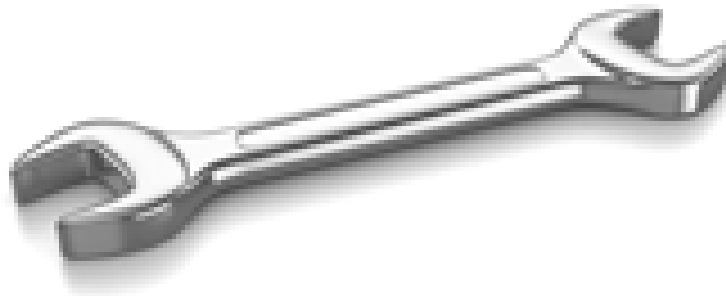


# MADRID ANNUAL REPORT 2017: FIRM RE-ENGINEERING

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**The workflow for law firms in Madrid is looking much healthier than it did 12 months ago – however, this is posing difficulties for managing partners who now have to consider the best way to use their resources to meet rising demand**

The good news for law firms in Madrid is that their workload is increasing. Transactional activity – especially in the real estate, financial services and renewable sectors – is on the rise and law firms report being much busier than they were a year ago, when political wrangling meant the country appeared to be in a state of paralysis. However, winning more mandates also brings considerable challenges, in particular that of how to best deploy resources in order to meet the surge in client demand. While there may be a temptation for some firms to go on a recruitment drive in an effort to increase headcount, memories of making layoffs during the crisis years mean that this is a strategy that can cause some concern among managing partners.



“Class action  
litigation will increase  
[in Spain].”  
José María Segovia  
Uría Menéndez

Among the problems currently plaguing law firm leaders is how to increase efficiency. One way of doing this is to hire project managers, but such roles – which may often be filled by non-lawyers – can be controversial. Though project managers may be highly effective in some firms, some managing partners acknowledge that partners can sometimes be reluctant to bow to their demands.

Meanwhile, talent retention remains probably the biggest headache. With a new generation of lawyers that are less than keen to work 12-hour days – an expectation that previous generations may have reluctantly accepted was just part of the job – law firms have to find a magic formula to strike the right work-life balance, while also providing the

right environment for women lawyers to flourish. There is a widely held view that one of the biggest failures of law firms is the fact that they allow many talented female lawyers to slip from their grasp before they break into the partnership.

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

"We expect European M&A to increase in value from \$319bn to \$459bn this year. There will be significant activity in the healthcare, banking and high tech sectors. In the aftermath of the crisis, Spanish companies have an outstanding global footprint and international investors are strongly targeting our country." **José María Alonso, Madrid managing partner, Baker McKenzie**

"The number of transactions has risen considerably in recent months and that upward trend is expected to continue throughout 2017. Increased activity has been felt primarily in the real estate, energy and infrastructure sectors - there is increased appetite among financial buyers to acquire assets and platforms in those sectors in Spain. We are also seeing a significant increase in investment by large Spanish companies abroad." **Miguel Riaño, managing partner, Herbert Smith Freehills**

"During the last few months, we have perceived a significant increase in M&A activity in Spain, probably as a consequence of improvement in political stability in both Spain and continental Europe. The real estate, energy and retail sectors seem to be the most attractive for foreign investors that have an appetite for assets in Spain. At the same time, the parties involved in bidding processes are remaining quite cautious and, even if there is significant competition, the bidders are being quite conservative from a valuation point of view." **Roberto Pomares, partner, King & Wood Mallesons**

"In the domestic arena, I believe the

recovery of the Spanish economy is a great opportunity for law firms. It seems that we have left the crisis behind and the economy is more dynamic. This should lead to more work and, hopefully, an increase in legal fees. In the international sphere, Brexit might impact on legal market talent, particularly young European lawyers who previously may have crossed the Channel for training. Further, the fear of the supranational in the United Kingdom might translate into suspicion towards international arbitration, preparing the ground for the rise of alternative pro-European and pro-international jurisdictions such as Madrid." **David Arias, partner, Arias SLP**

