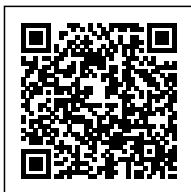


LISBON SPECIAL REPORT 2015: PLOTTING A NEW COURSE

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Lisbon’s law firms demonstrated impressive resilience during the crisis, but while the economic outlook is considerably brighter, managing partners must now guide their firms through uncharted waters

The general feeling among lawyers in Portugal is that Lisbon law firms weathered the storm that was the global economic crisis pretty well. Indeed, the crisis created significant opportunities for lawyers, to the extent that some firms are of the view that the “crisis years” were their best yet. After all, it is economic activity, rather than economic prosperity, that is the lifeblood of law firms. Even in troubled times, when companies are struggling, or worse, going out of business, work related to insolvencies or restructurings can keep law firms extremely busy.

However, there are no signs of complacency among law firm leaders in Portugal. They are shrewd enough to realise that an economy in slow recovery could, in fact, be tantamount to a “worst case” scenario for law firms. Why? It’s feasible that Portuguese lawyers could find themselves in a situation where insolvency and restructuring work starts to decrease dramatically as companies

gradually begin to experience more prosperous times, but at the same time the economic growth could be insufficient to kick-start a significant increase in M&A work, for example.

“Deal flow will not be as intense in future as it is now – we live off activity, not the health of the economy.”
João Vieira de Almeida
Vieira de Almeida



So, managing partners in Lisbon still face significant challenges. These include the need to make better use of technology, and the battle to attract and retain the best talent in an age when prospective new recruits may be more demanding when it comes to the terms and conditions of their employment. And this is before we even mention the prospect of multidisciplinary practices being permitted to operate in the Portuguese legal market. But, for the time being, we can forgive Lisbon lawyers if they are breathing a little easier at this juncture – firms are growing and the indications are that, in some areas at least, legal fees could be increasing.

Integrating technology

Lawyers identify two major current concerns for law firms – the challenges of profitability and efficiency, and it is these issues that have led to some consolidation in the market. There is a feeling – among some lawyers, at least – that law firms will continue to be extremely competitive on fees, while the issue of multidisciplinary practices is also causing some concern. Nuno da Cunha Barnabé, partner at PLMJ, believes the potential entry of multidisciplinary professional services into the Portuguese market will “put pressure on law firms to restructure the careers of lawyers”.

Vieira de Almeida managing partner João Vieira de Almeida says that, in general, law firms have done well since the beginning of the global economic crisis in 2008. “The crisis gave rise to lots of opportunities,” he says. He adds that he believes there will be more consolidation in the Lisbon legal market.

What are the biggest challenges law firms currently face?

“I would say that lawyers need to adjust to the new client demands on time and cost efficiency. More and more, clients are seeking prompt advice and efficiency. Cost control is a concern for them – clients want to know exactly how much they will pay for legal advice on each transaction before it starts. This means that standards have changed and law firms are now under even more pressure as to timing and costs. On the other hand, the selection of legal advisors is now much more competitive. I would also say that lawyers need to be prepared to deal with the new players that are coming to the market, as they have different legal systems, different languages and different approaches. When we work in cross-border deals, and work as part of international teams, we see how people should be aware of cultural differences to smooth communication between parties and enable the transaction to run and close in an efficient manner.” **António Soares, partner, Linklaters**

“The biggest challenges continue to be the need to constantly develop high quality services, and continuously be available to clients. Clients are increasingly cost conscious but are generally agreeable on legal fees as long as actual value is added to their projects and businesses.” **Dulce Franco, managing partner, AAA Advogados**

“To be able to take advantage of the increase in work flows due to the economic recovery, notably by increasing international relations. Also, to be able to do so while maintaining the flexibility introduced into their structures in the crisis years. In addition, as always, to be able to retain talented lawyers and invest in knowledge, as well as in technology.” **Pedro Pinto, partner, Pbbrr**

“Currently, the biggest challenges that law firms face are connected to the political activity during the last quarter of this year and first quarter of 2016. It will be a season where parliamentary elections and presidential elections will occur, and, with an undecided result, we can expect a complex situation to arise and be prolonged for some weeks. This will create uncertainty due to delays in the legislative process, for example, approval of the state budget, thus leading to legal difficulties. The political instability the country faced during the past year also led to a lack of trust from several foreign investors.” **António Vicente Marques, managing partner, AVM Advogados**

“Market segmentation and the concentration of work in fewer firms will lead to stronger competition from smaller firms trying to survive and larger firms with heavy fixed costs trying to keep their ground and/or increase market penetration. Clients’ decisions continue to be driven by price too much.” **António de Macedo Vitorino, senior partner, Macedo Vitorino & Associados**

