

The Future of Law Firms¹

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Where is the legal profession heading in the next millennium? Some may say that lawyers are like rats; they can survive anything (I am a lawyer so I can say this!) What I want to do in this paper is talk broadly about the profession, look into the crystal ball and make some educated predictions about where we will all be in the next five or ten years.

The issues raised in this discussion impact very much on my business, which is legal recruitment. Mahlab Recruitment concentrates on recruiting lawyers, mainly for large law firms and corporations, so this will be the bias in this paper, although the issues raised I hope will also have some application to law librarians in government and at universities

INCREASED CLIENT DEMANDS

Before commencing any discussion of lawyers, we first need to consider the client. Corporate and government clients have increasingly high expectations of their lawyers in terms of time, cost and service. This trend will continue. It impacts on how lawyers, must do their work. An example is turn-around time and what is regarded as acceptable client service. We thought faxed instructions were bad until we got email! Now there is little time for contemplation, proper delegation, substantial research and discussion with other fee earners in your firm. Firms are under pressure to provide a twenty-four-hour service. Turnaround has to be rapid. This puts pressure on everybody and everything supporting the lawyers in the front line – administration staff and services, technology and other staff, including library staff.

There is also pressure from the point of view of costs. Law firms are increasingly well organised and increasingly competitive. They all know what the others are charging their clients and paying their staff. The same applies to their corporate and government clients. For these reasons there is a trend for law firms to tender for work. In the last recession, one particular major law firm in Melbourne undercut every competitor in order to win big business. That law firm is doing very well today.

However, for clients cost is sometimes the least important factor. The most important factor is service. What does service mean today and in the future? Clients will want to have more intimacy with their law firm than they have now. Once clients used to keep their distance, with the lawyer used as an external consultant brought in only when there was a problem or some potential litigation. Now clients want the personal touch, they want intimacy. They want that relationship constantly. They want to be able to pick up the phone, speak (preferably) to a partner, on call, off the record, and more frequently, off the time sheet. A long history with the firm is not necessarily going to mean that you are guaranteed client loyalty. However, if you can also couple that with timely and very good,

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responsive service, then it certainly helps to keep that client. Clients do not want to re-invent the wheel and create a whole new relationship with another law firm. Firms do not so much *win* a client these days, rather another firm *loses* that client. Law firms do not often grasp this; once they do, they will be better at retaining their own clients.

Clients will also want less “backside-covering” in the future. We do a lot of recruitment of in-house lawyers, and time and time again corporations tell us what they want from their external lawyers - accessible, fast, attentive service, practical commercial advice and *no fence-sitting!* Many clients are still not getting that sort of service and they will be seeking it out more actively in the next five to ten years.

IN-HOUSE LAWYERS

Another trend that will become more evident in the next decade is the use of in-house lawyers. In-house lawyers have been part of the corporate structure of many corporations for over twenty years. There has, over that period, been an evolution in the role and standing of the in-house lawyer. In years gone by, in-house lawyers were those who were not ever going to make partnership, the “poor relations” to their law firm colleagues. Today, moving in-house is an extremely popular career choice for young, highly skilled major firm lawyers, and is regarded very highly as a dynamic career move. For the corporations hiring them, they add a lot of value. The in-house lawyer manages the relationship with the external law firms and can make or break a relationship with that law firm.

Law firms have clients who are much better informed than perhaps some of the non-lawyer managers. They pick and choose among the firms, making selections according to speciality. For example, a small law firm with an efficient specialist area, e.g. debt recovery, can proudly boast that they have a large vehicle manufacturer as their major client because they do debt recovery for that company. Larger scale transactional advice work is sent out according to individual partner expertise rather than the firm as a whole – you might say it is a “horses for courses” situation. In-house lawyers will be demanding clients, possibly more demanding than non-lawyer clients.

GLOBALISATION

The other major trend we are seeing now and which will continue in the next decade is that the world is getting smaller. Corporations are becoming and will continue to become increasingly global. They will want the same level of intimacy discussed above, but they will want it worldwide. They will want to be able to pick up the phone and have exactly the same level of service and the same understanding of their business wherever and whoever they are dealing with.

Major law firms are responding to this by creating associations with other law firms, or opening their own offices, around the world. This is a dominant trend at the moment and will continue into the future. This is especially so in the accounting/law firm multi-disciplinary practices. Arthur Andersen, for example, boasts that it runs the biggest law firm in world, yet they are what most people think of, or used to think of, as purely an accounting firm. The guarantee of the same high quality service over a borderless international network is a very powerful selling point with clients. This trend will continue,

although clients may become more demanding and sophisticated in assessing this sort of network.

Another trend that we will see in the next decade is already having an impact in the London market. In London, US law firms are offering fifty per cent salary increases to local lawyers and successfully pitching for local clients. This trend will also manifest itself in Australia, where there will be stronger associations between Australian and overseas firms, with cross-referral on the increase as client demand increases and clients become more global. There have been rumours for some time of a merger between major Australian law firm Mallesons Stephen Jaques and UK giant Clifford Chance. Although our market is a tiny one, and one might argue that it is difficult to imagine a major UK or US law firm being able to justify, in cost terms, coming to this market and setting up to service existing clients, perhaps the reasoning is that we are a useful, stable and fairly cheap stepping-stone to Asia.

A SMALLER TOP TIER

How are law firms themselves going to respond to all these changes in the market and in client expectations? A survey commissioned earlier this year by one of the major law firms looked at Australian law firms and predicted that there would only be six first tier firms, including two linked to accountancy firms, by the year 2005. I think this analysis is a little generous. My prediction is closer to three mega firms, with one or two accountancy/law firms only in the first tier. Two or three others will vie for runner-up spots for a few years but they will most likely fall away, particularly if we see mergers between the large accountancy practices and large law firms, which has been much rumoured but has not yet happened here.

