

TOP FIRMS OPEN UP THEIR LEDGERS

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Law firms as partnerships are private businesses and have no obligation to disclose their financial information. But over the past few years, an independent legal trade press has put pressure on firms to reveal their figures. Annual surveys from two competing legal magazines are published this week - the Lawyer 100 and the Legal Business 100. These surveys are widely considered to reflect the financial fortunes of the UK's top 100 law firms, which together command £9bn in fees. The publications claim that they have almost complete disclosure from the firms.

But the law firms themselves, together with industry observers, are sceptical of the results. They question whether the surveys truly reflect the comparative health of legal businesses.

Tony Williams, managing director of Jomati, a legal consulting firm, and former managing partner of Clifford Chance, the global law firm, says: "There are some fantastic works of fiction in the survey tables."

Mark Jones, managing partner of Addleshaw Goddard, a UK-based law firm and one of the first to be transparent about fees and profits in the early 1990s, is dubious about whether other law firms are equally reliable when they provide figures to the publications. "Law firms can manipulate their profit per equity partner figures in all sorts of ways."

Regardless of whether law firms fully disclose their figures, compiling financial data about a single law firm is a complex process. Mr Williams points out that unlike the corporate sector, "there is no silver bullet figure to look at". As private businesses, law firms are not bound by an absolute standard of accounting, so in many instances the surveys cannot compare like with like. For example, the figure most talked about is the "profit per equity partner" (PEP) number. This is the average earnings after costs of the equity partners in a law firm. In the current surveys, an equity partner at Clifford Chance is shown to earn, on average, £562,000.

But Mr Williams says that this cannot be directly compared with the earnings of a finance director in a company. The equity partner in a law firm could have to wait for this money for up to two years, depending on cash flow, levels of investment and borrowings.

Furthermore, as Mr Jones of Addleshaw Goddard points out, the PEP as a measurement of the health of a legal business is next to useless. "If you look beyond turnover and profit at leverage and borrowings, you get a totally different message," he says. How do the publications react to this criticism? Both have gone to great efforts to provide better data, and this year they have moved away from the emphasis on the PEP figure. For example, they now give five-year snapshots of a firm's performances.

The journals are all too aware of law firms' attempts to manipulate or inflate their figures. Cat Griffiths, the

Lawyer's editor, says: "We have dug even deeper this year and produced the equivalent of an annual report with facts you can shake a stick at."

Tom Freeman, Legal Business's editor, has also changed the way his team reports the firms' finances. "We're not pretending to be the firms' accountants. But after 12 years of reporting on law firm finances, we believe we give a reliable indicator of relative financial health. This year, we have really focused on the amount of revenue generated by each lawyer within the firm."

The journal has also made efforts to compare similar firms, dividing them into peer groupings - such as the global elite, large regional firms or specialist firms.

This exercise clearly shows the complexity and multi-layered nature of the UK's legal profession. Legal Business reports that the top six firms in the UK generated almost 40 per cent of the top 100 law firm fees. An equity partner at one of these firms earns, on average, £676,000. By contrast, an equity partner at a mid-sized firm in London earns two-thirds less - £248,000, on average.

The controversy over law firms' figures may change significantly in the coming years. Many are considering a move to become limited liability partnerships, for which financial disclosure is obligatory. Mr Byrne says: "This has encouraged more firms to become transparent: this year, 61 firms gave us detailed information about their financial management."

But important statistics - such as headcount figures (numbers of partners and fee-earners) - are still difficult to obtain; and, as an analysis of the two reports shows, the use of different headcount figures can throw up diverse figures for the indicators most valued by law firm managers - revenues per lawyer, costs per lawyer and profit per lawyer. Whatever their accuracy, individual lawyers in this competitive sector will look at the reports published this week to assess the earnings of their peers and rivals. But law firm managers are likely to take a more casual view of them.

Peter Cornell, managing partner of Clifford Chance, says: "I would glance at the revenues per lawyer figure and profit margins of competitor firms, but I doubt very much if our clients are interested in the results."

Maria da Cunha, general counsel at British Airways, agrees: "I really don't care how much money the lawyers make. I'm much more interested in what they charge me."

In similar vein, Rupert Bondy, general counsel at GlaxoSmithKline, says that he is curious about law firm profitability - but only in relation to the fees he is charged. He is not concerned if lawyers earn "fantastic sums of money, provided they do a fantastic job".

But Mr Williams says that, as indicators of financial health, the reports should be worrying for law firm managers. The recent move by the Law Society, which oversees the profession, to introduce a new code to control law firm costs may be redundant. "Firms will have to be even more businesslike to thrive in a maturing market," he says. Becoming more transparent may be the first step.