
State of independence

European firms attach a high value to remaining masters of their own destiny, with few entertaining merger or geographical expansion in the next 12 months



Over the past few years, at least since the financial crisis, the independent European legal market has been notable for, by and large, not really changing. Although a few firms have chosen to expand into new markets, generally strategies have remained consistent.

Many jurisdictions have the advantage of being too small, or already too competitive, to become a target for larger and richer Anglo-Saxon players, meaning that maintaining current models is a viable possibility. The 'best friends' and referral network models enable relatively small firms to compete for work with much larger London and New York-headquartered players, provided they can maintain quality.

As a result, revenues have kept on rising in the past few years, as detailed in the overview section of this report. The refrain most often sung by managing partners interviewed this year (almost two-thirds of the European 100) was familiar: these firms want to remain independent.

During the data collection process this year, we asked firms three key questions. What will be the main source

of competition over the next three years; does your firm expect to expand geographically; and do you expect to merge with, acquire, or hire a team from another firm in the next 12 months?

While not all firms responded, enough did to be able to draw some conclusions.

Competition

The main threat perceived by a significant majority of firms is current direct competitors. Just under three-quarters of respondents named existing rivals as their main source of competition over the next three years.

Even though some jurisdictions – notably, in the past 12 months, Ireland – have seen a number of international arrivals, international firms were perceived as a much smaller threat. A fifth of respondents ranked international firms as likely to be their main source of competition and a third put international firms second.

McCann FitzGerald managing partner Barry Devereux points out that international firms are "arriving in force" in Dublin, but like his peers in other firms, is sanguine about this development. ▶



“The way I look at it is if these firms are coming here, they’re not coming to a static market. They’re saying this market’s getting bigger, our clients are coming here and if they’re coming here we need to be here,” Devereux says.

In-house resources within client organisations attracted few first-choice votes, but more than a fifth of firms responding to the question said it could be a secondary threat in the next three years.

A source of competition which is not on many firms’ radars yet is the Big Four accountancy firms. Deloitte, EY, KPMG and PwC have been ramping up their efforts to build legal practices in the UK, with Deloitte becoming the last of the quartet to apply for an alternative business services licence, in January 2018.

The Big Four have largely maintained a quiet presence on the Continent in recent years, with a focus on tax law in particular. But KPMG’s raid of 145 lawyers from former ally Fidal in early 2019 raised a number of eyebrows. Fidal is fighting the move, bringing in heavyweight litigators from fellow European 100 firm Darrois Villey Maillot Brochier to challenge KPMG.

For now, only 3 per cent of respondents said the Big Four would be their most likely source of competition over the next three years, with another 11 per cent ranking the accountants second. This could change if the quartet decides to push legal services on the Continent to the extent they have done in the UK.

Alternative legal service providers are similarly not really on European firms’ radars as yet, with just 8 per cent of respondents ranking this group as a secondary source of competition in the coming years.

Expansion

Backing up firms’ comments that they want to remain independent, and the lack of change in many models, are the answers to our second question: does your firm expect to expand geographically over the next 12 months? Two thirds of respondents said ‘no’ to



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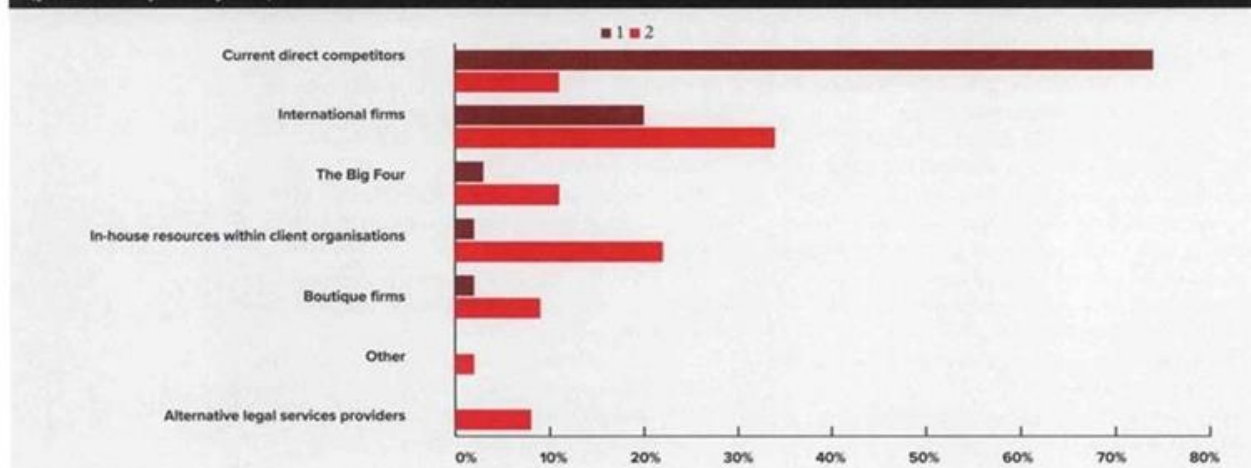
*Barry Devereux,
McCann
FitzGerald*

this question and a further 15 per cent were unsure. Just 6 per cent said they planned expansion within Europe, which was backed up by our interviews with managing partners. A couple said they were looking at potentially adding offices within their own jurisdictions, while a few others said they might look at moving into complementary jurisdictions on the Continent.

