

THE CASE OF THE EXPANDING BRIEF

By Reena SenGupta
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Many top law firms are now global businesses. There is even a “global elite” emerging, according to trade magazines such as Legal Business in the UK. According to figures published in the magazine’s latest edition, nine international law firms reported gross annual revenues of more than £500m (\$835m). Three years ago only one firm had crossed that threshold: the global frontrunner, Clifford Chance.

Firms on both sides of the Atlantic have made great strides in globalising their brands and services. Linklaters in the UK, for example, merged with three leading European law firms in three years, while Latham & Watkins, a Californian firm, established a presence in five European countries within two years.

Clifford Chance now has about 15 competitors that purport to be, if not global, premier international law firms. Many of these have implemented a “think global, act local” strategy and have strong domestic practices in important jurisdictions in Europe and Asia. For example, when KLM and Air France decided to merge in June 2003, it was the UK law firm Allen & Overy that won the Dutch airline’s corporate work over the Dutch legal advisers De Brauw.Sietze Hepkema, managing partner of Allen & Overy’s Dutch office, says: “I think, in part, it was because KLM wanted lawyers who were rooted in the Dutch community as well as being part of a global law firm.” KLM also used Allen & Overy’s French and American offices on the deal.

In some jurisdictions, UK and US firms have become the top local practices, almost eradicating indigenous competition. In Germany, for example, there are few quality independent German firms left. Three out of the top four German practices have merged with UK law firms since 2000. Similarly, in the mid-tier legal market, medium-sized German law firms have been prey to UK and US marauders.

But do the main purchasers of legal services really want global behemoths providing them? A Legal Director Benchmarker survey in 2001 found the majority of in-house lawyers responsible for the purchase of legal services unconvinced about the benefits of a pan-European law firm. This attitude is still prevalent in senior counsel within big companies. Many say they do not need a law firm to be present in all areas of the globe and are happy to co-ordinate the work themselves with local operators.

Maria da Cunha, general counsel at British Airways, says: “We are not a great user of global law firms and don’t see a big advantage in them. We certainly don’t see the fact they can provide a one-stop service everywhere as a big selling point.”

Other senior counsel in global companies express disappointment with the quality of the cross-border

service. These purchasers expect a “seamless product” that is rarely provided, they say. Common complaints are that foreign offices do not provide a service comparable to that of either London or the New York headquarters but often charge similar rates.

They have found that physical presence is not an indicator of quality or ability to provide a service. Rapid expansion poses cultural and professional problems for international law firms. Know-how, practice management and business development approaches, for instance, differ greatly between US, UK and continental European law firms.

However, while senior general counsel say that law is a people business and that their choice of overseas law firms is driven by their knowledge of particular individuals, negative attitudes to the global law firms are softening.

Traditionally, there have been two patterns for buying international legal services. On the one hand, big corporations have preferred to buy their legal services from the best of the domestic practices. On the other, big financial institutions, with their large volume of cross-border transactions, have long been supporters of the international law firm.

This demarcation can be overstated, however. Richard Bennett, general counsel at HSBC, says he uses a “patchwork of legal options”. HSBC uses the best domestic practices for its corporate transactions, where it is important that the law firms know the local business intimately. However, on the banking and finance side, it often uses the globalised law firms where the product is more standardised and routine.

At AstraZeneca, the global pharmaceuticals company, Graeme Musker, secretary and solicitor, says: “We aren’t too fussed as to whether we buy from an international law firm or from an integrated network of independent firms and would not expect to notice a difference in the level of the service between the two.”

Overall, both types of purchasers admit that the offering from the globalised law firm is improving. Alex Cameron, general counsel at Barclays Business Banking, sees the international law firms moving towards better integration. “It is not perfectly streamlined and you do get bad offices but they have been doing this for some time now. They have broken down barriers and are enforcing a uniform service culture, often through putting their own people on the ground.”

Integrated global law firms are clearly going to be the dominant legal service providers in the future. They will have different levels of service delivery, know-how, people management and legal products from their domestically focused peers. Their levels of investment in technology, human resources and marketing and communications are already beginning to pay dividends. Francis Neate, general counsel at Schroders, says: “The competition to deliver a good service among City and Wall Street firms is frightening. The levels of partner attention are sometimes too good.”

However, some commentators say that until a law firm can offer UK and US law to equal degrees of expertise, the true global law firm does not exist. They are simply international UK or US derived law firms.

At the moment, a handful of top UK firms have offices in New York but few have made a real dent in the

New York market. Similarly, there are several US firms in London but only one, Shearman & Sterling, has stated ambitions to compete head to head with the UK's top firms.

Clients seem to show little interest in an integrated US/UK law firm. Some 55 per cent of legal directors in the FTSE 100 in 2001 thought a merger between a US and UK law firm would simply mean higher fees.

Despite the acquisition of top level UK partners, Mr Bennett says: "I am not yet convinced that the US firms in London have a comparable offering of expertise to that available from the UK practices."

For the moment, this may be some consolation to the UK-based international law firms. But the global elite of the future will include more US than UK law firms. And perhaps even client attitudes to a US/UK merger will change.

"Five years ago," says one general counsel at a FTSE 100 company, "we did not think we would be buying a pan-European product from an integrated global law firm. Now we are. It will be interesting to see whether, as the nature of law firms changes and they all become more like Clifford Chance, we as clients will have to change our buying patterns."