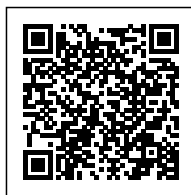


MADRID ANNUAL REPORT 2016: IN GOOD SHAPE

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Major law firms in Madrid grew in the last year with transactional activity driving healthy increases in revenue – however fee pressure persists, while the ‘war for talent’ escalates

Madrid's leading law firms have prospered in the last year. Some of the major players achieved growth of almost 10 per cent in the last 12 months as they benefited from increased transactional activity, as well as a healthy volume of work related to capital markets, real estate, insolvency, litigation, restructuring, tax and renewables. Meanwhile, the outlook for many law firms in the coming year is promising, with M&A workflow expected to remain decent and more consolidation expected in the banking sector.

However, there are some clouds on the horizon – some lawyers say Spain's prolonged political wrangling is affecting investor confidence, while others lament the continued pressure on fees and the affect on profit margins. In addition, the ‘war for talent’ is one of the biggest challenges law firms

face as they seek to motivate a new generation of lawyers whose career expectations differ from their predecessors.



“In the past, strategy was often based on size and growth in headcount, but now it's important to control size and improve productivity and not necessarily by working more hours.”
Luis de Carlos, Uría Menéndez

There is considerable optimism among some Madrid lawyers about Spain's economic prospects. It is anticipated that the Spanish economy will expand by 2.7 per cent in 2016 and economists say that, if such predicted growth is realised, Spain will be one of the Eurozone's fastest growing nations, outdoing the likes of Germany and France, as it did in 2015. Meanwhile, household consumption is at a reasonable level due

to low oil prices, low interest rates and reductions in income tax.

Brexit uncertainty

However, on the other hand, Spain's public deficit was around 5 per cent in 2015, while the fact that the country will have its second general election within a year in June has been viewed as having a negative impact on the economy. Uría Menéndez managing partner Luis De Carlos says that, while Spain has one of the fastest growing economies in Europe and is on course to create 400,000 jobs in 2016, there is wider uncertainty due to “global economic instability and the possibility of Brexit”. He adds that, while the country's economy is recovering, the recovery is “losing some speed”. De Carlos says Uría Menéndez enjoyed a “very good year” in 2015 with revenue growth of more than 9 per cent.

Among the major issues facing Spain is corruption, according to Baker & McKenzie's Spain managing partner José María Alonso. He adds that, consequently, there is demand for legal advice relating to compliance and white collar crime issues. Alonso adds that arbitration is a growing area as there will be more energy-related disputes. In addition, he says that there will be more cases concerning real estate-related white collar crime.

“There will be another round of consolidation in the banking sector.”
María José Menéndez
Ashurst



What are the biggest management challenges law firms currently face?

“Clients are demanding intercultural, close and competitive advice in terms of cost. Law firms have to evolve their structures and business processes.” **Lucas Osorio, Madrid managing partner, Hogan Lovells**

“Law firms will need to manage these factors with special care, paying special attention to the identification and retention of talent.” **Luis Miguel de Dios, partner, CMS Albiñana & Suárez de Lezo**

“The technology challenge for us is twofold. On the one hand, it must be embraced by everyone in the organisation so that we can improve our services, save costs and be quicker. On the other hand we must keep updated if we want to be able to advise our clients properly on the constantly evolving issues.” **Juan José García, managing partner, Yingke Adarve Law Firm**

“Watson [artificial intelligence developed by IBM], second brands, outsourcing, millennials asking for different ways of doing things, the ‘Big Four’ fighting to be acknowledged among the best, internationalisation, being recognised as a boutique or as one of the top law firms in a given number of practices, fighting against the perception of legal work as a pure commodity.” **Julio Veloso, partner, Broseta**

“The big challenge is differentiation, to be creative in methodology. The ability to go beyond the standard procedures is key not only to add value to the client but also to our industry, which evolves thanks to the dynamism of the professionals who form part of it. To offer a good service it is key to combine technical ability, creativity and client insight.” **Adolf Rousaud, managing partner, Rousaud Costas Duran**

“Adapting to the enormous pressure on fees.” **Francisco G. Prol, founding partner, Prol y Asociados**

There are a lot of opportunities for Madrid's law firms, according to Cuatrecasas, Gonçalves Pereira partner Fernando Bernad. “Banks need to clean up their balance sheets and political changes [due to the forthcoming general

election] could bring about further structural reforms,” he says.

Ashurst's Spain managing partner María José Menéndez says that banks are “under pressure to do business at a particular margin” and consequently there will be opportunities for law firms as banks look to fintech and the distribution of new products. She adds: “There will be another round of consolidation in the banking sector.”

Linklaters' Madrid managing partner Iñigo Berricano has an optimistic outlook in terms of prospects

for the coming year. "It wasn't looking very good in September, but investors have overcome their political concerns – the IPO of Telepizza, for example, was linked to good consumption forecasts," he says. "A lot will happen in the banking sector, there will be M&A deals and also restructuring as there are companies that still have issues – some companies will continue with the disposal of non-core assets and there are funds that still show interest in the country."