Just 3 per cent of respondents said they expect to expand in the Asia-Pacific region, and the same proportion are looking at the US. A number of European firms already have representative offices in cities such as Hong Kong, Shanghai and New York, but with investment flows continuing from both Asia and the US to Europe, these are natural regions to look at.

Only one firm said it expected to expand in the UK over the next 12 months – a firm which is already present in London has plans to increase the number of people there. ▶

Which of these do you anticipate as being the most likely sources of competition for your firm over the next three years? (please rank your top two)



Growth through lateral hires

Similarly, a significant minority of respondents said they were not planning to merge or acquire a team over the next 12 months. Growth appears most likely to be achieved through partner hires, with 33 per cent of firms saying that they were planning laterals in the next year.

A much smaller proportion – 11 per cent – said they were expecting to be able to hire a team within the following 12 months to achieve growth.

There has been a steady flow of lateral hires by European 100 firms in the past year, although these have predominantly been from other independent firms or local boutiques, and several involve picking up a senior associate or counsel and bringing them in as a partner.

Perhaps the most significant hire of the year was Gide Loyrette Nouel's recruitment of Skadden Arps Slate Meagher & Flom corporate partner Olivier Diaz. Diaz began his career at Gide, and joined Skadden in 2015 from Darrois Villey, where he was co-managing partner.

Few other European 100 constituents managed to tempt partners away from international firms last year, although there does continue to be a flow of lawyers between UK firms and Irish firms, and Arthur Cox recruited finance partner Matt Dunn from Clifford Chance in September.

Digitalisation

The other ongoing and persistent trend is one of digitalisation and innovation. Pinning managing partners down as to what 'innovation' actually means is not always easy – what is innovative for one firm might be bread and butter for another – but European firms are now working hard to catch up to their peers in the UK when it comes to technology.

Perhaps the major shift of the year was towards the adoption of artificial intelligence and automation. The big winner in this field is Slaughter and May-backed **Luminance**, which has been adopted by firms across the Continent.

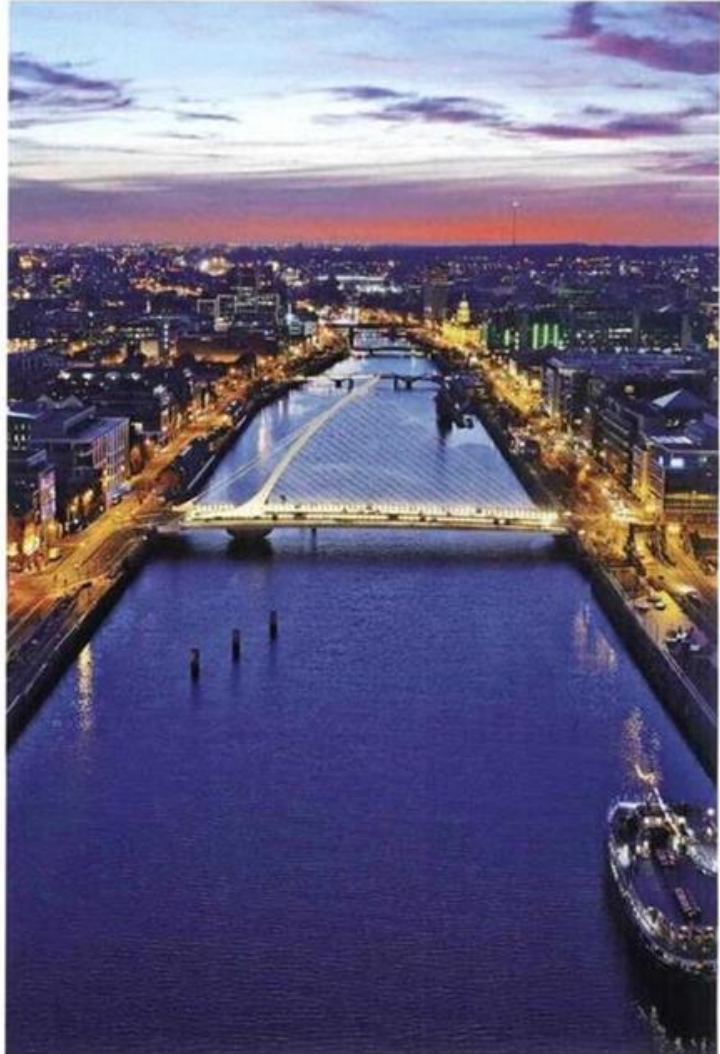
Among those starting to use Luminance last year were Castrén & Snellman, Morais Leitão Galvão Teles Soares Da Silva & Associados, Niederer Kraft Frey, Vieira de Almeida, Vischer, Wikborg Rein and William Fry.

The main challenge with the tool continues to be language, and firms are working to teach Luminance their local language to maximise its possibilities.

