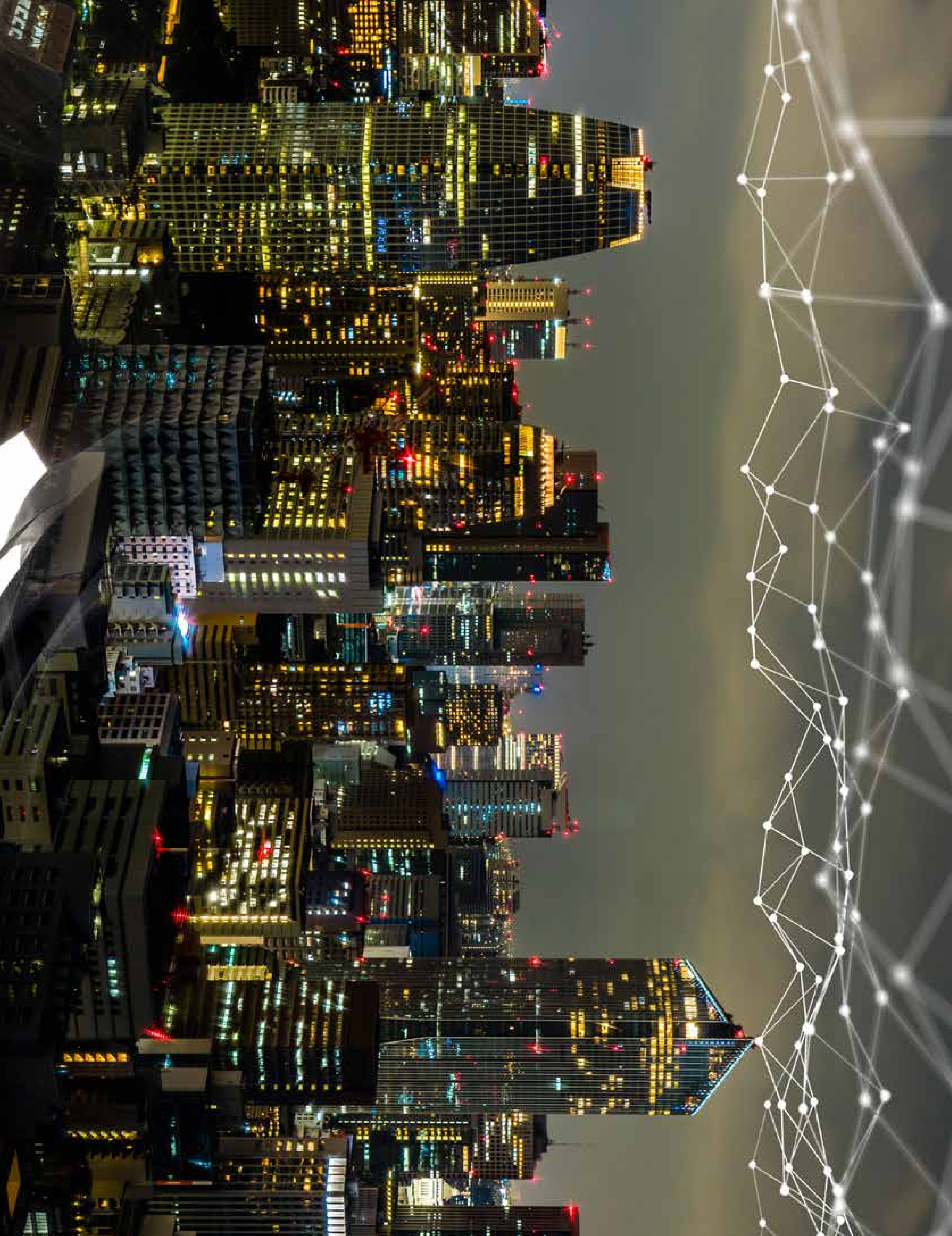
Law Firm Networks Compete with the Biggest Players

Legal networks allow independent firms to act as a unified group for better client service.

By Larry Bodine



Lawyer Sasha Stepanova was working just hours before Christmas to close a deal for a corporate client when a situation arose where she urgently needed a Dutch lawyer to review a new document. There was no time to spare. As a member of the World Services Group (WSG) law firm network, she called WSG member Johan Boeren directly in the Netherlands.

"As luck would have it, he was also in the middle of closing his own deal—but with incredible grace, professionalism and that WSG willingness to go the extra mile, he went out of his way to provide us with the Dutch law support that we needed on that snowy night," she says. "He saved the situation and ensured that our clients and ourselves indeed had a Christmas!"

The anecdote perfectly captures one reason that law firms join one of the 170 law firm networks now in operation worldwide: the ability to get a quick answer to a legal question involving a jurisdiction where your firm has no attorneys of its own.

Law firm networks have been growing steadily since 1980 when the first network, the American Law Firm Association (now ALFA International), was formed. Today, the 20 largest legal networks comprise 250,000 attorneys in every country on earth, as compared with the 55,000 lawyers who compose the 20 largest law firms.

