Redstone

African and International Law Firms: Friends or Foes

Introduction

Africa is rapidly becoming the most magnetic part of the world for companies, investors and their advisers. Eighteen months ago we interviewed Global law firms about their work in Africa and their plans for building on this in the future. In revisiting these firms, we have found a substantial sea change. Firms that have been investing in Africa for years are realising that competition is hotting up. Newcomers are getting Board level commitment to plans and investments.

This time we have also interviewed African law firms in 12 jurisdictions covering West, East, Central and South Africa. We have explored how these rapidly growing firms are countering the competitive threat facing them from the interest of international firms. We discover that the international firms are both the life blood via referrals and, at the same time, the greatest competitive threat.

Key Findings

- Global firms have recognised the Africa opportunity. Many over the past 18 months have established an Africa management group with Board level backing to defend and grow business in Africa.
- Africa firms are capitalising on both FDI and rapid growth within Africa – most seeing growth rates of 25% or more.
- Global firms divide into: those who plan to conquer; those who want to pillage; and those that want to partner.
- African firms are ambitious and have invested in strategic thinking.
- African firms, except those in South Africa often experience Global firms as ill informed about the realities of doing business in their country. They believe this limits Global firms' performance for clients – though often creating opportunities for the African firms. Supporting this finding, EY, in their 2014 'African Attractiveness Report[1]' observe a 'stark and enduring' perception gap between those who are already doing work in Africa and those who are not.
- African firms get angry when Global firms disregard or disrespect their expertise and knowledge. Putting juniors onto projects to manage the Africa relationship underscores that poor impression.
- African firms still get a small slice of project fees. They experience some Global firms as "fee hogging". Some Global firms are investing much more in a more balanced relationship but the African firms are currently poor at working out which firms are going to behave in which manner.
- African firms are highly dependent on referrals from international law firms but:
    - They don't refer work back – instead passing it to other African players when they can't service it.
    - Most are reluctant to be tied too closely to any one firm, preferring to cast the net wide.
    - Global firms experience most African firms as "reactive" in their relationship management.
    - As a result, many Global firms experience them as being "disloyal" and complacent.
- With the exception of South Africa, African firms' willingness to refer work to other African firms is largely unaffected by that firm's ties to an international firm or network.
- Global firms mostly don't encounter African firms as competitors – but African firms instance projects they have won from Global firm clients in areas such as project finance and telecoms.
- African firms recognise that Global firms wield much greater brand clout. They are looking to promote their own brands, both with international law firms and with international institutions.
- African firms see Global firms as their greatest competitive threat – African firms from outside their jurisdictions are not seen as a great threat yet.
- African firms are increasingly interested in developing or joining networks of firms in Africa. But Global firms report that international clients are unconvinced that these networks have substance. South African firms are pushing to be masters of some of these pan-African networks.
- All African firms are experiencing the challenges of rapid growth and change. They want to preserve their distinctive cultures whilst improving management structures, accountability and systems.

Economic Picture

The last few years have seen repeatedly positive economic reports and forecasts concerning Sub Saharan Africa (SSA) – the region from which our African law firm respondents are drawn. Whilst investment in North Africa has slowed through political uncertainty, SSA is seen as increasingly attractive with FDI growth 4.7% in 2013 and 19.5% since 2007 (CAGR[2]). SSA share in overall African FDI projects and job creation has reached an all-time high.

However when we look at the global picture, total African FDI remains at only 5% of overall global flows. EY, in their 2014 'African Attractiveness Report[1] see the reason for this is the 'stark and enduring' perception gap between those who are already doing work in Africa and those who are not. This contrast in knowledge and experience is fully borne out by the feedback we report here from the African law firms and their dealings with clients and Global law firms.

Drivers of Growth & Market Interest

Over the past 3 years, more than half our Africa respondents have experienced growth rates in excess of 25%, with a significant number doubling or more in size over this period. Optimism is high. The majority expect this growth to continue or even accelerate. Only in South Africa is there a sense that growth may slow – or even reverse in the domestic market. This of course is providing a spur to South African firms to expand into other African jurisdictions.

For the Global firms, in the 18 months since we last interviewed them, there has been a palpable shift. Last time, for many and especially the US firms, Africa was an interesting phenomenon where they do some deals. A number of English law firms have been heavily invested in the Continent for years, but the majority have not. In the ensuing 18 months there has been a substantial compass correction. Many of the firms we interviewed have recently introduced focus teams or management groups, reporting to the Board with the remit to defend and grow the firm's work in Africa.

African law firms are only too well aware of both the opportunities and the threats of being based in the world's fastest growing economic region. Three quarters of them describe themselves as either very or fairly optimistic about growing their business over the next 12 months.