“The client relationship model – which means to do more to get less – is law firms’ major challenge. With this comes the realisation that, despite the recovery in the market, law firms cannot ensure a career with progression for young lawyers in general, as the selection will be more and more careful. In terms of fees, one must get the notion that they hardly return to levels prior to the crisis. Increasingly fees are dependent on factors such as capped fees, previous agreements, risk sharing with the client, and other conditions that demand a completely new business model.” **Nelson Raposo Bernardo, managing partner, Raposo Bernardo**

One of the problems for law firms will be managing growth, according to Caiado Guerreiro managing partner João Caiado Guerreiro. He adds: “A big challenge is how do you integrate technology – this is an issue that is driving consolidation among law firms, profitability will also be a challenge.” Caiado also warns that “in times of expansion, you have to ensure you don’t make mistakes, we don’t do lateral hires and we don’t do mergers, we prefer organic growth”. He says profitability will also be a challenge for all law firms. Many Portuguese law firms have relied on Angola for growth in recent years, but the oil crisis has “changed the game”, says Sérvulo & Associados managing partner Paulo Câmara. “So it is serendipitous that the economic climate in Portugal is improving, presenting numerous opportunities for investment.” However, growth in the market does not automatically mean “growth in the dimension of law firms”, he adds. Câmara argues that the “metrics of [law firm] success are not just based on dimension”. He continues: “One size does not fit all, our goal is to attract and retain the best lawyers and clients, but attention also needs to be paid to governance issues, although consolidated growth is part of our strategy, but not at the expense of quality and best

practices." Câmara adds that, with increased internationalisation, the "cultural challenges that lawyers face in large-scale transactions are significant, so lawyers need to have the kind of preparation that allows them to be aware of these challenges".

With regard to Africa, there has been a "shift in the attitude of global firms" towards the continent as a market, according to Duarte de Athayde, managing partner of Abreu Advogados. However, he adds that, despite the fact that global firms are showing a greater interest in the African market, Portuguese law firms still have an important role to play because of cultural similarities. "When it comes to UK firms in Africa, for example, there is a bigger cultural difference," de Athayde says.

Need for gender balance

Gómez-Acebo & Pombo's resident partner in Lisbon, Carlos Rueda, says one of the challenges for law firms now is the need to focus on clients, sectors and markets. He adds that other ways in which law firms have to adapt include the need to focus on technology and ensure the firm is attractive to its own lawyers. Rueda says: "It used to be the case that having the opportunity to work in a large firm was enough to be motivated, but now law firms need to have certain conditions in place and, if firms don't work on this, we will lose people." In addition, Rueda says firms have to give more thought to how they use technology. "It's not necessary to have a physical presence – technology can be used to improve working conditions, people can work in other offices or they can be allowed more reasonable time for work, it's not always necessary to work long hours," he says.

Diversity is another issue law firms need to address. SRS Advogados partner José Luis Moreira da Silva says that women are now dominating in law schools and in two to three years, the "majority of new law firm partners will be women". However, one partner argues that, while there are more women coming out of law schools, it is important that law firms retain a gender balance. "We should not have a team of only women," he says. Despite the increase in the number of women qualifying as lawyers, FCB&A partner Rodrigo Almeida Dias says it will still be some considerable time before there are a significant number of women managing partners in Portugal.

There is optimism in the market that legal fees could increase. José Diogo Horta Osório, partner at Cuatrecasas Gonçalves Pereira says: "Transactional work has increased a lot and the pricing structure is returning to basics." He adds that there has been a number of deals in the finance, transport, real estate, insurance, healthcare and renewables sectors. While there may be some political instability in Portugal, Horta Osório says that this will not necessarily deter investors, some of whom will still see opportunities.

Vieira de Almeida says the increase in transactional activity in Portugal "had its roots" in the economic crisis. "Assets were put up for sale, lots of them had to change hands because of the crisis and there was a boost in restructuring and regulatory work," he adds. A lot of the matters that kept law firms busy in recent times amounted to "clean-up work", according to Bernardo Abreu Mota, partner at Campos Ferreira, Sá Carneiro & Associados. He adds: "The challenge, is what do firms do after the clean-up work? But now there are good transactions in the market." But Almeida Dias is not sure if the "clean-up" work has ended: "We will see significant events, with important groups and companies and their top executives seeing problems."

'Big Four' battle hard

The crisis showed that the legal profession is "very sophisticated" when compared with other professional services firms, according to Nuno Azevedo Neves, partner at ABBC. He adds: "Despite the challenges raised by the economic crisis, we also have to find out the opportunities it may bring – there are opportunities to be taken, and the challenge is to anticipate such opportunities and market trends, in the short term and the long term."

