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Legal Future Shock: The Role of Large Law Firms by the End of the Century

JAMES F. FITZPATRICK

This article considers the impact that the growth of large law firms, located essentially in our major metropolitan areas, will have on the delivery of legal services in the remaining years of this century. The Chief Justice was quite correct in his dedicatory address last year that the growth of large law firms deserves academic review and empirical evaluation. A law school curriculum must be designed to respond to tomorrow's needs, not yesterday's.

My perspective is that in the last quarter of this century, the practice of law will undergo the most radical restructuring in its history. Therefore, it is imperative for academics and leaders in the Bar to make sure that we are training law students in a way that will provide the skills necessary to meet the new challenges of their profession.

I might say, parenthetically, that although the academic evaluation of this phenomenon might have been slighted, there is no lack of attention in the more popular literature. *The Legal Times, The American Lawyer, The National Law Review,* and bar associations all devote a great amount of attention to this matter; in this forum the issue has been vigorously and often thoughtfully discussed and debated. And a new growth industry has emerged in the law—consulting firms which help firms plan for their future growth and the expansion of their business.

Nevertheless, the information and data collected here within an academic forum will be, I believe, of significant benefit to all in the profession who are looking at this issue seriously.

This article discusses the characteristics of the large law firm and the delivery of legal services in the remaining decade-plus of this century. Trying to understand those potential changes is, I believe, the most important function that law firm leadership can undertake. For me, the central, eternal verity is that successful law firms in 1995 will not be practicing law in the same way that successful law firms practiced in 1980, and certainly not as they did in 1970. Unless one tries to understand the evolution of the market and the new demands for legal services, a lawyer and his partners simply are going to be left behind.

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Although the proposition is easy to state, what follows is not so obvious. If these evolving trends were perfectly clear, then everyone would likely fall in line. Thus, my perception is necessarily subjective—but I think it is correct.

The four main characteristics of large law firms in the 1990's are that they will be bigger, more fluid, more risky, and much more diversified and commercially aggressive. Any strategy, either in a law firm or in a law school, should accommodate and respond to those characteristics.

First, **size**. There will be an accelerating trend toward larger and more diverse law firms. The data over the last decade dramatically document the trend toward larger legal institutions. Firms are becoming behemoths. Today, Baker & McKenzie has more than a thousand lawyers. Jones, Day, Reavis & Pogue has more than 825 lawyers. New York's largest firms are exploding in size, and that growth reflects a national trend. In 1987, the largest New York firm had 818 lawyers, up 28% in a year; the second had 684 lawyers, up 15%, the third, 506 lawyers, up 10%. Our firm mirrors this trend. In 1968, we had 52 lawyers; in 1978, 100 lawyers; in 1988, 304 lawyers.

With the expansion in size has come a growth in revenues and per-partner profits. The firm earning the largest revenues according to this year's American Lawyer survey (which is uncannily accurate) was Skadden Arps, $290 million; the fiftieth largest firm had $70 million in revenues; the one hundredth largest, $45 million. Average per-partner profits at Wachtell, Lipton in New York were $1.4 million; at Cravath, $1.2 million; at the fiftieth largest firm, $285,000; at the one hundredth largest firm, $155,000.

Law firms today are major mid-size businesses, and it is well known that we all have been inordinately slow, as a matter of competent management and administration, to recognize and respond to that fact. Today, more than 100 firms have revenues over $45 million a year. If one is a managing partner at the eighty-second largest firm in America, there is a constant worry that the firm receives a million dollars in revenues each week.

Firms are not only becoming bigger in terms of numbers of lawyers and gross revenues, but they are increasingly broadening their geographic reach. In a recent survey, The National Law Journal found that the one hundred largest U.S. law firms have a median number of four branch offices; many

4. *Id.* at 5-26.
of those branches included international offices.\textsuperscript{5} Today, more than one-third of all of the lawyers in the nation's one hundred largest firms work in branch offices—both domestic and foreign.\textsuperscript{6}

This trend toward a regional or even nationwide network of branches will not simply continue, it will accelerate. In this regard, law firms are becoming nationwide or regional because their clients are national or regional. An aggressive firm wants to be able to serve its clients in the many areas of the country in which those clients are found; often services simply cannot be provided easily and effectively from a distant home office.

