MASTERCLASS

Outward bound

Andrew Hedley discusses the options available to national law firms looking to develop and execute an international growth strategy

FOUR THINGS YOU WILL LEARN FROM THIS MASTERCLASS:

1. Core strategies and growth options for national law firms
2. The international client development context
3. The changing nature of client requirements
4. Options for providing international client services

Many law firms are operating across increasingly large geographic footprints in their domestic markets. As they seek new growth opportunities, a question that will inevitably arise is whether national borders should be crossed. Before doing so, firms must first carefully analyse the reasons for such a move. They should then look to build an international strategy which balances future opportunities with current demands on resources and senior management time.

This article considers the generic strategies and options employed by such multi-location firms (termed national firms for the purposes of this article) and how they might evolve their client strategies and grow their businesses by adopting a more international perspective.

Strategy and growth

For firms that have adopted a strategy based on a national footprint, the client positioning is based on a number of core propositions, namely:

- the ability to service clients based in multiple locations in a manner which simplifies management, improves consistency and enhances delivery for clients;
- a broad spread of services to meet all usual business needs, which further reinforces the one-stop-shop model;
- local knowledge to deliver those aspects of service which require 'boots on the ground' while also having the resources to invest in more specialist skills or centres of excellence; and
- local presence to enhance relationship management and build a strong client network.

The strategy underpinning this national firm model is service-led. It is a lower-priced higher-value proposition compared to the largest firms, but a premium-priced high-expertise formula compared to local competitors. The target audience for these firms are major corporates operating on a large geographic footprint, along with leading local commercial enterprises and major public sector organisations in the region.

> **"The national firm space is highly competitive and is being squeezed from all angles"**

The key targeting criteria from the firm's perspective is that these clients have a significant, recurring need for a wide range of legal services. These clients have a bureaucratic (in the management systems sense of that word) decision-making process which plays to the strengths of the larger law firm; they represent a lower-risk, lower-price, broadly-based, highly service-oriented solution to the delivery of legal services.

While firms may dress up their strategies, positioning and delivery in different ways, for example overlaying a sector focus, the overriding proposition is largely the same. The options for growing business volumes centre on:

- capturing increased market share (i.e. stealing competitors' clients, whether on a one-by-one basis or in bulk by merging with or acquiring competitors);
- increasing the value of services sold to existing clients (i.e. focusing on increasing the average fees-per-client metric);
- entering new markets (by sector or geography) to open new frontiers for the firm.

A low churn rate of such annuity clients is also implicit. This is, of course, challenging given that competitors are pursuing the same generic strategies and so actively targeting the firm's clients.

The national firm space is highly competitive and is being squeezed from all angles. With oversupply evident and downwards pressure on prices, competition among the current players is intense. Add to this the recent trend of larger firms venturing down the food chain (as economic forces mean they consider work which would previously have been unattractive) and, simultaneously, lower-priced local competitors clawing away at the soft underbelly of more straightforward work (which is more price sensitive and which clients are now more minded to resource differently).

International client development

Law firms follow their clients; this is a simple concept but one that is often overlooked. A firm is not a market maker but rather a means by which legal services are provided to clients that are active in the jurisdictions in which they have chosen to operate. Viewed through this lens, the internationalisation strategies of many firms may be characterised as a 'coattails' approach – wherever the global client ventures, the law firms will follow, building on pre-existing relationships from their home turfs.

We have seen the global capital markets firms, based out of New York and London, employ this approach successfully for the past 20 years, with the likes of the UK magic circle establishing a worldwide presence. More recently, a new wave of multi-jurisdictional firms such as White & Case, DLA Piper and Baker & McKenzie have been targeting specific sectors as the broader needs of global corporates have developed. These global law firms offer such corporates a range of services, many flags in the map outside of the usual finance hubs and a depth of resources against which any purely national firm is unable to compete.

However, with those law firms focusing on the very largest corporates and financial institutions, a huge number of increasingly internationally-oriented clients are being potentially underserved. This is a market space into which the expansionist national firm may be able to position itself.

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The logical incremental approach is to examine the nature of the firm's current client base and how it will develop over the next five to ten years. On which geographic markets will current clients be focused in the future? How will they procure their legal services in new markets? What opportunities will emerge?

As well as opportunities, there will also be threats to consider and mitigate; this may also drive internationalisation. There is a real danger of major client loss if services cannot be delivered internationally, especially when a current competitor is able to offer the combination of local presence, national resources and international reach.

