

Managing and Growing a Law Firm: Part 2 of 3

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In this series of three articles, I highlight the legal scene in Asia, the changes to the legal industry, and the different resources available to law firms for expansion. [In my first article](#), I shared my thoughts about managing and growing a law firm. In Part 2 of this series, I share thoughts on the global legal industry and its challenges.

At a micro level, the estimated USD600 billion global legal industry is very much in transition, with many different disruptors entering the legal markets.

Major Challenges Faced by Law Firms

#1 Disruptors

In my view, the biggest challenge to the profession comes from disruptors offering quality alternative legal services, such as contract lawyers, at a reduced cost. To counter this, firms like Allen & Overy have set up alternative businesses such as Peerpoint, offering similar services to compete with these disruptors. There is also much evidence of this type of defensive strategy being adopted by other global firms to counter the threat of disruptors. To drive down costs and still provide quality services, some of the larger global firms are also moving some of their process-driven commoditised products to centres of excellence. Examples of firms taking this approach include Allen & Overy, Baker McKenzie and Herbert Smith Freehills, with significant paralegal bases in Belfast.

#2 Big Four accounting firms

The Big Four accounting firms also pose a major threat. Their core strategy is to complement their compliance and transactional businesses with a quality legal function. This multi-disciplinary offering creates a “one-stop shop” which is very attractive to clients. History tells us that when accountants attempted this strategy in the late 1990s, it failed. In my view, the reasons for that failure were that they were not fully committed to the strategy, and the world was less connected 20 years ago. I do believe that there is much more resolve now, and the accounting firms have much deeper pockets than they did in the 1990s. Furthermore, today – unlike the 1990s – we live in a global marketplace. With that said, I do not believe that the accountants’ core strategy in entering the legal space is to directly compete against quality global law firms. At least not yet! This initiative is being taken more

to complement the existing core businesses of accountants, such as compliance (audit, tax, etc.) and transactional work (mergers and acquisitions, consulting tax structuring, etc.).

Banks and corporations are also repositioning themselves by creating sizeable in-house legal departments which focus on providing commoditised services internally at a lower cost. These services are the staple of many small- and medium-sized law firms, which are being slowly eroded. To put this threat in context, an internal legal department of 50 or 100 lawyers is, in effect, a medium-sized law firm.

Opportunities

While there are challenges, there are also opportunities. In a similar fashion to what the accounting industry went through in the 1980s, _____

From a micro perspective, small and medium firms will have a part to play. Some firms may be experiencing a dip in revenues and profits, as much of the “commoditised” work that previously flowed to them from global firms or which clients found too expensive for large firms to discharge is now being captured by the disruptors in the industry – i.e., the alternative legal-services providers and, to an extent, in-house legal departments. The one sweet spot for firms in Asia and particularly south-east Asia would be to consider expansion into ASEAN markets and alliances with firms looking to enter these markets from the U.S., Europe and Australia. As a general rule, global firms are not as nimble and not always geared towards emerging markets; hence local firms are attractive to global firms looking to enter the ASEAN market.

Closing Thoughts on Countering The Challenges

It is my belief that many firms are still living in the past. They need to focus on the present and plan for the future. To survive and grow, these firms need to take a step back and take stock. In this fast-developing alternative-market environment, doing nothing is not an option, as profitability and even possibly survival is on the line for many firms. The first step is to perform a deep-dive review into their core businesses and determine if service lines are still profitable and if there still exists a decent pipeline of work. They should then strategically review what can be done internally and externally to capture more of the market, and consider an off-shore emerging markets strategy and / or a merger or alignment strategy with firms locally or internationally that is complementary to their core business.

The key to operating in today’s legal environment is to ensure a quality, value-based offering at all times, being nimble and innovative, and making an appropriate investment in experienced professionals to advise on, facilitate and drive this strategy.