

# Strategies for the New Economic Landscape

by *Olga A. USENKO*

**O**n 29-30 November Moscow hosted the **6th Law Firm Management Conference** traditionally conducted by the **International Bar Association** and **LegalStudies.RU**. The event attracts the attention of the top decision makers in national legal markets from all over the world.

The sessions at the event were dedicated to regulation of the profession across the CIS region, legal business strategies within and beyond national boundaries, leadership issues, examining models of professional cooperation, analysis of client expectations.

## Privilege not for everyone

After the opening remarks by the IBA President **Akira Kawamura**, who messaged that “healthy law exists in a healthy economy”, he introduced his successor, Vice-president **Michael Reynolds**.

The keynote speech has been delivered by **Alexander Khvoshchinskiy**, Legal Stratagency/LegalStudies.RU (Russia). He presented preliminary outcomes of the survey on perception of market leaders in selected CIS countries of the regulation of the legal profession. In light of the recent enactment of new regulations of advocacy in Ukraine and Belarus, as well as strong debate over regulation in Russia, the discussion raised the attention of the audience and revealed a series of arguable issues.

At the same time, many respondents agreed that the liberal period, with the absence of any professional regulation was useful, as it enabled to create so-called “sanitary” period for establishing market participants in a way that they are present on their markets today.

While the public perception of self-regulating organizations — bar associations is generally positive, respondents



Plenary session 1. “What Should be the Regulation of the Liberal Legal Profession in the CIS Countries?”



IBA President Akira Kawamura welcomes the delegates

do not seriously consider their role in promoting, shaping and modernizing professional regulation.

According to the final concluding remark of the survey, sounded by Mr. Khvoshchinskiy, “overall problems in the CIS markets are still solved by market leaders with a rather not easy interaction in their regulators in each single country separately. Having recognized the role of governments in developing and introducing regulation, the level of credibility towards regulators remains low”.

The Ukrainian realities were commented on by **Valentyn Zagariya**, chairman of The **High Qualifications and Disciplinary Commission of the Bar of Ukraine**. The Ukrainian market was in a phase of stagnation for a long time because two markets of business lawyers and traditional advocates developed on their own paths separately. “The trend to split up the profession is a dead-end road. For this reason, in my opinion, unification of the profession and establishment of a single bar would make sense”, he said.

**Andrey Goltsblat, Goltsblat BLP** (the Russian practice of **Berwin Leighton Paisner**) explained that “the presented problem in Russia is that the government authorizes everybody to practice law, while only advocates may enjoy privileges”.

Russian Deputy Justice Minister **Elena Borisenko** pointed out that advocacy as such did not enable development of the legal business in Russia. For this reason it is a typical situation for Russia when law offices that have advocacy privileges exist in parallel with such legal form as limited liability companies. Not all lawyers explain the issue of confidential security to their clients. It created a wide perception among foreign businesses that clients are not pro-

*Olga A. USENKO*

is the chief editor of the *UJBL*



Valentyn Zagariya and Andrey Goltsblat



The session "Alliances and Other Models of Professional Cooperation: Case-Study of the CIS Region", moderated by Irina Paliashvili, RULG-Ukrainian Legal Group

tected in Russia. In her opinion, the main task for regulation is to introduce necessary changes and limitations without affecting legal business as such.

**Alexander Muranov, Muranov, Chernyakov & Partners** (Russia) briefly described WTO accession, entry into force of the agreement on trade in services (including legal services) and investments between Russia, Belarus and Kazakhstan, and three advocacy specific documents recently signed by the judiciary ministries of EuroAsian Economic Community (EurAsEC) member-states. According to the panelist, WTO commitments and regional agreement on trade in services and investments definitely have economic objectives, while specific documents are mostly declarative ones with a political dimension. However, these documents may establish a framework for regulation that will be developed by every single member-state at national level.

Summing up the session, the statement that advocacy should become "demanding enough" was supported by both panelists and the audience. Furthermore, moral principles should be followed which is, to a certain extent, more important than state regulation.

### Searching for new leaders: from inside or outside?

Brilliant professional skills are a must have for every legal practitioner. But only those of them who are able to create business and manage the workload have a chance of becoming partners.

**Andriy Stelmashchuk, Vasil Kisil & Partners**, shared the advantages and risks of growing new partners inside a firm. Indeed, VKP is a Ukrainian market heavy-

weight known for "parenting" partners, as it has added six grown-up partners from July 2012. In practice such partners are already integrated into the firm, enjoy the team's support and demonstrate loyalty to corporate values. However, there is a range of risks to be considered while following this approach. On the one hand, this is a "risky investment" as a lawyer may leave the firm and join a competitor. The second risk is establishment of a closed environment, which may prevent introduction of innovation. And finally, sometimes "family values" and authority in a firm may interfere in the adoption of market-oriented decisions by partners, which is strategically important.

**Irina Nikitina, Egorov Puginsky Afanasiev & Partners** (Russia), stressed that the strategies of legal business development may have no time to wait for the growing partners from inside. From the lateral hires she expects to fill in missing legal expertise, generate new business, new patterns of doing business — managerial skills. If a promoted partner does not need integrating the team and has to face the problem of adaptation in his or her new status, then in terms of lateral hires there is a challenge to integrate lateral hiring partners.

