

THE END OF THE ALLIANCE?

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With experts saying the traditional law firm alliance model is going bust, new specialised and strategic options are emerging in the market. Clients are questioning the value of alliances, and so taking an 'offensive' approach and having an integrated strategy are key if they are to remain a viable model

Being 'international' is no longer a differentiator – it's a requirement. Clients need their law firms to go global and service them worldwide as standard. And to stand a chance of competing against the truly 'global' elite, independent and non-aligned law firms have traditionally provided international legal services via loose or strong referral relationships with partners worldwide.

Alliances have provided an invaluable and low-risk way of building a worldwide presence where the political will and financial muscle to open own offices is lacking. But although many have evolved into commercially driven businesses, say experts, they are increasingly seen as mere 'members clubs', and clients question the value provided.

'Value' comes in having a very strategic and integrated approach – something that is lacking in many

alliances, and which leads to a basic dilemma. But when these alliances have tried to become more strategic and unified to provide that 'value', the law firms push back saying it threatens their independence – they want to be independent 'and' part of a high-value alliance. Lex Mundi is a prime example. With an elite law firm in each country, members pushed back on plans to work and brand more closely as many of their members are part of other alliances and strongly protective of their independence.

It is no surprise that more sophisticated clients are bypassing the alliances and contracting local firms direct. "Why would I ask a law firm in Madrid for assistance in Chile when I know the lawyers in Bogota better than they do?" one member of Iberian Lawyer's In-House Club said off-the-record. The sizable alliances of the past are about to be replaced by more strategic and specialised groups intent on providing demonstrative value to both members and clients.

The buyers

Today's clients fall into two distinct groups, according to Rupert Cruise, a Consultant assisting law firms worldwide on their alliances and referral relationships – those that like to go to 'one-stop-shops', like a Clifford Chance or DLA Piper, and then the more sophisticated clients that are choosing not to pay global firms to project manage. "Clients used to be evenly split between these two groups, but research indicates that the picture may be changing, particularly in emerging markets. A recent Acritas study investigating the demand for legal services in Africa shows that over 55 percent of multinational clients prefer to contact local law firms direct."

That view is echoed by in-house lawyers themselves. "For very mechanical work, such as setting up a company in a jurisdiction, I don't mind if a global firm hires the services of a local firm," says José Fernando Cerro Redondo, Head of Legal at Abengoa. "But for specific complex legal work I prefer a global law firm with own branches or I will just hire a local firm direct rather than going through an alliance – I don't need the intermediation."

Firms that are able to put their own people on the ground are ahead of the game, says leading US Lawyer turned International Strategy Consultant Robert C Bata, Founder of WarwickPlace Legal. "If they do it properly they will develop a common culture, service model and management approach, so that clients are assured the work is done to the same standards that they have come to expect from the firm's domestic operations." But this convenience comes at a price – global and international fees. And in a market that is being driven by 'added value' and tightening budgets, clients are searching for an alternative that provides similar value but at much lower rates.

A wide variety

Alliances are stepping up their game in response – but not all are created equal. There are around 170 worldwide, from the major players such as Lex Mundi and Meritas, to the smaller varieties like Consulegis and Multilaw.

The number of members can go from under 10 to over 170 law firms, and standards range from highly selective, strict and rigorous requirements that have to be met to ensure the reputation and integrity are maintained, to merely the cost of the membership fee. And some alliances are now run as businesses with a professional management team.

The risk of the huge global alliances is that clients are increasingly seeing these as just 'members clubs'. Some law firms wear the alliance logos as a mark of what they perceive as a genuine, integrated international capability. Just being part of 'member's club' is not in of itself a strategy, however, says Bata – if anything, it's just 'decoration'.

Quality integration

Relationships and involvement are at the heart of a great alliance, says Cruise, and it is difficult to make a client believe that you really have 150 'close relationships'. Many want to give the impression of international experience and an 'on the ground' presence, but when pressed to name their fellow members and areas of expertise many are lost. Clients quickly see through that, particularly those that are active within particular jurisdictions, and lack of actual integration is a big worry.

Due to their sheer size, members within the larger alliances are forming their own cliques. And while these can be helpful, what this tells you is that these vast alliances aren't terribly practical in themselves. Clients question whether members really do have working relationships with each other or are no more than referral networks, without any forms of knowledge sharing, talent development or combined strategy.

"Saying you are a member of alliance doesn't impress clients, they must understand that you can provide quality control and exercise responsibility for the work product," says Bata. "Not that it's bad to belong to an alliance, but law firms shouldn't expect it to be an engine for business development." Many feel safer with the global or international firms seeing this as a guarantee of quality and consistency. But some say that many of these 'own' offices operate so independent of each other that there is virtually no difference to an alliance.

Trust is key, say experts, as is reputation. "One lesser quality firm in an alliance can damage the whole alliance as well as individual firms' reputations and damage the business," says Laurent Marlière, CEO and President of IsFin, a global legal network focusing on Islamic markets. "The good firms understand that their reputation might be endangered by the fact that they could be associated with the smaller or less reputable members, and on the whole, the selection process of some alliances is unprofessional and unbalanced."