“There will need to be different ways of rewarding lawyers in the short term and different models of work – the key word is flexibility.”
Luis Fernando Guerra
Deloitte Abogados

Transactions slowing down

Luis Fernando Guerra, managing partner of Deloitte Abogados, says the prospects for the Spanish economy are “much better than they were a year and a half ago” and that the economic environment will improve further in the coming months.

However, Ontier Spain managing partner Pedro Rodero has a number of concerns. “Spain has lost almost one year without a government,” he says. “A lot of transactions with regulatory aspects have slowed down because politicians are reluctant to take decisions and reach agreements on crucial matters.” Ramón Fernández-Aceytuno, partner at Ramón y Cajal, says: “We have seen that many operations are on standby for the time being – the political situation is critical.”

The forthcoming elections in Spain may result in changes to the civil procedure laws and labour regulations, says Bernad. “This will affect the ability of landlords to carry out evictions and this will impact on investment in portfolios of residential property, as well as on the ability of the jurisdiction to compete for new investments,” he adds. However, Rodero says he anticipates continuing growth in M&A and capital markets work, as well as increased investment in the real estate and industrial sectors. “In addition, criminal advice is a growing area as corporate crime is a day-to-day issue,” he adds.

Allen & Overy partner Antonio Vázquez-Guillén says his firm experienced a growth in revenue of around 9 per cent in 2015, partly due to an increase in transactional work. He adds: “There are also opportunities in real estate, insolvency, restructuring, toll roads and renewables.” However Vázquez-Guillén says one of the biggest challenges facing law firms is the fact that judges do not always have the ability to understand more sophisticated cases. Gómez-Acebo & Pombo managing partner Carlos Rueda says that Spanish law firms have demonstrated they have the capacity to adapt to a fast-changing market. He continues: “We are doing transactional and restructuring work – while banks becoming digitalised leaves some unanswered questions and law firms that can adapt will be successful.”

Banks under pressure

Litigation and tax practices are less affected by economic conditions, says De Carlos. He adds: “Changing labour laws mean our labour practice is active, though there is more volatility in the corporate practice – there

What are currently the biggest opportunities for law firms in Madrid?

“It is unlikely that major transactions will occur until such time as there is a government in place. Following that, there will certainly be major M&A operations. Banking consolidation may also offer opportunities.” **María Gracia Rubio de Casas**, founding partner, RDC Abogados

“The financial crisis has caused Spanish companies to reinvent themselves in order to adapt to other markets, break barriers and to be more sophisticated. Latin America is a market in constant development with big demands on energy and infrastructure. The Spanish concessionaire companies are bidding and being awarded with impressive contracts all over the world. Mid-sized companies are also successful abroad.” **María Pilar García Guijarro**, Madrid managing partner, Watson Farley & Williams

“Real estate will be an important source of deals in Madrid’s market – the residential market is going to be the most remarkable in the next two years. There will be new residential developments led by SAREB or other important players that have recently purchased a lot of plots.” **Daniel Riopérez**, partner, Osborne Clarke

“The large private equity firms have to rotate their portfolio at some point, either through secondary deals or IPOs, so we expect M&A activity to be back at stronger levels. We also see complex dispute resolution as an area that is clearly more profitable and in which smaller firms can compete in equal footing with larger ones.” **Alejandro Fernández de Aroz**, partner, Araoz & Rueda

“Various large private equity investors and infrastructure funds will soon have to exit their investments, and such divestments will represent good opportunities for law firms, especially if competitive sales processes are arranged. Finally, we foresee good opportunities in the corporate, criminal, tax and labour compliance fields.” **Pablo González Mosqueira**, partner, Pérez-Llorca

Apart from corporate, litigation, labour and so on, there is an increase in demand for advice on compliance (including criminal prevention, anti-money laundering, new data protection rules, etc.), and real estate (SOCIMIs and foreign investors’ acquisitions). **Álvaro Marco**, legal department director, BDO Abogados y Asesores Tributarios

“M&A activity will increase over the coming years especially in the real state, industrial, and logistics sectors due to foreign and internal investment.” **Carlos Bustillo**, managing partner, DS OVSLAW

is also important restructuring work, real estate is very active and there are capital markets transactions."

De Carlos also highlights Madrid projects in the pipeline including the "Fifth Tower" project, which will accompany the city's existing "Cuatro Torres". Meanwhile, more clients are realising that they need to be compliant, according to Alonso. "The compliance practice is very active," he adds. Rodero says research has indicated that around 90 per cent of Spanish companies have not implemented compliance procedures.

The transformation of Spain in the last eight years has been incredible, says Bernad. "Spain is changing fast, the banking industry is under continuous pressure, most savings banks have disappeared and there have been many 'low noise' structural reforms – such as insolvency law – that should create further investment opportunities in the future," he adds. Fernández-Aceytuno says that litigation has not been affected by the crisis and that, in fact, it has possibly performed better. He adds: "We are seeing the appearance of smaller law firms in the market. Meanwhile, there is an increasing number of claims against banks and there are also opportunities in energy and infrastructure." In addition, Fernández-Aceytuno says there are more start-ups emerging.

