



PARTNERSHIP

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A seat at the table

Senior management figures from leading international firms attended a *Legal Business* and Coutts round table on partnership and the future of law recently. While promotions are in decline, law firm leaders are still bullish about the long-term prospects for the model

MARK McATEER

Has partnership become more exclusive or just increasingly remote? With the leading UK-based international law firms announcing their latest partner promotions in the spring, it is clear that the overall trend is still to promote fewer associates to partnership, an approach evident since the global financial crisis kicked in six years ago.

Certainly rising confidence is yet to translate into more associates joining the club, especially in London, where barely a third of the promotions at major City firms occurred this year.

Is this downward trend reflective of economic stagnation or simply an increasing appetite for firms to recruit laterally? Or is it that the current crop of associates simply no longer want the responsibility that partnership entails? Such questions were the focus of a recent gathering at 1 Lombard Street of senior management figures from some of the most powerful international law firms, assembled for a *Legal Business* round table on partnership, in collaboration with Coutts.

Those present addressed key aspects of what it means to be a partner in 2014. They also debated the extent to which London still dictates the structure and make-up of a partnership, and how much the lockstep has been forced to bend to accommodate a more international dynamic. After all, in January Slaughter and May – the most traditional of all the firms present – made its first-ever lateral hire in Hong Kong. However, those gathered round the table, remained confident that the concept and reality of partnership will be with us for years to come.

Mark McAteer, *Legal Business*: Partnership promotions are generally dwindling, or at least static, among the top 25 firms. Is this trend going to continue?

Stephen Parish, Norton Rose Fulbright: Over the last few years we have internally promoted about the same number of partners each year but we have recruited more lateral hires... that reflects the need to build up certain practice areas which we have had the opportunity to develop, particularly in our

offices outside of London. Across Norton Rose Fulbright generally, the proportions of internal promotions to lateral hires are about equal.

Mark Vickers, Ashurst: Promotion from senior associate to partner is an investment in the future because your senior associates in a people business are, by definition, your brightest talent with the strongest potential. The extent to which you are investing in the future is a function of where you see the investment opportunities and whether you have focus on short-term opportunistic returns, or whether you are looking for medium-to-long-term structural gains.

Stephen Kon, King & Wood Mallesons SJ Berwin: We – being legacy SJ Berwin – are just 32 years old. I guess that makes us the youngest. We developed initially purely on the lateral recruitment model, because we could not have existed otherwise. Now, and in the last ten to 15 years, we have tried to develop and grow our own to a much greater extent.

Paul Olney, Slaughter and May: It is a mistake just to look at one dimension to it (associate promotion to partner). You have firms that pursue laterals in a big way and you need to take that into account. You also need to look at how firms are de-equitising, and also what it means to be a partner within a firm. You have, at one end of the spectrum, firms such as Slaughter and May which operate the traditional model – a pure equity lockstep system – where people move directly into the equity, to firms that are at the other end with quite different approaches to remuneration and interest in the equity, sometimes for quite extended periods of time. The rights of partners in firms can also differ markedly on voting and other important aspects.

‘What is a partner?’ is quite different, I dare say, among the firms within this room.

The other dimension to this debate is about the exiting of partners. Firms which can and do make up more partners but with a management ability to review performance and



Duncan Weston, CMS Cameron McKenna: When it works, the lockstep creates harmony in the entire firm



Stephen Kon, King & Wood Mallesons SJ Berwin: US culture is very demanding, but firms have greater respect for older lawyers

▶ either de-equitise or to say 'time's up', approach the whole subject of what it means to be a partner in a very different way.

Mark McAteer: Is there a sense, though, that partnerships generally are ageing; that there are not enough being made up at the associate level and, at the top end, the partnership generally is getting older?

Tim House, Allen & Overy: London is a mature legal market so it is not going to expand significantly. But it still provides one of the best pools of talent and we could never conceive cutting off that flow. You have to be able to promote talent coming through. That means the quality threshold has increased for partners throughout their career.