Strategy Moves

Last time there was a huge difference between those "English" global firms and the "US" ones. Then the English were far more interested and engaged. This time though, the signs are the gap is closing. The US firms have recognised the opportunity and also spotted the opportunity to capitalise on their Far East capabilities coupled with Finance sector muscle to make a pitch for Africa.

Some firms are content to achieve greater co-ordination of their "fly-in-fly-out" approach. Others are applying more energy to their relationships with local firms. Another group is looking actively at setting up own offices or beefing up the ones they have.

African firms have been developing their strategies. Most have plans that have been discussed and agreed with partners though, in many cases, these plans seem worryingly short of research and analysis. It is worth noting that the growth experienced by most of our African firms is "in line with the market". Few are successfully beating the market – an essential precursor to emerging as a truly leading player.

Knowledge and Understanding of Africa

African firms report that the increase in interest in Africa by Global law firms is often not matched with a good understanding of the realities of doing business there. This results in poor relationships with firms and clients in Africa as well as missed opportunities. North American, Australian and Chinese firms are singled out for being poor in their understanding.

South Africa as a market is different. International players have done business there for longer and a growing number of Global firms have a presence on the ground. For both African and South African firms, a lack of market knowledge can present opportunities for firms there to act as informed advisers on more than the law itself.

Competition

Global firms are experiencing much greater and better organised competition. Firms with a long established market share have woken up, in some cases rather slowly, to their market share coming under threat.

African firms are also experiencing increased competition – mainly from international firms, but also from local competitors upping their game and, so far to a lesser extent, from other African firms from outside their jurisdiction.

There is a disparity between the views of most Global firms that they don't compete with local firms for work, and the reports from the Africans, who are seeing a growing number of instructions from international clients that would formerly have gone to a Global firm. Projects in areas such as privatisations, investment funds, project finance and bond issuances are all being handled locally. Some Global firms report that this is work they wouldn't want whilst others acknowledge that the capabilities of local firms will start to impact their current dominance.

Client Relationships and the Power of the Brand

Generally speaking, the international firms rely on instructions from their international clients – and they regard working with African firms as a subcontracting arrangement. Typically an African firm will see between 10 and 20% of the fees on any of these kinds of transaction.

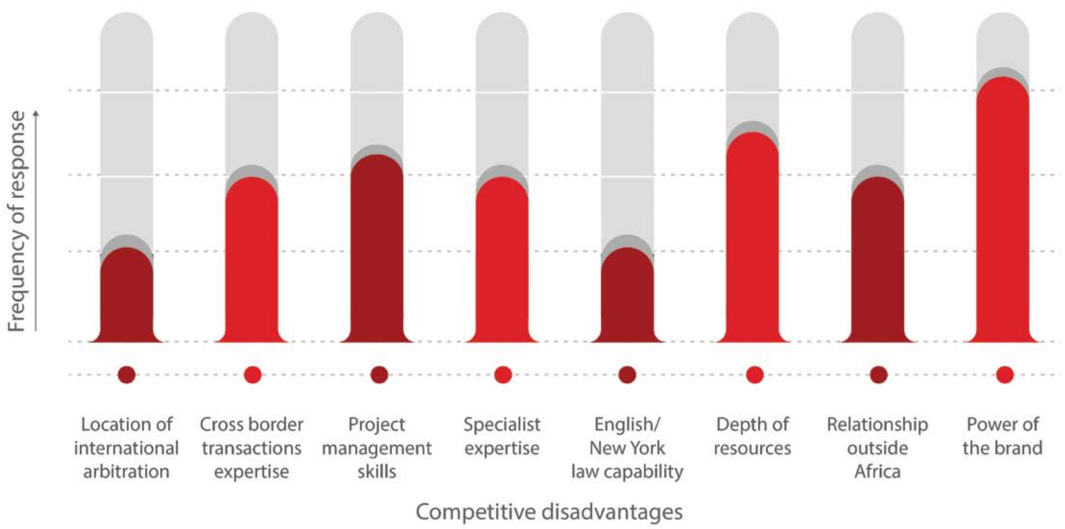
The Global firms are careful about which African firms they choose. Their aim is to identify firms offering the highest capability and quality. However, most don't believe the choice of African partner will influence the client over whether to instruct them.

Most accept that this will change – not least, as clients become aware of the savings which could be had if more work was instructed to local firms, they will insist on this and potentially become more interested and involved in the selection of African partner.

There are a few English firms who take a different approach, already believing that a greater level of partnering is in their best interest. For the most part they continue to take the relationship lead, but there is much more transparency over work and fee sharing and there is much more inclination to facilitate direct liaison and contact with the client. The curious issue is that African firms remain largely scattergun in their targeting of relationships with international firms. They tend to chase the biggest names despite the fact that these firms tend to be less willing to partner with African firms. Some research and analysis by the local firms would certainly help them focus on relationships that can add most value.