"In the criminal law field, regulations related to the criminal liability of legal persons, as well as ensuring corporate compliance has become a brand-new scope of activity. Meanwhile, the Spanish tax authorities' continuous pursuit of taxpayers is a key source of business." **Miguel Ángel Garrido Riosalido, managing partner, Garrido Abogados**

"The recovery of the real estate market and an entrepreneurial environment that favours the development of new businesses and companies. The big question is what impact Brexit will have - if, and how, Madrid will benefit from the search for 'continental platforms' by companies operating in the UK, will most certainly have an impact on the development of Madrid's legal market. If the number of companies operating in the EU market from Spain, and specifically Madrid, increases, it will drive demand for legal consultancy services." **Manuel Esteves de Albuquerque, senior associate, Raposo Bernardo**

**Distressed assets attractive**

Pedro Pérez-Llorca, managing partner at Pérez-Llorca, says that there is substantial interest from funds - as well as other investors - in relation to the Spanish real estate, financial services and media sectors. In addition, he says there has been notable M&A activity in the renewables sector. However, Pérez-Llorca says that one of the key challenges for law firms is satisfying client demand, which is becoming more difficult due to the increase in workload.

Funds are showing an increased interest in investing in the infrastructure, energy and real estate sectors, with distressed assets also proving to be attractive, according to Ashurst's Madrid office managing partner María José Menéndez. She adds that financial institutions continue to sell loan portfolios, including non-performing loans.

There will be further consolidation in the financial sector, says Linklaters' Madrid managing partner Iñigo Berricano. He continues: "There will be a concentration of financial sector platforms, as well as consolidation among insurance businesses, and with regard to private equity, there will be 'dual tracks' [in which a business pursues an IPO while simultaneously running a confidential, private auction to sell the company]. Meanwhile, Allen & Overy partner Ignacio Ruiz-Cámara says there has been considerable investment in "infrastructure and tariff-related assets" in the last year.

There was a notable increase in work for law

firms in Spain in the early part of 2017 compared to the same period the previous year. "A year ago, after the election, there was little work in the first quarter of 2016, but now there is plenty of work," says Araoz & Rueda managing partner Pedro Rueda. "The challenge [for law firms] is how to cope with more work, for example, do you increase your number of lawyers? We are recruiting more and we are working more hours." Eversheds Sutherland Nicea managing partner Juan E. Díaz Hidalgo says that his firm's revenue grew in the last year despite the fact Spain has a very competitive market with many "very good law firms". He identifies banking and insurance-related work as

potential growth areas in future. **Reacting badly**

As law firms strive to increase efficiency, law firms “might need different lawyers in future”, argues one Madrid-based managing partner. He adds: “We are becoming more efficient and are acting as project managers in some transactions.” Another partner at a ‘Magic Circle’ firm in Madrid comments that, though his firm has a “special group” for project management tasks, partners often “react badly” to having to deal with them, though clients are very supportive of the concept of project managers. Another partner remarks that clients appreciate the high level of information and feedback they get from project managers.

However, some managing partners are less keen on the idea of project managers. “We believe we can cope without managers, I’m not sure about an extra level of bosses, we can grow without increasing the payroll,” says one.



“There has typically been respect for regulators, but this may change.”  
David Franco  
Freshfields Bruckhaus  
Deringer

Increasing efficiency is one of the key tasks facing firms, according to Cuatrecasas’ Madrid office managing partner Fernando Bernad. He adds that his firm records and measures lawyer utilisation and progress on personal skills to assure “efficiency and delivery”. In addition to monitoring lawyer utilisation, measuring lawyers’ career progression on a continuous basis is also important to ensure firms “grow adequately and also

facilitate the swift access of the best lawyers to partnership”, says Gómez-Acebo & Pombo managing partner Carlos Rueda. A managing partner of another firm in Madrid remarks that, in addition to “promptly” recording lawyers’ billable hours, it is also important to measure how much business development and training they undertake.

