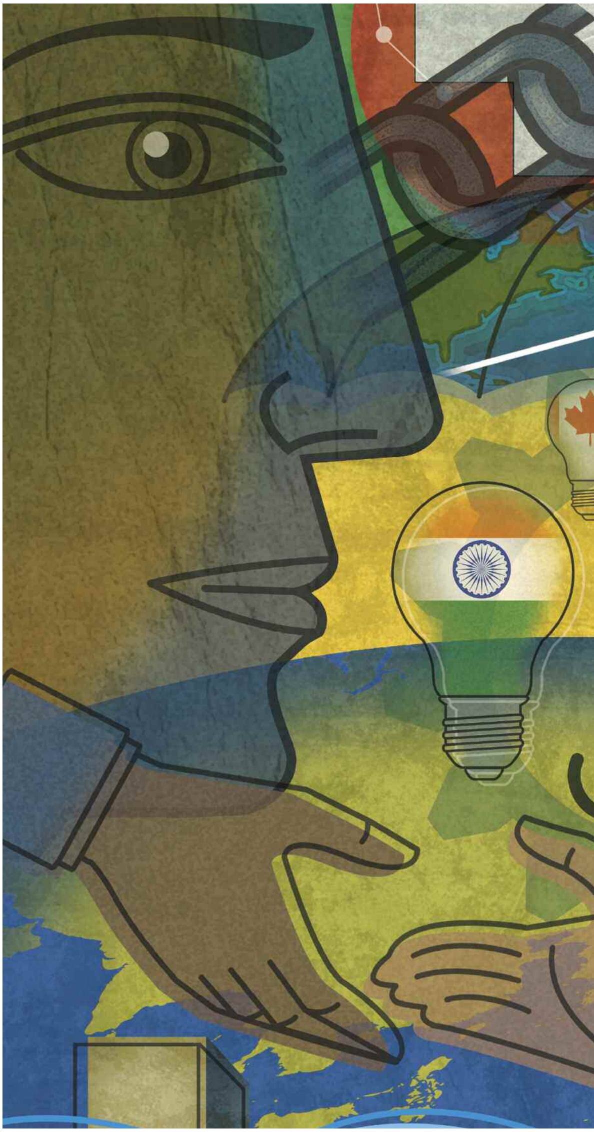
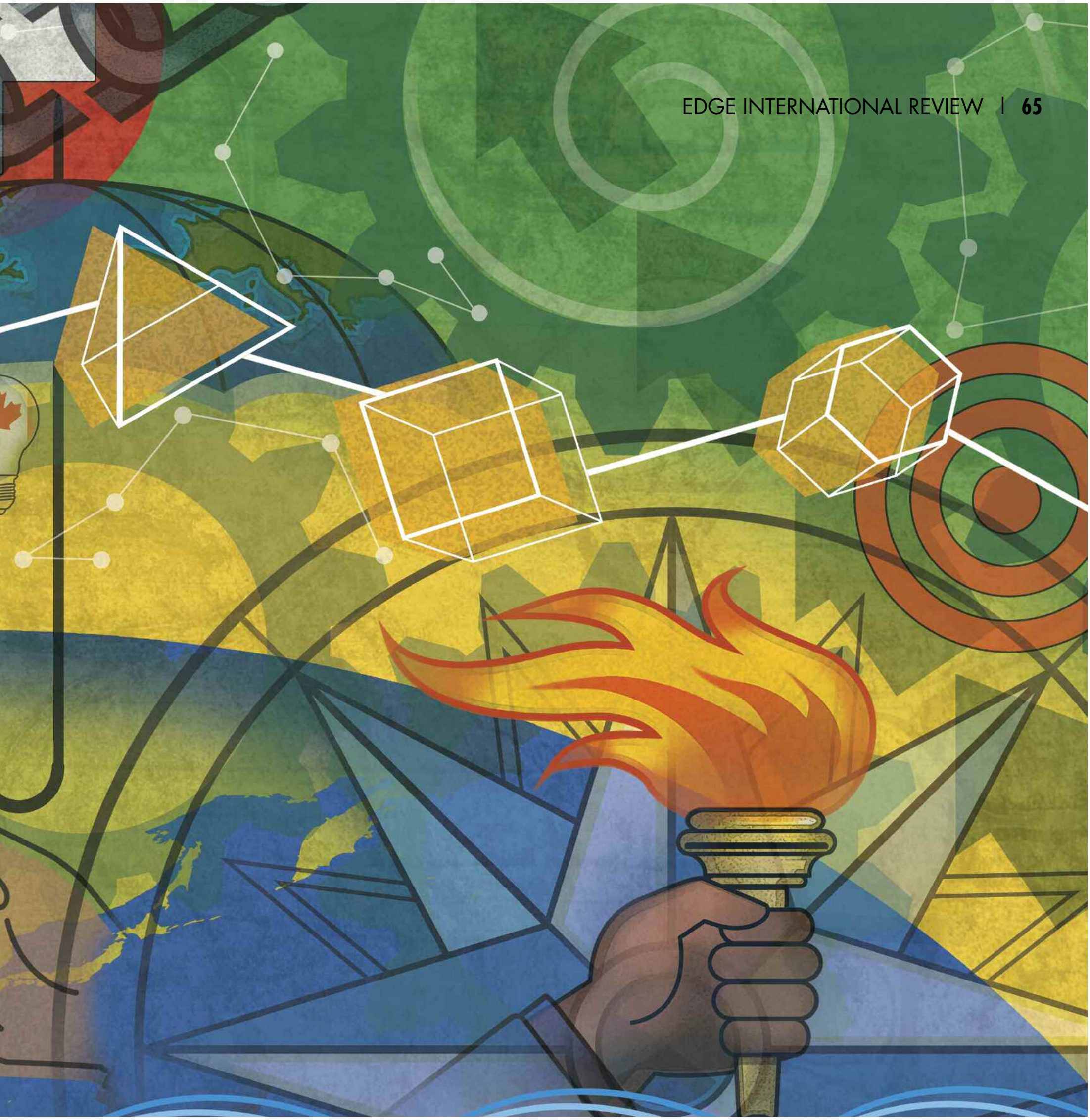