I believe that the model for the next twenty years for the largest corporate law firms will be found in the organizational structure of the Big Eight accounting firms—offices in each of the large urban centers, partners in charge of each of the major geographic branches, firm-wide components dealing with key commercial areas of the firm's practice, and a strong centralized management monitoring overall quality control, firm-wide standards, financial planning and management, and compensation.

Many of the leaders in the profession have been moving in that direction, and more will follow. Jones Day is one of the more successful; certainly, Finley Kumble turned out to be a disaster, and one can learn a great deal about how to do things right by studying those two examples.

Second, fluidity. One of the most dramatic changes in the last third of this century in the practice of law is the loss of loyalty and "family" in law firms. A most remarkable phenomenon in American business and professional life for many decades was the stability of the American law firm. The lawyer who went with a firm planned, barring disaster, to stay there most of his or her career. Moving from one law firm to another reflected badly on the lawyer's professional judgment and the probity of his advice. Even in large law firms, "partnership" did indeed have a meaning—collegial support, willingness to tolerate lapses in productivity, mutual respect for another partner's eccentricity.

That bonding tradition is breaking down now and, unhappily, will become even less apparent in the future. We are entering an era where talented lawyers with a large book of business will be "at play" in the market, with firms bidding for those services. Star lawyers are the new "free agents" in our society, just like professional athletes.

No longer will a lawyer look forward to practicing with only a single law firm; rather, the lawyer may make three or four career changes. There is intense bidding among big law firms for "heavy hitters"—lawyers with a big, mobile practice who will move with the promise of greater rewards.


\textsuperscript{6} Id. at S-26.
Assembling legal talent in a firm is increasingly a matter of hiring laterals rather than slowly building from the inside. Of Counsel surveyed the 500 largest law firms in 1987. Over one-fourth of the firms reported that half or more of their new partners came from other firms rather than from promotion.7

As we have all seen, lawyers have their own merger and acquisition practice—small and mid-sized firms are being acquired all the time. Over time a series of large nationwide corporate law firms will emerge with the continuation of many small boutique firms that have specialized expertise in a particularized, narrow field. The real potential losers are the mid-sized corporate firms of 50 to 150 partners that have neither the breadth nor the depth to provide a team of lawyers to meet the strong competitive pressures of the large firms, but at the same time have high overhead costs that the smallest boutique firms need not bear.8 The big will indeed get bigger, the small will stay small, and those in the middle will be absorbed.

Third, riskiness. There is no doubt that the business of law is going to be much more risky as a result of these trends. There is the increasingly onerous burden of meeting a huge payroll every week. A firm of 300 lawyers will have another 450 employees on its support staff. There are immense pressures to keep growing. Law firms work on the Marxist theory of surplus value, transferring earnings from the bottom of the enterprise to the top. A young associate will bill 2,000 hours, which will bring in $200,000 of gross revenue to the firm. That associate's salary might be $60-70,000 a year. A partner could bill 1,500 hours a year, bringing in $300,000 plus to the firm; the salary of many senior partners will exceed that amount. One immutable law is that all of us keep getting older—and more senior. As that process goes on, one expects to make more money. The only way more money can come to a firm, barring rate increases which have strong limitations, is to have a larger pool of people below helping to finance a richer salary structure for those above.

Law firms, therefore, are extremely susceptible to severe strains if expected revenue growth does not materialize due to factors over which the law firm has no control: A business depression can cause a slow-down of legal activity, a major client can be sold, or (God forbid!) a huge litigation with five partners, fifteen associates, and twenty paralegals could be settled. With significantly larger institutions and expanding economic expectations, a drop in revenues of five or ten percent for the year can create immense risks to the stability of a firm.

These risks are exaggerated because of the trend toward acquisitions and expansions, particularly with laterals. Facing a period of financial stress, many firms simply do not have the sense of tradition and mutual support—at bottom, "partnership"—that will permit a firm to survive. Thus, firms that were put together in a hurry can fall apart in a hurry.

Finally, diversification and commercial aggressiveness. I believe that the most marked characteristic of the practice by the end of the century is that large firms will become immensely more diversified in the services they offer. They will become more oriented toward problem-solving than traditional law firms, assemble teams of experts—lawyers and non-lawyers—and offer their clients "one-stop shopping." Traditional lines that have long separated the professions will become significantly blurred. By the end of the century, legal services will be provided broadly in the context of a diversified service firm that will draw upon the talents of many disciplines with financial, economic, and scientific resources available within a single institution. This evolution is indeed the most exciting development that I foresee in large corporate law firms.

