



EMCC case studies

The legal services cluster in the City of London

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This report is available in electronic format only

Introduction

The market for legal services in the United Kingdom is forecasted to reach a value of £25.7 billion (about €38.11 billion¹) by the end of 2009, with all main market sectors experiencing some growth. The City of London is the centre of the UK legal market and is likely to account for the vast majority of the expected growth (KeyNote, 2005).

The City of London is a centre of financial activity, characterised by a high concentration of banks and financial services providers, legal services, insurance companies and professional services companies. It also holds high numbers of companies offering business support industries, such as information technology (IT) and recruitment. Today, law firms are the largest single employer within the City of London.

In recent years, the City of London has increasingly been hosting companies specialising in the provision of financial services worldwide. This is of particular importance to the legal services sector, as activities in the two sectors are closely linked. Companies providing legal services have seen extensive growth in financial and corporate work, as their client companies become involved in ever more complex financial transactions, and require a larger international representation. Companies in the legal services sector tend to follow their client companies, both in terms of geographical location and business needs.

This study will examine the cluster of legal services companies located within the geographical bounds of the City of London.

The City of London is a small area in Greater London and has become London's main financial district. This area is often referred to as 'the City' or as 'the Square Mile', as its surface area represents approximately one square mile (2.6 square kilometres) of Greater London.

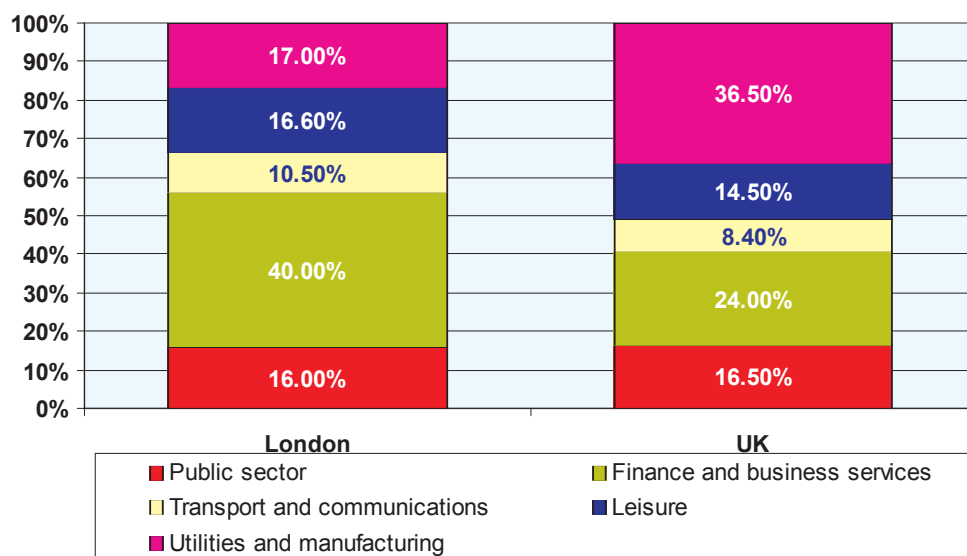
City impact

In recent years, British manufacturing has declined and the global investment banks have overtaken many of the financial services companies historically headquartered in the UK. Nevertheless, London law firms have succeeded in capitalising on the City of London's dominance as a centre for international finance, the integration of the European economy, and the continuing importance of commercial law in international business.

Incomes of City-type workers are about 2.5–3 times the national average. In 2001, the estimated 320,000 people employed in City-type activities in London represented about 1.25% of total employment in the UK. On the assumption that they earned three times the national average wage and that other incomes, such as profits and rents, bear the same relationship to employment incomes as in the rest of the economy, the implied output of 'the City' was therefore about 3.5% of total UK gross domestic product (GDP), suggesting a value for the City's GDP in the region of £30 billion (€44.48 billion) in 2001.

¹ All euro equivalents given at the median rate of €1.48 for one pound sterling as of 5 October 2006.

Figure 1: *Economic structure of the UK and London, proportion of gross value added (GVA), 2001 (%)*



Source: Based on data of the Office for National Statistics; Centre for Economics and Business Research (cebr), October 2004