Why Are You Growing?

By Jordan Furlong

Mergers are tactics that should support a law firm's strategy. But some firms fall into the trap of using mergers as a substitute for strategy. Before you grow your firm, make sure you know what you hope to achieve.



What do you think of when you read the phrase "a large law firm"? What type of law firm comes into your mind? How many lawyers does it have? In how many jurisdictions is it located? What is its annual turnover? How you answer these questions will vary according to your own market and how that market has shaped your expectations around size.

If you're in my country of Canada, a large law firm generally means an entity with more than 500 lawyers and a substantial presence in four or more major cities. But "a large law firm" will mean something different in India, Australia, the United Kingdom or the United States — and it will vary again as between Delhi and Jaipur, Sydney and Perth, London and Glasgow, New

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York and Denver.

No matter how you measure size, however, you would probably agree that the world's biggest firms are behemoths. They employ more than 2,000 lawyers (sometimes many more), they maintain more than 25 offices in numerous countries, and they generate in the neighbourhood of $2 billion in revenue every year. These are our profession's giants, the legal colossi of the globe.

Now, stack the planet's biggest law firms up against the Big 4 accounting firms. George Beaton of Beaton Consulting in Australia did just that in an article published earlier this fall.

Each of these four firms, George pointed out, employs upwards of 100,000 people. The smallest of the four generates $20 billion annually. Each is larger than many of its big clients. If you merged the world's two largest firms and gave the new enterprise 5% annual growth, he noted, it would take the new mega-firm 17 years to reach the $10 billion mark. It can be done, and it may very well happen. But it won't be overnight.

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THE LAWYER PROBLEM

There are plenty of reasons cited to explain why law firms seem to have a natural size limit, most prominently conflicts of interest rules and other ethical or regulatory constraints. Personally, I think that's an excuse: if we really wanted 50,000-lawyer law firms spanning the globe, we'd have found a way around our self-imposed regulations before now.

The real explanation, to my mind, is that law firms can only grow so large before they transition from "difficult to manage" to "utterly unmanageable." Law firms of all sizes are unwieldy collections of ferociously independent and self-interested lawyers famously reluctant to place organizational gain above personal advancement. These are character traits, it should go without saying, deeply inimical to building a world-class enterprise.