Firms are more alive than ever to the necessity of becoming more efficient, with clients also using technology to manage relationships. "That's one of the greatest threats to the way we do business today," notes Bruun & Hjejle managing partner Karsten Kristoffersen.

Several firms are now developing their own apps, either internally or in conjunction with developers. Examples of such tools introduced last year include Stübbe's blockchain-based app for real estate transactions, developed alongside a bank.

Advice to start-up companies, particularly in the technology sector, is something many European 100 firms are trumpeting. Following in the footsteps of the likes of



Allen & Overy and its Fuse incubator concept, some of the Continent's firms are now also welcoming start-up companies into their buildings.

Mannheimer Swartling is among these. It established its 'innovation lab' at the end of 2018, pulling together digital research and business development and inviting two technology start-ups to use its offices as a base for developing new technology tools.

Mannheimer joins the likes of BonelliErede and NCTM in Italy in setting up a dedicated centre for innovation within its walls.

New European 100 entrant Horten in Denmark has gone down a similar route, but its innovation lab is housed in a co-working space run by co-working company Symbion. In a partnership with accelerator Accelerace, Horten's lawyers will provide advice to start-ups housed in the same building.

The amount being spent by European firms on digitalisation and innovation should not be





underestimated. Garrigues, admittedly one of the largest firms in Europe, invested more than €10m last year – around 3 per cent of its turnover. Even a 2 per cent spend by the rest of the European 100 would mean these firms are putting in excess of €200m into the digital sector each year, a sizeable amount.

Politics and other trends

Most European firms tend to stay away from politics, but the one buzzword which came up several times – for a third year running – was, of course, Brexit.

With uncertainty still reigning, firms are continuing to pick up instructions from clients either seeking advice on what they ought to do to prepare themselves, or clients moving to EU jurisdictions as a preventative measure.

Irish managing partners reported a steady flow of both types of work and the Netherlands and Luxembourg also continue to benefit from Brexit-related instructions. Firms elsewhere on the Continent have had more of the advisory-type work.

Politics also caused strategic withdrawals by three European firms from jurisdictions away from their headquarters last year. Both Gide and August Debouzy chose to close their small, recently opened Tehran offices after US president Donald Trump re-imposed sanctions on Iran.

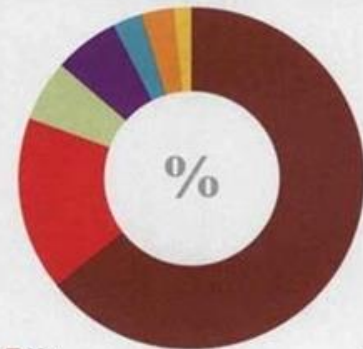
Meanwhile, Egorov Puginsky Afanasiev & Partners saw the bulk of its Ukraine office, save for a small

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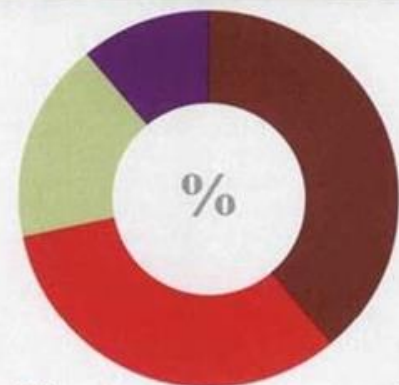
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Does your firm expect to expand geographically over the next 12 months?



No	66%
Don't know	15%
Yes - within Europe	6%
Yes - elsewhere	6%
Yes - in Asia Pacific	3%
Yes - in the US	3%
Yes - within the UK	1%

Do you expect to merge with, acquire, or hire a team from another business in the next 12 months?



No	39%
Achieve growth via partner hire	33%
Don't know	17%
Achieve growth via team hire	11%





corporate team, split off to merge with Ukrainian firm Asters. The spin-off came seven years after Egorov bulked up in Ukraine via a merger with local firm Magisters.

Work in the region has been impacted for several years now since Russia annexed the Crimea Peninsula, and it became clear that it would be easier for the team to operate under a Ukrainian, rather than a Russian, name.

The two firms will continue to cooperate on cross-border issues.

The other ongoing trend remains retention of lawyers, and recognition of the need to provide a better work-life balance is high.

Some firms are taking this a step further, looking at other ways to attract and motivate staff and lawyers.

Demonstrating awareness of environmental issues is one aspect of this. Firms including August Debouzy,

Castrén & Snellman, Kromann Reumert and NautaDutilh are increasing their emphasis on environmental protection.

For example, August Debouzy has gone plastic-free and is ensuring it is recycling more of its waste and measuring electricity consumption.

Similar initiatives are being undertaken at NautaDutilh, which is also trying to cut down on waste, use local produce in its canteen, and has installed beehives at its building.

August Debouzy managing partner Mahasti Razavi says the need to demonstrate the firm's green credentials is part of motivating younger talent.

"We can't be where we are without thinking about their generation, and what makes them happy," she says, noting that the moves, while hardly business-critical, have been met with warm appreciation by the firm's lawyers.