

## **The Power of Partnership**

### **Why Good Law Firm Management Matters**

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Senior business managers and in-house counsel at major foreign multi-nationals and Chinese enterprises may consider a myriad of factors when selecting outside legal counsel, including reputation in the market, scale, expertise, office locations, fees and personal relationships. But in the process of selecting outside legal counsel, most clients neglect to ask a fundamental question, namely, how the firm is structured and managed?

At its core, the practice of law is a service business, and like any other service business the key to success is the delivery of high quality services. In any service business, good management structures and systems are critical to ensuring quality of services, and law firms are no different.

What really matters is that your outside legal counsel understands your problem and can find a solution that protects your lawful interests and achieves your business objectives. In short, you need a legal expert who understands both the legal environment and your business and has strong commercial and legal judgement.

The management structures and systems in a law firm directly affect the level of expertise of the individual lawyers in the firm, and in China the current weakness of law firm management structures has created a critical bottleneck to the further development of the Chinese legal profession generally. The last 15 years have seen remarkable progress in the development of the Chinese legal profession, but there remains a profound gap between local law firm management practices and international law firm management standards. If the current problems in Chinese law firm management practices are not remedied quickly, the rapid pace in the development of the Chinese legal profession over the last decade and a half may slow considerably. This in turn will adversely impact the continued development of Chinese enterprises in the domestic market and in the global marketplace.

The connection between service quality and management structures in a law firm is actually quite simple. Quality of service in a particular area of legal practice specialization is based on expertise, which comes from the combination of comprehensive commercial and legal knowledge and judgment based on long experience in related matters in the local market. In an "eat what you kill" model, a lawyer does whatever work comes in the door regardless of expertise because he or she has no incentive to pass the work to a colleague with more experience in such matters. In many respects, the other lawyers in the firm are not so much his or her partners as they are potential competitors, so they typically do not share clients, work, knowhow or resources. As a result, few become true experts in any area of specialized legal practice.

For some in China who still are still emerging from the "iron rice bowl" model of the old state-owned danwei, the above management model in Chinese law firms seems to fit the paradigm of capitalist incentives. However, for seasoned in-house counsel in major multinational companies the above description immediately sets off alarm bells because they know from experience that this model cannot produce a consistently high standard of quality of legal services. Many in China appear to take the view that large scale alone resolves all other problems, while experienced Western lawyers have come to recognize that a ten-fold increase in the number of sole practitioners in the same loosely organized law firm will only compound the problems of weak law firm management structures and systems.

When Lovells LLP embarked on the process of identifying the leading regional law firms across the key economic centres of China in 2006 and 2007 in preparation of the formation of the SGLA, there were no guideposts to follow, but we did maintain a clear set of guiding principles which informed the process. Chief amongst these guiding principles was the concept that a law firm with a relatively strong management system would develop solid expertise in its core practice areas.

What we found during the thousands of hours of market surveys and due diligence surprised us. We assumed that because of generally weak management systems there would be a significant overall quality gap between the top international law firms and most of the top local law firms in first-tier cities like Beijing and Shanghai and that there would be a further step down in the quality of the top local law firms in China's second-tier cities due to even weaker management systems. In fact, the opposite proved to be true. We found that many of the leading regional law firms in the second-tier cities had superior law firm management structures and systems in place, when compared with most of their better-known counterparts in Beijing and Shanghai.

Each of the leading regional law firms invited to join the SGLA shares several key characteristics:

- Each is a top two law firm in their market in terms of scale, market profile and quality of work
- The core group of senior partners in each has remained essentially intact for up to 15 years
- Each has developed multiple specialized practice areas and systems for directing specialized client matters to the most qualified lawyers in the firm with the relevant expertise Each has made significant long-term investment in shared management and IT systems to promote greater practice integration within the firm
- Each has an ambition to move from a market leader on a domestic standard to a market leader on an international standard.

The principle motivation of each of the local member firms in joining the SGLA was to learn international law firm management best practices from Lovells. To this end, Lovells hosted representatives of the SGLA local member firms for a week-long training seminar in London in July focusing on law firm management. The global managing partner and senior partner of Lovells made presentations to the SGLA representatives, as did regional and practice group leaders and the heads of each of the firm's functional support groups. The training provided a forum for these leading Chinese law firms to identify fundamental law firm management issues common to all Chinese law firms and to start to develop related best practices.

The SGLA training event may prove to be a watershed event in the development of the legal profession in China. As the local SGLA member firms continue to advance their management systems, the standard for the entire Chinese legal profession rises. This will be good news not only for the SGLA member firms but also for other law firms in the China market as they follow the lead of these SGLA member firms. In the end, the real winners will be clients, as improving law firm management systems result in ever higher standards of service quality in China.

There are many ways to structure the management of a law firm to promote the highest standard of service quality, and in most cases a client really does not care as much about the details of the firm's management structure as it does about the result, i.e., whether the firm delivers consistent, high-quality legal services across a broad range of specialized areas that enable the client to achieve its business objectives.

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