I once had lunch with a partner in a Big Four accounting firm, and I noticed that he constantly spoke in "we." He talked first and foremost about the firm's work and the firm's objectives, the firm's future plans, competitive strengths and long-term strategies. His own expertise was important insofar as it contributed to and reinforced what the firm was doing.

That's why, if you're looking to build a really huge law firm — whether you go the full merger route or take the Swiss Verein path or choose some other way there — you're probably going to want to find a way to reduce the importance of lawyers in revenue generation.

Contrast that with the way many lawyers usually talk: in the first-person singular. They refer to their law firm not as the strategic core of their work, but as a beneficial platform or vehicle for what they do. The firm's attributes are important for how they support the lawyer's personal focus and expertise, rather than the other way around.

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THE WHY OF SIZE

Ask yourself: *why* do we want our firm to be bigger? Why do we want to expand? There are plenty of good answers to that question, most of them to do with serving multinational clients, following them around the globe, picking up new business in emerging economies, and so forth. There are also bad answers, including hubris, management ego, and expansion as a substitute for a growth strategy.

But if you're looking to get bigger so that you can better serve your clients, then maybe, as Pam Woldow and Doug Richardson suggest in the article previous to this one, you should ask your clients what they think about that. Chances are they'll tell you that they're not terribly excited by the prospect of their firm getting bigger. Very few people have ever found themselves saying, "Why yes, I'd love to have more lawyers."

And as Gerry Riskin and Mike White explained earlier, simply adding lawyers in another city or state or country is no guarantee that a client with

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business in that jurisdiction will automatically give that business to you. Think about it: if a competitor opened up an office in one of your current locations, would you expect your own clients to instantly decamp to the competition's new office? Wouldn't you be shocked and outraged if they did?

NEW ROUTES TO GROWTH

Growth in a law business is not the same thing as adding more lawyers. Law firms do not exist in order to provide steady employment to the maximum number of lawyers; or, if they once did, they don't any longer. Law firms exist to provide legal services to the market in a cost-effective and profitable manner. "Adding more lawyers" is no longer the first and only way to make firms bigger and better.

Technological advances are disrupting many traditional ways in which legal work is done. Automated contract creation, e-discovery packages, data-crunching analysis systems, expert applications that answer regulatory and compliance questions, online dispute systems powered by game theory — these are all programs and functionalities that are available on the

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market, right now. They do the work that lawyers used to do. Full stop.

Similarly, disruption has come to the legal talent model. If you can get good, solid work from a contract lawyer, or a lawyer in Mumbai or Manila or Belfast, or in an innovative firm like Axiom or Keystone, or from the lawyer's own home — and you can — why would you put that lawyer in your expensive offices, on your full-time payroll, with salary and benefits and overhead? What's so all-fired great about having tons of lawyers on hand?

The answer to that question used to be self-evident: Leverage. Billable hours. Profit generation by the simple expedient of adding bodies to files. Those days, as I'm sure you've noticed, are gone. The business model rationales that promoted "lawyer growth" as a stand-alone and sufficient profitability strategy are gone.

And lawyers, as I noted above, are often stumbling blocks to growth. Lawyers thrive on being big fish, and the bigger the pond, the smaller and less satisfied they're often going to feel. Lawyers want control over their environments, and as the environment expands, their control lessens. Expansion requires short-term risk for long-term gain, and lawyers tend to dislike both. Lawyers are hard to manage, and thousands of lawyers are thousands of times harder to manage. There's a pattern emerging here.

"More lawyers in more offices in more locations" is not an end in itself. More revenue, higher efficiency, and greater profit, all delivered courtesy of satisfied clients — that's the end you have in mind. Mergers and quasi-mergers, as outlined in this issue, may be the perfect vehicle to get you there. But there are other routes too.

If you want your firm to grow, then you need to understand exactly, precisely, in show-your-work detail, why that is. And you need to remember that lawyers are no longer the only available driver of revenue in law firms. I suggest you take these two thoughts with you, in addition to all the excellent articles in this special issue of the *Edge International Review*, into your next partnership meeting. •