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A perfect 10: what rates in the booming Indian legal market

Indian law firms are gearing up for increased competition, a growing economy and sky-rocketing ambitions of the nation's young lawyers, writes Bithika Anand.

There is no doubt that the Indian legal market is rich and diverse. The Indian legal profession is the world's second largest, with more than 1500 legal practices nationwide and 1 million lawyers working as individual practitioners, in various types of firms and legal practices, as in-house counsels, as senior counsels, judges etcetera.

The market presents interesting strategic opportunities for all its lawyers, given the fact that India is a huge developing market with a comparably stable financial system, a strong and competitive private sector and an innovative society with great potential for growth.

According to figures estimated in a report by the Ministry of Justice in the United Kingdom, the current estimated worth of the Indian legal industry is US\$4 billion and is expected to grow to US\$6.5 billion by 2016.

The Indian legal industry has been expanding rapidly over the years in spite of global recession. The market will mature and evolve through its own learning and with the experiences shared by the legal industries in other countries.

With growth comes increased competition and India's top law firms are looking at innovative ways to stay ahead of the curve. The sector in India is in a constant state of flux, therefore trends are difficult to determine. More so because of the emergence of a wide variety of legal practices, varied in terms of their size, age, stage of growth, areas of practice, industry sector, governing models and partnership structures. This article showcases the top 10 trends that can be observed at a nascent stage today in Indian law firms and which will become increasingly apparent in the future.

1. Mergers, acquisitions and fragmentation

The competitive nature of the law firm industry in India has created an interesting situation where firms are looking to merge and acquire in order to strengthen and consolidate their position, while lawyers are seeking to break away in order to create their own identity. In the past two years, firms have seen increased general awareness that growth can be inorganic. They are now increasingly thinking of synergies, a concept that was not so popular about five years ago.

Name, control and partnership structure are some of the challenges which they need to tackle. The biggest challenge with increased alliances and mergers and acquisitions lies post-merger or post-acquisition to ensure a workable partnership structure. The top-tier firms do not entertain merger and alliance opportunities; rather, they use acquisitions as growth initiatives for increasing their bandwidth.

Large mid-tier firms are looking to expand their geographical presence and practice areas through acquisitions of smaller mid-tier firms, while firms of comparable sizes are merging in order to create a larger entity. Amid the mergers in mid-tier firms, start-ups are also realising that they are better off if they join hands by way of innovative ways of alliance. The trend of breakaway firms is now prevalent not only from top-tier firms but also from other mid-tier firms.

The trend seems to be continuing parallel to the trend of mergers. Due to the widespread availability of high-quality and ambitious legal professionals, the industry has seen many partners leave existing firms to start their own enterprises. The main reasons for breakaways are inspirational issues and lawyers preferring synergies with like-minded individuals. Partners with entrepreneurial traits want to have their own practices, while others are moving away for better compensation or environment. However, it also seems that many breakaways are getting stuck due to limited business development capabilities owing to the fact that not all good executioners are good entrepreneurs.

2. Niche versus full-service firms

There is a new fight between niche and full-service law firms, partially due to the trend of breakaway firms. It is becoming evident that clients are looking beyond brands and instead considering the confidence and comfort that they share with individual partners, and therefore following them to their new firm. Although most firms in India aspire to be full service, mid-sized firms are turning their size disadvantage into a competitive edge by focusing on specific practice areas and promoting expertise and quality over quantity.

In spite of the widespread desire to be a full-service firm, the last seven to eight years has seen it become acceptable for many successful boutique firms to serve niche practice areas. Clients are willing to look beyond brands and are more open to specialised knowledge of particular areas. The trend today clearly shows that size does not matter. It is the depth of experience, responsiveness and client focus that matters the most to clients, with access, attentiveness and efficiency being more in demand than merely the brand.

3. Premium clients

The success of niche and boutique law firms has also encouraged the growth of another type of practice. Such firms do not use distinct practice areas as a differentiating factor, but rather they point to their premium clientele as a point of difference from other law firms.

