisation across their offices and practice areas. Some have already imposed hiring freezes. Although firms need to avoid knee jerk reactions, they will need to try to manage their headcount to the likely level of business activity. This may necessitate moving lawyers between practice groups or offices, not replacing any departures or even a redundancy programme. No one wants to be first with a redundancy programme and currently it is unclear whether future activity levels will justify one but firms do need to be clear when and in what circumstances they will need to act.

4. **Improve Efficiency.** It is tempting, during a time of mixed activity levels, to delay developments designed to improve efficiency such as onshore centres, contract lawyers and paralegals and IT investments because the existing lawyers are available and have capacity. It is however necessary for firms to continue with these developments. Clients now expect them and they need to continue even if this impacts the number of lawyers the firm needs.
5. **Financial Discipline.** Firms may need to review their revenue and costs budgets for the year. Cash flow forecasts will need to be revised. Foreign exchange exposure needs to be understood and, where possible, mitigated. Pricing, billing and collection discipline must be maintained especially if a range of matters are on hold. Partner remuneration expectations will need to be managed.

In a market plagued by uncertainties law firms that can navigate through the morass both for their clients and themselves are best placed to outperform their peers.

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