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ADRIAN TEMBEL, THOMSON GEER

Informed clients drive a

Despite a hyper-competitive marketplace, the consensus among leaders of the legal profession is that the prospects for private law firms and their lawyers have never been better — if they listen to their clients.

This assessment is the result of *The Australian's* inaugural roundtable discussion with managing partners of leading corporate law firms.

The participants were Wayne Spanner from Norton Rose Fulbright, Adrian Tembel from Thomson Geer, John Denton from Corrs Chambers Westgarth and Sharon Cook from King & Wood Mallesons.

Their views on the market for legal services, outlined in these pages, mark the conclusion of *The Australian's* Legal Week — five days of special reports, videos and the publication today of *The Australian Legal Review* — a special 32-page colour magazine devoted to corporate law.

What follows is an edited transcript. An extended video of the discussion appears online, along with four other videos in which the managing partners focus on key areas of corporate law: media law, technology and innovation, commercial property and legal education.

The discussion was co-ordinated by legal affairs editor **CHRIS MERRITT** and began when Sharon Cook, her firm's managing partner (clients), was asked to outline her views on the future of the profession.

COOK: Well I think it's a very different future to what we've seen in the past. I think we've got a totally new structure that's emerging as a result of the extreme competition that the corporate world market is facing at the moment.

So the way the profession looks today is very different to the way it looked when I started practising 30 years ago and I expect that change to continue, probably at a greater pace.

MERRITT: Is this good for clients?

COOK: Well, this is a client-driven market. It is excellent for clients. Now is the best time to be a client seeking legal services.

They're much more sophisticated in the way they organise themselves and the way they seek out their legal services and they're getting great deals from law firms because there is so much competition.

MERRITT: What's it mean for law firms?

SPANNER: Well I think there's a significant structural change occurring in law firms today largely driven by client demand and the additional competitive things that are coming on the market at the moment which you can't ignore: the technological change that's occurring in terms of the provision of services and how that will be delivered.

You only have to look at some of the things that are coming out of Silicon Valley around artificial intelligence and the like and how that's going to impact the way we deliver our services.

As Sharon says it is a client market. Clients are driving the needs, we need to be able to deliver those services and we need to be as efficient as we possibly can.

MERRITT: How do we compare globally? Are we over-egging this? Is the level of competition here nothing compared to the rest of the world?

SPANNER: From my experience I think the competition in Australia has always been significant as a result of which it has delivered really good professionals out of the Australian market and we see people going into Asia, we see people going into the US, we see people going into Europe as well, London particularly, and even across to Africa in our business.

So we are seeing that move, and that's driven as a result of how good Australian lawyers actually are. But around the world we are seeing the competitive forces



come into play everywhere.

TEMBEL: The only point I'll add to Wayne's comments are that I think the US markets and the UK markets had more challenges post 2008 than maybe the Australian economy and so my only comment is that the Australian law firms are perhaps entering a more mature competitive environment perhaps a little later than those that didn't have the benefit of a commodities boom.

MERRITT: Where does this leave a purely domestic firm like Corrs?

DENTON: Well we wouldn't describe ourselves as such. I mean we would be generally understood now in a global context as the most globally connected law firm based in Australia because of the way we look at the world.

We're not going to be defined by consultants about what the structure should be, we'll make our own decisions.

What clients are looking for in this stage of globalisation are firms that are able to deliver not just client-driven services, but actually understanding from a client's point of view what kind of global reach they need.

So my job is to ensure that one of the key values in delivering that is that we are as connected as possible and involved in the right conversations. And that talks to us about building international capability of the firm on a continual basis.

We have up to 40 lawyers on a continual basis doing secondments overseas. So if you think about it in four or five years we're ending up with 250 lawyers with deep international capability, that's almost half our workforce.

We're changing our platform on a continual basis. We are hooked in with global reach. We're completely connected.

So we bring a different approach in terms of meeting the global needs of our clients. It's a perfectly valid one for this stage of globalisation as well, which is all about behind-the-border reforms. It's actually not about market access anymore.



