

## The Downsizing of Asia Law Firms

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Downsizing is a peculiar strategy because despite unequivocal evidence that downsized firms do not outperform non downsized firms, it is often a first resort for management when profits start to decline. Research also shows that downsizing does not cut costs.

Some of the largest law firms in the world have laid off numerous lawyers and support staff. Downsizing has many euphemisms (i.e. rightsizing, retrenchment, re-engineering) but at the end of the day, it is meant to deliver returns in financial and organizational performance. One of the major reasons that it does not deliver in those areas is that firm's approach downsizing in a workforce reduction manner as opposed to a systemic manner. In other words, there is no strategy that deals with the culture of the firm, productivity, and work processes, and hence those left in the firm (survivors) are left de-motivated and unproductive. The fact that law firms are notorious for their short term thinking and lack of strategic decision making suggests that further layoffs are inevitable in this sector as performance problems caused by inflated staff numbers, aggressive expansion, and over reliance on key sectors (such as banking) will not be tackled in a bottom up, systemic manner. The indirect costs of downsizing, such as loss of firm memory and the impact on knowledge management, is of particular importance to knowledge based industries like legal services.

Another issue at hand for law firms is the insular and often secretive management practices they seem to believe are crucial to maintaining the integrity of the professions. According to Wayne Cascio (a noted expert on downsizing and advisor to the US labour department), the failure of firms to be open and honest about downsizing has a negative impact on the outcomes of any such initiative, additionally, the failure to involve staff and set clear objectives is another major factor that causes the failure of downsizing programmes.

Aside from these critical issues, there is another pressing need facing US and UK law firms based in Asia, that of cultural differences and how this affects the process and outcomes of downsizing. One of the key differences between Western and Asian cultures is that Western societies are highly individualistic whereas Asian ones are collectivist. For example, many Western law firms have been moving towards merit based partner compensation systems (although UK firms still tend to use lockstep systems) to overcome the inherent problems related to uneven contribution of partner efforts etc. On the other hand, many law firms in Asia are moving back towards the lock step system of compensation due to the collectivist cultural and economic ideologies that societies such as China value. In a downsizing context, the choice of people to let go becomes cloudy as Western firms will look at the relative performance and contribution of individual professionals (such as revenue generation) and decide who to let go. Indeed, the performance appraisal systems used by Western firms tend to focus on objective and individual attributes whereas those favoured in collectivist societies such as China and Hong Kong are concerned with processes as opposed to the purely outcome based assessments used in the west. This can have a significant impact on the perceived fairness of the downsizing and fairness affects the

psychological status of both victims and survivors. Research by Chung Ming Lau and Hang Yue Ngo (Journal of International Business Studies, 2001) demonstrated that Chinese are less accepting of personal and individual level organizational development interventions and that is exactly what most western firms practice in their downsizing interventions. The authors go onto say that group level or task based intervention is most appropriate for collectivist cultures, however such approaches are least used by Western organizations.

Law firm leaders operating in Asia (from US or UK law firms) should consider carefully the downsizing strategies used and how these are affected by the cultural nuances of the region. They should also remember (as demonstrated by David Maister in his book, Practice What You Preach), that job satisfaction and work commitment has a significant impact on firm performance.

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