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## OLD GAME, NEW RULES

By Sean Connolly

In the second half of 2008, as we all know, the global financial system suffered the largest meltdown in recent memory with unprecedented consequences for some major financial institutions and the global business community. The ensuing economic crisis shook global capitalism to its core. In the legal services community, the crash challenged many preconceived ideas about how international law firms do business around the globe and how they view themselves and their future development.

The climate provided the most severe practical test of the traditional SWOT analysis carried out by generations of law firm managers. Alleged strengths of firms were fundamentally tested, weaknesses that had been obscured by buoyant marketplaces were ruthlessly revealed; on the other hand opportunities emerged to reposition law firms in their traditional marketplaces as highly qualified talent became available, but most crucially clients gravitated to those advisers who best understood them and the issues that they faced and who are focussed on delivering value as well as expertise. The threats were and are too real, survival of law firms was and is not a given and financial pressures became and remain acute.

To succeed in this global climate with so many complex cross-border issues, firms need to have deep technical capability and understanding of their clients' needs as well as

the critical mass across Europe, US, Asia and the emerging marketplaces.

The impact on the world economy and therefore the legal services market whilst severe was not uniform. Asia has emerged first from the global economic crisis and the economic performances of countries such as Brazil has continued to make progress when measured against the rest of the world. In the legal services marketplace some business communities have been harder hit than others but the US remains responsible for more than 60% of all global law firm revenues and of that almost two-thirds is generated in the contentious services area.

International law firms who have strength across both transactional and litigation practices and a diverse geographical reach have been able to protect themselves against the full force of the recession.

It is our clients that dictate what is important and where we build our critical mass around the world and for us, China, India and Brazil and increasingly Africa have been a major focus. For example, our clients tell us that inbound and outbound investment to and from China is an ever more important priority. We have launched a number of initiatives as part of our China Focus Group to help clients make the most of China investment opportunities. We are able to leverage our considerable expertise both on the ground in China and elsewhere in our global network to



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help clients expand their business into Asia and secure other strategic Chinese business opportunities for those already operating in Asia.

Whilst the London legal services community was particularly hard hit, the City remains one of the top two key financial centres in the world. What role does London play as part of an international law firm? As well as a vibrant business marketplace in its own right, throughout history London has offered a unique trade gateway for the rest of the world and I believe that role will continue. Coupled with a deep pool of high quality people who can handle the most sophisticated business transactions, I think London should be taking the role of facilitator head on, linking and developing global client relationships and leveraging off the significant capital flow through and within the City of London.

All firms are built upon the strength of their people and their relationships with their clients. We have loyal, committed and hard working staff and low employee turnover. The economic reality forced businesses to review their strategy, objectives and marketplace. Businesses had to make a number of painful decisions and put themselves in position to adapt and grow with the changing marketplace. On the positive side, the climate has enabled firms to attract top quality lawyers who are attracted to global law firms by the combination of financial stability and the increasing importance of a credible global platform. A recent example for us was the strengthening of our Finance practice in London with seven new structured finance and derivatives hires over the last six months.

Despite the painful events we have all been through, some good may still emerge from this situation. If we see a move away from the internal navel gazing and the over reliance on PEP by some as the over arching barometer of the economic health of a law firm, that would be a good thing. Now the true barometer is

rightly, in my view, not only an informed scrutiny of the management and structure of the firm but also the strength and depth of the firm's relationships with its clients. Short term historic financial metrics during this period may well produce false readings but the firms that will thrive will be those that make considerable investment in deepening client relations and have a focus on understanding their clients' business needs as well as being prepared to share risk with them during these difficult economic times. These firms will emerge stronger and more resilient from this period and will benefit most from the economic recovery. It is neither rocket science nor new thinking – in a professional services environment it has always been the bedrock of a successful and sustainable business.