

# Law as business: The financialization of the legal profession

Daniel Muzio, Newcastle University



# The Transformation of the Legal Profession

- The Quest for Growth and Consolidation
- Globalization and Internationalization
- Revisiting the Professional Division of Labour
  - Leverage, hierarchies and specialization
- Femminization

# Making Sense of Change

- De-professionalization
- Commercialization
- Managerialization
- Financialization?
  - The legal profession as a critical case study of ‘the capitalization of everything’?

# Financialization in Large Law Firms

- Financialization by proxy– the importance of PEP metrics and ranking tables
  - ‘Top of the PEPs’ - PEP as the new measure of success in large law firms
- A cultural industry of management gurus, consultants and the media

*“In a partnership, the ultimate measure of profitability is (or should be) profit per partner, which is driven by three main factors, margin, productivity, and leverage... ‘profit per partner’ should be viewed as the professional firm equivalent of ‘return on equity’” (Maister 2003, 31).*

# PEP and Law Firm Management

- “profitability has been one of our key targets over the past year, and with PEP breaking the £500,000 barrier, we have proven our ability to deliver on our promises” (Senior Partner, Eversheds)
- “we did not have the financial performance [in Pep terms] that is necessary or appropriate for a firm of the calibre of ours” (Managing Partner, Freshfields)
- I think it’s fair to say that they [reports of PEP] must have some impact. For example potential recruits may regard them as significant. Perhaps some clients make a judgment on the quality of a law firm by how well it seems to be doing in those terms. So you cannot completely ignore the league tables...What we do have is a sense of a need for comparability purposes to know that we are not lagging behind on competitors, that we’re not making our partners or our staff work harder for less benefit...” ( Senior Partner, Top 10 firm)

# The financialization of the legal profession (1993-2008)

<b>Period</b>	<b>Revenues per lawyer* (% change)</b>	<b>PEP* (% change)</b>	<b>Equity Partners (% change)</b>	<b>Salaried Partners (% change)</b>	<b>Associates (% change)</b>	<b>Leverage Ratios</b>
<b>2003-2008</b>	21.8	51.6	-0.92	34.2	6.96	6.9 (2008)
<b>1998-2003</b>	11.9	24.6	72.9	N/A	96.7	6.7 (2003)
<b>1993-1998</b>	1.2	35.4	18.5	N/A	49.7	5.1 (1998)
<b>1993-2008</b>	38	155.8	103	N/A	215	3.9 (1993)

# Managing for Pep

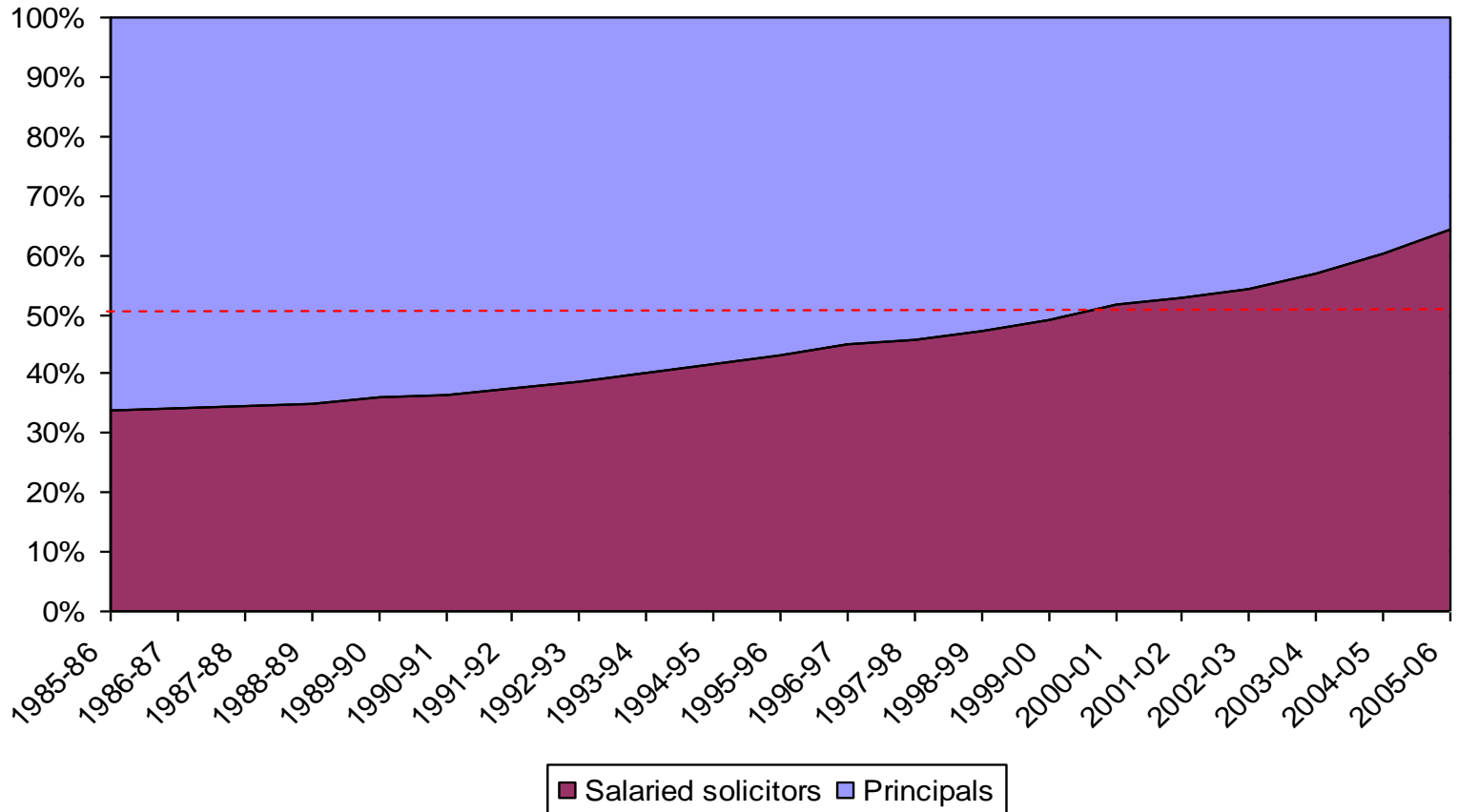
- Pep inspired ‘surgeries’
  - Refocusing around profitable practice areas
  - From long-term to transactional relationships
  - New organizational structures and managerial practices
  - The lateral hire market
  - **Restructuring the professional labour process**

