



Law Firm Networks: A Quiet Giant

Appeared on Bloomberg BNA on Sept. 14, 2015.



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Law firm networks are seldom mentioned in what has become a popular parlor game for legal pundits: speculating who — and what structure — will disrupt the global legal market. Why is this?

Law firm networks have quietly multiplied in number, size, geographical reach, and — to a lesser extent — brand recognition. Could highly selective, well-branded, and technologically integrated networks with well-funded centralized management become the preferred legal delivery structure in the coming years by offering more client-centric, efficient ways to procure legal services than mega-firms or the Big Four?

What are Legal Networks and How Prevalent Are They?

Legal networks began as law firm “clubs” and, by the 1980’s, evolved into organizations with admission criteria, territorial exclusivity, global reach, and brands. While member firms maintained their independence, they also co-branded themselves under the network banner. This channeled an already well-established practice of accounting firms seeking to provide an alternative to the global reach of the Big Four.

The size and global presence of legal networks has expanded significantly during the past 20 years. Today, there are now approximately 170 such networks comprised of hundreds of thousands of attorneys and several thousand member firms. And while Lex Mundi and World Services Group (WSG), the two largest, may not be household names, their geographic coverage and aggregate attorney numbers dwarf the likes of Dentons and Baker & McKenzie. Why, then, are networks not more visible and how are they different than mega-firms created by relentless acquisition?

Mega-Firms and The Big Four’s Branding Advantage

Branding has been a key differentiator between mega-firms, the Big Four, and global legal networks. Mega-firms and the Big Four — who have a quarter century head start on law firms — pour huge sums of

money into burnishing their unified global brand. Networks, on the other hand, seldom have the centralized funding to compete and, so, have failed to develop comparable brands. The branding distinction becomes even clearer when one considers that the similarities between networks and mega-firms outweigh the differences.

Network member firms maintain a “dual identity,” retaining their firm’s individual brand while simultaneously co-branding themselves under the network banner. From a visibility perspective, this has put them at a disadvantage in marketing themselves as alternatives to the Big Four (themselves vereins), and mega-firms. As well, network admission criteria are sometimes lax, creating the perception that networks lack the quality controls of *mega-firms* which typically engage in rigorous pre-acquisition due diligence.

Elon Musk notes that a brand “is just a perception, and perception will match reality over time. Sometimes it will be ahead, other times it will be behind.” Networks *are* behind the perception curve but could catch up with the reality of what they can offer, especially if they tighten up selection criteria, create funding for branding and technology, adopt a corporate structure that rewards efficiency, and provide clients with a viable alternative to the partnership model shared by mega-firms and the Big Four.

The Mega-Firm Approach to Globalization

As BigLaw has morphed from small groups of attorneys operating in a single location to global enterprises with thousands of professionals and staff, the notion of what it means to be a law firm has changed considerably. For firms vying to service multi-national clients around the globe, this has created a geographic arms race. And in the process of their metamorphosis into global behemoths, law firms have almost uniformly grown by acquisition — some at a dizzying pace.

These legal versions of roll-ups have two basic forms of economic structure: unified profit-sharing or, in the case of Swiss vereins, member firms retain their own balance sheets. In either case, the common denominators are a unified brand name and a partnership structure dedicated to maximizing profit-per-partner.

These “firms” bear little resemblance to the integrated, homogenous practices of yore. In fact, global law firms operate very much like the Big Four accounting firms who, decades ago, created global brands, wide geographic imprint, stunning size and revenues, Swiss verein structures, and inter-disciplinary practices. Is it any wonder, then, that the Big Four are already taking an increasingly large slice of the legal pie? Though regulatory and State Bar Rules currently prohibit them from “engaging in the practice of law” in the U.S., they nonetheless offer practice coverage indistinguishable from those of major law firms with whom they frequently vie for business.

Legal Networks and Mega-Firms: Some Similarities and Differences

Mega-firms have many similarities to legal networks: geographically disparate member firms, separate balance sheets, and integration challenges, both human and technological to cite but a few. The most salient differences are that network members — unlike their firm counterparts — lack singular, unified brands, funding to compete with brand development, an economic incentive to retain as much work as possible within the firm, and a partnership structure where profit-per-partner (PPP) trumps all.

Paradoxically, as mega-firms create their global brand, they often compromise long-term sustainability to maximize PPP that, in turn helps fuel expansion. How, then, can the brand maintain its luster over time? As Warren Buffet said, “Your premium brand had better be delivering something special, or it’s not going to get the business.”

Networks do not suffer from this problem, nor do they confront the same conflict issues that arise in mega-firms, especially Swiss vereins. Just ask Dentons whose recent disqualification in a well-publicized ruling by the Chief Judge of the U.S. Court of International Trade cast a harsh light on the verein structure and the susceptibility of its members to conflicts.

Nor do networks face the same pressure to keep clients within the firm, even where the client might have better options. Translation: networks do not have the same level of conflict issues that mega-firms do and have a structure that is innately client-centric.

The Potential Advantage of Networks

Networks have a number of potential advantages that could position them well going forward. Imagine a “super network” comprised of top-notch boutiques and/or “alternative” law firms (devoid of the traditional partnership model and value driven) offering global coverage, strong, well-funded, centralized management focused on client satisfaction, operating with internal and client accessible metrics that identify the most qualified and cost-effective resources to perform different matters and/or tasks.

All this would occur in a corporate structure that places a premium on the most efficient, value-driven solution for clients, not one that focuses on PPP. Such a network would have the size, expertise, quality controls, efficiencies, technology, and client-centric model that would, with adequate funding and client endorsement, create brand strength and pose an attractive alternative to existing options.

Conclusion

Business and professional services companies are embracing collaboration as never before, recognizing that success is rarely a zero-sum game. Legal networks are inherently collaborative and client-centric, and this bodes well for them as competition for global business intensifies. A strong, centralized and business-savvy management structure that can assemble an association of networks with the right reward structure and technology — one that drives value, efficiency, and an integrated global delivery capability not dependent upon the traditional law firm structure —might just be the surprise winner of the pundits’ “let’s pick the disruptor” parlor game. Don’t bet against it.