Evolving client requirements

Client-driven international growth is the norm for law firms – whether defined by a specific client or a sector in which the firm has a particular expertise and in which international activity is on the increase. Norton Rose Fulbright is a good example of a firm which has pursued strategic international growth that is driven by the needs and opportunities presented by its core sectors of energy, infrastructure, mining and commodities.

As client needs change and larger firms target more expansive new client relationships, clients' requirements for international legal services will naturally develop. From a position where these were once only occasional, the frequency with which advice is required will increase to the point at which the requirement for non-home jurisdiction advice is continuous.

While there may initially be a jurisdiction in which international development is primarily focused, it is likely that requirements will also emanate from a range of other jurisdictions as individual clients develop and the range of initiatives across a whole client base broadens.

There may be exceptions, with firms recognising emerging opportunities and choosing to build relationships or open offices abroad in anticipation of future client requirements. In doing so, firms can gain first-mover advantage in these local markets and create opportunities for their home offices to sell expertise to clients' head offices. However, this strategy also carries the risk that firms' forecasts prove to be incorrect.

International service delivery

There are a limited number of ways in which a national firm may deliver international services to its clients. A summary and examples of the most common ones is below; there are also numerous hybrids in which firms have adapted existing forms to suit their specific requirements.

Ad hoc or personal relationships

At its most simple, partners rely on personal ad hoc relationships, perhaps sharing contacts among themselves, as the need arises. This may also involve using trusted sources like reputable directories or local Bar contacts.

These ad hoc approaches indicate that international work is a rarity for the firm and that it has no strategic desire to build this aspect of its practice. As a result, they are typically found in smaller firms, whose client bases are geographically proximate to their offices (typically comprising small to medium-sized commercial enterprises and individual clients).

Informal network

Informal networks can range from little more than the collation of a number of ad hoc relationships to the development of

THE SWISS VEREIN STRUCTURE

A feature of law firms' internationalisation strategies has been a move away from a traditional partnership-based structure to approaches that are more flexible and allow for much faster movement, while reducing the risk and complexity associated with a full profit-sharing approach.

Chief among these has been the Swiss verein, a form of association agreement which preserves the independent legal structures of its members, while allowing for collaboration and brand building. Advantages also flow from the independence of members in respect of regulation, compliance, tax and liability. It is unsurprising therefore that this model has gained considerable traction within the professional services sector over recent years.

The majority of recent international law firm mergers have used this vehicle, with DLA Piper, Squire Sanders, Hogan Lovells, Dentons, King &Wood Mallesons and Norton Rose Fulbright all following in the footsteps of Baker & McKenzie, the longest-standing international firm to use a verein structure. While vereins have their detractors, there seems little doubt that they are the vehicle of choice for firms seeking rapid international growth.

'best friend' networks which have many of the characteristics of alliances.

At the less sophisticated end of the spectrum, firms may collate contacts and build a list of 'preferred suppliers', along with notes about performance, key contacts, expertise and pricing for their relevant jurisdictions (or states or cities within them).

At the other extreme, such as is seen in the 'best friends' arrangements of Slaughter and May, significant business support resources will be deployed to ensure that referrals are managed, client services delivered and relationships developed. While there may be nothing more formal than a letter of understanding and no hint of exclusivity, such arrangements can still be very powerful in building trusted relationships across an international footprint.

Network organisation

There are numerous networks which provide an international umbrella for local firms. These may be purely law firm focused (such as EuroJuris International) or combine law firms with other professions, typically accountancy firms (as has been seen in the case of, for example, MSI Global Alliance).

With the benefit of a central office, staffed by dedicated personnel, such organisations provide an imprimatur of professionalism and quality, while allowing local firms to focus on their day-to-day activities, confident that when the need for international advice does arise, they will be able to call on local lawyers of a known quality who have signed up to common standards and have a shared interest in client development.

Network organisations generally also provide opportunities for knowledge sharing between firms, regional working groups and global conferences. All of these aim to break down interpersonal barriers, build trust and encourage referrals between members.

Many substantial firms are members of networks (as well as pursuing other strategic options). These may be 'whole firm' networks or have a focus on a particular practice area or market segment. Wragge & Co, for example, in addition to having its own international offices, is also a member of World Law Group, giving it extended international coverage.

