

Focus INTERNATIONAL TRADE

Networks competing with big firms internationally



William Northcote

Since the first law firm network was created in 1989, over 150 law firm networks have been formed and are in active operation.

Some large law firms have become “national” and “international” by opening branches in other domestic and foreign jurisdictions and practising not just the law of their “home” jurisdiction but local law as well.

As law firms strive to fulfil client needs and compete they need to consider whether to become international or to become a member in a network. Are the networks and the international law firms competitors of each other or do they serve separate, distinct markets and clientele?

The 18 largest law firm networks generally each comprise more than 7,000 lawyers and have members practising in on average about 80 to 100 separate jurisdictions. In contrast, the largest law firm (by number of lawyers) is Dentons, which reportedly has about 7,000 lawyers in 52 jurisdictions.

Adam Cooke, the executive director of Multilaw, one of the largest networks, points out:

“Generally large international law firms seem to have extreme difficulty in expanding beyond about 50 jurisdictions. Law firm networks don’t have that problem



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because they are more nimble and can recognize that some jurisdictions, particularly newly industrializing countries, are importers of legal works while some, particularly the United States and the EU, are exporters of legal requirements. In a network both functions are highly valued.”

The rise of formal law firm networks mirrored the growth of international trade (and the

resulting increase in international litigation) which first occurred in large business entities but which increasingly is an integral part of the businesses of small and medium sized enterprises.

These same forces have driven the diversification of large international law firms as they opened offices in new jurisdictions to meet client requirements.

Of course the two are quite different. Law firm networks are generally non-exclusive, informal, relatively inexpensive to participate in and have a modest number of staff and overhead. Within these networks there is considerable diversity in size, geographic scope, membership fees and non-legal resources available to members.

In contrast, large international law firms are exclusive and have significant overhead but can deliver a worldwide brand and a more

closely integrated billing process.

For many clients, particularly small and medium sized enterprises, law firm networks have more affordable legal fees and generally more ready access to senior lawyers. International law firms have the advantage of larger marketing budgets used to build brand awareness and pitch the largest of cross-border transactions.

While it is tempting to say that small and medium size enterprises gravitate to networks while large multinational corporations are serviced by international law firms, it is not so simple. Often the two compete for the same business.

Indeed, Dentons seems to have recognized the shortcomings of its business model when it announced in May the formation of Nextlaw Global Referral Network that it touts as a new form of network, one without membership fees or territorial exclusivity. Its stated goal is to recruit, vet and admit a large number of law firms as members in the next few months, clearly a very ambitious and costly goal, particularly when no application or membership fee is charged. The attraction to applicants is obvious—the possibility of referrals with no cost.

Hope Krebs, Multilaw’s chair, believes that: “...this is a way for Dentons to expand its relationships with law firms in other jurisdictions. It is implicitly an acknowledgement that their growth within a single law firm structure can be difficult and not sustainable. For example the conflicts of interest that arise in a single large law firm are frequently insurmountable.”

Michael Siebold, the chair of Interlaw, another large law firm

network, disputes Dentons’ focus on the negative effects of territorial exclusivity: “Our member firms are sometimes part of other referral networks—my own firm being a case in point—firstly because they are completely independent, and secondly because Interlaw is so much more than a referral network...Finally, paying membership dues covering the cost of a very lean management appears to be normal procedure, and even fully integrated international firms need to make contributions for marketing, business development, etc., and I believe Dentons follows the same model.”

The most recent trend in law firm networks is a focus on internal quality assurance programs, in part, in response to the brand equity enjoyed by the large multi-jurisdictional law firms.

In essence, law firm networks can flourish by providing international legal services in a cost-efficient manner to small and medium sized enterprises through reduced overhead and simpler structures, while international law firms can provide a more integrated offering (including invoices covering multiple jurisdictions) but at a greater cost due to higher hourly rates and more overhead which is less significant in only the largest international transactions and “bet the company” international litigation. Between these two extremes the two compete.

William Northcote is the head of Shibley Righton’s business law group. A significant portion of his practice is focused on cross-border private M & A transactions.