The Most Important Reason to Join

Law firms join legal networks for many reasons: to give and receive legal advice, get and deliver CLE courses, meet colleagues from other jurisdictions, share valuable market intelligence, become part of a larger brand, compete effectively with large international law firms, represent current clients better, get on the radar of new corporate clients, find a competent law firm to send a referral and, most importantly, to get referrals from other law firms.

Being part of a network allows members to create a joint venture team or collaborate in the representation of large, complex international transactions. For example, the Canadian law firm Lavery Lawyers teamed up with Dallas law firm Haynes and Boone LLP to represent the Canadian company Demilec Inc., which makes spray polyurethane foam insulation, in the sale of Demilec's assets to Sun Capital Partners, an investment fund based in Florida. Both law firms belong to WSG, a network with 19,000 attorneys in 140 jurisdictions.

The upside of a network is that it does the vetting of member law firms. Meritas, which is invitation-only, conducts client and member evaluations, generated for every referral, to determine a firm's Satisfaction Index Score.

Or take the case of Krieg DeVault LLP of Indianapolis, a Meritas law firm network member. It represented a U.S. company in the formation of a Canadian real estate investment company that raised $121 million in an initial public offering on the Toronto Stock Exchange. Meritas has 7,000 lawyers in 90 countries. In another example, Faegre Baker Daniels worked with 15 other Lex Mundi member attorneys around the world to assist Compassion International, a global charity organization, with compliance issues in 26 countries. Lex Mundi has 21,000 lawyers in more than 100 countries.

Two Trends That Changed Everything

Law firm networks are selective membership organizations composed of independent law firms. They differ from bar associations, which are generally open to all qualified attorneys in a local, regional or national area. A network does not practice law and is not a partnership of law firms. The network itself does not make referrals.

However, each network is structured uniquely, whether it is a club or an advanced organization with a management structure. The members can pursue their own interests under an umbrella, and that can include referrals, publishing articles for clients, exchanging financial information in a noncompetitive environment, pro bono activities and more.

Law firm networks grew in response to two trends. The first is the globalization of business. In 2000 the global export trade volume—the exchange of capital, goods and services between different countries—was $6.45 trillion. By 2016 it had grown to approximately $15.96 trillion, according to Statista

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and the United Nations Conference on Trade and Development.

Law firms found they had to respond to clients with customers and suppliers overseas. Chicago's Boeing, for example, co-owns a manufacturing plant in China. Soybean farmers in South Dakota have buyers in Mexico, Japan and Indonesia. Fishermen in Maine sell their lobster to buyers in Canada, Germany and China. Finding lawyers in foreign countries who speak English is just the first hurdle for U.S. lawyers.

The second trend is the rise of international ColossalLaw firms. These firms, like DLA Piper, which has 3,600 lawyers in more than 80 locations, have offices in every economic center. Today it generates $2.63 billion in revenue according to ALM Intelligence. Sidley Austin, which had 750 attorneys in the 1990s, now has 1,870 attorneys in 21 offices and generates $2 billion in revenue per year.

Compare these data points with the No. 250 law firm (von Briesen & Roper, S.C.) at the midpoint on the National Law Journal 500 ranking of law firms: It has 157 lawyers in 11 offices—all in the U.S. The advent of ColossalLaw firms left medium-size firms like this with an existential dilemma. To serve existing clients with global needs, the medium firms could:

- Scramble to develop a relationship with a foreign law firm that offers cost-effective, best-in-class service and that agrees not to poach the client.
- Start opening offices in global business centers like London, Hong Kong and Zurich or "follow the money" with new offices where the client is doing business. Since 2001 the 250 largest U.S. law firms by attorney headcount have done just that—adding more than 1,400 new offices worldwide, according to ALM Intelligence. This is a very expensive and risky approach to serving existing clients.
- Merge with an overseas firm or a domestic firm that already has offices in economic centers. Since 2000 an average of 60 law firms per year have done that. However, ALM research reports that 50 percent of law firms that merged were smaller in revenue afterward and 68 percent lost partners in the process.
- Tell the client that the firm can't be of service, and kiss that client goodbye.
- Join an international law firm network like Lex Mundi, TerraLex or WSG, whose member firms cumulatively represent virtually all of the Fortune 500 companies.

The upside of a network is that it does the vetting of member law firms. Meritas, which is invitation-only, conducts client and member evaluations, generated for every referral, to determine a firm's Satisfaction Index Score. Firms falling below its standards are asked to resign. Interlaw member firms are peer-reviewed annually, and each firm participates in routine reviews as part of the ongoing quality assurance program. Interlaw firms must give referred matters a firm's "Best Client" status.

All About the Referrals

Stephen J. McGarry, the founder of Lex Mundi and Hieros Gamos, identifies four types of inbound and outbound referrals that network members make:

- **Type 1:** a client is referred directly to another member firm, and the responsibility for payment by the client is defined. The referring firm is not liable unless there is an agreement to the contrary.
- **Type 2:** a free advice request from a client to cement a long-term relationship with an existing client. Often the answer can be found in a private online database or network.
- **Type 3:** a team of attorneys in member firms working for one or more clients, coordinated by one member of the network. The team shares forms and documents. Once this model is developed, the team leader can contact other clients they know have businesses in different locations.
- **Type 4:** a full-scale collaborative effort that may include sharing offices, producing common marketing materials to attract a particular type of client, making joint presentations to common clients and exchanging professionals as secondments. At industry trade shows they may have a common booth. Type 4 referrals result from common interest and trust coupled with a financial interest.

