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Opinion: Germany or bust

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Weakness in Germany could seriously jeopardise your wealth

With continuing headlines about low growth and the financial crisis in -Europe it would be easy to believe that US and UK law firms have little interest in the Continent, but this would be a long way from the truth. The EU remains the world's largest economy and firms keep on launching offices there.

The powerhouse at the centre of this economic bloc is Germany. Get Germany wrong and you may get your entire European strategy wrong. A global firm with a weakness in Europe needs to ask itself some tough questions. You could say that Germany is a litmus test for the success of any global firm's international strategy.

A recent study by Munich-based Law Firm Change Consultants found that 50 per cent of the total turnover of the top 50 law firms in Germany is derived from UK- and US-based firms. But performance among these German offices varies greatly. While some firms have built strong practices in the country, often through substantial mergers with leading German firms carried out in the late 1990s and early 2000s, many others are not gaining traction.

Beyond the top tier group of firms in Germany, such as the UK's magic circle and some silver circle outfits, a number of foreign firms seem to have been caught in the act of 'mid-internationalisation' and not made an -impact in what is one of the world's largest legal markets after the US and UK.

Their offering to clients is less -differentiated than that of their larger rivals and they do not have the client following of the leading German firms either. These offices mostly -belong to latecomers, those firms that did not merge locally or those that limited their investments.

Rather than building integrated profit centres that are a vital node in their firms' global offering to key clients, some partners in the UK and US have effectively funded the development of small local firms in -Germany that often cost a lot and -deliver little.

In some cases, problems are deeply entrenched and will be tough to change. No wonder some firms go on to open yet more offices in new, more supposedly exciting, jurisdictions in Asia rather than fix what should be a lynchpin of their global strategy.

The study found that, at such firms, the fees per fee-earner in Germany are not significantly better than those of some of their domestic rivals. This in turn makes them less attractive when it comes to potential lateral hires and therefore they cannot grow in Germany as they might wish to.

Some are now caught in what might be described as a 'revolving door' scenario, whereby they lose teams to - and hire teams from - other US and UK firms caught in the same strategic circle.

Ultimately, this appears to show that some of the key lessons about global expansion have not been learned by all firms.

The failure of some UK and US firms to make Germany work as part of their global plans really matters. If a law firm with global ambitions cannot make an office work at the centre of the world's largest economy, where can it?

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