Firms outside the “magic circle”, ie the first tier, will need to offer a real alternative and make some very tough decisions in the process. The second tier firms which are doing well are the smaller partnerships doing first tier work, such as Arnold Bloch Leibler, and those concentrating on commercial work, such as Herbert Geer & Rundle. Others doing well are small partnerships offering very specialised work, such as litigation only, or intellectual property only – Davies Collison Cave is an example in the latter category. The key for second tier firms is to find a niche and become very good at what you do. There is also a trend towards specialisation according to industry, rather than area of law. This is evidence, again, of law firms responding to client demands and providing a more intelligent, streamlined service, a “one-stop shop”, accompanied by an understanding of the industry. A law firm that understands the particular issues that affect that industry is obviously going to be ahead of the pack.

MULTI-DISCIPLINARY PRACTICES

There is a lot of discussion about multi-disciplinary practices and, although they are still illegal in Victoria, there is a report before the Attorney-General at the moment that may result in the relaxation of these rules.

Currently law firms incorporate separate service companies to render non-legal consulting services so ultimately the result will be the same. Whatever the legislation ends up providing, there will be an increase in these hybrid practices. We are seeing, and will continue to see,

combined law and accounting firms, combined law and patent attorney firms, and law firms running consultancy businesses. An example is Corrs Schneider, a joint initiative of Corrs Chambers Westgarth and an American workplace relations consulting firm, which offers a range of legal and non-legal workplace reform services.

In the future we will see more of an emphasis on total control of the deal, similar to the 'total industry' approach discussed above. Merchant banks started this trend, and if lawyers can take this approach through newly developed multi-disciplinary firms, then the results could be interesting. Law firms might develop merchant banking divisions or finance and investment services. Phillips Fox, for example, already boasts an investment banking arm and Gadens Lawyers have established an IT business. While they are separate businesses for profit-sharing reasons, the aim is to provide integrated multi-disciplinary services along the lines of "You want a deal done? We'll handle everything."

PEOPLE ARE A LAW FIRMS' GREATEST ASSET

Another trend that will become more evident is the recognition by law firms that their people are their capital. Unfortunately many partners in law firms still stare blankly when presented with this statement. Law firms have to realise, and fortunately some do, that it is their people that make their businesses "tick", whether they are lawyers or librarians or finance managers or marketing managers. With the headlong rush into the information age, quick turnaround and twenty-four-hour service, law librarians can only become a more important resource. Hopefully law firms will recognise this. As you help lawyers to help themselves with new technology, your role will be more of an educative one and perhaps will be integrated into the training unit of your firm, if that is not already happening.

In the legal profession today, competition for staff is fiercer than it has ever been. A good lawyer candidate will be faced with a number of choices not only in Australia, but also in the UK, in Canada, in New Zealand and even the US. This demand will be duplicated in other areas, including those who control and source information. Lawyers are drawn increasingly to the corporate law option and as legal departments grow, there will be an increase in demand for services to support the in-house legal function, including a well-run library. A number of corporations have corporate librarians, but the legal aspect of the role, such as research and updating legal reports and looseleaf services, is either not done at all or done by a non-librarian such as a junior in the legal department. This will change in time, so that it may not be uncommon to find law librarians as members of corporate legal departments.

NEW WAYS TO USE LAWYERS' SKILLS

Other trends in relation to staffing will follow current trends in the US and UK, such as the increase in recruitment of paralegal or legal practice executives. We currently make good use of legal executives here in the areas of conveyancing and litigation, but overseas legal executives are involved in research, report writing, document organisation, cataloguing and client liaison on very large litigation and transactions. Paralegals are moving from the back room to front-of-house, so to speak, and are highly qualified and highly paid.

A new breed of lawyer will also emerge in the future. This is already happening in the UK and in the US. They are known as “professional support lawyers”, previously called “know-how principals” or “know-how managers”. They are usually lawyers who have come back to practice after a period away from practice, such as women returning from maternity leave, or lawyers who choose to work outside the partnership stream. They are usually senior, very respected in their particular area and are employed to do the “hard stuff” on a file - difficult research, difficult drafting, precedent preparation, collation and dissemination of latest cases and articles and in-house training. There is no client contact and the role focuses on know-how, knowledge and information. The role has a career path of its own but does not lead to partnership. Becoming a professional support lawyer or a legal practice executive may be a career option of the future for law librarians, once law firms begin developing these roles in Australia.

LIFESTYLE COMES FIRST

Another major trend that will continue into the new millennium is the emphasis on lifestyle. Our values have changed significantly since the 1980s, when “greed was good” Today, working hours, time with family and personal well-being are paramount. We hear this constantly from young lawyers who do not want to work seven days a week, and for whom the stressed-out, unfit and overworked law firm partner is not a role model – much to the partner’s surprise. There is a huge groundswell against what is perceived as the “factory” type culture of some of the major law firms. While there are still young lawyers who want to “gun” for partnership in the shortest time possible, they are a diminishing breed. Lawyers today are demanding a more human working environment, flexibility in work hours including part-time work for parenting and return to study and leave without pay to travel or study overseas.

There is also a marked increase in contract work, where lawyers work on short-term assignments of a few weeks or months. Employers are slow to realise that this change in values is the reason that they are losing their lawyers to in-house positions or to other industries. Change will therefore come slowly, but it will come eventually.

All these changes in the legal marketplace have positive and exciting implications for law librarians. The result is that your roles will become broader, more fluid and more varied.