Ensuring profitability is also identified as a key challenge. Carlos Blanco, managing partner of Roca Junyent’s Madrid office, says that while there has been a recovery in the real estate market, this has not been linked to higher legal fees. He adds: “There has been an increase in M&A activity, but, while we may see higher fees in the near future, the billable hour is not the main and sole reference anymore; we need to design different billing solutions and we need to use project management more.” Blanco adds that, firms need to successfully combine the market demand for specialists with an “efficient use of lawyers”. In this sense, he says that junior lawyers now need to be more versatile: “For example, junior corporate lawyers need to know about loans as well as M&A transactions.” In addition, Blanco says law firms need to understand and adapt to the values of new generations of lawyers. He continues: “Digitalisation is an ally in this challenge – young professionals are digital

“The challenge for law firms is how to cope with more work.”  
Pedro Rueda  
Araoz & Rueda



natives and their views can be very helpful for firms in this new digital era.”

Class actions are expected to represent a significant opportunity for law firms in Spain in future, says Uría Menéndez senior partner José María Segovia. “Class action litigation will increase [in Spain], this will be a trend and it will be a long-standing opportunity,” he adds. Segovia also believes that there will be an increase in smaller M&A deals. Freshfields Bruckhaus Deringer’s Madrid managing partner David Franco says that a significant increase in consumer-led actions is expected in Spain in the future, but he adds “it will take more time to see other types of class actions”. He adds that there is a growing trend in Europe to challenge regulators’ decisions, particularly competition regulators. Franco continues: “In Spain, there has typically been respect for regulators, but this may change as the market gets more sophisticated.”

#### What are the biggest management challenges law firms currently face?

“In addition to technology, globalisation and talent management. On globalisation, each firm needs its own model suited to its specifics, such as UK or US law capabilities or other cultural and legal models. In our case, Iberoamerica is key. In relation to talent management, the key issue is being able to integrate women into the partnership so that it reflects the percentage of women lawyers they currently hire.” **Fernando Bernad, Madrid managing partner, Cuatrecasas**

“Brexit, and election results in other countries. The need to deal with changes brought about by digitalisation, the use of artificial intelligence and information technology. In this context, new risks are emerging, such as cybersecurity.” **Pilar Menor, Spain managing partner, DLA Piper**

“Adaptability. The more a law firm adapts to its clients’ needs, the more successful it is likely to be. There are a lot of expectations based on how technology will improve the delivery of legal services, but if technology is not able to meet the needs and requirements of clients, it is unlikely to succeed. The environment changes very quickly and adaptation to new scenarios is critical. Law firms will need to train their professionals in a more competitive way, so that they are provided with attributes such as a global and strategic mindset. It is not only about being technically skilled – which is taken for granted – but also being able to perform well in global environments and overcome cultural gaps. Internal policies to support this will be key.” **Adolf Rousaud, managing partner, RCD – Rousaud Costas Duran**

“The crisis has taken a toll on all sectors and fees have been directly affected. Lawyers find themselves obliged to develop new strategies to remain competitive. Moreover, law firms have to deal with risks that new technologies pose, especially due to the huge amount of data they handle. So, for example, law firms have to update and control all IT systems in order to prevent any potential attack that affects their clients.” **Jesús Vélez, managing partner, Kennedys Abogados**

“Competition on pricing is a big challenge law firms face. Clients want efficiency, value and lower costs. In the end, clients can demand these things because law firms need the business. Thanks to mobility and other disruptive technologies, legal professionals are working from home without going to the office. There are more and more lawyers who are doing this and doing quite well. This might be another management challenge for a law firm.” **Javier Cremades, founding partner, Cremades & Calvo Sotelo**

