

Developing a Profitable Practice in Asia

ROBERT SAWHNEY



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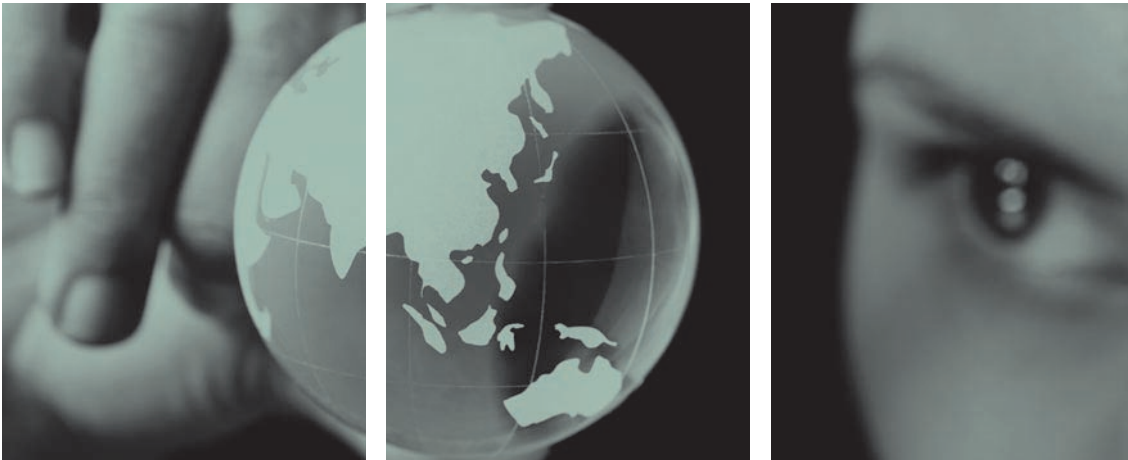
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Executive summary

GIVEN THE relative slowdown in the European and North American legal markets; and the projected continuance of soft market conditions, the Asian legal market is increasingly taking on a more important role in the fortunes of western law firms. In Hong Kong alone, for example, the number of foreign law firms has doubled in the last few years as the city solidifies its position as a financial centre and a potential source of funds for the growing number of mainland Chinese companies expanding their businesses internationally.

The legal industry seems to be on the edge of substantial change. Legal process outsourcing, alternative fees, external ownership (Legal Services Act 2007 [LSA], UK) and the commoditisation of legal services are all facets of growing client expectations. The burgeoning influence of Asia and its key markets such as China and India predominantly seems to be catching the imagination of western law firms whose practices are now significantly impacting the strategies of local Asian law firms. The merger of US firm Mayer Brown and Hong Kong stalwart JSM is indicative of the intentions and moves of some of the larger law firms but is by no means the whole story. Many smaller western firms are breaking into the Asian market without even setting up a physical presence (through alliances and other innovative approaches) and Asian firms traditionally focused on domestic markets are now expanding out of Asia into North America and Europe.

The Asian economies have been relatively resilient during the global financial crisis with foreign direct investment (FDI) flows to the region dropping only a modest 17 per cent in 2009. The region now accounts for one fifth of global FDI flows and the region's three largest recipients: China, Hong Kong and India now rank second, fourth and ninth respectively in the world.

Whilst some foreign law firms have been making major strides in Asia not all entrants have been so successful. Given the often restrictive nature of practising law in many Asian countries and the unique business and cultural environment, market entry strategy plays a key role in the outcome of any Asian venture. Whilst larger firms tend to go it alone, smaller firms tend to build an Asia presence through some type of strategic alliance. There are in fact a multitude of entry options available to foreign law firms seeking opportunities in Asia, each having their strengths and weaknesses. Going it alone gives the firm control over what it wants to achieve and avoids the cultural and business issues that inhibit successful alliance performance. However, the capital investment and time needed to build a practice from scratch can be prohibitive especially given the tight market for top talent in the region. However, firms which have been successful with alliances are careful to integrate based on clear expectations for knowledge sharing and the leveraging of intellectual capital for competitive advantage.

In general, many of the key legal markets in Asia such as Hong Kong, China, India, South Korea, Indonesia, Vietnam, Malaysia and Singapore have done well and attracted significant FDI as well as law firm interest (refer to Chapter 1).