# Restructuring the professional labour process

- The rise in the numbers of associates
  - Lengthening and toughening of promotion times and criteria
- Restructuring the partnership
  - Dual tier partnerships
  - De-equitization
- *Increasing the number of people who bake the cake whilst reducing the number of people who share the cake*



# Leveraging the Profession: Associate to Partner Ratios



# Leverage in action

Legend	Partners	Senior Fee Earner	Junior Fee Earner
Hourly Rate ("HR") £	220	190	140
Notional Hours pa (HH")	1,300	1,300*	1,300*
Notional Income pa ("NI") (HR x HH) £	286,000	247,000	182,000
Remuneration "R"	450,000	90,000	50,000
Income/Remuneration Ratio NI/R	<b>0.63</b>	<b>2.74</b>	<b>3.64</b>

*Data provided by EuroLegal ([www.eurolegal.org](http://www.eurolegal.org))*

# Does the 'Pep Game' work?

- A 'disputed' model?
  - “I argue that PEP is not an appropriate measure of the success of a law firm and should be replaced with measures which take account of sustainable profitability, client satisfaction and staff motivation” (Former Managing Partners at Magic Circle Firm)
- Does managing for PEP exaggerate the impact of the recent downturn?
- The Slaughter and May model as an alternative

# Working in the financialized firm

- Elongation and transformation of career patterns
  - “I’ve got a lot of friends at [firm x] and they have really squeezed partnership and it’s difficult to get partnership at [firm x] now because they want to, you’ve probably read it in the Lawyer if you read that, they want to get to four hundred thousand pounds per equity partner. The only way they are going to do that is reduce the partners. [Lawyer x] is a guy who has come across here from [Large Firm], he only joined us a month ago as partner, fantastic bloke, very able, corporate lawyer and he was told by his immediate boss [at firm x] that “we want you to be a partner because you are capable but if we squeeze the numbers to make the PEP target you won’t make it for a few years” (Lawyer, top 25 English law firm).
  - “salaried partnership is effectively glorified employees and if I wanted to have an input, which I did, it would be very difficult to be heard. And even if you were heard whether anyone took any notice was a whole different matter again” (Lawyer, firm in Lawyer’s UK 100 table).
- De-equitization and the changing meaning of partnership
- Stress, Turnover and Health and Safety.
- Gender implications

# Coda: The post-crisis scenario

<b>Period</b>	<b>Revenues per lawyer* (% change)</b>	<b>PEP* (% change)</b>	<b>Equity Partners (% change)</b>	<b>Salaried Partners (% change)</b>	<b>Associates (% change)</b>	<b>Leverage Ratios</b>
<b>2003-2008</b>	21.8	51.6	-0.92	34.2	6.96	6.9 (2008)
<b>1998-2003</b>	11.9	24.6	72.9	N/A	96.7	6.7 (2003)
<b>1993-1998</b>	1.2	35.4	18.5	N/A	49.7	5.1 (1998)
<b>1993-2008</b>	38	155.8	103	N/A	215	3.9 (1993)
<b>Period</b>	<b>Revenues per lawyer* (% change)</b>	<b>PEP* (% change)</b>	<b>Equity Partners (% change)</b>	<b>Salaried Partners (% change)</b>	<b>Associates (% change)</b>	<b>Leverage Ratios</b>
<b>2008-2013</b>	-10	-32	81.5	85.5	26.5	5 (2013)
<b>1993-2013</b>	24.5	73.7	268.5	N/A	298	3.9 (1993)

# The Slaughter and May's Story

Period	Revenues (%)	Revenues per Lawyer (%)	Pep (%)	Equity Partners (%)	Salaried Partners (N)	Associates (%)	Leverage	Leverage (%)
1993-08	145	102.7	237	25.7	6	18.7	4.95 (1993)	-4.7
2008-13	-8	-3.69	-6.45	-11	4	-2.9	4.71 (2008)	8.8
1993-13	125	95.2	215.5	11	4	15	5.12 (2013)	3.7

# The Clifford Chance Story

Period	Revenues (%)	Revenues per Lawyer (%)	Pep (%)	Equity Partners (%)	Salaried Partners (N)	Associates (%)	Leverage	Leverage (%)
1993-08	311.7	38.3	192.5	74.3	212	205.1	4.2	87.5
2008-13	-17.4	-1.7	-38	2.5	166 (-21.7%)	-17.8	7.9	-20
1993-13	240.7	35.86	81.4	78.7		150.7	6.3	49.9

# The DLA Story

Period	Revenues (%)	Revenues per Lawyer (%)	Pep (%)	Equity Partners (%)	Salaried Partners (N)	Associates (%)	Leverage	Leverage (%)
1993-08	850.8	52.46	129.6	80.6	388	541	2.7	336
2008-13	148.4	39.3	1.1	161	840 (116%)	61	11.8	-34
1993-13	2261	112.4	132.2	371.4		931	7.7	186