You are not seeing an ageing partnership because, if a partner is unable to sustain the levels of high performance necessary, you need to make way for those who can. Another way to ensure you hold on to that talent is through either more flexibility or movement around the firm to where the growth exists.

Glenn Grover, Coutts: Isn't that the challenge for the firms? It is all about management now; that is the difference compared to rigidly adhering to the lockstep model. Flexibility will be key and all firms differ in how they address that issue.

Malcolm Sweeting, Clifford Chance: 2007 or 2008 - whenever you think the global financial crisis hit - was a line for law firms, because before that,

if you had put a group of people around the table, strategically, there would be much more similarity, but if you look around the table today, the diversity of strategy is one of the very interesting things. Almost every firm here has a different strategy. That is not to say that there is a right and a wrong strategy; they may all be successful, but they are going to be successful for that firm for a set of particular reasons.

The global financial crisis was quite an important point because the world has changed dramatically for law firms and their clients. It has also changed dramatically per se, if you look at a world being forged by its response to the global financial crisis, the rise and rise of developing economies and the shifting sands of global energy.

All of us are making our partners up slightly later; the days when, if you had not made it by 30, you were on the scrapheap have definitely gone. Those in senior positions in law firms today are very fortunate and we should not forget the fact that we came into law during a golden age for law firms. We are not necessarily in senior positions purely because of our talent and skills - timing has also been a material factor. I am now 56 and there

'Lockstep is a great way of aligning the interests of partners, financially, with the interests of the client. That has to be a core principle.' Tim House, Allen & Overy

are not many partners in Clifford Chance who are older than me, and it was ever thus.

Paul Rawlinson, Baker & McKenzie: Whenever I talk to our partners in places like Italy or the US they think we are mad in the UK because London firms let go of people just when they are at their most productive age. It implies that we view age as a negative thing, but actually, if you go back to what clients want, you find that they want a bit of grey hair. There is plenty of scope in Bakers for careers post-55 – the trick is how you structure your partner career development.

Rebecca Hughes, Coutts: We are seeing a lot more movement between firms, as you would expect with the financial crisis, and the influx of US firms has been a big factor as well. Does having a balance between lateral hires and promoting within lead to a culture that is a lot more fluid? You are not necessarily expected to be there for life; it is not that kind of profession any more.

Stephen Parish: Within the UK there is more fluidity now with fewer lawyers staying at the same firm for life, that is a cause and an effect of the number of lateral hires. Clearly, you must encourage your own associates and maintain the opportunities for them as they come through, because they would be concerned if they felt that lateral hires were filling the positions which they felt were appropriate for them. Losing high-quality associates is a terrible waste of the investment we have made in them.

Caroline Hill, Legal Business: But you must lose the ability to incentivise to a degree. Obviously, partnership was always the carrot and, with the reduction in numbers, that incentive has reduced. I know there have been other ways of incentivising – different career structures, pay, etc – and the partnership model has changed so much, but it must be much harder.

Tim House: To keep those aspiring to partnership motivated you must always look to promote internally first. Promoting your own in our firm now involves an extraordinarily rigorous process. If you exhaust all options in terms of internal promotion and decide that a lateral hire is necessary, and there needs to be an extremely good strategic reason for bringing in that lateral hire, then the process for laterals has to be equally rigorous to ensure internal candidates see it as fair.

Paul Olney: When I joined my firm a question you were asked was: 'Where do you see yourself



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Stephen Parish,
Norton Rose Fulbright

in six or seven years' time?' If you did not give the answer: 'I very much hope I am going to be a partner', you were not seen as committed. We don't ask the question now. We have had examples of very able people who just do not want to be partners and some people feel the expectations and commitment involved for the long term are too much. It is a very hard road. Do you really want to put yourself through that wringer for a number of years, with a possibility that you don't make it? And if you do, the life of junior partners is really tough. Partnership isn't for everyone, no matter how able you are.