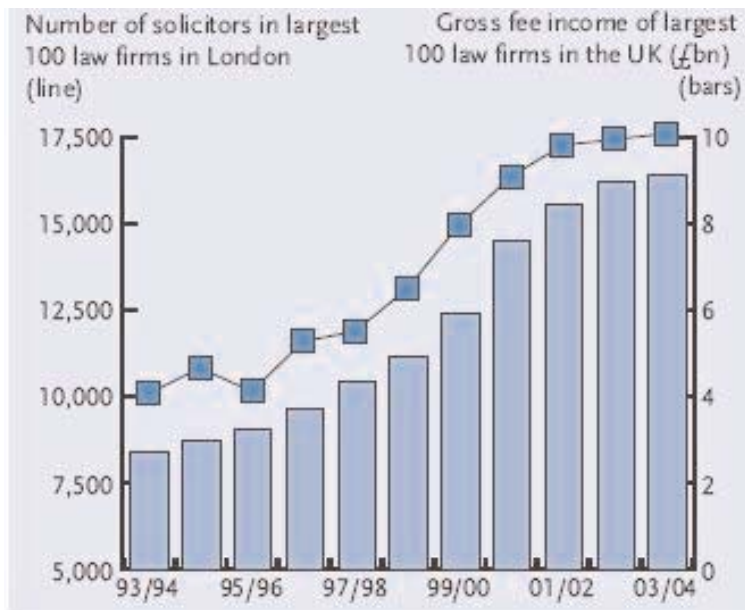
Economic context

London is a major centre in the marketplace for international legal services, as the globalisation of business and capital markets have strengthened its position in recent years. Between 1993 and 2004, the number of solicitors employed by the largest 100 companies in London grew by 75% to reach over 17,000 solicitors; during this period, the largest 100 law firms in the UK more than tripled their income through fees, amounting to £9.1 billion (€13.5 billion) in 2003–2004 (Figure 2). Based on head count, the UK counted five companies among The Global 100's seven largest organisations in 2004, and in terms of revenue, UK companies held four of the top six places.

International law firms are highly important to the economy of the City of London. They account for almost 50% of the overall fee income of UK law firms and 80% of London law firms' business. England and Wales are very open in allowing virtually unrestricted access for foreign firms to set up. Over 200 foreign law firms have offices in London and about half of these are from the US, with the remainder coming mainly from Australia, Canada and Europe. The strength of London as an international centre for legal services is reinforced by the expertise of barristers involved in international practice. The members of the Commercial Bar Association, counting over 1,000 barristers at present, practise in the field of international commercial law, with many cases heard in the Commercial Court.

Legal services make an important contribution to the UK economy. In 2002, this sector generated £12.9 billion (€19.13 billion) in revenue or 1.4% of the UK's GDP. In 2003, over 267,000 people were employed in legal services, including about 81,000 solicitors and 14,000 barristers and support staff. In the same year, export revenues of UK law firms totalled £1.8 billion (€2.67 billion), representing three times that of 1995. Figure 2 illustrates the growth of legal services in the UK over the period 1993–2004.

Figure 2: Growth of legal services in the UK, 1993–2004



Note: The income of the top 100 UK law firms primarily originates in London.

Source: International Financial Services London (IFSL), March 2005, p. 1

Global law firms

Table 1 lists the largest 20 law firms in the world, together with their country of origin, with four UK firms ranking among the top six firms.

Table 1: The largest 20 global law firms

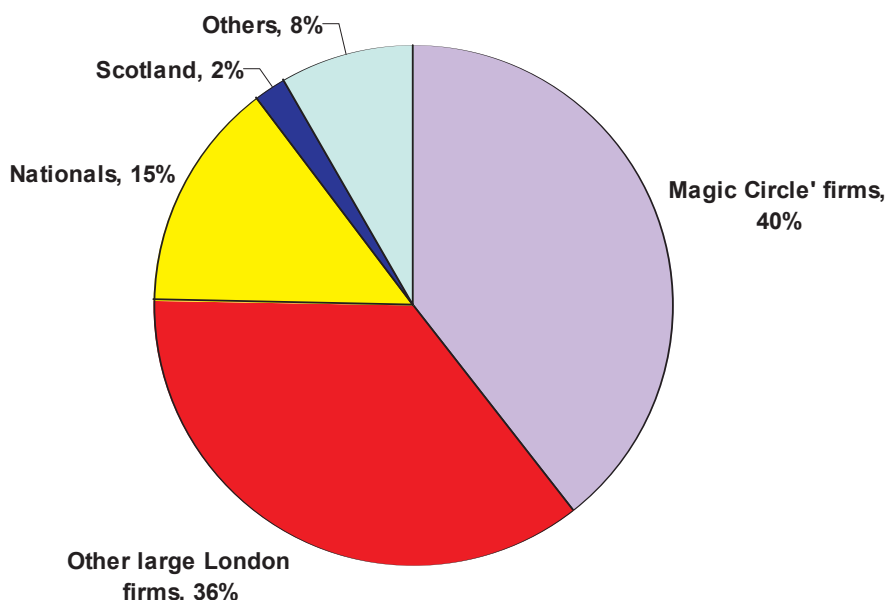
Rank	Company	Location	Rank	Company	Location
1	Clifford Chance	UK	11	White and Case	US
2	Skadden, Arps, Slate, Meagher and Flom	US	12	Weil, Gotshal and Manges	US
3	Freshfields Bruckhaus Deringer	UK	13	Shearman and Sterling	US
4	Linklaters	UK	14	Kirkland and Ellis	US
5	Baker and McKenzie	US	15	Sullivan and Cromwell	US
6	Allen and Overy	UK	16	McDermott Will and Emery	US
7	Jones Day	US	17	O'Melveny and Myers	US
8	Latham and Watkins	US	18	Gibson, Dunn and Crutcher	US
9	Sidley Austin Brown and Wood	US	19	Morgan, Lewis and Bockius	US
10	Mayer, Brown, Rowe and Maw	US	20	Lovells	UK

