

Growth had to stop at some point

Opinion

Michael Bradley

History goes in cycles; it never reverses course. That's obvious, although there's something in human nature that makes us waste time trying to push back various tides.

So here's a challenging proposition: law firms have gotten as big as they're ever going to get in our lifetimes. In fact, they peaked about five years ago and now they're just going to shrink.

Whether that's correct is of academic interest to most of us, but if you work in a mega firm and your face isn't in the equity partner trough yet, it's something of an existential threat. If the firm isn't going to get bigger, then your path to the glorious riches of partnership is reduced to a narrow and crowded lane.

Why should it be so? There's nothing in theory to stop law firms from continuing to grow indefinitely. Our local mega firms are still a fraction the size of the most massive UK and US monoliths. The Big Four accounting firms present a stunning example of what is possible when avarice is combined with a complete lack of imagination. A law firm could grow to have hundreds or thousands of "partners". They won't.

The mega firms reached their natural point of exhaustion a while back and basically stopped growing. Much of it had to do with the inexorable tightening of competitive pressure driven by an overcrowded market and increasingly less pliable clients. This progressively took the fat out of the business model, so that the old luxuries like a leisurely retirement plan disappeared and the personal pressure on partners to produce ever-increasing revenue grew exponentially. There has been constant pressure on overheads and on price. Meanwhile, the firms have spent much of the past 20 years cannibalising one another for no logical reason, adding to

the collective and individual pressure on performance and profitability.

And the market has globalised, or at least it's been seen as essential/sexy/why not to branch out and open offshore offices or establish alliances and, more recently, to make oneself attractive to foreign suitors. But because Australia is such a small market dealing in relatively piddling amounts of money, it's not easy to get profitable enough to become a takeover target.

Some firms are still growing and will continue. But they're just late bloomers. And maybe a couple of mega firms will finally merge to create something as pointlessly large as a Big Four firm, but that won't give anything to their lawyers but a new batch of logo-emblazoned touch footy t-shirts.

The overall trend is irreversible.

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Firms will get smaller, not so noticeably at first but it will become more obvious over time. It's inevitable because the shrinking pool of senior equity partners will not become any less attached to the personal incomes they now enjoy, and in the absence of continuous growth that can only be maintained by attrition.

It's a zero sum game, but that's fine if you're already at the table.

It's not that the big firm brands are going to disappear or that there's any risk to their existence. The question really is whether they will continue to be able to attract the best talent and, therefore, maintain their competitive edge in the absence of genuine growth. Yeah, I know what they'll say too.

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