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WAYNE SPANNER
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“We are now under the spotlight, we are accountable. Now, that's been happening for a significant period of time, but it still has a long way to run. There are still many lawyers in law firms who don't appreciate the accountability of outcomes, the accountability on cost and also the accountability on day-to-day decision making.”

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MANAGING PARTNER
THOMSON GEER

So it's very different. In fact I worry that a number of organisations have built strategies based on an anachronistic knowledge or thinking around the way in which the global world is actually operating these days. Ours is much more relevant.

MERRITT: It seems that there's a multiplicity of responses from law firms to the state of the market. Is there any one correct business model?

TEMBEL: There can't be because everyone around this table operates in slightly or maybe quite materially different markets.

To describe the Australian corporate law market as a single market that we all participate in is understandable but superficial.

We have a significant domestic footprint, 90 per cent plus of our client interactions are in relation to domestic activities. So it's important to have allies and connectivity in the way John describes but it's not necessarily super relevant for our customer base.

I suspect for the others in the room perhaps the percentage spend on the cross-border work and domestic is different and it's far more relevant. So it's all dependent on market and priorities as well.

SPANNER: And I do think firms will react and respond in different ways.

From our perspective it was important for us to be able to follow our clients into relevant jurisdic-

tions as to where they were going, focused around key industry sectors.

For us it was important to be able to follow where the funds are flowing and where the capital markets were.

So our growth and we have all — let's sort of admit it, we're all looking for growth. We're looking for where the growth is going to come from.

'You've seen a dramatic shift of just raw power from the northern hemisphere to the southern hemisphere'

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CORRS CHAMBERS WESTGARTH

We see growth coming from the cross-border work, the international developments and emerging markets and that's what has been important in terms of our philosophy, our strategy and that is what we have gone on to execute over the past six years.

MERRITT: Power has clearly shifted in the marketplace. We now have the big consumers right in the driver's seat. What's that like? That must be completely different.

DENTON: Power has shifted in so many ways post global financial crisis. You've seen a dramatic shift of just raw power from the northern hemisphere to the southern hemisphere.

The whole idea of the emergence of Asia and the Asian sector as a critical driver of the global economy, that's a fundamental shift.

In all sectors you have actually seen a shift in power from the producer to the client. You know that through the way in which the digital age operates.

And so the power is shifting, and also power is shifting in terms

they are called chief external affairs officers because they are being asked to help their companies see around corners.

Our job, if we are truly client driven, is to be able to participate with authority and bring insight into those kind of conversations.

The big question that needs to be sort of, in a way worried about, is what is going to be the consequence of the Xi Jinping regime in China?

What does it mean for global or economic growth because China is now fundamental to global economic growth and there are different pathways that may emerge as a consequence of choices that have been made there.

We don't talk about that, in fact a lot of lawyers don't, but if you are truly client driven you should actually be thinking about these sorts of issues because clients are worried about these sorts of issues and it's shaping their future, so we want to be part of that.

SPANNER: I think we see it in particularly with cross-border activity and litigation and the like. The biggest concern for clients at the moment, largely driving their needs, is around global risk.

That is what's key to them and how do law firms respond to delivery of the global risk services which I think law firms in the past have siloed themselves in a particular way which makes it harder to do that.

I think in many cases you have

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globally connected market



JAMES CROUCHER

Wayne Spanner from Norton Rose Fulbright, Adrian Tembel from Thomson Geer, *The Australian's* Chris Merritt, John Denton from Corrs Chambers Westgarth and Sharon Cook from King & Wood Mallesons

found law firms not thinking broadly enough to be able to deliver risk-devoted solutions.

DENTON: Yes and understanding risk and not avoiding it but how you then grapple with it to create a better future.

SPANNER: Absolutely — risk is influencing the future.

DENTON: There's a very important discussion taking place next weekend about the future of the global trading system in Geneva. So I'm participating in that, there's about 20 of us.