Source: KeyNote, 2005

In general, UK and US law firms are much bigger than their European counterparts. Of the top 100 law firms in the world, 80 companies are from the US, 14 from the UK, three from Australia, one from Canada, and just two from continental Europe. These latter two law firms are Fidal in France and Loyens and Loeff in the Netherlands, ranking at positions 93 and 98 of the top 100 law firms, respectively, by annual income in 2004. The largest law firms focus on corporate and finance work. For example, Clifford Chance operates within six core business areas, including banking and finance, capital markets, corporate work, and mergers and acquisitions (M&As). Similarly, Freshfields provides services in the fields of corporate, intellectual property (IP) and finance work.

Figure 3 highlights the significant contribution made by the 'Magic Circle' international law firms to the overall income of UK law firms. Magic Circle is an informal term used to describe collectively what are considered to be the five leading London law firms: Allen and Overy; Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters, Slaughter and May.

Figure 3: *Market share of UK top 100 law firms, % of gross income*



Source: IFSL calculations based on legal business data, March 2005, p. 10

Services of law firms

The biggest areas of practice for law firms in the UK include corporate work, banking and capital markets, while property and dispute resolution have also gained in importance in recent years. The extent of each law firm's involvement in the various areas of practice will vary. Law firms in the City of London mainly specialise in the following areas of practice:

- corporate and commercial law in sectors such as aviation, shipping, commodities, competition, IT and digital media, telecoms, media and entertainment;
- corporate finance with regard to joint ventures, M&As, equity issues, corporate reorganisations, management buyouts and company law;
- banking and project finance, such as bank lending, debt rescheduling, project finance, public private partnerships (PPP), securitisation, aircraft and ship finance;
- international capital markets relating to equity issues, money raising, asset securitisation, privatisation, derivative products, and eurobonds;
- insurance and reinsurance involves advising on claims under insurance and reinsurance policies and conduction related litigation and arbitration;
- tax, such as corporate tax and personal tax planning where there is no private client department, stamp duty, and value added tax (VAT);

- IP issues relating to patents, copyrights, and confidentiality;
- dispute resolution in the form of arbitration, alternative dispute resolution and litigation;
- property, including sales and leasing of commercial property, property finance, property development, environmental law, town and country planning;
- employment and pension matters concerning implications of M&As, establishment and maintenance of pension schemes, employment contracts and immigration advice;
- public international law relates to the handling of legal issues affected by international jurisdiction such as the International Court of Justice;
- private clients in relation to family law, probate, tax planning and trusts;
- project work for the World Bank and the European Bank for Reconstruction and Development (EBRD) – in recent years, a niche market for UK law firms has developed in relation to World Bank and EBRD project work.

Drivers of change in the legal services sector

Regulation

In the next two to three years, compliance with the various new regulations concerning corporate governance and company law will maintain a steady flow of work for the business and commercial affairs sector. Between 2005 and 2009, growth in this sector is forecasted at 21.2%, producing a market valued at £8 billion (€11.9 billion) by 2009 (Keynote, 2005).

Limited liability partnerships

One of the most significant changes in the operating structure of law firms relates to the increasing number of these companies which choose to form a limited liability partnership (LLP). The number of LLPs involving law firms doubled between June 2004 and June 2005, and a recent article in *Legal Week* revealed that this trend is likely to continue. The objective of the LLP is to limit any partner liability to a maximum amount, while retaining the internal, flexible structure of a partnership. Only three companies among the top 50 law firms reported that they had no plans to form LLPs, namely Slaughter and May, Simmons and Simmons,² and Clyde and Co.

Consolidation

Strong competitive pressures require increased efficiency within law firms as well as access to economies of scale. This has led to the consolidation of companies in the industry, which is also likely to continue. Moreover, the middle market is declining as law firms either grow through consolidation to exploit economies of scale or reduce business to core competencies, serving only niche and specialist markets.

Investment

The UK government is expected to go ahead with the recommendations of the Clementi review³ to establish a possible regulatory framework for legal services, to promote competition and innovation as well as to encourage public and consumer interest in an independent legal services sector. This will allow external organisations to invest in law firms. The possible entry of banks, insurance companies and supermarkets to the sector is likely to increase the consumer focus of law firms.