Mark McAteer: Does the fact that most of the firms around this table do not operate a pure lockstep mean the model inherently needs reconfiguring? Has it become a lot harder to manage a lockstep on an international platform?

Stephen Parish: I am not sure that lockstep is the relevant point here. Giving management greater flexibility to help partners manage their careers is the answer. Modified lockstep is, if you like, almost a transition from a very rigid structure, which has advantages if you can make it work, to a much

more flexible environment whereby partners at differing stages of their careers are remunerated in line with their value at any given time. Modified lockstep gives partners some degree of certainty and it also gives management the flexibility to manage partners' careers.

Duncan Weston, CMS Cameron McKenna: The lockstep, if it can work – and it still does – is fantastic, because it creates harmony in the whole practice. It is transparent, clean and easy to do. When dealing with global operations, we get flexibility in our system by not managing career structures within different jurisdictions, particularly, as one unit. That flexibility allows us to be less rigid in how we treat partners in different parts of the organisation. I have always found actually managing partners in foreign jurisdictions as part of a UK lockstep quite challenging, because you end up spending your time negotiating how much they are paid; they are treated differently from other partners, and you have different economic circumstances, so the cost of living is vastly different. You spend the majority of your time discussing this aspect rather than how to grow the business. ▶



Paul Olney, Slaughter and May: Partnership isn't for everyone, no matter how able you are

► **Malcolm Sweeting:** I see the argument but take a slightly different view. We are not a pure lockstep firm – hardly any firms are – but the bulk of our partners, whichever office or practice area they are in, are all on the same lockstep. There is still a large body of partners in the firm who treat lockstep as a religion. It is something in which they have tremendous faith – even if hard logic and human behaviour sometimes question that faith. For those law firms currently operating a lockstep system you may see some gradual adaptation of the model to suit the new global environment but lockstep will remain a guiding principle driving compensation.

Tim House: In terms of the proposition that you are selling to a client, to be truly global you need a compensation system that incentivises people to share work for the benefit of the client. Lockstep is a great way of aligning the interests of partners, financially, with the interests of the client. Partners have every interest in making sure clients know and work with as many people across the network as possible, and ensuring the right person does the work for the client. That has to be a core principle.

Mark McAteer: The shift towards promoting partners internationally far outweighs domestic

markets. Does that mean that the partnership structure has to take into account a shift away from the nominal headquarters of that firm?

Malcolm Sweeting: If you want to put yourself forward as a truly global firm, having a dominant headquarters somewhere is probably not the best message to send internally or externally. At the moment, less than a third of our revenue is in London; as a percentage that will continue to go down. We will continue to grow more quickly outside London and particularly in rapidly developing economic regions such as Asia. All of our law firms' structures are driven by our history and all of our histories are different. Law firm governance structures lag behind the reality of where law firms are in terms of their geographic reach and their complexity. What we currently

have are essentially white, middle-aged men in senior positions at law firms sitting around the table. That most certainly needs to change because we are not going to become truly global if we think that only people who are recruited by and raised in the London (or New York) office have the talent, skills, culture and background to manage these firms. As global firms we have to be prepared to become more global in the way that we think and manage and govern ourselves and, importantly, in the way we present ourselves to our clients.

Paul Rawlinson: Having a diverse management team at the very top of your business is a great client proposition. The fact that we started the millennium with Christine Lagarde as global chair and we now have a Latin American in the role speaks volumes about our commitment to being truly international. Our global executive currently comprises partners from five continents and that's not an accident. Being diverse and multi-cultural is hardwired into who we are and is reinforced by our constitution, which stipulates that we give representation to each of our global regions.

In a global firm there will always be areas where you want to be better integrated but having an integrated global client programme is incredibly important because that is how clients will experience your firm. We have a global key client programme and it is without doubt one of the main engines of our future growth. Where in the world a partner sits is fairly irrelevant – one of the most influential positions for us is being a relationship partner for a global key client.