Da Cunha Barnabé says law firms need to be flexible and have to be able to "react more quickly". He adds: "The challenge in an increasingly volatile economy is to be in a position to seize opportunities – law firms don't pay sufficient attention to economic trends and their impact, for example the impact of the oil price on the world economy." According to one partner, it is difficult to hire people

because there is an increase in demand for lawyers. He highlights tax as an area where there is considerable demand for legal services and highlights how the “Big Four” auditing firms have “battled hard” for market share in Africa.

There is some surprise with regard to how limited the impact of the crisis was on the Portuguese legal market. MLGTS partner Filipe Lowndes Marques says: “Before the crisis, we would have expected the larger firms to contract and the smaller firms to struggle to survive, we would not have expected to have the same number of firms, but we have.” He adds that the biggest challenge for firms now is identifying the growth opportunities. “One question is, does Portugal have enough to sustain growth?”

De Athayde says that the fact Portuguese law firms have a low “profitability rate” when compared with other European markets “harms the way they would like to do business”. He continues: “During the crisis, fees were lowered due to increased competitiveness – work needs to be done in Portugal to convince Portuguese companies of the added value of legal services, including in the earliest stages of a transaction.”

Everyone’s a challenger

Vieira de Almeida says that his firm has enjoyed its “best years ever” during the crisis. He adds: “Deal flow will not be as intense in future as it is now – we live off activity, not the health of the economy, the crisis was one of the biggest boosts the legal sector has had.” Horta Osório says his firm set up a multidisciplinary group during the crisis to deal with distressed M&A, but he adds: “We’re no longer talking about distressed M&A – the group will reach double-digit growth in the next few years.”

There is a view that the Portuguese legal market has changed in that there is no longer an established group of firms that picks up all the prime instructions. “In the old days, there were a number of incumbent firms, but there are no incumbents left, everyone is now a challenger and this meant the big firms have had to change their mentality,” says Vieira de Almeida. Furthermore, the Portuguese legal market could be set for further change. De Athayde says that if proposals to permit multidisciplinary professional services in Portugal are accepted, new players will instantly enter the market. However, he adds: “Even if we open up the legal market to auditors, there will always be independent firms.” Rueda echoes the view that, even if multidisciplinary firms become a feature of the Portuguese market, there will still be

strong demand for traditional law firms: “In certain areas, clients are reluctant to hire auditing firms.” Law firms also face a battle to hold on to their best talent, according to one partner. He adds: “Firms

What are currently the biggest opportunities for law firms in the Lisbon market?

“We’re happy to see transactional activity back in earnest. We were in a depressed market but now there is an increase of liquidity. There are now new hedge funds and private equity funds showing an interest in Portugal, particularly in the financial services, insurance and real estate sectors. A number of acquisition opportunities are being sought and there are several options that are attracting private equity funds and other alternative investment providers such as share capital increases, loan portfolios sales, non-performing loans, disposal of real estate assets, corporate restructurings, bonds issues and generally a number of deals still driven by distressed sellers or in relation to distressed assets. In fact, the Portuguese market has started to show some signs of recovery.” **António Soares, partner, Linklaters**

“Real estate investment is the surprise of this year – there has been a lot of foreign investment in the area. Tourism has also been an important sector. Apart from that, the BES collapse shock wave continues to generate work opportunities.” **Nuno Pena, partner, CMS Rui Pena & Arnaut**

“Apart from the opportunities derived from tax measures aimed at attracting and encouraging both domestic and international investment, we believe that the Portuguese-speaking countries’ markets – including Angola, Brazil, Cape Verde, Guinea Bissau, Mozambique, Portugal, São Tomé and Príncipe, and East Timor and Macao – currently offer one of the most promising opportunities for Portuguese Law firms. This may be explained by the increase in business opportunities related to the economic growth of certain countries, in particular Angola, Mozambique and Brazil.” **Rogério M. Fernandes Ferreira, founding partner, RFF & Associados**

“Aside from the Lisbon market, the Algarve is a top destination for real estate investors wanting to get into the tourism and residential sectors. “On the other hand, there are many foreign investors in specific industries, such as aeronautic and manufacturing, wanting to set up facilities in different cities across the country.” **Paulo de Moura Marques, founding partner, AAMM**

“There has been extensive work representing investors and creditors following the collapse of BES/GES Group in 2014. Other opportunities include advice on privatisations, Chinese foreign investment, debt restructuring, and transactions involving prime real estate.” **Jorge de Abreu, partner, Abreu & Marques e Associados**

“With the cooling down of economic activity in countries such as Angola and Brazil, Portuguese law firms are turning to new markets such as those in North Africa, but at the same time continuing to develop business in the domestic market where there are opportunities for foreign investors in areas such as real estate where there are a large number of transactions due to the ‘Golden Visa.’” **Adelaide Moura, managing partner, A.M.Moura Advogados**

“With the economic growth, Portuguese companies are investing in, expanding in, or consolidating in, the domestic as well as in the international market. Consequently, there is an increase in M&A, venture capital, private equity, and real estate work. Even in the aftermath of the economic crisis, we believe that insolvency, restructuring and labour advice will be in demand.” **Pedro Raposo, managing partner, Pedro Raposo & Associados**

need the financial capability to retain their star performers." Vieira de Almeida adds that, in comparison to legal markets in European countries with bigger GDP figures Portugal fares well. "There are bigger firms in Portugal than in Austria and we compare well with Swedish firms, it is amazing what Portuguese firms have done," he says. "However, in the next three to five years, consolidation will happen."