² For a more detailed description of Simmons and Simmons and its practice fields, see the company case study available at: <http://www.emcc.eurofound.europa.eu/>.

³ For more information on the Clementi review, see <http://www.legal-services-review.org.uk/>

Advertising

Traditionally, law firms have not invested in advertising, but this is beginning to change as restrictions on marketing by law firms are lifted and competition in the sector increases. Recent changes in the way the profession is allowed to do business include:

- advertising that allows for comparisons with other solicitors' fees as the Law Society has dissolved the prohibition on such advertising;
- the partial abolishment of the prohibition to seek business from potential clients by phone (so-called 'cold calling').

These changes have encouraged a more commercial approach to operations in the legal services sector. Marketing budgets among the international law firms clustered in London are increasing, and professional marketers are increasingly recruited and are regarded as central to the success of the company.

Larger companies are investing in sophisticated customer relationship management (CRM) systems. For example, the City of London's most successful corporate and finance law firms all operate business management systems, where client contact details, histories of interaction, and live billing is stored in a continually updated database accessible by all staff members. A better understanding of and relationship with clients is indicative of the competitive nature of the modern legal services sector.

Technology

Technology fundamentally impacts on the way knowledge-intensive business services (KIBS) companies do business, which is also evident in the legal services sector. For example, there are less face-to-face meetings with clients, while email is being used more often to increase communication. This trend has both positive and negative effects. Digital communication is more efficient since less time is needed to physically send documents, but for junior lawyers, it provides fewer opportunities for training and attending meetings to avail of 'on-the-job' learning.

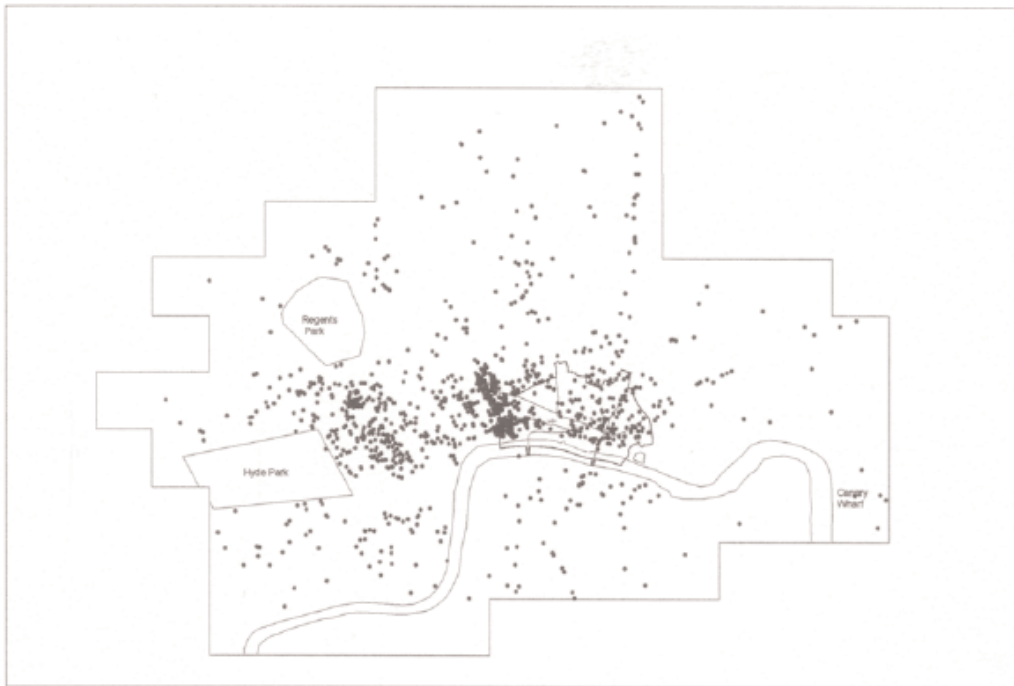
Legal services cluster in the City of London

Michael Porter (1998) emphasises that clusters 'are geographic concentrations of interconnected companies, specialist suppliers, service providers, firms in related industries and associated institutions (for example universities, standards agencies and trade associations) in particular fields that compete but also cooperate'.

It is widely accepted that economic clusters grow and become sustainable due to their proximity to customers, local connections with both customers and clients, and their ability to transfer specialist knowledge at lower costs over very concentrated geographic scales (Swann et al, 1998).

The maps in Figures 4 and 5 highlight the distribution of law firms within central London while Figure 5 also shows law firm clustering. As Figure 5 illustrates, law firms tend to locate in the heart of the City, around the locations of Bank, Moorgate and St Pauls. There is also a separate cluster of law firms located towards London's West End, most of which have followed venture capital clients.