Stephen Kon: Going back to the question of age, something that I find very interesting is, in US law firms, the culture is tough and demanding, but they seem to have far greater respect for older lawyers than we do here. I have never quite understood why we have gone one way and they have gone the other way.

Stephen Parish: Your fundamental point is right. US culture seems to encourage a greater preponderance of older partners in US law firms

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Mark Vickers, Ashurst: US firms are not deliberately recruiting older London partners



Malcolm Sweeting, Clifford Chance: Firms will not become truly global if only partners in London manage them

than there are in London-based law firms. In our own firm there is a higher percentage of partners aged 55 and above in the US than there is elsewhere. This simply reflects the fact that that is how US firms have operated and operated effectively for many decades and I doubt that will change in the near future.

Rebecca Hughes: But that is a retirement culture in itself in the whole of the States; it is not limited to law firms. They do not retire when we retire; they retire in their 70s.

Glenn Grover: Maybe it is also that culturally, in some firms, people think, 'I may be asked to move on maybe at 55, because of the traditional lockstep and these equity points need to be released so more younger partners can be taken on', and that is a driver.

Mark Vickers: The US law firms in London are not deliberately recruiting the older London partners. There are some phenomenally bright lawyers being attracted to opportunities offered by US firms. It is not particularly old talent, but it is very bright.

The emerging strength of the US law firms in London is market driven. With quantitative easing in the US until relatively recently pumping \$85bn into the US economy every month, some of that global capital has been seeping into Europe, and the UK is seen as an attractive proposition relative to the rest of the Eurozone. Some of the capital has been flowing into Asia; the ease with which capital flows around the world and the quantum of those flows is what is stimulating some fundamental, seismic changes in the demand for legal services.

What we are seeing is not at all the ebbs and flows of cyclical markets. These are fundamentally systemic changes, which will be with us for the foreseeable future. The US firms are just recruiting what they need, and what they need are more lawyers to do, in Europe, what are essentially financing products and techniques being imported into Europe from the US. For example, the big private equity houses now are all US based. Ten years ago, they would all have been predominantly UK-based.

Duncan Weston: US partnership culture is still conservative. London has moved towards a more

institutionalised approach to clients. We have institutionalised the brand strength rather than the individual's strength.

Paul Rawlinson: It is partly institutional but it is also partly that US partners generally promote the personal brand of the individual as a key driver of business and, as a result, they tend to practise longer given the attachment of clients to individual partners. In general terms, US partner culture is one characterised by high partner hours and less leverage. The focus tends to be on positioning the individual as the go-to adviser, rather than building a firm brand around that. It's closer to our barrister model here. It's a different cultural approach.

Rebecca Hughes: If you ask a barrister, 'When are you retiring?' they will say, 'I do not see myself ever retiring'.

Duncan Weston: The City of London is unique. We can argue about New York, but I still think that London is the strongest legal market in the world in terms of its development and sophistication. ▶



Paul Rawlinson, Baker & McKenzie: UK firms let people go at their most productive age – clients want older lawyers



Rebecca Hughes, Coutts: The balance between laterals and promotions means partnerships are more fluid

► **Mark Vickers:** Do you think that will continue, though? Will it still be in that position of pre-eminence in ten years' time?

Duncan Weston: I think so. I am a great believer in that. People talk about other places all the time. Of course, everyone is going to grow but the European market is phenomenal. London is going to remain a key financial centre. We talk about having businesses that are big outside London, but although it is only 30% of your business – and is in ours as well – it is by far the biggest city, in terms of one place, and the most profitable one, by some way.

Stephen Parish: In the context of international work, I fear that London's pre-eminence is on the

slide. English law is pre-eminent, certainly, but that is going to be practised more and more, I hope, by offices outside of London. I have a real fear that London's role as the legal centre of the world is under threat, whether it is in the context of arbitration, financing work and the rise of places like – as far as English law is concerned – Hong Kong, Singapore, and obviously the American connection as well.