“The biggest challenges are related primarily to compliance. Law firm managers must make sure law firms act within the law, particularly in relation to money laundering, data protection and confidentiality.” **Fernando A. Martín Martín, partner, Loyra Abogados**

“Increasing competition on fees, charging accurate fees, and getting paid.” **Francisco G. Prol, partner, Prol y Asociados**

## Anglo-Saxons arriving?

Having an office in Madrid is becoming an increasingly attractive proposition for international law firms. In recent months, for example, UK firm Pinsent Masons opened in Madrid, while Andersen Global merged with Olleros Abogados. Meanwhile, there are rumours that two other US law firms, as well as a UK firm, are looking to open offices in the Spanish capital. However, some managing partners at law firms in Spain have doubts that US firms will actually take such a step. One says: “It’s hard for me to see opportunities for more US firms in Spain, it’s not a high-fee jurisdiction, I’m sceptical about what the business case is.”

Franco says that the legal arms of the ‘Big Four’ are making an impact on the Spanish legal market. “They [the Big Four] have determined growth strategies and are investing a lot in technology,” he adds. However, another partner remarks that there has been an “independence issue” affecting the ‘Big Four’, though this has “been diluted” in recent years. Berricano argues that the ‘Big Four’ could change the way law firms work in the sense that “clients are splitting up the work [they give to lawyers]”. Meanwhile, Ruiz-Cámara predicts that there will be more consolidation among mid-sized



law firms in Spain in future.

According to one managing partner, "it's bad news for law firms" that the 'Big Four' are winning a lot of due diligence work. He adds that the more profitable work for law firms is due diligence work for vendors. Another partner remarks that losing due diligence work to the 'Big Four' should be a concern for law firms because doing due diligence is "wonderful training" for young lawyers. He adds that more traditional law firms have to be careful because when it comes to fees, they are getting "smashed" by the 'Big Four'.

Bernad observes that, in Spain, the 'Big Four' have taken a share of big-ticket corporate tax work. He adds: "In addition to corporate, there are big areas of high value added in relation to tax, transfer pricing – which is way to enter into more strategic work – as well as private client, financial products or litigation." The 'Big Four' should not be dismissed and are serious competitors, according to one managing partner. "They are now seen on big deals, they're hiring talented people from investment banks – due diligence work done by the 'Big Four' can open the door for them to demonstrate to clients that they can do other work in a more profitable way." Another partner remarks that the 'Big Four' are well-funded and consequently they have an opportunity to "get in the door and show clients they can do work more profitably [than some competitors]".

One of the biggest challenges currently facing law firms is hiring and retaining lawyers, according to Segovia. "This is a profession of hard work, involving availability seven days a week – the difficulty is matching this requirement with the new concerns and interests of young generations of lawyers, such as work-life balance," he adds. "Every year, the Spanish legal sector needs a greater number of professionals, and it is sometimes difficult to find a sufficient number of excellent lawyers to meet such a demand." Ruiz-Cámara says, with regard to recruitment, law firms' human resources priorities have changed: "Not everyone wants to be a partner and law firms have to adapt their structures."

“Not everyone wants to be a partner and law firms have to adapt their structures.”  
Ignacio Ruiz-Cámara  
Allen & Overy



“A high number of incoming law firm associates are women, but we're losing them along the way.”  
Michael J. Willis  
Davis Polk & Wardwell

### Losing the ladies

The retention of female lawyers, as well as lawyers from diverse backgrounds, is another key challenge facing law firms, according to Michael J. Willis, head of Davis Polk & Wardwell's Madrid office. He continues: "A high number of incoming law firm associates are women, but we're losing them along the way. Law firms need to do better at retaining and promoting them – clients are more diverse than law firms are, the question is 'how do

we better reflect our clients?'" Franco says "winning loyal new clients" is one of the most challenging tasks currently facing law firms given that there is significant competition in the market.