Figure 4: Law firm distribution in the City of London



Source: *Globalisation and World Cities (GaWC), Atlas of economic clusters in London, 2001*

Figure 5: Law firm clusters



Source: *GaWC, Atlas of economic clusters in London, 2001*

In recent years, a number of high profile financial services providers have relocated from the City to Canary Wharf in the London docklands area. Canary Wharf offers the advantages of new office buildings, designed to accommodate larger companies and rented at much lower costs. A number of law firms have followed client companies and also set up office there; for example, Clifford Chance and Allen and Overy have offices in Canary Wharf.

The move to Canary Wharf may be interpreted in two ways: it may be viewed as an extension of the existing City of London cluster, or as a weakening of the traditional geographical ties. It is interesting to note that while Allen and Overy has moved a small finance team to Canary Wharf, the law firm still retains a strong presence in the City.

Information asymmetries

Law firm consultees note the crucial importance of relationship building and personal contact with clients in strengthening a business. A strong information asymmetry remains between KIBS companies and their clients, which is particularly evident in the professional field of law. This information asymmetry makes it difficult for clients to assess and value the work of their law firm, and thus a high degree of relationship building, physical proximity and reputation helps to successfully tackle these issues. These requirements have a tendency to assist in the formation of a cluster.

Clustering as a mechanism for innovation

Another key reason for clustering is the potential benefits to innovation. Due to the physical proximity of firms and clients and the concentrated geography of the City of London, companies benefit from knowledge exchange at a formal and informal level, for example, through meeting with clients and competitors when working on a deal, through social interaction, and via the relatively fluid movement of labour. Such a supply of knowledge and knowledge sharing creates conditions for innovation.

Benefits of the cluster

Clients

Geographic proximity to clients is vital in the legal services sector, as it supports personal interaction and relationship building. The recent relocation of corporate headquarters of the Hammonds law firm from Birmingham to the City of London is one such example illustrating the crucial importance of geographic proximity. Hammonds' decision was partly influenced by the fact that its US client companies want to deal with lawyers in a major financial centre.

In an environment of information asymmetries, building client relationships is key to success. According to the Corporation of London, good relationships are 'a fundamental requirement for the establishment of trust, production of knowledge and the completion of complex transactions which require a multitude of suppliers' (2003).

Close proximity to clients also offers other benefits, such as being able to call face-to-face meetings at short notice, in many cases within walking distance. Clients may have a particular preference for such a capacity, as requirements can change quickly, and documents may need to be signed urgently. Therefore, being able to call such meetings can help to quickly alleviate issues that may arise.

Finally, law firms find the close proximity to clients particularly beneficial for innovation. As a number of law firm consultees note, finance, banking and corporate clients are becoming increasingly sophisticated in their requirements, which, in turn, requires law firms to become increasingly innovative in their solutions. Geographic proximity provides the grounds for this innovation to occur through both formal and informal means.

Interestingly, regulation imposed on client companies and law firms alike may also encourage innovation, as ever more complex solutions are required.

While technology may render remote communication viable, KIBS companies consulted during the course of this research do not foresee any decline in face-to-face contact, viewing such personal interaction as decisive to relationship building and problem solving.

The recent office move by CMS Cameron McKenna also underlines this requirement of physical proximity for efficient and good business relationships in the legal services sector. The company has relocated just over half of its insurance team of 65 lawyers to an office location closer to Lloyd's of London since 1 July 2006. Insurance advisers often maintain that it is important for them to be within 800 metres of the famous Lloyd's building, and many lawyers spend several days at a time in the offices of clients there.

Reputation and credibility

The City of London is one of the most well-known financial centres in the world. It is well represented by major international banks, law firms and insurance companies, and thus has acquired a significant global reputation. Furthermore, London is the traditional heart of English law, which continues to hold particular strength among the international community. For example, English law is, like the English language, commonly used in both international commerce and dispute resolution. London has long been recognised as a primary centre for international and commercial litigation and arbitration.

The City of London has established a remarkable reputation and can therefore provide the law firms within the vicinity with the same credibility; for example, a City location turns a law firm into a City law firm, which carries with it a good reputation and credibility, helping the firm to gain market share and cultivate business relationships with client companies.

Competitors

Law firms indicate that proximity to competitors is important for several reasons, including the provision of access to social and professional networks and the exchange of knowledge, and to a highly qualified pool of labour from which to choose. Furthermore, proximity to competitors also encourages competition.

In addition, law firm employees note that due to the clustering of City law firms, employees have excellent knowledge of the market, and are able to easily access new employment opportunities.

A City law firm employee emphasises that 'as a junior lawyer, the possibility to meet other lawyers at rival firms and observe behaviour and practice is hugely beneficial in contributing to training and development'. Another City law firm employee underlines that 'without tacit knowledge, you cannot progress'.