Starting a new practice in Asia can be challenging in terms of receiving support from the key partners involved and developing a viable strategy for the region. In a culture where relationships and face to face interaction are key in building viable client relationships, it is crucial for the firm to understand and embrace potential cultural/business challenges in the region and not expect profit levels to match those in the firm's domestic market, at least not initially. Many firms follow existing clients into the region, which helps them hit the ground running but does not necessarily lead to longer term revenues. Being able to generate business on the ground is crucial and this takes an understanding of client needs, relationship marketing and service quality in the Asian context, as well as the ability of the firm to work with multiple stakeholders and within the context of strategic alliances where applicable. Other key management issues will also come up including how to motivate and retain talent as well as reconciling the often differing remuneration structures and levels an Asia practice demonstrates, with each having the ability to derail even the best laid plans. Leadership, knowledge sharing, management structures and human resources are also key issues that foreign law firm leaders will need to consider when considering how best to integrate an Asian practice into the firm.

This report will identify, discuss and give concrete guidance for building a successful practice in Asia by examining the key issues pertaining to strategy, practice management,

leadership, knowledge sharing, entry strategy, relationship marketing, law firm expansion and understanding client needs within an Asian context. There are numerous examples of what law firms are doing in the region and evidence supporting the decision making process.

Part One highlights the attractiveness of Asian legal markets and the entry options available to foreign law firms. It also discusses the key trends and issues affecting law firms operating in the region. Part Two provides a guiding analysis to ten key legal markets in Asia, analyses key players, investment trends and the context for foreign law firm operation. Part Three addresses the key strategy, marketing and management issues firms will need to resolve to be successful. Many of these concepts are affected by the Asian cultural and business context and the discussions in this section consider this explicitly. Part Four is a series of case studies exploring both foreign and local firms in Asia, identifying the strategies they have used to build a practice in the region. Case studies include:

- The merger between Mayer Brown and JSM;
- Deacons law firm (Hong Kong) – The building of an IP practice;
- Harris & Moure (US) – A small US law firm with a significant China practice;
- Russin, Vecchi, Berg & Bernstein (US) – A small US law firm with an innovative entry strategy into China;
- Eversheds (UK) – The entry of a large UK firm into Hong Kong and Singapore;
- Surana & Surana (India) – The largest law firm in South India;
- Gall & Lane (Hong Kong) – A boutique litigation firm doing big things; and
- Clayton Utz (Aust) – Launching their first overseas office.

The primary objective of this report is to provide foreign law firms specific information and guidance for building a successful practice in Asia. This is done by addressing the specific strategy, marketing and management challenges such firms face when entering or expanding their practice in Asia and by providing specific information on key legal markets and trends within the region. There are also many examples (both in the report and from the case studies) of what law firms are doing in the region as well as insight provided by other experts on trends and what is needed to build a sustainable practice in Asia.

The report will also be of value to Asian law firms looking to expand their practice, learn about global legal trends and understand the key factors that shape the competitive context of Asian legal markets and how they can enhance their own competitiveness.

About the author

ROBERT IS the managing director and senior partner at SRC Associates Ltd, a Hong Kong based consulting firm that works throughout Asia with law and other professional service firms on their key strategy, marketing, internationalisation and competitiveness issues. He has consulted for some of the leading professional service firms in places such as Hong Kong, Singapore, India, Vietnam and China.

He is also the author of *Marketing Professional Services in Asia* (Lexis Nexis 2009) which has been called "one of the most indigenous books" on Asian marketing by Professor Oliver Yau, chair professor at the City University of Hong Kong.

A frequent commentator on issues related to the competitiveness of professional service firms, Robert has either been profiled or quoted in publications such as the *South China Morning Post*, *Lawyers Weekly* (Aus), the *Lawyer* (UK), *Asian Legal Business* and *A Plus* (the magazine of the Hong Kong Institute of Certified Public Accountants).

In addition to his consulting work Robert has written numerous articles for pre-eminent publications such as the *Business Times* (Singapore), *Hong Kong Lawyer*, *Hong Kong Accountant*, *Managing Partner* magazine (UK), *Singapore Law Gazette*, *Law Dragon* (US), *Australian Law Management Journal*, the *Lawyer* (UK), *Hong Kong Economic Times* and the *ACCA Journal* among many others. He has also delivered training programmes accredited by both the Hong Kong Law Society and the Hong Kong Institute of Certified Public Accountants.

Robert has a Bachelors degree from Brunel University in London and an MBA with distinction from the University of Lincoln (UK).

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Bob Sawhney
October 2010