Many African firms are still limited by the reach of their brand and reputation. Half of our African respondents believe that clients often instruct international firms on matters which could well be handled locally. They see their competitive advantages as market knowledge and, in some cases, ability to deploy resources cost effectively on the ground. Their competitive disadvantages are most obviously brand recognition, project management and expertise in some situations.

African Firms Competitive Disadvantages



African firms recognise the challenge of brand recognition and are committed to investing in this, especially in relation to their recognition by international financial institutions and corporates. African firms and Global firms agree that if international clients had first hand knowledge of the African firms, they would be more likely to instruct them direct.

African firms are increasingly focused on building or joining networks of firms in Africa. Half of those not already in one will be over the next few years. The firms are more guarded about the likelihood of being part of an international firm though many believe this is possible or even probable down the line.

Referrals & Relationship Management

As African firms are courted by more Global firms, so the ways they respond are becoming more key. Several of the London firms commented to us that the larger more established firms in countries like Nigeria and Kenya are becoming “arrogant” and “complacent”. London firms are frustrated at the lack of responsiveness, absence of loyalty and unwillingness to develop any relationship for the longer term. They perceive these large firms as chasing any and every firm – a picture which is largely reflected by the African firms’ responses themselves. In consequence a significant number of Global firms are choosing to focus their attention and referral business on the next tier down of firms. There they report experiencing a better service and willingness to develop relationships.

When we asked the Global firms how they found the African firms went about developing relationships with them, quite a number used the expression “reactive” to describe this.

For the African firms, their relationships with law firms outside Africa are vital. Only existing clients are seen as more important. The proportion of fees arising from referrals typically lies somewhere between one quarter and three quarters of revenue. Furthermore, 8 out of 10 firms have seen the importance of referrals grow over the past 3-5 years and almost all these expect this to stay the same or increase still further.

The UK is still the most fruitful source of referrals – but other parts of the world are becoming more significant. Given how vital this pipeline is, and bearing in mind that most firms believe competition for work in increasing, it is surprising how little attention African firms pay to focusing on these relationships.

Whilst almost all firms claim to “actively develop” relationships with global firms, there is much evidence that this effort is scattergun.

We asked African firms what makes for good and bad experiences of working with their Global counterparts. Good experiences centre on issues of fairness, attitude and communication. Bad experiences are the flip side – mainly characterised by an attitude of superiority and treating the African firm as a supplier rather than a partner. In our full report, we list the names of firms which stand out as best to work with.

Management and People

With most African markets experiencing dramatic growth, it is no wonder that the firms themselves are facing major changes. These fall into two categories:

- Increasing reach and scale
- Improving management and systems

Almost all firms want to achieve the parallel aims of preserving their culture and introducing a greater level of sophistication into management – including greater accountability and the link with compensation.

[1] EY African Attractiveness report (2014)
[2] fDi Intelligence (2014)

Conclusions

Many African firms we spoke to over the past few years were worried that the interest and commitment of the international firms would only last while economies in the West remained in the doldrums. Actually the opposite has happened. Western markets have started to revive but interest in Africa has also increased.

Global firms with a long track record of working in Africa have woken up to an increasing threat of being overtaken by new entrants. UK and US firms are applying more management focus to the region.

While this is happening, African firms are seeing simultaneously more opportunities for growth and yet more competition. There is a constant tension between whether the international players can be regarded as friends to partner with and invest in – or competitors who will take the best work and leave Africans with slim pickings. South Africans are in the middle – prey to the Global firms and maybe predators in the rest of the Continent.

Though both Global firms and African firms are spending more timing planning to respond to such changes, there is much evidence that neither side is investing enough in a proper understanding of the markets and the best ways of capitalising on the future. In an attempt to grab the short term advantage, both sides may damage their long term prospects.

About Redstone

Redstone focuses on professional and financial services. Throughout the world, we advise and support firms in relation to strategy, management and business development.

Redstone works in the legal, accountancy, property and financial sectors. As well as working with global firms Redstone also works with national and regional firms and founder-led firms in developing parts of the world. Our consultants have advised clients in over 30 countries including many in Africa.

We offer our clients the full range of consulting and practical support in leading their organisations through change. Our services can be broken down into six related areas:

- **Purpose:** developing the ambition and strategy
- **Planning:** working through the financial and resourcing issues needed to achieve the Purpose
- **People:** making sure the organisation structures and management are effective
- **Performance:** ensuring performance management and remuneration are aligned with the strategy
- **Positioning:** developing and building a brand people can believe in
- **Promotion:** ensuring that clients and stakeholders understand the offer and that relationship management enhances this.

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