

Business Times, Singapore 25 June 2009

**Law, accountancy firms need to innovate
Some firms are very slow to respond to market changes and resist change and
innovation**

Law and accountancy firms have been hit hard by the economic downturn, particularly in the western world where firms as prestigious as Clifford Chance and White & Case have laid off numerous professionals and support staff. In Asia, we haven't really seen mass layoffs even though large firms such as Ernst & Young have either let a few people go (quietly) or, as is this case with Deloitte, they have put a freeze on hiring in places such as China. A report in yesterday's edition of the Business Times discussed the tough times Singapore Law Firms are facing given the pressure on fees, slump in corporate work, and competition from the newly registered foreign firms now allowed to compete for work in the previously protected market.

In spite of this, there are some areas of work for law and accountancy firms that are healthy, indeed booming, the sought after 'green shoots'. Indian Law firms have been benefiting from the outsourcing of law services for some time now as both law firms and organizations look to lower their overall costs. The Wall Street Journal (WSJ) Law Blog reported a few days ago that Rio Tinto has now hired a full team of lawyers in India to conduct work that normally would have been done by its legal service providers (purportedly Baker and McKenzie, among others) at seven times the cost of the Indian firm. The WSJ blog goes on to say that Rio Tinto aims to save 20% of its yearly legal bill, estimated to be USD100m. Companies have been sending their legal work to India for a number of years now and as a closed market, foreign law firms need to team up with local firms in order to operate in the region. The problem is that there are only a handful of world class legal firms in India and they have been swamped with enquiries for alliances by foreign firms. There is an opportunity there for the less well know firms to improve both the technical and service quality aspects of their work in order to benefit from these trends.

Whilst transactional type work (as opposed to litigation) has been hardest hit by the financial crisis, there is a growing amount of work in niche areas for both law and audit firms. Reports in the Business Times over the last few days states that work in corporate restructuring in Singapore has been busy with firms such as KPMG claiming a jump of over 50% in work. This mirrors the huge amount of bankruptcy work taking place in North America, GM being a good example of the huge fees some law firms are raking in. It's interesting to note that some firms are willing to accept alternative billing arrangements as opposed to straight hourly billing and in my opinion, this is a good thing. The destructive nature of billable hours has been highlighted the American Bar Association and it's good to see Asian firms using value based pricing in some instances. Not only big firms are benefiting. There is a substantial demand for special audits and forensic accountants as companies experience greater financial troubles. Some local

Singaporean audit firms have been able to charge premium prices due to their recognized expertise in special audit services.

Singapore and India are not the only markets seeing growth in certain areas. China, despite its recent moratorium on IPO (and rather tentative lifting of the freeze) has seen an increase in firms looking at alternative ways of raising equity. Reuters reported that Chinese companies had issued RMB384b worth of corporate bonds and bills for the first four months of 2009, which is a 6 fold increase compared to a year earlier. According to a report by Asia Legal Business online, Zhong Lun law firm in Beijing has seen a major increase in clients wishing to issue bonds to raise funds, and partner, Ye Beicheng, doesn't necessarily believe that the work will dry up since the ban on IPOs has been lifted. Another article in Asia Legal Business notes the potential for significant growth in IP related work. It notes that Deheng, Foley & Lardner, Bingham McCutchen, Rouse and Dacheng have all made substantial hires in their IP practices. This is response to the growing sums being awarded in China related to IP infringement and the anticipation that companies are much more ready to protect their IP given the current economic conditions.

Whilst many law and audit firms lament the state of the economy and blame their poor performance on external factors beyond their control. There are clearly sectors which are flourishing. The problem with most law and audit firms is their lack of strategy and short term thinking. They are also very slow to respond to market changes, and highly resistant to change and innovation. Many such firms claim that they cannot innovate due to regulatory restrictions imposed by various professional and government bodies. Sure, this type of regulation may restrict access to capital and what types of services can be bundled together, but it does not restrict innovation in terms of firm culture and leadership, practice groups and strategy, as well as target markets and differentiation.

So you want to take advantage of the green shoots, what should you do? Well, don't just jump randomly into practice areas that you think are growing if you neither have the competencies nor experience in this area. Instead, take an audit of your firm's strategy, leadership and services and think about how well placed you are for the next 1, 3, or 5 years. Put all sacred cows out to pasture, it is time for professional service firms to start thinking about strategy and innovation.

Robert C. Sawhney is the managing director of SRC Associates Ltd and the author of 'Marketing Professional Services in Asia' (Lexis Nexis, 2009). bob@srchk.com.

Copyright © 2007 Singapore Press Holdings Ltd. All rights reserved