Understanding their clients' business is the key for these firms, rather than merely possessing legal knowledge. Law firms will soon be managing and governing themselves specifically to suit their clients' requirements.

One of the key attractions of many small and mid-sized firms is the accessibility of the senior partners to the client. They are relatively new establishments, driven by young, well-trained lawyers who are internationally savvy. They thus provide unfailingly top-quality work, short turnaround time and easy accessibility to clients. Many Indian law firms have succeeded in building significant portfolios of foreign clients and are working extensively towards procuring and retaining premium clients. In the future, due to the increasing number of law firms in India, the quality of work delivered in the most cost-effective manner will be of prime importance for maintaining client relationships.

4. Partnership structuring

Faced with boutique firms and increasing breakaways, traditional family partnerships and firms which are over-reliant on their founding partners are focusing on streamlining their organisational structure. There has been an increased focus on showing lawyers at the firm a path towards achieving meaningful partnership and devising various modifications to the partnership structure, governance and management models.

We see a trend of opening up of equity by founder partners who to date had not even considered non-equity partnerships. There is a realisation that the firm will not move to the next level if there is no lateral hire of equity partners or organic promotions of partners to the equity level. Robust partnership structures other than modified lock-step are on the rise and will eventually bring an end to the traditional law firm models.

5. Firm management

In line with their growth, law firms are moving away from ad-hoc, founding-partner driven management methods towards a more professional approach by devoting increasing resources to a structured management system. Traditionally, firms in India have always been focused on fee earning. Firms are now concentrating on a comprehensive growth strategy inclusive of marketing and branding, business development and knowledge management initiatives.

Many firms are also looking towards the professionalisation of business support staff comprising of non-lawyers in order to help their lawyers concentrate solely on fee-earning and business development work.

Trends suggest that in the very near future we will see a clear distinction between the management and ownership of firms, with the management responsible for firm operations. Firms are looking at scientific

ways to become more process driven and professionally managed, with active participation by non-lawyers in their management and ownership.

6. Globalisation

Law firms in India are increasingly attracting international attention and foreign law firms see the monetary potential of associating with the Indian legal industry. Liberalisation has become a non-issue for most firms and relationships with Indian firms (best friend, non-exclusive arrangements etcetera) ensure that international clients are adequately represented by Indian and international counsel, leading to more efficient international transaction management.

Foreign law firms are navigating more jurisdictions and increasing their global presence through 'best-friend relationship' arrangements with local law firms. These best-friend agreements provide foreign firms with access to Indian clients, the opportunity to enhance branding and, in some cases, the chance to train lawyers at the Indian firm.

Best-friend agreements give foreign firms an opportunity to vet and invest (by providing training and management advice) in local firms that might become potential acquisition or joint-venture targets when the market liberalises. When selecting Indian counsel, foreign firms deal with considerable uncertainty. Therefore, the foreign firms benefit from the fact that the tie-up gives the Indian firm increased trust in the eyes of foreign clients.

Several leading United Kingdom and United States-based firms have set up their India practice, mostly with Indian lawyers based out of Singapore or Hong Kong or London for geographical convenience. The work undertaken at these offices concerns the international and foreign law elements of international transactions for their foreign and Indian clients. Using these offices to perform work on matters of Indian law, while technically permissible, is practically infeasible since the disparate labour costs make hiring a local Indian firm to do that portion of a transaction governed by Indian law cheaper than having it done by lawyers working in foreign offices.

7. Human resource management

As firms grow in size and, with the increased competition, human resource management in law firms has become the key to the effective functioning and continued growth of firms. The happiness quotient of lawyers is becoming more and more important as firms focus on their human resources by ensuring that there are systems in place to attract and retain good talent.

Due to cost constraints and the market being flat, there has been a slight slowdown in the increments handed out to lawyers. However, innovative ways of keeping lawyers financially happy are being employed by firms. We see a rise in various performance enhancement systems such as incentivisation

schemes, benchmarking compensation, training and development as well as different performance-appraisal methodologies.