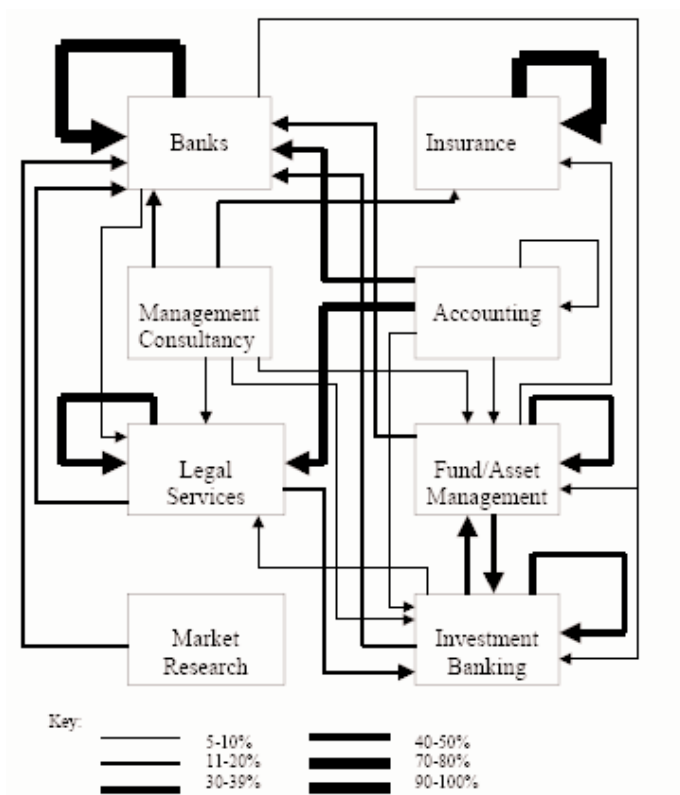
Suppliers

Proximity to suppliers, from those supplying IT solutions to specialist recruitment and regulatory bodies, is essential in supporting innovation among City law firms.

As one law firm associate noted, 'there are a large number of recruitment agencies as part of the legal cluster, which results in a high degree of awareness of opportunities in the marketplace'.

An interesting summary of the importance of interrelationships within the City of London is captured by the following Corporation of London research. The figure demonstrates the importance of competitor interrelationships to law firms in the legal sector, and furthermore highlights strong relationships with banks, including investment banks, and accountancy firms.

Figure 6: *Interrelationships in the City of London*



Source: Corporation of London, 2003

Labour

London's labour market is one of the city's key assets. The supply of skilled labour, both domestic and international is a major factor in sustaining growth. Due to London's attractiveness as a work destination, there is a high availability of quality labour pools; as one associate of a City law firm highlights, 'people come from all over the world to be lawyers in London – particularly from New Zealand and Australia, where there is an easy transition'. Relatively open employment regulations also support the flexibility of the labour market.

London represents a desirable location for lawyers for several reasons, including the concentration of high quality law firms, access to social and professional networks, proximity to professional associations and courts system.

Access to knowledge

Within the legal services sector, access to knowledge is gained through close proximity to suppliers, client companies and competitors. This may be achieved in a formal or informal way, ranging from face-to-face meetings to social engagements and labour mobility.

Quality of life

As a major world city for business and tourism alike, London offers cultural diversity, a multinational environment and a wealth of cultural, leisure and business facilities. London's reputation as a world class city is a significant business advantage for both the legal services sector and the wider economy within the City of London.

Threats to future sustainability

Transport

The City of London's infrastructure and transport system represents one of the key threats to the future sustainability of the legal services cluster. This threat revolves around the poor quality and reliability of the London Underground system, as well as the lack of suitable connections to airports. The poor quality of transport and infrastructure may threaten the sustainability of the City of London as a business destination in the future.

Costs

The significant cost of premises is a highly ranked disadvantage of having an office in the City of London area. Indeed, the high rental costs have prompted some firms to relocate to lower cost areas, such as Canary Wharf. Furthermore, premises in the City of London are often badly equipped to manage the large workforces and space requirements of larger international companies.

Development of client companies

As the Düsseldorf Ogilvy and Mather advertising agency⁴ noted during consultation, many KIBS companies are 'the tail of the dog, not the dog', meaning that they follow some of their larger client companies to new locations. The success of KIBS companies typically relies on the success of their client companies, and thus strategies are often developed while closely monitoring developments within and of client companies. The City's legal services cluster is relatively similar in that it follows the financial services market. Major relocation of financial services institutions outside of the City of London could therefore threaten the sustainability of the legal services cluster in the City.

Technology

While technological developments offer a number of benefits to the operations of law firms, there may be some dissolving of the City of London cluster as technology becomes more powerful in its ability to deliver quality solutions 'off site'. City law firms are already beginning to relocate their IT facilities to less costly locations outside of the city.