The growing Portuguese economy is creating opportunities for law firms, which are hiring more lawyers, according to Câmara. He adds: "There is now more chance of consolidation among firms, while there is a question mark over Lusophone Africa." Meanwhile, one of the biggest challenges facing lawyers is "managing change", says one partner. He adds: "Firms have to become more profitable and more flexible, there is also some mild concern with the economic recession in Portuguese-speaking countries."

Attracting talent

Lawyers believe there is currently very promising opportunities for Portuguese firms to expand internationally. Lowndes Marques highlights Macao as one example, of a market where there is "plenty of room for growth". He adds: "There are also opportunities with entrepreneurs and start-ups, but there are also challenges, particularly retaining and motivating the best talent." Lowndes Marques adds that project management is an area that firms need to get "better at".

Demonstrating to clients that law firms can add value is another issue facing law firms. "Showing clients we can add value is a challenge," says Nuno Azevedo Neves. "For example, in China and Timor, we could probably add value." Moving on from a market where there was a considerable amount of "clean-up" work is one of the biggest issues law firms face, according to Abreu Mota. He adds the crisis was a good opportunity for law firms, but there was pressure on fees. Abreu Mota continues: "The crisis increased the gap between what we charge and what is charged in other countries – while foreign firms increased their fees, in Portugal we've maintained or reduced fees. Now pressure on fees will hopefully reduce."

Attracting the best talent is one of the main challenges now facing law firms, according to Rueda. He continues: "We may think we are now at the same point as before the crisis, but it's not the same. We are optimistic, but a slow-growing economy may not be the best scenario." Uría Menéndez - Proença de Carvalho managing partner Duarte Garin says the Portuguese legal market is unlikely to see lateral hires involving high profile partners. He adds: "I'm not talking about mergers or integrations, I'm talking about one independent partner of a high calibre moving to another firm. While obviously I can't rule anything out, I just don't foresee single cases involving big names happening too often." The economic structure of Portugal is changing, Moreira da Silva argues. "We are seeing the internationalisation of the economy with new players in the market and this is leading to the internationalisation of law firms," he adds.

It is also important that law firms tackle the issue of managing the career progression of lawyers, says Almeida Dias. "For the purposes of talent retention, we need to keep structures light and flexible," he adds. Meanwhile, Almeida Dias says that, due to problems in Angola as a result of the drop in oil prices, his firm is looking for opportunities in other jurisdictions, though he declines to name them and says "several alternatives are currently being assessed".

Investing in knowledge management

Vieira de Almeida says law firms also face the challenge of ensuring that non-lawyers are incorporated in a satisfactory way. "Multidisciplinary work is already an issue – 15 to 20 per cent of the professionals we now employ are not lawyers and integration is an issue," he says. "Technology is also increasing competition between firms – it is changing our business models, the way we work as well as our relationships with clients."

Horta Osório echoes the view that technology, as well as efficiency are among the biggest challenges facing law firms. "Law firms need to invest time and money in knowledge management," he adds. "Foreign investors – particularly from Europe, Latin America, Africa and China – have a

favourable perspective on Portugal so we will see the increasing internationalisation of law firms." Vieira de Almeida says that – following his firm's recent decision to incorporate a team of more than 25 lawyers from Miranda – keeping the strategic and cultural focus of the firm will be a key priority. He adds that his firm has conducted an exercise in which it tried to "codify the key features that enabled the firm to sail through the crisis and what made us resilient – our partners now have to think as challengers rather than incumbents and we have to ensure we get first mover advantage". Abreu Advogados is aiming to extend its international network, says de Athayde. "We want to intensify our presence in Lusophone Africa, but growth – and retaining talent – presents a challenge," he says.

While the general view is that law firms in Lisbon have emerged from the crisis in reasonably good shape, the hard work for managing partners is not over yet. Portuguese law firms may not be able to rely on opportunities in Lusophone Africa to the extent they have in the past, while attracting and retaining the best young lawyers could present another a headache. In addition, the possible entry of multidisciplinary practices into the market could have devastating consequences for smaller law firms in particular. However, given that lawyers in Lisbon have proved their resilience in recent years, they can face the future with confidence.