New recruitment strategies have been observed whereby a few firms employ individual practitioners with specific expertise on assignments rather than hiring them full-time. Firms are also looking at recruiting from foreign law firms from jurisdictions where they have a lot of work in order to better equip themselves.

The prevalence of breakaway firms and increased poaching have increased the need for law firms to find models for retaining people inclusive of the following concepts, among others; be happy to delegate; give them a sense of belonging; share true equity, which is distinct from just profit sharing.

8. Technology

In spite of being a technology leader and with a host of billion-dollar IT companies in India, the Indian legal industry is still dominated by the use of paper over technology. Firms are slowly tilting towards the use of technology for many of their management and financial processes such as time sheets, billing and CRM. The majority of lawyers in various law firms are from Generation I and, being tech-savvy, they will drive the processes and systems towards faster integration with technology. In the future, we definitely will see higher relevance given to technology and integration of legal processes in order to increase efficiencies and speed up client response times.

9. Outsourcing

In India we find some law firms starting legal process outsourcing (LPO) functions, but the success rate has not been very high. The chief reason is that law firms and LPOs are run differently, thus LPOs require specialised management professionals and not mere legal know-how. The resounding success of a few LPO units will definitely pave the way for more firms to invest in the technical and managerial know-how needed to establish LPO units.

Another innovative approach towards LPO being considered by a few firms is the establishment of personal captive centres within their firms that follow LPO-type techniques to control cost and timelines.

10. Branding and marketing

Branding of law firms in the Indian legal industry is still in its nascent form. One of the reasons is that the Indian legal market is pretty young compared to other mature markets across the world. Perhaps the more relevant reason is the code of conduct issued by the Bar Council for lawyers, along with the provisions of the Advocate Act which do not permit Indian law firms to market themselves.

Established law firms have thus been using the 'static medium of messaging' as their mode of marketing themselves within the scope of the law. Business cards, a simple profile and an even simpler website with limited content (sans client testimonials and other content soliciting work for the firm) are permitted.

Firms rely heavily on good client experience leading to word-of-mouth appreciation for the firm and the service quality as their means of marketing themselves for prospective clients. Firms have only been able to showcase their extensive profiles on request and at knowledge conferences.

Law firms are today realising that at the end of the day, in professional services, it is the brand name (whether of an individual or a collective) that differentiates one from another. Not only does a strong brand carry a promise of value, quality and reliability, it also conjures up a personality. Every aspect of how a firm and its lawyers behave must harmonise with the image that is being presented. Currently, the marketing function at law firms is still in its initial stages and more tactical in nature, but it is bound to grow and become more planned in years to come.

As more and more new legislation comes into the pipeline, newer areas such as sports law, nuclear law, space law and so forth will be the future upcoming areas of practice. The government continues to pass laws and introduce policies which bring newer areas into the spotlight for law firms. The changes introduced by the new foreign direct investment policy is bringing in opportunities in single brand product retail trading, the aviation sector, 100 per cent green-field investment by the automatic route in the pharmaceutical sector.

Beyond myriad concerns and challenges, business information consultancy Dun & Bradstreet reports opportunities and a promise of growth: India's economy is expected to grow to a staggering US\$5.6 trillion at current market prices. The increase in the economy always has a direct impact on the legal industry, which will look to grow even more.

The legal industry on the whole has attuned itself to the swings in the economy because, when the economy booms, the corporate practices of law firms flourish; whereas, during depression, litigation practices flourish. Therefore, in rain or in sunshine, law firms will continue to bloom as long as they are managed efficiently and strategically.

The trends mentioned in this article suggest that the Indian legal industry is on a growth path which will be very difficult to slow down. The stakes are surely large enough to ensure that every player at the

table comes out a winner, but all that remains to be seen is who manages their firm well enough to accumulate the maximum winnings.

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