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Large law firms rethink their strategies for talent

The impact of technology, globalization and competition

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Executive Summary

Technology is driving major changes in virtually every business and industry, including law.

The acceleration of compensation programs in the mid-90s resulted in a need to redesign legal processes. Since then automation, digital technologies and the proliferation of online legal resources have disrupted the market even further. Increasingly, law firms are reducing their brick and mortar footprint and rethinking their cost structure. At the same time, domestic law firms are expanding overseas to remain competitive in the marketplace for clients who operate globally, themselves. Competition is emerging from new entities offering streamlined services at lower costs. To meet these challenges new strategies must be applied to recruiting top talent.

Global Expansion

One-third of firms featured in the 2010 edition of Chambers Student have since undergone major mergers, and many others are considering that option. Firms including CMS, Orrick, Mayer Brown, Eversheds, Olswang, BLP and Ince & Company have all considered mergers recently, or are doing so now. In the first quarter of 2017, 28 mergers occurred, two of them between Am Law 100 firms, five of them of the cross-border variety and others acquisitions of smaller U.S. firms.

There are many reasons that mergers take place, the two most common factors in 2017 being financial dispositions and a push for global expansion that is largely industrywide. That, in a nutshell, encapsulates a growing need: an increased demand for M&A leaders with experience that includes proven performance on global platforms.

Brexit poses a significant threat to firms that have engaged in global expansion and mergers overseas, and isolationist movements in other countries threaten to complicate the problem further. The regulatory implications of Brexit will drive business for law firms as clients seek information and advice on how EU-mandated rules and regulations affect their areas.

The Impact of Technology

Technology developed to exploit data driven insights will play an ever greater role in a new legal environment as processes are streamlined, relationships are enhanced and future revenue sources are mined. The technology that increases online service delivery and the

development of new business models may very well blur the lines between in-house and external firms, if not eliminate them completely, especially as lawyers are able to move easily from one to the other. And, beyond that, artificial intelligence implemented through smart devices and applications will alter the roles of both people and machines, and what clients expect from both.

Not only is technology changing how business is created, done and delivered, it is doing so at lightning speed. Most, if not all, of the AM Law 50 firms are using technology to streamline processes, discovery and documentation. Software exists that enables access to algorithms and databases that speed the resolution of complex legal problems, and the massive law libraries, and the librarians who staffed them, are a thing of the past. As the practice of law becomes truly international and firms must grapple with complexities that increase not only in number, but in nature, the power of technology must be continually harnessed and developed to meet the specific needs of the law industry.

The importance of information security, and the serious consequences of breaches, are further underscored by the increasingly common practice of working remotely as law firms grow. Now, secure systems and firewall protection not only have to be stronger than ever, they must extend far past the office, itself.

Right now, the average system breach costs around \$4 million, yet few firms are investing in the implementation of improved systems and greater protection. The telecommuting trend in law necessitates strong, dynamic IT departments and leaders who can execute important technology related decisions. Not only that, they must stay ahead of the curve as technology develops and becomes even more widespread, which can increase susceptibility to disruption.

Competition from the Big Four

The Big Four accounting firms' push in legal services was accelerated by the recent announcement of PriceWaterhouse Cooper's (PwC) launch of a law firm in the US, ILC Legal. A market-based decision driven by clients seeking advice on international coverage on transactions, "from planning to execution," says Richard Edmonson, the head of PwC Legal's international business reorganizations practice. "We don't regard ourselves as a traditional law firm. We don't look at legal services in isolation – it's just one part of a broader offering."

A survey conducted by ALM Intelligence found that two-thirds of respondents were "concerned" about competition from accounting firms and other alternative service providers, and 45% consider them a "major threat."

Expanding Service Offerings

The Altman Weil 2016 "Law Firms in Transition" survey found that 19% of senior leaders believe that their firms are losing business to "non-law providers" and more than 80% see this competitive threat as permanent. Some law firms are confronting competition from Legal Services Outsourcing (LSO)-type services by offering similarly structured services, themselves.



Examples of alternative staffing by major firms include Fenwick's FLEX; Lawyers on Demand, from Berwin Leighton Paisner; and Orrick's in-house team dedicated to large-scale litigation document review and a few transactional services.