Alonso says there is a lot of pressure on law firms' profit margins. "Clients want to pay less for more, but you have to maintain profits-per-partner in order to attract talent – there are also more obstacles for associates who want to make partner," he adds. Alonso also says that clients are less loyal and "beauty contests happen every day".

War for talent

Berricano says that young lawyers do not have the same long-term career aspirations as previous generations. The 'war for talent' will be one of the biggest challenges law firms face in the coming years, says Guerra. "There will need to be different ways of rewarding lawyers in the short term and different models of work – the key word is flexibility and law firms have to offer this to lawyers," he adds.

De Carlos says the legal market is very competitive. "In the past, strategy was often based on size and growth in headcount, but now it's important to control size and improve productivity and not necessarily by working more hours," he explains. "Technology is key, as is knowledge management and people management – having the best people is essential and you have to give them good working conditions."

For young people today, life is about experiences, according to Vázquez-Guillén. "Young people now are more entrepreneurial, they may want to work in different areas of practice or go on secondments, there is a change in mindset," he says.



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Baker & McKenzie



Better integration of women in law firms is another significant challenge for law firms, according to Bernad. He adds that while there are a large proportion of women graduating from law schools, law firms have been incapable of elevating the same percentage of women to partnership level. "Flexibility, technology, knowledge management, as well as mobility [the willingness of lawyers to work in different geographical

locations] are important," says Bernad.

In addition to managing talent and better utilising technology, data protection is another major challenge for law firms, says Vázquez-Guillén. "We need to step up and be tough on managing confidential information." Rodero says that, increasingly, firms need to prepare themselves to operate in a global environment, while also being successful at a local level. He continues: "Clients demand more for less and the path to delivering this is technology, but this is a challenge for smaller

firms.”



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Antonio Vázquez-Guillén
Allen & Overy

Partners under pressure

Managing talent and people, as well as managing remuneration at all levels, within the context of fee pressure, are among the significant issues facing law firms, says Menéndez. “Partners are under pressure, they work a lot of hours and they must be paid well,” she adds. “But there is limited scope to reduce costs and there is the challenge of providing associates with

career prospects.” Berricano says clients’ key concerns are availability and efficiency as “excellence is taken for granted”.

Guerra says all leading law firms have “smart, experienced lawyers”. He adds: “The key question is what’s different about your firm; we need to transform law firms’ culture and we need the commitment of our people to do that.”

Fernández-Aceytuno says data protection is a major concern for law firms. “We have to be more imaginative in designing products, as well as in attracting and retaining talent – young lawyers are looking for other things, they know the levels of remuneration in all the firms, they want a vibrant working environment, young lawyers increasingly have a more business-related view,” he says.

People management, enhancing career prospects for women, technology and knowledge management are major challenges for law firms, says De Carlos. Meanwhile, earlier this year, Uría Menéndez incorporated two Peruvian firms, Ferrero Abogados and Delmar Ugarte. De Carlos says: “We also face challenges in Latin America where we are bringing Peruvian partners on board and we need to ensure that the integration is successful.”

Law firms in Madrid have many issues to grapple with in the coming year, with talent management and how best to utilise technology being among the most prominent. However, leading firms in Spain have demonstrated a strong ability to adapt to changing market demands and this experience will stand them in good stead as the market braces itself for a new era, which could potentially be altered by new political forces.

How do you think the Madrid legal market will change in the coming year?

“We expect that the legal market will further concentrate to compete against national and international firms and meet the global requirements of their clients. Boutique firms will remain strong and independent.” **Rafael Alonso**, managing partner, Squire Patton Boggs

“The current fiscal year (2016) and forthcoming fiscal year (2017) will be determined, in terms of the work to be carried out in the Madrid legal market, by the evolution of the economy on the one hand, and the result of the political elections on the other. Indeed, the fact that the elections have to be repeated has caused economic activity in new investments to become somewhat stagnant.” **Isidro del Saz Cordero**, partner, Roca Junyent

“New technologies, e-business and global companies are driving innovation. Transactions are being executed more quickly and we continue to adapt by working more efficiently.” **Juan E. Díaz**, managing partner, Eversheds Nicea

“We believe that whether the UK decides to leave the EU or not will be a huge factor in any changes in the Madrid legal market over the coming year. Should they decide to leave the EU, many UK-based firms will be directly affected.” **Jesús Vélez**, managing partner, Kennedys Abogados

“As a result of the merger of small law firms, as well as the acquisition by large firms of small boutiques, the Spanish legal market is restructuring. Moreover, a new trend in the legal market is the expansion of online customer advice. However, the immediacy and impersonality of online consultations can result in poorer service, as the benefit of direct and continued contact with the client is lost.” **Bernardo Cremades Roman**, partner, B. Cremades y Asociados

“The market will change due to consolidation and generational change. There is big competition in the market and creating the conditions to retain the best and provide them with career development opportunities is a major challenge. Also, the way the current political situation evolves impacts the economy and thus it will have a strong influence in how the legal market itself will behave.” **Manuel Esteves de Albuquerque**, senior associate, Raposo Bernardo

“We will see new mergers of firms since hourly rates are dropping.” **José Miguel Martín-Zamorano**, partner, Marimóon Abogados