US lawmen are going great guns

January 28, 2006

There is strong demand for lawyers, writes Michael Cameron in New York

TOP American law firms have experienced 12 months of rapid expansion after three years of little or no growth, according to separate surveys by two industry groups.

In contrast to the comparative restraint and consolidation among Australian firms, where partner numbers have generally remained fairly stable, it is boom-time for American lawyers.

They are experiencing their busiest time since the start of the decade – an increase in demand that is fuelling the creation of even bigger law firms.

The growth among the largest firms has been across the board – in partner numbers, associates and junior lawyers.

The National Law Journal surveyed the 250 largest American law firms (each with a payroll in excess of 150 lawyers) and found an overall number of attorneys at 116,671 – an increase of 4.4 per cent from the past year.

The number of associates grew by 4.6 per cent to 58,805. The number of partners, both equity and non-equity, rose by the same percentage to 46,563.

The rate of growth was the highest since 2001 – at the end of the dotcom boom – when the top firms grew by 8.2 per cent.

A separate survey by headhunting firm BCG Attorney Search found a "startling" increase in hiring demand across almost every practice area.

The fastest-growing practice area was anti-trust and trade regulation law. In the wake of the new regulatory structure brought about by the collapse of companies such Enron, lawyers with trade practices experience are in great demand among American boardrooms.

"You can tell a lot about the overall economy based on law firms' hiring needs," said BCG Attorney Search managing director A. Harrison Barnes.

"Obviously there is a lot of concern about trade regulation in the current economic environment.

''The increase in the demand for corporate attorneys is particularly good news because corporate work tends to track the progress of the economy in real time.''

Other areas of strong growth in attorney numbers included internet-based law and intellectual property.

Legal strategy consultant Ed Wesemann said American firms were becoming more ''merger hungry'' as a result of rapid expansion in demand for legal services.

While second-tier firms in regional cities such as Cleveland, Dallas and Houston were content to maintain a steady-as-she-goes approach (content to let the big firms wrestle each other for the top clients) the larger law firms in cities such as New York were keen to increase profit-per-partner ratios in the short term.

While many of the big firms are expanding into cities in the southeast, southwest and midwest, regional firms were still able to complete their clients' work for less money, and often with a near equal level of expertise than their big city rivals.

Over the past year a number of medium-sized firms in the main cities have merged to achieve the economies of scale enjoyed by their larger rivals.

According to the assessment by the National Law Journal (available at www.nlj.com), the once unassailable legal behemoth Baker & McKenzie is now facing a serious challenge to its title as America's largest law firm.

This was due to a merger in the past 12 months of Piper Rudnick with Gray Cary Ware & Friedenreich, and eventually a merger of these two companies with a third firm, DLA.

The new conglomerate, DLA Piper, has 3159 lawyers on its books, just 150 fewer than Baker & McKenzie.

The growth in the number of full-time lawyers appears to have slowed the trend whereby firms employed outsiders on specific projects.

The use of contract and temporary attorneys in the US grew by 11 per cent to 2432 over the survey period, a significantly lower growth rate than the pervious year's 55 per cent.

The growth in the number of partners (4.6 per cent) was slightly higher than the previous year (4.2 per cent).

The main growth was among non-equity partners – those lawyers on a fixed salary rather than a proportional share of the profits.

Joel Henning, a senior consultant at Hildebrandt International in Chicago, told the National Law Journal that the focus on non-equity partners was consistent with a recent trend to employ lawyers on fixed incomes.

''As a general matter, law firms make more money on income partners than on associates or equity partners,'' Henning said.

''There has generally been a growing reluctance to add equity partners from the income partner ranks unless they're superstars.

''Law firms are rightly beginning to realise that true owners should have an owner mentality and be able to make significant contributions to the enterprise, typically of bringing in lots of revenue.''

BCG's Barnes said the growth in certain practices, and decline in others, reflected investment trends in the wider community.

''I anticipate seeing real estate slow down more in the next few months,'' Barnes said.

''It has been slowing down more and more while corporate has been getting busier.

''On a more macro level, I believe this means people are now less risk-averse to the securities market and are taking their money from the real estate market and putting it into stocks and securities.''

Barnes says the decline in the number of big firms practising estate law may also be due to the proliferation of single-practice firms that specialise in this area. These firms are not tracked by BCG.

BCG, the largest national recruiting firm in the US, is based in Pasadena, California.