Historically, the lines that separated the professions were bright and distinct; ethical rules reflected the fact that each profession was quite separate from the other. Non-lawyers could not be partners in the same institution with lawyers. Beyond that, more imaginative ideas of stitching together an institution composed of lawyers and non-lawyers simply had not been developed.

Today, the old traditional lines—the borders of the professions—have been rapidly disappearing. This is not to say that accountants will become lawyers and lawyers will become investment bankers. Rather, institutions will develop that will have as their mission the broader goal of "problem solving"—drawing upon the talents of many varied professions under one roof.

In this problem-solving exercise, which, for example, may involve establishing new and creative ways of financing projects, one calls upon the expertise of lawyers, business consultants, accountants, investment bankers, public relations experts, and often architects, land use planners, and other specialists.

Each of these professional groups will be competing to determine who is going to be the leader of these problem-solving projects. Who will be in charge? In colloquial Hoosier, who is the "bell cow"? One will see increasing pressures among these professional groups to come to the bargaining table with a variety of specialized talent already in hand. Historically, such a consortium could have been put together by working arrangements with independent professional groups. Increasingly, however, there will be pressure for the groups to create, within a single institution, a medley of professional skills.
Thus, one of the largest growth areas of the Big Eight accounting firms is their management advisory service. It is no longer eye shades and sharpened pencils that drive the large accounting firms; rather, their profession has expanded broadly and very successfully into general business consulting. Accounting firms contain some of the most resourceful business consultants in the country. Arthur Andersen is the world's largest management consultant; its consulting revenues last year were almost $1 billion.9 Of the top ten management consultants, five were large accounting firms.

Similarly, the largest advertising agencies are buying up big consulting firms. Saatchi and Saatchi, the world's largest ad agency, has said it plans to extend to become the world's largest consulting firm.10

Investment bankers likewise have become a dominant force in general problem-solving for business firms. Although their relationships with law firms have not become formalized as yet, there is a de facto integration with certain firms.

I believe that responding to these new arrangements will provide the greatest momentum for change for large law firms in the 1990's. This is happening already. Law firms are experimenting with new arrangements to provide "one-stop shopping" for their clients. Firms are bringing in-house those professional services that traditionally have been separate and independent. This development often provides a law firm with an advantage (or at least a perceived advantage) in bidding for the lead role in new projects. It also affords a law firm with the opportunity to benefit economically from the profits of these associated groups. Finally, it permits lawyers to exercise the kind of talents with which they are well equipped—approaching a very complicated problem that often requires a multi-disciplinary response, skillfully assembling a large team of specialists to solve the problem, and understanding the importance of schedule and priority in attacking it. Add to that the powers of imagination and innovation and the ability to think analytically, which is the province of lawyers. That combination provides a powerful opportunity for lawyers to play a central, not a supportive, role in this world of problem-solving.11

This trend toward a multi-disciplinary approach is part of a broader tendency for firms to become much more competitive and aggressive in looking for new client opportunities. Lawyers today are doing things that not many years ago arguably could have landed them squarely before bar association disciplinary committees. All of us are looking for new ways to market our legal services. Firms are developing very refined techniques for

"beauty contest" presentations to new clients. Firms are increasingly devising ways to provide clients with the legal services they need in the most economical fashion possible, and this often means significantly added use of paraprofessionals, clerks, and non-lawyer professionals.

Law firms are following a variety of formats. First, they are bringing in non-lawyer professionals as employees of the firm to provide direct client services. Also, firms are forming subsidiaries to provide services to clients of the firm. These first steps have been taken in many diverse fields. A recent survey by the National Association of Law Firm Marketing Administrators gives some examples:

- In Atlanta and Memphis, law firms are running an investment banking venture;
- Also in Atlanta, firms are operating energy and environmental consulting and management services, as well as employer benefits consulting services;
- In Arizona, a law firm formed an advertising agency;
- In Philadelphia, a labor law firm organized a consulting firm specializing in labor relations;
- In Los Angeles, a law firm entered the real estate brokerage business;
- In Pittsburgh, a firm offers office support services, seminars, and videos;
- Throughout the country, law firms are running real estate development services;
- In Washington, D.C., law firms have spawned a great variety of non-legal affiliates ranging in specialization from energy and environmental consulting to health care consulting and management, from educational consulting to economic research, not to mention a heavy measure of legislative and lobbying services; and
- In New York, law firms offer a variety of business consulting services in the international trade area.

