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Beyond the magic circle

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Law firms are pursuing a dual-track strategy of expansion: building their presence in traditional markets such as London and New York but also looking to new markets as clients demand, such as China, Canada, Australia and even Iraq

New office openings by law firms tend to be grandiose affairs, with clients invited to sip champagne while admiring the firm's latest setting.

But for Eversheds, the latest opening was decidedly low profile – not even the firm's management has seen its latest office. That is perhaps understandable because it is in Baghdad – and not in the relative safety of the Green Zone.

"We don't keep fancy offices; it's important to keep a low profile," says the firm's senior partner in Iraq, who asked that he not be named to avoid being targeted by criminals. "This means most are Iraqi lawyers, as having foreign lawyers running around Baghdad is not the best way of keeping a low profile."

Eversheds' decision to open an office in one of the world's most dangerous countries reflects a trend among law firms to follow their clients into new markets. The Iraq senior partner cites a litany of deals, from project-finance work to M&As and bank regulation

Simon Davies, managing partner of Linklaters, says the move is driven by a need to find new sources of profit. "Law firms need to grow and people are looking far more closely at other markets to fuel that growth," he says.

According to Tony Williams, founder of legal consultancy Jomati and a former managing partner of Clifford Chance, to keep partners' equity undiluted as junior lawyers join their ranks, that growth rate needs to remain at about 4 per cent.

Few markets are redefining the global footprint of the law industry more profoundly than China. As the country claims an ever greater share of the world economy, following client money into – and out of – China has become vital to many firms.

"The pace of change in China escalated," says David Morley, senior partner of Allen & Overy. "We saw trade flows were changing and it was a flow we wanted to be part of."

This goes beyond simply opening offices in the country. China's outbound trade flows, notably to Australia, South Africa and Canada, mean those countries are now routinely named as "hot" jurisdictions.

A recent survey by Acritas, a legal market researcher, found that these countries were cited most often by clients as ones where they had legal needs that were not being met. While these markets are big legal centres in their own right, their role as key hubs for natural resources and commodities – and, therefore, a target for Chinese investment – is driving legal interest.

Magic circle firms including A&O and Clifford Chance have merged with local Australian firms in the past year.

Norton Rose, meanwhile, established a presence in all three markets over the past two years by bringing local firms under its umbrella using a Swiss Verein structure. This structure, originally used by accountancy firms, means offices in different jurisdictions do not share profits. It is also a quick way to establish a presence in a country without having to go through the complicated negotiations that precede a full merger.

"Mergers are difficult transactions to pull off," said Rob Day, managing partner of SJ Berwin, whose advanced merger talks with US firm Proskauer Rose broke down last year. "You need to get buy-in from a very democratic group of partners. It's a difficult balancing act that we didn't get right: it's a balance between momentum versus inclusion and democracy."

Despite that failed tie-up, however, Mr Day says SJ Berwin is still on the lookout for a US partner. It is not alone. Acritas believes transatlantic mergers will increase because of pressure on firms to cut costs, as well as a preference by general counsel for using English law in contracts.

"US firms can't simply rely on an outpost in London," says Lisa Hart, Acritas's chief executive.

It is also a move by law firms to not neglect their traditional markets in key commercial centres. US firm Paul Hastings, for example, has plans to double its headcount in London. Ronan O'Sullivan, London managing partner, says: "We're never going to go into Bratislava or Bucharest but we need to be an important player in the financial markets," he says.

Mr Davies at Linklaters describes international expansion as a dual-track strategy that aims to capitalise on both regions. "If you look at London and New York as financial centres, they remain very strong," he says.

"At the same time, you are seeing a shift and the rise of three places in Asia, namely Singapore, Hong Kong and Shanghai. But it's also important to not see these priorities as mutually exclusive."

Mr Davies cites the trend for companies including Prada, Glencore and L'Occitane to list in Hong Kong as a reason to have capability in both markets.

Wherever firms expand, however, doing it poorly could turn it into a drag on profitability rather than a boon.

Foreign offices can have a high number of associates to partners because there is not enough work to justify promoting more junior lawyers. And an over-reliance on a handful of partners to manage relationships – particularly important in Asia – can result in rival firms' poaching star lawyers.

A firm's expertise will also come into play. According to Wim Dejonghe, managing partner at A&O, building a profitable corporate practice overseas takes far more tenacity than establishing a finance practice that can exist on lucrative work from a select number of western banks.

But Mr Dejonghe is perhaps a prototype of the new wave of globalisation. He is the first non-British managing partner of a magic circle firm and splits his time between London and Belgium.

Does he see a time when the firm's management is based outside of London?

"I don't think it's very relevant where management sits," he says. "There's no reason why London should be the largest office. New York is our second biggest, and that was not the case five years ago. Depending on China, that may also change."

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