Network membership can cost tens of thousands of dollars, and membership is often sold by saying, "Get one inbound referral, and it will repay your membership fee many times over." However, a commonly heard question among partners of law firms is, "Are we getting our money's worth out of the network?" The perception problem about the value of a network ordinarily stems from the fact that law firms appoint a single person to maintain the network relationship. This partner may inform the other partners, but that may leave half of the firm unaware of the network.

Networks have one distinct advantage—they can offer a better value because they don't have the expense of supporting the vast overhead and infrastructure of a ColossalLaw firm.

Another problem is that relatively few networks have detailed systems in place to track referrals, and they often focus on frequency rather than the bottom-line results.

In response, the networks are going out of their way to prove their value. "Our network as a global platform for our members has empowered us to secure mandates in over 60 countries for law firms that otherwise would not have been able to attract the likes of Caterpillar, Ingram Micro, DHL, Medtronic and more companies at the same level," said Orlando Casares, principal of First Law International. He adds that top-tier clients are impressed by the speed, professionalism and competitive rates of member firms, compared with ColossalLaw firms.

Business Development Training

Networks are also providing business development training to ensure their members get their money's worth. For example, Interlaw holds themed seminars on topics like Winning International Pitches or Legal Project Management. "We host a varied and engaging program of events throughout the year, with a focus on bringing member firms' clients to meet, develop business opportunities and network with Interlaw lawyers from around the world," said Michael Siebold, the chair of Interlaw.

For managing partners, Multilaw presents practice management webinars each year. For lawyers coming up through the ranks, Multilaw has an annual Multilaw Academy, an intensive six-day residential training program covering all aspects of being a cross-border lawyer that includes more than 35 hours of formal instruction and discussion, as well as many hours of informal interaction.

The Ius Laboris network presents a comprehensive program on project management, business skills and topical labor and employment legal issues for associates in its alliance. "We have always believed that the value of face-to-face training far outweighs the time and cost involved, as the learning experience is deeper, and the strength of relationships will stand us in good stead for the future," said Sam Everatt, executive director of Ius Laboris.

A Variety of Benefits

Attorneys in networks get plenty of opportunities to mingle with clients and potential clients' lawyers at network

GLOBAL NETWORK, NICOELNINO/ISTOCK / GETTY IMAGES PLUS/GETTY IMAGES speaking events, outings and receptions. For example, Lex Mundi joined with the Association of Corporate Counsel to present a series of symposia in New York, Paris and London focused on investing in Africa. Topics include assessing markets, opportunities and risks; identifying local partners; evaluating contractual issues; and navigating local and foreign compliance. The faculty includes senior in-house counsel from multinational corporations and senior investment bankers along with partners from Lex Mundi member firms who give on-the-ground advice.

London lawyer Paul Marmor gave another reason why his firm, Sherrards Solicitors, joined Alliott Group. "Ten years ago, we were looking at ourselves as a midmarket London law firm, what is probably the most saturated part of the legal services marketplace in the U.K. We wanted to differentiate ourselves and so we hit upon the idea of developing an international persona to provide us with a backstory to support our credibility and to provide the required differentiation. Getting involved in a law firm network has provided this—it has made us much more interesting and relevant to our client base," he said.

International law firms are becoming more like networks, and networks are becoming more like international law firms, but networks have one distinct advantage—they can offer a better value because they don't have the expense of supporting the vast overhead and infrastructure of a ColossalLaw firm.

Neil Sheehy, president of World Law Group, said, "Often, global law firms' offices are just an extension of their headquarters, and not deeply rooted in the local business scene in terms of expertise, size or local presence. The network model gives law firms access to the best local firms in any jurisdiction."

TerraLex conducted interviews, surveys and meetings with clients, who said they preferred networks over global law firms. "Clients and prospects say their preference is to work with leading, locally expert firms in place of global firms, citing better value on fees and better client service," said Harry Trueheart, chair of TerraLex.

Another benefit for member firms is that they are not competing for compensation credit, as is often the case when partners in a global law firm refer a matter to others. Furthermore, networks enable the sharing of best practices in marketing, business development, finance, pricing, technology and knowledge management.

Going Forward

The future looks bright for law firm networks as multinational clients look for branded, lower-cost alternatives to ColossalLaw firms. The networks put medium-size law firms on corporate radar screens and provide a vehicle for proven business closers. Member firms like that they can safely share valuable market intelligence and gain a "halo effect" of being in an entity larger than themselves.

As Tony Williams wrote in his article titled "Keeping Independent Firms Relevant in an Era of Globalization" in *Law Practice Today* (April 2014): "In an era of continuing globalization, firms face a stark choice. Engage with cross-border activity in the ways mentioned above or risk becoming an irrelevance to existing clients as they develop internationally or miss out on international clients entering your market. In these circumstances, standing still can be the most dangerous plan." **LP**

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