

Four reasons to put the revolution on pause

30th November 2015

Tony Williams

Before making radical changes based on the latest scare theory about the future of the legal profession, consider what is best for your firm and clients

In recent years the legal sector has been carpet-bombed by supposedly knock-out theories about the future; Big Law is dead, you must be global or niche, partnerships are incapable of change, being a professional is inconsistent with being a business, a corporate structure is essential to survival, outside equity is needed, the ‘squeezed middle’ is doomed, and the geeks will inherit the Earth (but only after they destroy the legal profession).

Clearly, big change will be necessary in many parts of the practice of law and the operation of law firms, but a degree of objectivity is necessary rather than slavish acceptance of the ‘truth’ of any such utterances.

Four things to think about

First, technology has played an increasingly important role in the way we deliver legal services. I still remember the excitement when the first telex was installed at my firm, and the change from electric to electronic typewriters that could store 100 characters. We changed. We adapted.

The pace is now far quicker. Technology is and will be able to handle and analyse masses of data far more comprehensively and cheaply than we can now. Documents will be produced more quickly, more consistently and more cheaply, and in a format that is readily retrievable. Tasks currently done by lawyers (and other professionals) will be done more efficiently using technology.

This is potentially a threat to law firms, but only if they do not look ahead and embrace the change that is necessary.

Second, the size of a firm is less a determinant of its survival than what it does with that size. A firm seeking to work for major clients across multiple jurisdictions needs the critical mass to deliver this offering. A one-office firm focused on specific clients or sectors will be a different size. The key question a firm needs to ask itself is – how small can we be, on a sustainable basis, to provide the clients we want the services they expect at the price they are prepared to pay, while achieving a sufficient return for us to attract and retain the people necessary to deliver that service?

“The biggest strategic failing of any organisation is the failure to listen to weak signals”

There are many sizes of law firm that can be and are successful. If a firm needs to be 5,000 or five lawyers to answer the question posed, so be it. Furthermore, as clients’ needs and expectations – and the offerings of competitors – change, the answer will change and firms need to respond accordingly.

Third, partnership has proved itself an adaptable model whether using ‘one firm’ partnerships, Verein-type structures, limited or unlimited partnerships. Indeed, the Big Four accountants, which are primarily partnership entities, manage to achieve global revenues of up to \$35bn.

Lawyers can be slow to take decisions – we like to see and test the evidence – but consider one example. In 1970 Allen & Overy had revenues of £1.2m and an average profit per equity partner

(PEP) of £23,000. By 2015 this had moved to £1.28bn and £1.21m without any mega-mergers. A 45-year compound annual growth rate of revenue of 16.7 per cent and PEP of 9.21 per cent (with far more equity partners). That is a performance many corporates would envy.

Those who suggest a corporate (and especially a listed company) structure is the only route to success should take a long look at Quindell's and Slater & Gordon's share price since their highs – down by 85 per cent and 75 per cent respectively. Private equity is also finding the legal space challenging, as evidenced by the restructuring of Parabis.

This is not to suggest that corporate structures, outside investment or even listed companies are not appropriate for legal services. They may well be for certain businesses at certain stages of their development, but to suggest that a partnership structure is bad and a corporate structure is good is simplistic and wrong.

Fourth, lawyers have a key role in advising individuals and corporations, often at times of great stress. Some of this work will move online or be supplied by other providers. But the key skills and judgement of the best lawyers will always be in demand. Volkswagen will not be spending too long negotiating the fees of the lawyers helping them through the testing scandal (although it will almost certainly utilise advanced document review processes to establish who knew what and when).

Maintaining the highest standards of professional judgement exercised without fear or favour is what the best lawyers bring to their client. This is not just the right thing to do, it is also good business. Why would I hire a lawyer who gives advice he thinks I want to hear even though he believes it to be sub-optimal?

This is not a manifesto for Luddites. The siren voices need to be listened to, but not followed onto the rocks. The biggest strategic failing of any organisation is the failure to listen to weak signals. So listen and be prepared to act decisively, but not just to those who make the most noise or who are trying to sell the latest 'silver bullet'.

By Tony Williams, principal, Jomati Consultants

Available online: <http://www.thelawyer.com/analysis/behind-the-law/industry-leaders/four-reasons-to-put-the-revolution-on-pause/3040954.article>