The reason that's so relevant is that — and this is not about whether multilateralism is good or not — is that one of the principal underpinnings of the continuing effectiveness of trading relations is the dispute resolution procedure in the World Trade Organisation.

The fact that it's actually very well regarded, and even if you look at bilateral trade agreements, they basically refer you up to the WTO because it has authority and integrity and actually works well.

The problem now is there's actually an inability to actually meet the capacity, to actually deliver results quickly in these disputes.

So it's starting to undermine the key element of the WTO which is only 20 years old which has actually enabled the global economy to continue to not so much chug along, but to continue to co-operate at some level. So there are some big risks out there and they are actual legal risks.

MERRITT: It sounds like a very dynamic sector, very dynamic industry yet the adjustment that the legal profession has gone through, do you think there are lessons here for other industries that are grappling with how to adjust to changing voices in the world economy?

SPANNER: I think we're learning from many other industries that have gone before us and I do wonder whether we sit in our Kodak moment, but we are certainly adjusting and I think law has been slow to come at it.

COOK: I think that's absolutely right. I think that the accounting firms got there before we did and to a certain extent accounting firms are eating our lunch at the moment.

They're in there with management consultancy, they realised a long time ago that accounting was not just about auditing but it was about a much broader relationship with the client.

And, you know, I agree entirely with John that the nature of lawyers — and we should say, this is not all law firms.

The fact is that some law firms are managing this a whole lot better than others.

Some are continuing to provide legal services in the traditional way — they're giving their tax advice and their litigation advice and they're not looking at the broader needs of the client and the new kind of relationship that the fabu-



The Australian Legal Review, a 32-page colour magazine, is free with today's edition of *The Australian*. It focuses on the growing power of the big corporate consumers of legal services, the strategic changes at leading law firms and the push to reform corporate law.

lous general counsel of our clients are looking for. So I don't think you can generalise about the market.

The people who are doing it the best though are the ones who are taking a much more holistic approach to what the client wants and needs and are providing it in a holistic way.

In doing that we're following the accounting firms because they have done that really well a long time before us and I think that we have lots to learn from them.

TEMBEL: I agree.

COOK: ... particularly in the way that they manage their client relationships.

DENTON: Yes.

TEMBEL: And Sharon, I totally agree with you, we also have a lot to learn from the management consultants...

COOK: Especially how to bill.

TEMBEL: Well, no, but perhaps still the value proposition.

COOK: Absolutely.

TEMBEL: I think for too long our profession has been able to coast on a perception of need and a perception of authority and a degree of prestige. Now we have a far, far more educated buyer.

The reason buyers have power, there's a number of reasons, demand and supply and all of those points but equally the in-house

lawyers, they know a lot more about what the law firm model is and what the value proposition is.

So we are now under the spotlight, we are accountable. Now, that's been happening for a significant period of time, but it still has a long way to run.

I think there are still many lawyers in law firms who don't appreciate the accountability of outcomes, the accountability on cost and also the accountability on day-to-day decision making.

So the need for lawyers to improve quality is obvious but the need for lawyers to improve their ability to justify their position, it's not an automatic right now to be retained, it's a discretionary decision. Do we brief it in? Do we take it out? It is a pressure point and the management consultants could teach us a great deal.

DENTON: There's a challenge there that helps us think about operational efficiency and look, frankly, that's like — that's almost the day-to-day stuff.

Just, you know, ensuring that in a tough market you are able to be as relevant as possible to your client and therefore deliver services and be accountable and actually then have a sensible and — and strong P&L.

I think what Wayne was touching on is actually quite profound because the really big issue here is we are all incumbents in a market that is being disrupted.

There is a lot to learn from mar-

kets that have been disrupted and incumbents — because there's quite a lesson for an incumbent.

An incumbent makes the mistake generally of saying that the actual disrupters are too small to actually make a difference at this point in time but doesn't have the acuity to look forward and say, which of these trends is actually going to completely combobulate our value proposition.