Text Box 1: *Outsourcing support staff and functions*

The networking service company Fibernet recently won a £4.5 million (€6.68 million) contract with the London-based law firm Allen and Overy to provide managed optical networking. Fibernet will provide connectivity between Allen and Overy's new London headquarters and a data centre located near Reading, which is located about 60 kilometres west of London. The contract is a key part of the law firm's strategy for disaster recovery and risk management.

The Head of global IT operations at Allen and Overy, Andrew Brammer, emphasised that 'the two most critical elements of our business are our transactional data – the information on our clients when working on a deal – and the intellectual capital of our people. We survive as a business based on that' (on Silicon.com).

While such outsourcing of activities only slightly affects the core work of law firms, it does reduce the number of employees working in the City of London. Moreover, as more tasks can be codified by technology, more off-site activity in the legal services sector could be expected in the future.

⁴ See the company case study available at: <http://www.emcc.eurofound.europa.eu/>

Relocation

In addition to relocating non-core business activities such as IT systems management to off-site locations, advancements in technology also create the possibility of wholesale relocation. As City law firms strongly favour geographical proximity to their client companies, competitors and suppliers, the majority of law firms will not relocate to less costly premises outside of the city specifically for this reason. However, the following examples illustrate where the potential of technology has weakened the London cluster of law firms:

- Norton Rose is relocating the entire business outside of the City by deciding to move to the South Bank. This move is due to the ability of technology to provide the firm with instant and virtual access to clients, which thus reduces the need to be in close geographic proximity;
- Allen and Overy are in the process of moving to a city suburb, also as a result of lower rental costs, a larger office space and the availability of technology.

Challenges for the legal services cluster

A number of key issues affect operations of firms in the legal services sector and in particular the major international law firms located within the City of London.

Diversity

In 1974, just 6% of solicitors were women; however, by July 2004, the proportion of female solicitors had increased to more than 40% of all solicitors. According to the Head of Research at the Corporation of London, Malcolm Cooper, law firms have 'led the way' in promoting diversity among the workforce within the City of London. He considers that law firms have demonstrated a particular commitment to increasing the proportion of women working in their companies; to date, however, this has tended to concentrate more on trainee and solicitor level positions and not on the senior positions of partner level. For example, in 2004, only 22% of partners at UK law firms were women (Keynote, 2005).

To some extent, this statistic is related to the time-lag as new female trainees climb the corporate ladder. Nevertheless, law firms admit that they face serious challenges in encouraging women to return to work following career breaks to care for children, which is preventing the ascent of substantial numbers of women to partner positions.

Changes in the wider business environment will further drive the increase in the proportion of women working in the legal services sector as clients of commercial law firms are more likely to be women in the future. This will fundamentally change the way in which law firms network to win business and will require more women to hold the most senior positions in law firms. In *Legal Week*, the Managing Partner of Eversheds, David Gray, was quoted as saying '[interest in diversity] is something we have picked up on for a while. US clients such as Dupont have been requesting details on diversity for 10 years. If you are presenting to a board made up [equally] of men and women, it makes sense to have a team of men and women, too. More women in the boardroom would probably mean more women advisers'.

Text Box 2: *Engaging women in the legal services sector*

Freshfields Bruckhaus Deringer has established a 'buddy system' of internal mentoring which includes both female trainees and associates. The buddy system is viewed as a direct response to concerns over the relatively low numbers of female partners in the company.

Moreover, the Association of Women Solicitors (AWS) provides support for female lawyers in private practice and industry through mentoring schemes, as well as a helpline addressing issues such as maternity leave and workplace harassment.

The SJ Berwin law firm organises networking dinners for women with law firm partners or senior associates and clients to encourage relationship building.

Pay and rewards

Pay and reward levels are high for staff employed within the City of London law firms. Indeed, a recent article in *Legal Week* notes starting salaries of £55,000 (€81,700) per year. This stemmed from the announcement of Norton Rose, Herbert Smith and Associates, and Simmons and Simmons that they would increase annual pay rates for newly-qualified lawyers by 10% to £55,000 (€81,700).

In addition, bonus opportunities are also substantial as many lawyers can earn up to an additional 30% through billable hours-related performance. Other benefits include an option for an additional day's holiday per quarter for reaching business objectives; Linklaters, for example, offers this option to its workforce.

Training and development

Student training

Law students have been benefiting from a City-wide rise in trainee maintenance grants, with some UK firms increasing their annual sponsorship levels for the Legal Practice Course (LPC) to £7,500 (€11,142). For instance, Simmons and Simmons has increased grants to £7,500, matching the rate offered by US firms in London; the company has thus become the highest-paying City law firm for students. In comparison, Freshfields Bruckhaus Deringer pays £7,250 (€10,770) and Slaughter and May pays £7,450 (€11,068) while Cleary Gottlieb Steen and Hamilton's London offices pay its LPC students a higher rate of £8,000 (€11,885) per year.