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Alliance – independent or convergent

A precursor to more significant international investment on an 'own account' basis will often be the creation of an alliance of likeminded firms. This may be conceived as a formal grouping of independent firms (perhaps using a structure such as the European Economic Interest Grouping structure), which agree to collaborate whilst maintaining their independence. An example of a national firm which has proactively built its own international network is Browne Jacobson, which was one of the founder firms in establishing Pangea Net in 2009.

Alternatively, the alliance may be established with a view to eventual convergence – in this approach, it is a halfway house that allows member firms to test the water, build partner buy-in and conduct proof-of-concept before committing to a more integrated structure such as a merger. This convergent route is one which the CMS member firms are reported to now be following.

However, once established, such alliances may find further convergence more challenging without strong leadership. An alliance may deliver many of the perceived benefits without the ceding of decision making which is implied by a full merger. In these circumstances, it is understandable that partners may view any further consolidation as being unnecessary.

Establishment of an office abroad

Some firms exercise direct control from the outset and establish their own offices abroad through small-scale mergers, lateral hires or greenfield offices. Pinsent Masons, for example, followed this route in establishing its own offices in France and Germany in 2012.

This approach may be particularly appropriate if the jurisdiction in question has a combination of the following features:

- it is well known to the firm;
- it is a long-term destination for client investment;
- it is politically stable;
- it is 'open for business' internationally; and
- it has an established expat community.

In these circumstances, many of the risks associated with overseas investment are reduced and the likely upside benefits are easier to quantify.

To quickly gain traction in a market, the most straightforward option is to merge with or acquire an established firm. With appropriate due diligence, sensible arrangements for business continuity and well-implemented post-deal integration, this can be a very successful strategy.

A more challenging approach is to build an office through lateral hires of individuals or teams from incumbent firms, perhaps supplemented by the relocation of home-based personnel to broaden the service offering and supplement local law advice. This involves a longer-term investment period, but the recruitment of local talent (together with their market knowledge and client connections) will be crucial to longer-term success.

The most difficult option is to relocate individuals from outside the jurisdiction to establish a greenfield office. The challenge of breaking into a new market cannot be overstated, quite aside from dealing with local Bar, regulatory and compliance issues. This approach can only be realistically pursued through long-term client relationships and guaranteed long-term workflow. It is, of course, also based on not practising local law. For the national firm looking to replicate its localised commercial offering to international business clients, this is an option that should be discounted.

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Merger-led expansion

A firm aiming to expediently build its international footprint will look to merge with likeminded counterparts in key jurisdictions to rapidly gain coverage, scale and market credibility.

Historically, such mergers were focused on practice area expertise – linking corporate finance and financial markets firms across the globe – but this has shifted recently to place sector experience and a presence in key emerging markets more centrally into the candidate identification, evaluation and negotiation process.

Recent mergers in the energy and natural resources sector or into emerging economies in South America and Africa are examples of such moves, with the likes of Clyde & Co and Kennedys moving quickly to establish international reach in their core insurance markets, while Norton Rose Fulbright has secured a leading global position in its core sectors through a series of very significant mergers.

In any international merger, a key consideration will be which corporate vehicle is used (for reasons of management control, profit sharing, tax and liability for example). While some firms have continued with traditional structures based on the principles of the partnership model, others have chosen to adopt a more corporate approach or to use structures that have been adapted to specifically meet the challenges posed by a need to deliver fast-paced international growth. The most prevalent of these is the Swiss verein (see box).

Hybrid approach

It is becoming increasingly common for firms to meet their complex and varied international requirements by simultaneously employing a range of delivery models. This includes establishing their own offices in jurisdictions with ongoing requirements or which are strategically significant, forming alliance relationships in others, and joining network organisations to ensure that a full coverage can be offered to meet occasional or esoteric client needs (which cannot easily be anticipated or which are ad hoc in nature).

A hybrid approach may also be necessary to meet local regulatory requirements or Bar restrictions.

Future priorities

Developing an international strategy means making choices around prioritisation and investment. Any strategy also needs to consider appropriate structures which will not constrain development, while being appropriate to current requirements.

Many of the approaches discussed above are similar to those which national firms have used historically in developing their current footprints. In this sense, many of the logistical challenges will be familiar. But, as with all inorganic expansion, the key lies in understanding cultural differences and working practices. The experience national firms have gained through their multi-location model should stand them in good stead as they venture across their country's borders. mp

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