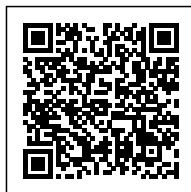


WHAT IS THE RIGHT SIZE FOR IBERIA'S LAW FIRMS?

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Does size matter? With Iberia's law firms announcing their annual results, the jury is split - for some firms size is important while for others small is beautiful.

In 2017, the annual billing per lawyer at Spain's biggest law firm was €267,000 (at Garrigues, with 312 partners and 1,175 lawyers) and the highest income per lawyer was €435,000 (at Linklaters, with 17

partners and 133 lawyers). It is not that lawyers at the second firm are working more hours, only that they are doing work clients are willing to pay more for.

The size you need depends on your objectives. We all know that in business, unlike law firms, the unit price reduces as production increases. Only a decade ago, our data shows that economies of scale were irrelevant within legal services. Where two firms merged, both income and expenditure increased equally - even within a larger entity the distributable profit remained the same.

Data from our recent strategy projects in Spain and Portugal, however, tells a very different story. Firstly, small specialist firms, with their lower internal costs, can be highly profitable. But their challenges start with the law firm 'up-or-out' model, the need to offer young partners the chance of partnership - what Americans quaintly refer to as the Partnership Tournament.

That initial growth is expensive, therefore more business-like approaches are required with an investment in the professionals and infrastructure that implies (human resources, learning and development, knowledge management, technology and client development). Small law firms sailing into the 'mid-size trap' without clarity over their objectives are often surprised as profits fall.

But controlled growth can bring the scalability required and the 'tipping point' where economies of scale lift profits again. Small and large firms can be very profitable, the risk is drifting into the danger zone.

At which point do you reach the tipping point - 50, 100 or a 1,000 lawyers? This depends on your specific objectives and the size and type of law firm you need to achieve that.

In strategy work, our starting point is to interview partners confidentially. Our aim is to understand their personal motivation for being in the firm, their life aspirations in terms of the type of work and clients they wish to pursue and the income they require.

Clarity over "what good looks like" for partners lets us build the shared ambition for the firm. The next stages are simpler: aligning that ambition to the opportunities you wish to pursue then shaping your focus towards the services, client types, industry focus and geographical footprint that will make it happen.

Shared ambition

Sometimes "shared ambition" is clear and understood. Many Portuguese and Spanish firms, however, function as a group of sole practitioners. Working as a group of sole practitioners - each doing their own thing - is by no means a failure. But growth without a common set of objectives, and the collaboration across practice areas and offices that requires, again enhances the "mid-size squeeze".

Clients are buying services in new ways and our research shows the Iberian legal market continues to segment and polarise around "higher cost" or "lower cost" work. Those firms with neither the elite reputation needed for the former, nor the business systems required to manage the "low cost" work profitably (and it can be very profitable) are stuck in the middle. In the next year we will see a further wave of law firm mergers as firms seek their personal "tipping point" - while others (particularly in Portugal) find economies through a strategic partnership with a foreign firm.

But Spain is unusual in that size can support brand. The largest firms attract higher cost work, although it is a smaller part of their overall work. Some are placing their lowest cost work into new entities - with the technology and process management skills needed to do it profitably. Deciding whether size or profit is your objective is simple, start by agreeing "what" you want to achieve before looking at "how" you plan to do that. The answer is more straightforward for a business than a law firm according to Moray McLaren at Lexington Consultants