Whether through investment, joint ventures or organic builds, firms are beginning to offer subscription services to their clients and act as publishers and data providers to create new revenue streams and differentiate themselves. For example, labor and employment from Jackson Lewis launched a data analytics practice group, which includes statisticians as well as lawyers. They will not only support the firm's legal work, such as providing damage estimates, but help clients with non-legal projects, such as determining their optimal headcount.

Marketing

Big law firms have seen the value of establishing themselves as brands. In fact, writes Micah U. Buchdahl in the ABA's Law Practice magazine, "branding is not optional. Every law firm, practice group and individual lawyer has a brand. Ideally, you want to control the message to the best of your ability. But it takes planning, strategy, implementation and ongoing monitoring to be truly effective."

A recent Bloomberg Law/Legal Marketing Association report described how law firms are making use of technology driven marketing. In fact, it found that among marketing areas in which law firms of all sizes were planning spending increases in the next two years, 66% were investing in technology.

As the importance of branding and marketing grows even more, the effective maintenance of consistency and presentation can be entrusted to marketing leaders and executives from other industries. The skill sets and experience in other realms makes them well suited to assume those roles within law firms.

Hiring Talent

Cyberspace, intellectual property and heavy deregulation are driving the need for talent that is technologically savvy. Professionals with solid undergraduate degrees, PhDs in mechanical and chemical engineering and, on top of all that, a law school diploma, are hot commodities.

But, as the world continues to change and technologies advance, organizations need to reexamine their structure, roles and capabilities. This could lead to hiring of non-traditional talent into the organization. Several firms are already hiring Directors of Information Security, Risk Management and Security Audit. Others are bringing in expertise in Data Analytics, Process Automation, Cloud Architecture and Machine Learning. The role of finance, marketing, administration and shared services is expanding as well.

In finding leaders and managers who will adapt law firms to these changes to meet client needs and drive profitability, a broader net must be cast for candidates whose experience and qualifications fall outside of the expected and traditional. Search teams must be more open to a wider range of talent from other professional services firms, technology companies and other advanced industries, and follow the lead of experts in finding, recruiting and hiring a new breed of professional. One that brings technology-based skill sets to the table, but with the flexibility and drive to use their knowledge in service of an industry that is typically resistant to change.

Diversity

According to Jim Leipold, Executive Director at the National Association Law Placement, minorities are overrepresented in entry-level positions, but diversity levels decline from summer associates classes, to associates, to partners. That drop-off, Leipold said, “underscores that retention and promotion remain the primary challenges that law firms face with respect to diversity.”

In fact, states an article on law360.com, “firms can learn from their corporate clients and begin to build gender goals and incentives into compensation and bonus packages to encourage engagement and demonstrate commitment.”

Sodexo and Kraft, for example, include diversity related metrics in incentive packages for their executives, and Microsoft’s Law Firm Diversity Program offers bonuses in terms of a percentage of legal fees billed to Microsoft based on proactive diversity initiatives at those firms, and within the teams servicing Microsoft.

Big law firms would be advised to recruit and hire diversity leaders from other industries who are familiar with the strategies necessary to drive culture change in D&I. Professional services firms, in particular, have long been recognized as leaders in creating culture change within their own organizations, and it follows that those types of companies are a rich source for senior managers and leaders who are proven change agents.

Conclusion

The changes in the very structure of how law firms do business, drive growth and evolve globally will require strategies that are new, and dynamic enough to adapt and change, as well. Cooley LLP, Hunton & Williams and Covington Burling are just a few of the major firms that DHR International has helped to recruit and hire talent to manage that change. By necessity, other firms must consider new leaders will come from largely nontraditional sources. The makeup, service offerings and expectations of the 21st century law firm operating internationally are fluid and unlikely to stabilize into a predictable, static business model.

Long-term stability and growth means embracing, enthusiastically and without reservation, the new paradigm, new approaches, disruption and the positive opportunities it offers. The new faces and skill sets that will drive profitability must be sought from what may have once been thought of as unusual places, but they must be made welcome, genuinely respected and appreciated as they take their place, and a prominent one, at that, at the table.



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