Geography versus practice

While there are many variations out there, today's alliances can be broken down into three distinct groups, say experts: geographic, practice area and market driven. The geographic group began as a 'defensive' approach to retaining clients in their cross-border operations. And for the small and medium-sized firms this has proved an invaluable tool to expand their presence internationally, and a competitive advantage that helps them to stay in the game with other major global firms.

"Meritas isn't just a way of picking up referral work from countries where we may not have a presence, it also plays an important role in improving the knowledge and experience levels of our lawyers," says Hugo Écija, Managing Partner of Ecija, the Spanish office of Meritas. The Alliance has 178 members in over 80 countries worldwide, with F. Castelo Branco & Associados being its Portuguese office. But while being 'global' is clearly crucial in today's market, if you look at today's world the map isn't centred on the Atlantic but on the Pacific. The growth markets are predominantly in Africa, Asia and the Middle East and Africa, says Marlière. "Many of these big alliances don't have contacts there, and we are seeing regional-based alliances emerging to capitalise. So what happened 20 years ago in the US and Europe is happening there. The big alliances aren't providing value and clients are demanding a much more specific approach."

The more specialised, such as practice area alliances, can serve two functions. A 'defensive' one, whereby clients are not lost to rivals merely because the firm doesn't happen to have a foreign office in a particular market, explains Bata. "Also an 'offensive' one, whereby alliance members jointly market to prospective clients in order to win business they could not obtain in their individual capacities."

Ius Laboris, for example, recruits its members on the basis of establishing itself as an international niche for employment, labour and pensions, says Inês Reis a member of the Leadership Team of Ius Laboris and a Partner at pbbr in Lisbon. There are currently 44 members, including Spain's Sagardoy Abogados – a size that allows the law firms to really know each other and work together.

This Alliance is run by an executive committee of representatives from member firms and a professional team in Brussels. "If we need to pitch a client the team can tell us whether anyone else has worked with this client in the past and the team can gather relevant information and data that we may need," says Reis, "and we liaise with our colleagues to ensure we pitch in the most appropriate way."

Of course the referral work is a huge advantage, but they have to work for it and to keep high quality standards, Reis adds, and they have an annual quality survey in place to ensure required standards

are met by all members.

Unique market approach

There is also a new breed building on geography and practice area but adding the dimension of market orientation. These focus on a specific market segment, and are not run by lawyers but by a professional team as a 'service provider' – a company where law firms are figurative 'shareholders'. IsFin, the alliance for Islamic Markets and Finance lawyers, was started two and a half years ago on such a strategy and now has members in 65 countries. Spain is represented by Cuatrecasas, Gonçalves Pereira, and Portugal by Morais Leitão, Galvão Teles, Soares da Silva & Associados. "We decided to make a market-driven business case, and focus specifically on the emerging markets and Muslim investments into the West and vice versa," explains Marlière.

IsFin is a commercial company servicing sovereign firms in the Muslim and Western world and the law firms are 'partners' rather than members to distance themselves from the perception of the traditional 'members' clubs'. Interest for the model grows, especially in Latin America where many corporations are looking to these alternative emerging markets, says Marlière.

The law firms pay for the service they want to get and in turn the company ensures everyone is aligned on strategy, exchange of knowledge, referrals, approaches to the market, etc. "I believe this is the model that will allow independent firms to fight against the global firms and the Big Four," says Marlière, "and as we don't compete with the big corporate alliances, our law firms can be members of these as well if increasing an international presence is also a priority."

Fallen out of love

Any approach, however, will only be as good as the thinking behind it. Garrigues, recent decision to leave its Affinitas Alliance and open its own offices in Latin America is the most significant example of looking strategically at the actual 'value' an alliance provides. Sources say that Garrigues wanted to work more closely but as the Alliance pushed back, the Firm decided to do set up offices by themselves.

Cuatrecasas, Gonçalves Pereira is an example of forgoing the larger networks and setting up own alliances. Having rejected a bid to be part of Herbert Smith's European Alliance, it also left World Law Group network and has entered into an alliance with Chiomenti, Gide Loyrette Nouel and Gleiss Lutz.

Other firms are playing the game of being both 'local' and 'global', depending on which clients they approach. Ontier, for example, markets itself as a 'global firm with a local soul', uniting local firms under a global umbrella but members retain their name and independence. Whether this is a new model in itself, or another CMS or Eversheds, remains to be seen.

The future of alliances

"The best advice I can ever give to those of my clients that are too small or otherwise reluctant to expand overseas on their own is to build your own alliance with like-minded law firms, which I call 'select partnerships'," says Bata, "which allows you to be in those key jurisdictions where you feel you can contribute the most to your clients or future clients".

Uniformity and alignment are key, say experts, only attainable by building relationships with a select number of firms where there is a strategy and focus, say experts. Take an 'offensive' approach, make a strong business case and ensure to have a combined strategy across all the law firms involved. Go out and actually market yourself and bring in business and find other law firms with whom you can jointly pitch for new business. Traditional alliances aren't built for that, say experts, they are built for the occasional referral.

So while the advantages of the traditional model remain, practice and market driven entities with 'offensive' strategies are the future for alliances, agree experts. And the key could be in combining geographic with more focused and specialised initiatives to get the best of both worlds.