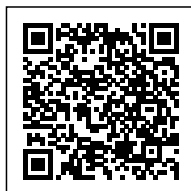


A VIEW FROM FRANKFURT: THANKS BUT NO THANKS

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Recent reforms have opened the way for non-lawyer partners and external investment in UK-based law firms but they may not necessarily take advantage of all that is on offer, says Stephen Denyer, International Development Partner at Allen & Overy.

La entrada en vigor de la ley sobre servicios profesionales en Gran Bretaña ha introducido una nueva institución reguladora que permite la opción de que accedan personas que no sean abogados a ser socios de un despacho. Además brinda la posibilidad a un bufete de aceptar inversión externa. Esta idea puede resultar atractiva para algunos, aquellos con alto grado de comoditización o con la necesidad de una inversión importante de capital, pero para otros, como Allen & Overy, no parece una factible, afirma Stephen Denyer, socio de Allen & Overy. Grandes despachos internacionales tienen suficientes fondos para financiar sus necesidades de crecimiento, para incentivar al personal y para medir su rentabilidad sin necesidad de inversores externos.

Last October, the UK introduced significant reforms in the way that English law firms are regulated.

The Legal Services Act is the product of a long process that began in 2004 and the provisions of which will progressively come into force over the next five years.

Among the major changes introduced was the creation of a new regulator for the legal profession in England and Wales, and for the ability of law firms to soon make a limited number of nonlawyer partners.

This latter change will come into effect in 2009 and is, I believe, very good news for a firm like Allen & Overy (A&O). After all, we already treat our most senior support staff (for example, in finance, human resources, business development, and IT) as though they were partners so really being in partnership with them is a logical next step. So, under the Act we can now incentivise our most senior non-legal professionals by giving them an equity stake in the firm.

Another significant change is that external (also non-lawyer) investors will, for the first time, be able to take a share in a law firm. It's an interesting idea, and one that may be attractive to a number of firms. But for A&O I would argue that this element of the reform is largely irrelevant.

Historically, English law firms had to be partnerships (not companies) and lawyers could only be in partnership with other lawyers. Unlike elsewhere in Europe, England has traditionally never accepted the idea of multidisciplinary partnerships (MDPs) involving non lawyers.

The Legal Services Act will change that. It will allow – in a framework yet to be determined – investors who are not lawyers to buy into a law firm. But it isn't just A&O that I expect to say 'thanks, but no thanks'. I do not expect any of our major London-based competitors to take significant advantage.

That is not to say that I think it is a bad thing, for some law firms it could make perfect sense. Australian firm Slater & Gordon has undertaken an IPO and now has external shareholders. It is a high street firm that specialises in personal injury litigation and it wants a high profile and a presence in every town. Such things cost money. Going public therefore makes a lot of sense to them.

But A&O is not a capital intensive business. We are able to fund our investment needs with the capital contributed by partners and through retained earnings. When we merge with other firms we do not put a value on the goodwill involved, the new partners simply join the enlarged partnership on the same basis as the rest of us. When new partners join they put in capital and when they retire they get the same amount back.

Our people are by far our biggest asset, but there is no capital cost associated with them. If we need extra money the banks are still happy to lend it to us on flexible terms. As for financial incentives, nonlawyer staff can be motivated and rewarded with bonuses that relate to their performance without the burden of a broader share option scheme.

And while a share price may be used as an indicator of companies success, we believe we have other and better ways to see how we are doing. Profit per equity partner is the current standard for measuring law firm performance but we are looking to replace it with measures that take account of sustainable profitability, client satisfaction, staff motivation and corporate responsibility. You certainly can't get the last two from a share price.

External investors won't be allowed until 2011 and a lot may of course occur before then, but for now I don't see it happening at A&O. We are a big, global and, I believe, successful law firm, and our current structure – with 500 partners owning the business they work for – is an invaluable contributor to that success."

Stephen Denyer is the International Development Partner at Allen & Overy, with a wide ranging role relating to the Global development of the firm. He is based in Frankfurt and can be reached at stephen.denyerr@allenover.com.