

Time for change

Today's clients are influencing the legal services of tomorrow, prompting global law firms to rethink the way they work.

In the decade before the 2008 financial crisis, an expectation of uninterrupted growth prevailed in the legal market. Firms grew as they expanded into new markets and built relationships with clients around the world. However, after the crisis hit, increasingly cost-conscious and savvy clients pushed for serious change in the way big firms operate.

Today's large law firms can no longer afford complacency, says Carolyn Lamm, a White & Case partner based in Washington, DC and past-president of the American Bar Association. "Success for most large law firms will increasingly depend on their becoming more business-like, particularly with respect to how they manage their operations, and engage with clients," she says.

White & Case's Chairman, Hugh Verrier, supports this view: "Firms will need to employ proven business strategies and practices to become more efficient, client-focused and socially engaged. Those characteristics are likely to set large law firms apart in the future."

A transforming profession

Most industries have been grappling with accelerating globalization, the rising importance of technology and—partly as a result of these—the proliferation of new entrants since the late 1990s.

Until recently, law firms have been fairly isolated from these trends, with the possible exception of globalization. But times have changed, and law firms are now feeling the need to adapt.

Going global: Globalization proved a tremendous boon to many law firms, as their clients internationalized and they moved into new markets to support them. But it has been expensive: large firms can rarely charge the same rates in new markets as they do in their home jurisdictions. It can also be difficult to identify and develop high-quality talent in distant locations. Maintaining consistent high standards across an international network, and standing out from the crowd, comes at a cost.

Meanwhile, the other side of globalization has seen large law firms setting up offshore operations in low-cost locations to run their back-office functions and carry out routine work.

"This will become more common as firms strive to reduce their costs," says Verrier, "but firms will have to balance concerns about cost and quality to ensure that they do not dilute the value they provide."

Tech savvy: The growing importance of technology is having a dramatic impact on the legal industry, from knowledge management systems improving client interactions to e-discovery reducing costs and social media reshaping client relationships. The balance of power is shifting into the hands of clients as a result of these innovations, in a way already familiar in other industries from travel to music, publishing and even financial services.

Firms with high leverage rates have had to adjust staffing to stay profitable, and all





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have to continue developing and refining in-house capabilities to deploy new technologies and manage their outputs. Firms also need to stay ahead of the game in social media while helping clients tread carefully to minimize reputational risks—anything from a badly timed tweet to an unexpected data leak can have a significant impact. In 2013, the growing influence of social media prompted the then-UK Attorney General, Dominic Grieve QC MP, to publish advice to help prevent social media users from committing a contempt of court.

New entrants: New players in the legal market come in many forms, not least in the shape of in-house legal teams that have grown substantially, enabling companies to do more work for themselves. Some are beginning to form service centers themselves to handle basic legal tasks at a lower cost as they deploy their legal budgets more effectively.

This is complicated by the fact that new entrants are not necessarily emerging from the legal profession. For example, in the United Kingdom, accounting firms began entering the legal market in the early 2000s. Today, Ernst & Young has more than 1,100 people in its global legal practice and expects to have a presence in 80 jurisdictions by 2017. And while accounting firms may not seek to take on the bespoke work that is typically handled by large law firms, alternative

providers of legal services can certainly be very effective in other areas of legal work.

Added pressures

Today, the persistent cost pressure that has long motivated major corporations to do better has also arrived at the door of Big Law. Corporate legal departments are no longer immune to boardroom scrutiny. As legal and regulatory risk has moved up the agenda, in-house teams have moved to keep a lid on what had become ever-increasing legal spends.

Departments face pressure to reduce in-house staff and cut external spending. As recently as 2013, Richard Susskind, the British adviser to international law firms, reported that many businesses still sought to reduce their legal costs by up to 50 percent.

Clients are now much more sophisticated consumers of legal services—they have responded by demanding discounts and requesting alternative fee structures from their advisers. Among large law firms, the realization rate—or the portion of standard fees actually recovered from clients—fell from 92 percent in 2009 to almost 83 percent in 2013, according to Peer Monitor.

Lamm says: “There is a growing demand from clients that law firms change the way they work in order to deliver more for less. These new ways of working come in many forms, but they often involve technology, offshoring and outsourcing—

levers that can enable firms to carry out routine or basic tasks less expensively.”

Two popular approaches—lean manufacturing, based on the Toyota production system, and Six Sigma, developed by Motorola and made famous by General Electric—can be easily applied to legal work, through identifying opportunities for outsourcing, for example, and employing technology to automate routine tasks and thereby help to reduce costs.

Time to change

Law firms must work more closely with their clients to better appreciate what they need to do. That can mean segmenting clients into groups with similar needs, and developing tailored value propositions. Lamm says: “Great lawyers help clients identify and think through their unrecognized legal needs.”

A key determinant of success for the large law firms of tomorrow will be the ability to stand out from a growing crowd, often by telling a story not only about efficiency and client service, but also about the law firm’s culture and its commitment to social engagement. Successful firms will network with decision makers in government, business and social institutions around the globe.

Developing a more client-focused and differentiated value proposition demands attention in the short to medium term, according to Verrier. Firms that become more socially engaged can help foster prosperity while developing new competitive advantages in the long term.

“Ten years ago, firms were able to differentiate themselves just by establishing a presence in key markets around the world,” he says. “That’s no longer the case. Global firms must articulate how their offerings set them apart from others with a similar footprint.” ☺