Pointing out the issue of team arrivals, Mrs. Nikitina stressed that this is always a rather risky step. "Package bargains are not allowed and every single team member should be evaluated thoroughly", she said. Prescription of proficient lateral hiring encompasses common criteria for all partners, with no exceptions. Moreover, an important aspect to be kept in mind is the psychological match, as nobody is going to change his or herself for the benefit of somebody else.

### Professional cooperation and CIS practice

The unique business climate of the CIS region forces legal market players to examine various models of cooperation. In line with particular needs and projects, participation in certain schemes of interaction may add value to market possession, enhance expertise and cross-border capabilities. These and other issues were explained and analyzed from different perspectives at a dedicated session of the conference.

After the recent announcement of the amalgamation of **SNR Denton, Salans and FMC** (the new company will be called **Dentons**<sup>1</sup>), its case study, as presented by **Glenn Kolleeny, Salans** (Russia), became the most relevant one. First of all, among the ways to expand legal business, namely establishing Greenfield offices, international and regional alliances, direct correspondent relations and acquisitions, it was the last option that was followed. This choice has been justified by the obvious advantages of the "one-stop shop" concept and needs of transnational deals.

**Ekaterina Zabello, Vlasova, Mikhel & Partners** (Belarus), pointed out the advantages of national independent status in this country. The background for this situation is explained by the absence of big international players on the local market. "If multijurisdictional investment projects with international legal advisors cover Belarus, they hire big national players, as ILFs are absent", she said. According to Ms. Zabello, joint ad hoc projects bring added value of national status. Obviously,

<sup>1</sup> The new firm will be launched in the first quarter of 2013.



*Traditional networking enables to meet colleagues and establish new contacts*



*The delegates enjoy the lively discussion*

a strategy review would be proficient when ILFs expand to the Belarusian market.

Estonian law firm **Raidla Lejins & Norcous** was one of the most rapidly expanding players in the Baltic region over 2012. Founding partner **Jüri Raidla** said that the choice of cooperation models was in line with market demands. Institutional cooperation, which leads to establishment of a structured alliance, provides its members with rather clear and relatively stable rules. Contractual cooperation enables flexibility and capability to adjust to changing market conditions. And finally, the most widespread ad hoc cooperation does not create any need for a specific conflict check system, which is gaining more severe attention at present.

### Stress tests for law firms

For many years the term “stress tests” was mostly associated with banks and financial institutions. Thus, over the last couple of years it gained widespread popularity as a management tool, especially when it addressed the crisis. The legal business is definitely no exception. The panelists gathered to share their best practices, as elaborated in their law firms.

**Frank Maher, Legal Risk** (UK), outlined that today this concept is getting more proliferation at both national and business levels. Interest was stirred by the growing number of law firm collapses, especially the recent **Dewey & LeBoeuf** (US) in 2012 and **Halliwells LLP** (UK) in 2010.

Summarizing possible warning signs, Mr. Maher named the situation of unfavorable (below average) financial performance, internal dynamics (e.g., leadership issues, incompatible goals), and external



*Andrei Dontsov performs his vision of stress tests concept*

dynamics. Moreover, UK law firms are obliged by law to manage risks as regards data protection, anti-bribery and solicitors’ regulation.

In practical terms, the common practical tool of risk management is a so-called risk register. “This is a living document regularly referred to and reviewed by decision makers”, he said.

**Sergei Voitishkin, Baker & McKenzie — CIS** (Russia), who moderated the session, noted that it became definitely crucial to control legal business finance and respond immediately. The changing business landscape dictates that precisely profitability creates the capability to retain the best partners, proficient lawyers and, consequently, clients.

In the view of **Andrei Dontsov, White & Case** (Russia), the economic model of business is the rather simple “cash in — cash out”. The main problem of both big and small firms is that even “feeling” the problem they undertake nothing until negative consequences occur.

Dismissing clients according to economic indicators was another arguable

issue raised during the discussion. The notable experience of White & Case has been sounded by Mr. Dontsov, who said that in his company there is a task to reduce the number of clients annually by 10% and increase revenue per client. This is interpreted by the sounded statistics of the panelist, when “globally 40% of clientele generate 90% of revenue”.

### Changing environment determines expectations

The clients’ panelists from Russia, namely **Alexey Chichkanov, Gazprombank, Sergey Lepetan, Johnson & Johnson, Inna Vyalkova, AIG** and **Louis Skyner, Statoil** (UK), described their vision of selection criteria for an advisor. First and foremost, adherence to hire exceptionally international law firms is the overall trend and an opportunity for local practices. A firm’s dedication to a particular practice area or industry specific niche was singled out as another competitive tool that meets the loyalty of clients.

**Marina Lushechkina, Legal Insight** magazine (Russia), attracted the attention of those present by providing fresh statistics. Following the ultimate goal to reduce costs of legal services, according to a “Legal Departments Survey” conducted by the Russian publication **Legal Success**, demand for external legal advice has decreased by 13%. Some 75% of legal work volume was conducted by corporate counsels, while only 25% was outsourced to external advisors. Another flash fact of the poll — the rate of the corporate counsel charge is 46% lower than for an outside lawyer!

END