My firm in Washington has been involved in—indeed, I believe has been on the cutting edge of—this new development. We have created three affiliated firms to provide a broad variety of consultative and business services to our clients. Each of these entities emerged rather naturally from an established concentration in a particular substantive legal specialty in the law firm.

One affiliated entity—The Secura Group—is a full-service consulting firm for the financial industry. It principally serves commercial banks, thrift

12. See Kerlow, Firms Woo Consultants with Equity and Cachet, Legal Times, Aug. 17, 1987, at 1, 12, col. 4.
institutions, and investors in those entities. It complements our substantial bank regulatory practice. The chief executive officer of Secura is William Isaac, the former chairman of the FDIC. He is also a senior partner in our law firm. The chairman of the Secura board is our chief banking lawyer. Secura was organized formally as a Delaware limited partnership, with Arnold & Porter as the major limited partner. In this relationship, the firm has a minority capital interest.

Secura, which started nearly three years ago, now has twenty-two professional staff members with offices in Washington, Dallas, and Los Angeles. Initially, we thought that its core business would be to assist ailing financial institutions—an extension of our present bank regulatory practice and Isaac's experience at the FDIC. In fact, Secura has developed and implemented strategic plans for banking and thrift institutions, reviewed their operating performance, prepared for examination by federal banking officials, assisted in developing new products and services for these institutions, assisted in restructuring, and implemented acquisitions and mergers.

There is great synergism between our bank regulatory practice and Secura. There is a significant overlap in client base, and one group helps spin off business for the other. Of course, particular attention must be paid to the ethical requirements that clients requesting non-legal services have full opportunity to go wherever they want for the legal component of those services.

Our other two affiliates—APCO Associates, a general consulting firm, and MPC Associates, a real estate development consulting firm, grew essentially out of a specialized firm practice in the non-profit area. Starting in the early 1970's, the firm provided a full range of legal services to a growing number of non-profit institutional clients including foundations, colleges and universities, community development corporations, and state and local governments. The projects on which the firm worked were innovative and diverse: from structuring industrial development to building subsidized housing, from financing communications satellites to creating models for inner-city redevelopment, and from fostering the development of rural farm cooperatives to providing the framework for the creation of closed-captioned television for the hearing impaired.

These projects had much in common. Many of them were large, most of them were exceedingly complex, and all of them had tight budgets. Moreover, the clients in all of the projects required a full range of professional services of which legal services, though essential, were only a part. These undertakings demanded a multi-disciplinary approach, a team effort in which lawyers worked closely with other professionals—engineers, architects, land planners, agronomists, market analysts, financial specialists—to achieve the clients' goals in the most direct and cost-effective way. Our attorneys increasingly found themselves in charge of these multi-disciplinary teams and came to realize that we could provide the full range of client services more economically, with better quality control, and in a more timely fashion.
if we could bring a number of these non-lawyer professional services in-house. After carefully reviewing the requirements under the Canons of Ethics, the firm decided to form two new affiliates.

Both APCO and MPC were formed almost five years ago. Both are Delaware limited partnerships with Arnold & Porter as the sole limited partner. APCO currently has twenty-eight professionals and a total staff of around fifty, principally located in the firm's offices in Washington. MPC has twenty professionals located principally in Washington, although it has offices in New York and Los Angeles as well.

APCO currently has over seventy clients. Many of these are also clients of the firm, although APCO represents other companies that it recruited separately. It provides a broad variety of consulting services. Its business is focused in three areas—Washington services, general business consulting services, and selected program services for not-for-profit organizations. In the Washington services area, APCO has been an important participant in a series of firm legislative projects.

Many APCO professionals have had extensive experience working in Congress and in the Executive branch. They can be integrated both as "shock troops" and project leaders into a major Washington legislative effort, billed out at significantly lower rates than lawyers. The opportunity to seek new business combining the talents of higher priced lawyers and lower priced, but highly talented, non-professionals has been an extremely important marketing asset. As the market for legal services becomes more and more competitive, clients will be looking to firms that can find less expensive ways of providing a high-quality, integrated legal and business service. Although most of the revenues earned by APCO in the last year or so have been for clients of the firm, APCO is establishing an expanded base of its own clients that provides opportunities for legal services from the firm itself.

APCO also has an active practice in the international trade and business venture areas, particularly in assisting companies in locating partners for joint ventures; it has specialists available to handle difficult problems in public relations, and it has senior officials who have come directly from industry. Recently, APCO has joined forces with a newly formed Soviet firm to provide these business services to American companies wishing to take advantage of perestroika.