The increase in maintenance grants follows intense competition at major City law firms to recruit the UK's top students, following the break-up of the eight-strong consortium of firms offering the 'City LPC' in 2004. Since the City-wide LPC dissolved, some companies have offered firm-specific courses at the College of Law, while other law firms have developed courses based on the Master of Business Administration (MBA) that incorporate management and financial training into the year's study.

Career paths

Law firms are working in a highly competitive environment, where it is crucial to find and retain high quality employees. As a result, law firms are adjusting career paths in the sector and providing more progression opportunities for employees in non-traditional routes.

Factors such as high assistant attrition rates, lawyers leaving the profession, and the growing pressure on traditional partnership structures have caused an increasing number of law firms to reassess the career options available to staff. The Head of the International Employment Group (IEG) at Simmons and Simmons, William Dawson, stated that 'employees are concerned generally about the issue of the road to partnership. There was massive growth in the number of partners made up in London law firms in the 1980s and 1990s [and] there is not so much room now for partnership in some firms' (*Legal Week Student*, 23 March 2006).

As solicitors are entering the profession, new roles and alternative career incentives are being developed to retain high quality staff. For example, in December 2005, Allen and Overy unveiled plans to introduce new roles, including 'managing associate' and 'counsel' roles. The company believes these new positions will help to reduce associate turnover rates, rewarding successful associates with more responsibilities and access to partnership information, while also easing the pressure of attaining partnership status. Similar restructuring is also likely to occur at Clifford Chance and DLA Piper in the future (*Legal Week Student*, 23 March 2006).

Corporate social responsibility

Client companies are increasingly asking law firms about their policies relating to corporate social responsibility (CSR). A Business in the Community study of the top 50 UK law firms reveals that questions on firms' policies are increasingly becoming a standard feature of panel selections and pitches for business. Indeed, a significant number of law firms have already issued brochures on CSR, and many more companies are in the process of drafting such documents.

Both internal and external factors drive the increasing interest in CSR within the law firms. Internally, a law firm wishes to be seen as a good employer and considered to have a good workplace; externally, client expectations, as well as those of the wider community, play a part in encouraging the development of CSR policies in law firms.

Representation

There is no trade union activity in London law firms. Consequently, it is very difficult for employees to have any collective bargaining power.

'Generally, salaries up to five years following qualification are publicly available information, but after this time, it is not very clear. This means that each individual has to negotiate his or her salary, with no collective bargaining. This results in the fact that it is difficult to assess whether your terms and conditions are satisfactory, as there is no comparison available. Industrial action is out of the question', said an associate of a City law firm.

While the legal services sector is not one associated with trade union representation and industrial action, one institution that represents the interests of City law firm employees is the City of London Law Society.

Text Box 3: *City of London Law Society*

Founded in 1908, the City of London Law Society acts as the City's local law society and represents the professional interests of City solicitors, who account for 15% of the profession in England and Wales. The City of London Law Society comments on matters of law and practice and lobbies extensively on the issues and challenges facing the profession. The membership rules of this law society allow lawyers of other jurisdictions to join as affiliate members.

Professional representation at all levels

The City of London Law Society is a powerful force to ensure that the views and concerns of City solicitors are represented and heard in national and international debates which may affect their practices. The law society regularly responds to consultations of the Law Commission and Law Society and lobbies government institutions to propose legislative changes in certain cases.

Specialist committees

Through the work of 16 specialist committees, the law society researches and debates current legal issues and makes recommendations on new developments. The committees produce work of national and international significance which is available to members.

Publishing legal news

The *City Solicitor* newsletter provides news on policy and practice, and includes articles on current issues together with others of general interest, as well as reporting on the activities of the law society's specialist committees.

Conclusions

The strong reputation of the City of London as the heart of international financial services and legal activity secures its sustainability. The close relationships required to conduct work in the City ensures that companies find advantages in clustering together. At present, there is no evidence of any major threats to the cluster, and there appears to be general agreement among consultees that the cluster will continue to flourish and grow. The City of London has advantages in its ability to offer high value, complex services, as well as a talented and skilled labour pool, which make it difficult to be matched elsewhere.

One of London's key attractions as a business destination is its cosmopolitan nature and wealth of services and lifestyle opportunities. It is thus essential that policymakers continue to support the attractiveness of London as a centre for cultural and leisure activity.

The availability of skilled labour is crucial to the sustainability of the City of London legal services sector, both nationally and internationally. Ensuring labour flexibility and mobility by not overburdening the sector with regulation is an important policy criterion.

Nevertheless, transport represents a key threat to the sustainability of the legal services sector in the City of London. Improvement of transport facilities will require considerable investment to ensure adequate and reliable connections between the City and London's airports and other transport links.

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