



The Law Society

**2009 and the challenges ahead: leading law firms
through the global downturn**

Speech by David Morley, Senior Partner at Allen & Overy LLP

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supporting
solicitors

Partners often say to me 'which do you want David, short term profits or investment in the future?' Of course, it's a false dilemma, because the answer is both. They are mutually interdependent.

All businesses, and I don't believe law firms are different from any other business in this regard, face the constant twin challenge of balancing the need to deliver results - in the short term - jam today - against the need to invest in your ability to sustain those results in the future - jam tomorrow.

However, the question is brought into particularly sharp relief in a downturn, especially one likely to be as deep and prolonged as this one appears to be, when it becomes hard to focus on anything beyond survival. Joseph Schumpeter, the economist who coined the phrase 'creative destruction', once said that being in business in a capitalist system, by its very nature, feels like the ground is constantly crumbling beneath you. Now the crumbling feels like a landslide.

To understand how to respond to the many urgent challenges presented in these difficult times it's never been more important to keep a sense of perspective and a sense of your true value as a business. It's instructive, for example, to consider, as I did recently, the period of a partner's career span to see how some things don't change and others have changed beyond all recognition.

I gave a retirement speech for a partner recently who joined the firm in 1970.

Things which didn't change

1970

Now

Gadaffi took power in Libya

Still there

US coming to end of a foreign war

Ditto

Arabs blowing up Israelis and Israel
conducting air strikes on Arabs

Same (except Gaza, not Cairo)

Things which did change

1970

Now

World population: 3.63bn

6.7bn

World GDP: \$12.5trillion

\$54.6trillion

Five white men beat a one armed black Mississippi share-cropper to death: five whites arrested, all charges dismissed

First African American becomes President

One thing that hasn't changed about A&O

1970

Now

Senior partner's name is Morley

Same

(Sir Godfrey, no relation)

Things that changed at A&O

1970

Now

Revenues £1.2m all UK

£1bn 50% UK

18 partners

500

30 lawyers

3,000

So, unless you believe civilisation itself is coming to an end - a possible but perhaps we can all agree unlikely outcome - this crisis will eventually pass and come to be seen, in the broad sweep of history, as a blip in the economic progression of mankind.

Against that background we developed some propositions we could use as a sort of compass to find True North. A guide for decision making to enable us to keep going, hopefully, broadly in the right direction.

Proposition 1

Globalisation is irreversible

Unless, again, you believe civilisation is about to end, it seems to me this is the most likely outcome. It's possible, of course, to picture a scenario where globalisation unravels. I consider this a real and present danger not just to the businesses and institutions represented here but - I don't think it's overdramatic to say - to the long term security and prosperity of the world. You can see how a double headed monster of financial and trade protectionism could rise up from the angry reaction of the popular vote no matter how well meaning and far sighted our politicians and regulators.

Part of our responsibility, the profession and the institutions represented here today, as opinion formers is to speak up in favour of global co-operation. It's not a forgone conclusion. For example, after spending the last three months in New York I can tell you that senior figures do not see global co-operation as an unalloyed 'good thing'. Some see it as a bit like the UN. Ineffectual and weakens their ability to take unilateral action.

Proposition 2

Demand for high end legal services will grow

Not necessarily in the same places or the same services as in the past – think Silicon Valley as against the rust belt – but as the world grows ever more complex it will need smart lawyers to figure out how to manage that complexity.

Proposition 3

Technology will be a catalyst for change

Unlikely to completely disrupt the legal industry – so not the End of Lawyers to answer the question posed by Richard Susskind in his recent book – but over time driving real change in the way we think and work. One example: Facebook. The next generation will live and work on-line in a way almost unimaginable to people of our generation. There will be a premium on collaboration and firms with a collaborative culture will struggle to attract the best people and clients.

Proposition 4

Regulation will increase

There is a tidal wave of regulation coming towards our financial services clients which is inevitable but which threatens long lasting damage to the City and the economy if too heavy handed. No-one could credibly argue for less regulation but it

is possible and, I would argue, one of our duties to society as lawyers, to speak up for better, proportionate, intelligent regulation by regulators who understand the businesses they are regulating.

The same principles apply to our industry. Firms like my own operate in a web of overlapping regimes e.g. our lawyers are subject to over 50 different sets of conflict rules around the world. That is why I applaud the Society's current review of our regulatory regime as it applies to larger city firms because 'One size fits all' is no longer sufficient given the enormous diversity of firms regulated by the SRA. Not because I favour light touch regulation but because we need high quality regulation by regulators who understand our business if the UK is to be able to continue its incredible success in leading international legal business. 4 of the 6 largest and most international law firms in the world originate from these shores which is amazing when you consider the UK legal market is less than a tenth of the US market.

Proposition 5

The competition for top talent will not slacken

I do not agree with the comment reported in the FT a couple of weeks ago that the war for talent is over. For the very best people it is merely entering a new phase. And there is the enduring challenge of 24/7 availability for clients v. lifestyle for staff.

Proposition 6

New competitors will emerge

Outsourcing, introduction of external capital, in-house departments, non-western competitors – these are just some of the interlopers who will want to eat our lunch. We can expect to see tougher, more determined competition in the next 20 years than the last.

Proposition 7

There will be remorseless pressure on pricing/efficiency. The golden age of annual rate increases is almost certainly over. Clients expect more for less and law firms, like any other business, need to innovate and change working practices to find ways to deliver more value at less cost to the law firm.

So what does all this mean for law firms? A few suggestions:

- clarify the business model – this is a time to focus on what you are really good at – unless the model is niche/local
- need for scale

- develop a market identity – branding will separate winners from losers in a cut throat competitive market
- enable flexible resourcing
- select client relationships
- invest in technology
- build a collaborative, integrated culture
- grow a leadership cadre
- distinguish values and culture, which should be constant, from structures and governance which should change.

Finally, I should add that I believe that law firms which are run as a business, which adapt to the market and which invest in their people will continue to thrive, come rain or sun. I remain optimistic about the ability of well run law firms to find their place in whatever new order emerges from the current economic train crash.