In the not-for-profit area, APCO has assisted major corporate foundations and other similar entities in launching new program initiatives in areas such as child care, literacy and food distribution. As we describe it, APCO is a "full-service consulting firm designed to fill the growing need for non-lawyer professionals in a broad spectrum of areas to augment and complement the traditional legal services provided by Arnold & Porter."16

The third consulting firm is MPC, which evolved from extensive work representing non-profit institutional clients like foundations, colleges and universities, and state and local governments. For many of those clients, we were retained to deal with exceedingly complex, sprawling real estate projects. All of them required us to work with a full range of professionals where the legal services component was an essential element. In providing leadership for those projects, we worked with a multi-disciplinary team—engineers, architects, land use planners, market analysts, and financial specialists. We saw that we could effectively run projects involving that broad spectrum of talents and determined that the least expensive approach for many of these non-profit clients was to bring a number of these allied services in-house. A client could look to Arnold & Porter and its subsidiary as a supermarket that afforded "one-stop shopping."

Since its founding, MPC has served a variety of non-profit institutions. For example, it has been involved in an award-winning, affordable faculty housing project for a major university in California. For various southern universities, we have provided the leadership in the development of large parcels of unused university land and have created housing and recreational centers. In the northeast, MPC has developed student housing and has provided strategic planning for campus development and rehabilitation.

Overall, this process of integrating non-lawyers from our affiliates within a rapidly expanding firm has been a great success. It has brought to our firm a strong infusion of exciting, creative specialists who can help us provide effective legal services. They have challenged our imagination and helped us broaden our horizons. They have permitted us to be better equipped to compete in an increasingly difficult, cost-conscious environment. This partnership represents, I believe, the most challenging aspect of the legal profession.

How do law schools respond to this new development? Just as there is a rethinking in the structure and organization of law firms, there will have to be likewise a reevaluation of the proper elements of legal education to equip young lawyers to deal with these new arrangements. Specifically, law schools could benefit from an increasing emphasis on the case-study approach to major commercial and corporate problems to reflect the fact that the focus of lawyers' efforts is solving problems. It is not just resolving a legal dispute; that is too narrow a perspective. Virtually every large problem involves many aspects of one's law school education, and the solution of that problem requires an integrated approach.

18. See Harrison, University Hills: Faculty Housing Made Affordable, URBAN LAND, Jan. 1988, at 6, 6.
One must have priorities in organizing a legal effort to meet a particularly complicated legal issue. It is clear to me that a preoccupation with reading and analyzing appellate decisions leaves a novice lawyer with only a limited part of one's essential training. Such an approach to the solution of a legal problem is always static and after-the-fact, even with a resourceful teacher varying the facts slightly and seeing how far a rationale for a given solution exists. That approach also presumes that the law is more inflexible than our experience confirms.

Handling a client's most serious Washington problems today, for example, involves counseling, negotiating, litigating, marshalling the positive power of the media in the resolution of the problem, dealing with experts of all varieties, pressing one's case in the regulatory agencies, the White House and the departments in the Executive Branch—and even determining how scholars might feel about a particular issue! An approach to teaching that focuses on the dynamic requirements of mastering a many-faceted problem and developing a strategy to be more resourceful, creative, and persistent than one's opponent—that reflects Washington legal practice today. In that sense, the practice is not scholarship as such, nor is it a crabbed, tight concentration on particular appellate decisions.

One essential component of a case-study approach is an aggressive integration of the resources of the law school with the expertise of a number of other disciplines. A corporate finance course could take as a case study an actual merger and work through all of the problems associated with it—legal, financial, accounting, and public relations. An environmental course could consider a crisis management problem dealing with the appearance of a "Love Canal" situation, again calling upon legal, environmental, scientific, engineering, and public relations expertise. An administrative law course could take a mega-issue, such as auto safety, and see how the problem plays out within regulatory, judicial, and legislative bodies, the Executive Branch, and the press.

This approach will help prepare law students to meet the challenge that they, as lawyers, will be facing as their firms develop into the multi-disciplinary entities of the 1990's. It is no longer adequate for law schools simply to train their students to "think like lawyers." Indeed, one of the great challenges of the future will be for lawyers to think more like problem-solvers. This is a significant change, but it offers the most exciting challenges for law schools and the bar today.