

## **RE-POSITIONING THE LEGAL SECTOR IN SINGAPORE**

### **Comments & Recommendations**

A White Paper by Bizibody Technology Pte Ltd

This paper is prepared in response to the Ministry of Law Working Group's invitation to submit recommendations on how the legal profession can re-position itself to expand the level of its services domestically and internationally and how it can better facilitate and promote trade and investment, thus further contributing to Singapore's future economic growth.

These recommendations are submitted by Bizibody Pte Ltd ("Bizibody"), a company that specializes in enabling law firms to strategically adopt information technology solutions to enhance their competitiveness. Bizibody is managed by four former legal practitioners with both local and regional experience. Please refer to [www.bizibody.biz](http://www.bizibody.biz) for more information on Bizibody.

Bizibody prepared this paper based on the first-hand experience of some of its team members, its discussions with legal practitioners with relevant regional experience and general observations of trends in the legal profession.

Bizibody hopes that this paper will contribute to the discussion on the re-positioning of the legal service sector. Reference should also be made to the earlier paper that Bizibody had prepared and submitted to the Committee entitled "Within Threats or Danger, Rest the Opportunities" – A New Perspective for Law Firms to Manage Change".

#### **Recommendation 1 – Lessons from the Past**

In the late 90s, a few of the larger law firms ventured outside Singapore and set up foreign branch offices in regional cities. Many of these experiments failed and many of these law firms have since shut their foreign branches, although some of them have retained their hard-earned foreign licences.

In order to fully consider the question of Singapore law firms going regional, it is important to find out from the early pioneers their experiences of establishing, managing and operating their overseas branch offices –e.g. the difficulties they have encountered, and the lessons which can be shared.

Our discussions with lawyers who had first hand operational experience in the overseas branches indicated the following:

- a) **Lack of support from Singapore clients** – Singapore companies operating abroad did not necessarily engage the services of Singapore law firms who had set up branches in the foreign country. Singapore clients often used a local law firm or an international UK or US firm over a Singapore law firm.
- b) **Lack of management experience** – In most Singapore law firms, management is usually carried out led by a practising lawyer or a committee of practising lawyers with limited management experience,

let alone management of a regionalization programme. Setting up abroad involves many difficult issues which are not faced in domestic practice –e.g. foreign exchange issues and issues relating to support, training, control, recruitment and compensation. Law firms that set up abroad usually lacked the management experience required to deal with these challenges. Hence, many ventures suffered from management's lack of experience and support and typically, there was insufficient planning for the long-term viability and continuity of the foreign branch.

- c) **Unrealistic Expectations** – Setting up abroad is a medium to long term investment in terms of commitment in time and resources.

Law firms, being partnerships, tend to be fairly short term in their outlook, and are generally not organized to invest time, effort and money into projects that do not yield immediate / quick returns. Overseas offices often requires 4 – 6 years to become profitable, depending on whether the offshore branch is set up in an emerging economy (e.g. Vietnam) and whether the managing lawyer has experience for overseas operations. Many law firms lost patience with their overseas investments. In this light, the introduction of the Limited Liability Corporation for law practices may be a more appropriate vehicle to encourage law firms to invest long term into new areas of law.

- d) **Expanding beyond legal advisory work** – it is often necessary for lawyers servicing regional markets to go beyond pure legal work. For example, lawyers have to become deal facilitators (such as brokering a deal or introducing two parties together) and may have to bridge the cultural gap between parties. Lawyers may already be doing this in Singapore, but the role of facilitator is more critical overseas in order to create the opportunity for paid work. Lawyers who are unable to adapt to these requirements or to the role of a deal facilitator, may find it hard to succeed in foreign markets.
- e) **Specialized small firms may succeed** – Going regional is not limited to large firms. There are examples of small specialized firms that have succeeded or are doing well regionally. These firms may opt for the fly-in, fly-out model rather than permanently set up an overseas branch office; and/or engage in referral activities where the function of referrals is per se a value added service as this may translate into income generating activities for other participants involved.

There is no need to re-invent the wheel on experience. If the Government wants to support Singapore law firms to regionalize, it would be useful to interview the early pioneers (both at management level as well as the operational people who ran the overseas branches) to find out the viability and potential profitability of foreign ventures, including challenges and issues involved and the recommendations for overcoming these challenges. There is much to learn from the painful lessons of the past and lawyers and law firms who have previously embarked on a regionalization programme should be specifically encouraged to share their experience with the committee.

Furthermore, we should also look at the experiences of foreign law firms in Singapore as well as overseas. There are foreign law firms such as the US and UK firms that are very successful, but there are others that are not such as the Canadian law firms. What are their difficulties and problems? What are the opportunities that they have seized upon in order to become successful? What are the types of skill sets they have staffed their offshore offices with?

### **Recommendation 2 – Tax Incentives**

Tax rules should be reviewed to offer more incentives and remove all disincentives for local lawyers doing overseas work.

One example has been given of a lawyer who was a salaried partner of a Singapore law firm and who ran the foreign branch of this firm. As a salaried partner working more than half a year outside Singapore, this lawyer was not taxed for the income he earned from the Singapore office. However, after he was made equity partner, he was asked to pay tax on the income he earned from the local office as he was now deemed to be earning income from a local business and was no longer exempted from paying Singapore tax. The nature of his work remained the same, however, the promotion in status resulting from his excellent performance overseas, resulted in his losing his tax benefits in Singapore.

### **Recommendation 3 – Allow foreign lawyers to become partners in local law firms**

Most jurisdictions, including Singapore, prohibit firms from sharing profits with “unauthorized persons”. Most lawyers that have not been called to the Singapore Bar, are deemed to be “unauthorized persons”. However, if Singapore law firms are to be truly international firms hiring lawyers called in different jurisdictions and providing these foreign lawyers with the appropriate financial incentives, then this rule should be reviewed and amended.

### **Recommendation 4 – Expand the Definition of Legal Services**

Legal services should not be limited to work carried out by law firms. There is opportunity for the courts, legal draughts persons, law professors and even legal support industries such as IT companies specialized in providing IT services to the legal industry to export their expertise to less sophisticated markets.

### **Recommendation 5 – Leverage on Technology**

In the past, before the widespread adoption of the Internet, it was more difficult and expensive for the Singapore head office to support the foreign branch and build relationships with foreign clients. However, in today’s environment, commonplace and relatively inexpensive IT tools and solutions can go a long way towards enhancing the communication, support and collaboration between the Singapore head office, the foreign branch, the traveling lawyer and foreign clients.

With the courts forcing the pace in the IT transformation of the legal industry, Singapore law firms are well placed to leverage on IT to export their services outside Singapore.

### **Recommendation 6 – Change Mindsets**

The practice of law is generally a conservative profession bounded by tradition and jurisdiction. A mindset change is required for lawyers to think outside their usual box of practising strictly within Singapore and their limited discipline. It will be necessary to create awareness of opportunities (for example, through including lawyers in trade missions), profiling role models of lawyers and law firms who have succeeded outside Singapore, and working with the relevant professional bodies to equip and excite lawyers about venturing abroad.

Nothing can be changed in a piecemeal way. Everyone needs to review the macro-forces that affect a particular industry or economic activities. Hence, actions or policy changes must be reflective of this macro-review. Other factors in the macro-view would be mindset and attitudes of using Singapore law firms for work that involves international elements. Singapore companies, whether private or GLC, should be encouraged to use Singapore law firms locally as well as regionally.

Authors – Corinna Lim & Belinda Co, March 2002