

Entrepreneurship essential to law firm

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Yellowstone National Park almost burned to the ground in a cataclysmic conflagration in 1988 that raged for five months and reduced tens of millions of trees to charred stumps that covered more than a third of the park's acreage. In his book *Unbound: How Entrepreneurship Is Dramatically Transforming Legal Services Today*, David Galbenski warns that the current downturn may cut a swath of destruction upon the legal landscape similar to the forest fire 22 years ago wrought upon Yellowstone.

"The financial crisis will be the last blow to a business model that was already cracked," Galbenski says in an interview with *The Lawyers Weekly*. Many other legal sector commentators — most notably the U.K. legal academic and futurist Richard Susskind in his book, *The End of Lawyers? Rethinking the Nature of Legal Services* — have predicted that the legal profession is poised on the cusp of massive upheaval. Why does Galbenski believe this recession will deliver the final push?

As the founder and CEO of Lumen Legal, a legal staffing and consulting company headquartered in Royal Oak, Mich., with offices in 17 legal markets, Galbenski has carefully watched the legal sector for the past 15 years. The figure he focuses most closely upon is profits per equity partner.

From 2001 up until the recession hit at the end of 2007, law firms saw double-digit growth and partner profits almost every year, according to Galbenski. During that halcyon period, major law firms were able to increase profits annually primarily by raising hourly billable rates each year. Profits-per-partner fell by as much as 10 per cent from 2007 to 2008 and are expected to plunge by five to 15 per cent in 2009.

"As long as profit per equity partner continued to rise, law firms were unwilling to change their business model," Galbenski explained in an interview. He added, "partners are the people who can affect change at the law firm. Naturally, they were reluctant to commit to reforms until their profits started to slip."

The recession has already inflicted devastating blows to the legal sector. In 2008, the legal sector in the U.S. shed 7,000 jobs, according to the U.S. Department of Labour. In the first half of 2009, major law firms in the U.S. let go over 10,800 attorneys and support staff, according to the lay-off tracker compiled by the law blog LawSchucks.com.

Change is on its way in the legal world.

The forces shaping the legal sector

In *Unbound*, Galbenski discusses seven trends that are transforming the legal sector in detail. In an interview, however, he encapsulated the number one trend impacting the legal landscape under the rubric: "unbundling."

"Unbundling is the ability for purchasers of legal services to separate tasks that have traditionally been done by one law firm in its entirety into discrete tasks that can be handled by less costly service providers," Galbenski explains.

For instance, many tasks that are per-

formed by law firms in North America, from document review to patent applications to legal research and drafting, could easily be outsourced off-shore to countries where lawyers' salaries are significantly lower, such as India (where lawyers earn between 20-30 percent as much as their U.S. counterparts).

Already legal process outsourcing (LPO) is a US \$4-billion industry worldwide. In 2005, there were about 20 offshore LPO companies. Today they number in the hundreds. In India, revenues from legal-service off-shoring is estimated to grow from US \$146-million in 2006 to US \$640-million by the end of 2010. In 2006, legal off-shoring employed 7,500 people in India. By 2010, the number of LPO employees in India is expected to reach 32,000.

"Until the current crisis, the legal profession has been able to charge a premium price for every task performed regardless of value," Galbenski says. "Companies won't continue to pay excessive rates for tasks that can be done somewhere else for much less."

The future unbounded

What will the new post-recession legal landscape look like? Galbenski foresees that the recession will push top-tier legal service providers to consolidate.

"Perhaps there will be 15 to 30 mega firms, operating on a global scale, able to charge premium prices," Galbenski envisages. The next tier of large and mid-size firms that are unable to afford a global infrastructure will have to specialize more in order to justify at least some premium-priced work. A strategy that many small firms and solos may adopt to survive in the post-recession legal world is to go niche — establish a subspecialty, such as software compliance — and thrive.

If the book does make one dubious prediction it is the belief that time may be running out on time-based billing. Many lawyers both in-house and in the private sector have called for the demise of the billable hour.

Nonetheless, the billable hour still accounts for over 80 percent of legal billing. A strong replacement for this mode of billing has yet to appear on the horizon.

Beyond Galbenski's perspective on the legal sector, the book also features 19 interviews with legal visionaries. Managing partners will want to carefully read and highlight the interviews with general counsel from companies such as Del Monte Foods, Johnson & Johnson and Xerox Corporation, to see how Fortune 500 companies are taking steps to curtail their outside legal costs.

Although *Unbound* unflinchingly dissects the upheaval that the financial and economic crisis has unleashed upon the legal sector, the author is more optimistic in tone than dire — as would befit someone who served as the former chairman of the Entrepreneurs' Organization, a global organization of 7,000 entrepreneurs in 38 countries.

"Don't waste this opportunity to embrace change," Galbenski advises. Just as Yellowstone National Park recovered after the inferno in 1988, Galbenski is confident that law firms that welcome innovation and entrepreneurship will also rebound after the recession — and legal services will emerge "better, faster and cheaper." ■

Seven trends in the legal industry

According to David Galbenski, author of *Unbound: How Entrepreneurship Is Dramatically Transforming Legal Services Today*, seven hot trend in the legal industry right now are:

- 1 **The better/faster/cheaper trend:**
New ways to buy legal services 
- 2 **The globalization trend:**
New ways to provide legal services 
- 3 **The unbundling trend:**
New ways to organize legal services
- 4 **The consolidation trend:**
New pressure to consolidate providers
- 5 **The self-help trend:**
New ways to know about legal services
- 6 **The people trend:**
New shifts in the demographics of legal professionals
- 7 **The legal education trend:**
New ways to educate legal professionals 

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