Duncan Weston: I came to London five years ago in the middle of the recession, having never worked here before. I personally believe that London provides a great opportunity. It has been knocked about a bit, receiving its fair share of criticism. Of course, there are lots of exciting

things going on in Asia and elsewhere, but with the quality of the lawyers here, the sophistication in terms of the service we provide, the English law – which should not be underestimated, the whole career structure, the time zone – everything – we have a phenomenal opportunity.

Paul Olney: It is difficult to see, at least within the European time zone, that there is another contender – certainly for so long as we remain in the EU. It wasn't that long ago that we talked about Frankfurt, maybe even Paris coming up as a rival but I don't see that now. Once a world financial centre acquires that global status it takes a lot to lose it. The infrastructure is there and, critically, if the centre retains its attractiveness as a place to live, it can take a lot of knocks and bruises.

Duncan Weston: Hong Kong comes and goes, but London is pretty constant.

Mark Vickers: With the demand for legal services following increases in macro-economic activity, the epicentre is inevitably going to shift eastwards. The question is how that will impact on the European market. I suspect that London, within the context of the European

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THE PANELLISTS

■ **Glenn Grover** Managing director, Coutts

■ **Caroline Hill** News editor, *Legal Business*

■ **Tim House** Head of global dispute resolution, Allen & Overy

■ **Rebecca Hughes** Executive director, Coutts

■ **Stephen Kon** Senior partner, King & Wood Mallets SJ Berwin

■ **Mark McAteer** Managing editor, *Legal Business*

■ **Paul Olney** Practice partner, Slaughter and May

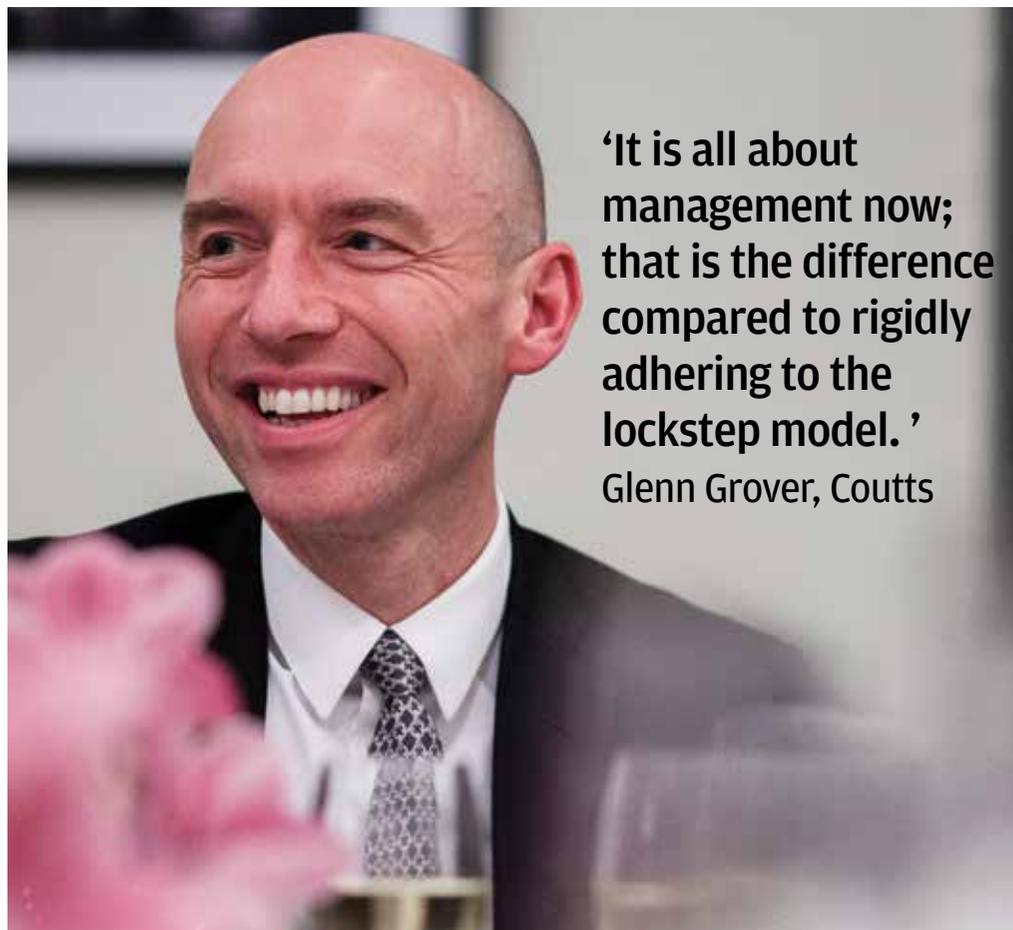
■ **Stephen Parish** Global vice chair/ chairman, Norton Rose Fulbright