Dealing with increasing globalisation and retaining talent are other key issues facing law firms, according to Bernad. He adds that "improving the experience of clients, as well as lawyers, is also a major challenge". Bernad continues: "We have to make an attractive offer to young lawyers and get the share of junior women that we already have into the partnership." Carlos Rueda says a key challenge for law firms is to "create value" for partners and keep them motivated.

Firms have to focus on finding ways to differentiate themselves from their competition, according to Menéndez. She adds that there "is a need to provide outstanding service while coping with cost pressures and with younger lawyers not wanting to spend as many hours working as previous generations may have done". Menéndez continues: "We have to be sensible about human beings working in law firms and therefore achieving top quality and productivity requires an improvement in efficiency." With regard to the issue of flexible working, Díaz Hidalgo says that if lawyers are offered the opportunity to work from 9am to 5pm, for example, it is important that, in practice, "this is fulfilled" in the sense that law firms support lawyers who want to work such hours. "Flexible working

is crucial to their career,” he adds.

Berricano says given that the amount of work available to law firms will not grow substantially, they need to be more successful at “winning mandates and building relationships, particularly in competition with other firms”. He adds: “We have very talented people, but the challenge is to make law firms a place where people want to work – we also have a problem with social diversity, our clients are diverse and we need to follow that path.” Berricano adds that firms also need to ensure that partners “continue to be outward-looking and hungry for work”.

Getting the level of recruitment right is an issue facing law firms, according to Pérez-Llorca: “We have to ensure it's not too much and not too little.” Meanwhile, he adds that, with regard to artificial intelligence, for example, important considerations include ensuring the level of investment is right and making sure the firm partners with the right companies. In addition, Pérez-Llorca says cyberattacks are a major concern, as is having to recover from being potentially hacked. Such concerns also mean law firms need to ensure they have the correct level of insurance, according to Pérez-Llorca.

#### **How do you think the Madrid legal market will change in the next 12 months?**

“If the economic recovery is confirmed, companies will increase their international expansion, and the main challenge of law firms will be to accompany their clients in these processes. Global firms have a solid position, being accustomed to advising on multijurisdictional issues, and we must monitor where our clients go in order to advise them where necessary.” **Lucas Osorio, Madrid managing partner, Hogan Lovells**

“Madrid is a key focus for large international investors in that it is a location that can open doors for businesses in booming regions, such as Latin America, due to the similarities in which Spain and Latin American countries do business. Meanwhile, sectors such as real estate also present growth opportunities – in this sense, projects linked to tourism, where Madrid has a huge offer, are attractive. In addition, there are strong construction, financial services and technology companies in the city.” **Luis Fernando Guerra, managing partner, Deloitte Legal**

“The Spanish economy is recovering and this is reflected in the good results of Spanish companies, mainly those on the Ibex 35. This recovery implies a growth in legal activity in the Spanish market. Large corporate transactions are expected in the real estate sector – which attracts international funds – the financial sector, the energy sector and in telecommunications, while an increase in legal disputes in the banking sector is also anticipated.” **Francisco Palá, managing partner, Ramón y Cajal Abogados**

“Brexit will have a major impact in the next 12 months. We are aware that Spain may not be the first option for many financial institutions in the City of London, however, there are a number of factors that make Spain a destination to be considered. First, it offers a gateway to the European Union market, Latin America and North Africa. Second, it is a highly skilled country with competitive legal, accounting and financial consulting rates. In terms of legal and financial consulting, fees and other related costs are as much as 50 per cent lower than in countries like the UK. Third, there are fluent and strong relationships with regulatory bodies.” **Miguel Linares Polaino, partner, Linares Abogados**

“In the coming year, we will probably see more foreign investment in real estate, energy and technology companies. Tourism will also get more investment, and probably the presence of companies operating in the ‘collaborative economy’ will increase.” **Begoña Redón, partner, Marimón Abogados**