The challenge then is why would you take the risk? You've got to preserve your core business at all times.

The braver firms, the ones from the experience of already disrupted markets are those who actually are prepared to disrupt themselves.

They do not say, well, we don't want to cannibalise our existing revenue flows so we'll just manage this and dabble with the pioneering stuff or innovation on the side.

You actually have to make it the heart and soul of your business and you actually have to sometimes be bold enough to break that which is not broken. That's the market.

You think about the brilliance of the Philips guys getting out of Polygram and actually selling it to Seagram for like \$8 billion because they saw from their other technology, that people were starting to use that technology for file sharing and they thought this is the end of that and they sold out 10 years before anyone else.

Now, if only we could all be that brilliant. You can, as an incumbent, confront disruption and win but you have to change your mindset and go back and understand what is the value created, not now, but what is the value you will create in the future and how do you get there even if it means breaking things in your existing firm which people say are running well right now.

MERRITT: Do you think law firms and accounting firms are going to meet in the middle? That as accountants put on legal services and other service lines, law firms will do the same.

DENTON: Mate, I hope so and I hope that more and more of my competitors merge with accounting firms. (Laughs). I think that's a wonderful thing.

I like the clarity of the distinctiveness and the exceptionalism we bring. Now that all works for us but not everyone wants to work in a firm like that because you actually have to want to be different.

That's not easy for lawyers because most lawyers want to be the same and that's a precedent and because everyone went to the same school, everyone's comfortable in their own social milieu.

I want to destroy hierarchy, I actually want to be exceptional in what we do. That's the Corrs story. So I want you to merge — I want all you guys to merge!

COOK: (Laughs) Well we're not. Not likely to happen!

Scaling up for the future

After generating massive profit growth for its partners, law firm Thomson Geer is pondering a strategic shift that some might find baffling: incorporation and listing.

Those who have witnessed the astonishing rise and fall of Slater & Gordon – the world’s first listed legal practice – might be shocked that a firm like Thomsons is even considering such a move.

Slater & Gordon is struggling after posting a \$958.3 million loss for the six months ending December. Thomson Geer is booming.

For the past seven years, annual revenue growth at Thomsons has averaged 27 per cent, rising from \$47 million in 2009 to a forecast \$136m this financial year. Equity partners have done very nicely.

Like most firms, Thomsons distributes its profit according to the number of equity “points” held by individual partners.

Profit per equity point at this firm has grown by 313 per cent over that seven-year period.

So why rock the boat?

The answer, according to chief executive Adrian Tembel, is all about the future. He believes traditional law firm partnerships will be making a huge mistake if they think strong demand for corporate legal services will continue to underwrite their old business models.

Demand, he says, is being satisfied not just by traditional law firm partnerships but by large consulting firms, “new law” corporations and growing in-house legal departments.

“These new competitors are fast, big and well funded. They are growing and

ambitious and are our biggest threat,” he says.

Thomsons believes the best way of responding is by “scaling up” and expanding into “adjacent” business lines such as intellectual property, investigations, audit and compliance.

While a final decision has not been taken, Tembel is interested in incorporation and listing because he believes it would provide a superior platform for the execution of the firm’s strategy.

“The ability to unite our people with transparency, capital and best practice systems with the common cause of creating a scaled-up, modern professional services firm – with legal skills at its core – has a certain appeal.”

He believes the problems at Slater & Gordon say more about the business model of plaintiff law firms than about incorporation and listing.

“It’s their market,” says Tembel. “It’s a no-win no-fee market that gives rise to certain cash pressures and therefore debt accumulation and the market now understands that fully and is valuing it accordingly.”

Tembel believes the problems at Slaters have been a setback for listed plaintiff firms. “But we don’t think it applies to other law firm services such as corporate, commercial, insurance and real estate.”

The firm has been considering incorporation and listing for more than a year and expects to make a decision by early next year.

CHRIS MERRITT