■ **Paul Rawlinson** London managing partner, Baker & McKenzie

■ **Malcolm Sweeting** Senior partner, Clifford Chance

■ **Mark Vickers** Partner, Ashurst

■ **Duncan Weston** Managing partner, CMS Cameron McKenna



‘It is all about management now; that is the difference compared to rigidly adhering to the lockstep model.’
Glenn Grover, Coutts

market, will still broadly, for reasons that we have cited, continue to be a centre of excellence; that is not going to diminish, but where is the growth potential that all of us need to run our businesses? The wisdom of that growth potential being in Asia is where the smart money is looking at the moment.

Stephen Kon: I would agree, but I would say that, wouldn't it? You said earlier on that the real product is English law, and that is key. It is not so much that London is centre of the world, geographically, but English law is still the product that we have to sell.

Paul Olney: I have no doubt that over a longer period of time, China will become even more dominant. It is an interesting question whether, if a Chinese SOE or private company decides to do a deal in Europe, funded by a Chinese bank, where it has the economic power on the deal, whether English, New York law or the local law will be chosen. Choice of law can sometimes go with the economic power, and that has been demonstrated with New York law internationally. I know it might seem strange at the moment but I do not think that we should rule out the possibility that,

as economic power moves east, we will see PRC law emerging as a major choice of law governing cross-border work.

Paul Rawlinson: It is not just about English law. There is a danger that we miss the biggest point, which is that English is also the international business language. Couple that with the role of English law globally and it is hard to see how that position could be replicated by any other system any time soon.

Malcolm Sweeting: We talk about the three 'Ls': law, location and language, and they are all crucial.

Mark McAteer: Paul, do you think in any way your firm's first-ever lateral hire [of US securities partner John Moore from Morrison & Foerster in Hong Kong] points to something?

Paul Olney: Our approach to making up new partners is a combination of the business outlook for practice areas plus quality of the individuals. The business case can never be divorced from the quality of the individual. This year we had a good pipeline coming through; and this resulted

in a bigger number being made up. Our first lateral was in Hong Kong but, frankly, if we are going to acquire US law in Asia we can't promote internally so we could only do this through a lateral hire.

That promotion is a particular response to a particular market need in Asia. Is Slaughter and May going to be acquiring US capacity or lots of laterals in the London market? Absolutely not. We remain very firmly committed to an organic model and, for us and what we are trying to achieve, we think the lockstep model serves us well. Of course, we recruit some associates in the lateral market, but they are a very small percentage. Of the seven who were made up this year in London five did their training contracts with us and the other two had been with us for many years.

I am absolutely not saying that it is the right model, the only model or the best model. I am just saying that for us, still a relatively small partnership – we have about 112, moving up towards 120 – you can work effectively as a partnership with this model. Once you move into the geographies and the sizes of the firms represented around this table, it becomes a whole different ball game. **LB**

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