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# The Dramatic Evolution of the Law Industry: Yesterday, Today, and Tomorrow

*In this retrospective article, legal veteran Håkan Fohlin offers his thoughtful reflections on the dramatic evolution of Swedish law industry in recent decades. He also provides an intriguing forecast on what the future might hold for business law firms.*

Encouraged by the editors of *Advokaten* to share my insights on developments in the Swedish business law market for their August 2024 issue, I'm honored to offer this perspective based on decades in the business. My starting point and reference is a contributing article published in 1999 (No 9) titled "The New Market for Business Law: A Gigantic Challenge for Small and Medium-Sized Law Firms."

In my original article, I posed several critical questions: "What does the international trend of mergers mean for smaller and medium-sized law firms in Sweden? Will there be room for law firms in Sweden that are not among the four largest? Is it necessary for medium-sized law firms to follow the merger wave to survive in the long run? What will happen to the smaller law firms?"

Back in 1999, there was concern that: "Business law advisory services are no longer exclusive to law firms: The emergence of Multi-Disciplinary Practices (MDP), including accountants and financial advisors, as well as the establishment of legal departments at an increasing number of clients, are examples of this."

I also made the following forecast: "The increasing proportion of female business lawyers will lead to more flexible systems regarding part-time work, partnership, non-partner employment such as 'of counsels', salary partners, etc. A generally younger average age at law firms could mean different views on salaries, pensions, etc., among partners and could cause tensions between younger and older partners."

Nothing is new under the sun! The law firms have survived, and neither the large accounting firms nor the international law firms have taken over. While the market for business law remains slow-moving, there have been notable changes over the past 25 years. The culture of law firms has evolved, firms have grown in size, the focus has shifted from generalism to specialization, but the questions raised in this article are today more or less the same. Unfortunately, the proportion of women among partners at the firms in Sweden has not increased significantly.

Technology has dramatically accelerated the pace of work. In the past, lawyers could blame slow postal services for delays. Today, constant availability via mobile and email is expected, adding stress to the profession. Achieving work-life balance is not easy for business lawyers. And now, generative AI is emerging, which could be a true game changer for the law industry.

To provide a more personal perspective on this journey with business law, I refer to my own career and experiences, including some older lawyers at Setterwalls, the oldest and the third largest business law firm in Sweden.

Setterwalls' modern history and growth aptly reflect the development of law industry in Sweden. It has been a privilege to help shape Setterwalls into the modern firm it is today – the country's third largest business law firm. I left the firm at the turn of 2022/2023 due to an age policy that, ironically, I helped introduce during my 40s.

## **1980s: A Time of Generalism**

My first encounter with Setterwalls occurred during my student years when I was a guard at Kronoberg Remand Prison, also known as the "little law school" due to the many law students working part-time there. One day, I escorted a murder suspect in handcuffs to Huddinge District Court. It was a high-profile case, and the courtroom was full of lawyers. One lawyer stood out in particular – he insisted on standing every time he spoke, was impeccably dressed, and highly articulate. This lawyer was from Setterwalls, and his name was Claes Broman. Many years later, Claes told me that he had been woken in the middle of the night by his tailor, who had been arrested on suspicion of murder and needed legal representation. Claes, who had handled a few maritime cases involving intoxicated seacaptains running aground, took on the case, and the man was eventually acquitted (at least in the district court).

My second encounter with Setterwalls was when I served as a clerk to Judge Jan Hult in a peculiar case involving a dispute between a lawyer and professor of civil law. They had co-founded a law firm together, Intralaw, and were in conflict on how to divide the income generated by their associate lawyer. Once again, Claes Broman appeared and the professor was the esteemed Jan Ramberg. I thought if Sweden's most famous law professor hires Setterwalls, it must be a pretty good firm. They settled the case, and interestingly, the associate lawyer later married the professor's daughter, Christina Ramberg, who is also a law professor.

With a desire to focus internationally and a background in economics, I applied to Setterwalls after completing my clerkship and work at the Administrative Court of Appeal. At that time, Setterwalls was primarily a maritime law firm – the only field with an international focus before Sweden joined the EU in 1995. This aligned well with a scholarship I had received for maritime law studies in Norway.

When I interviewed for the position in 1987, it felt like a scene from "The Persuaders!" with Roger Moore and Tony Curtis. It was the yuppie era – yellow ties, suspenders, and pink shirts were in vogue.

In 1987, law firms were very small. Vinge was the largest, with about 20 lawyers, while Setterwalls, had six partners, and I replaced the only associate. There were a couple of secretaries, a receptionist, and a bookkeeper, along with former chief judge Mats Hilding as Senior Counsel, who had been head of the maritime law division at the district court. We all packed into the only meeting room where we had coffee every Friday at 3:00 pm. Smoking in the office was considered a basic human right! Firm parties were always held at a partner's home, and the partners formed a small, tightly-knit group, all of whom had all been hired young by Claes Palme, brother of Olof Palme, both of whom were lawyers. Claes only hired those who could conduct themselves impeccably in any social setting.

We had no evening receptionist, so if the phone rang in the evening, anyone could pick up the call. One evening, a young lawyer picked up the phone and heard, "Good evening, this is the King." The lawyer, thinking it was a prank, replied "Sure, kid," and hung up. But it was actually the King.

Setterwalls had offices in Singapore and London, located in Mayfair at 11 Hill Street, hosted by a client, and had a small apartment near Harrods. The firm even had a membership at London's Club No. 1, Anna Bells. It sounded as an exciting law firm where I wanted to be.

The firm had a well-tailored roster of lawyers, with senior partner Klas Kleberg standing out. Not a single baggy knee could be seen in his impeccably pressed flannel trousers. The elegance extended beyond his clothing; with unmatched linguistic finesse, he resolved the slightest hint of a difficult discussion with diplomacy and an infectious humor. He was a fantastic role model, not least on the tennis court.

Almost all the partners had a maritime law background, with Johan Gabriel Rudbeck being the most knowledgeable in the field. No one had such a remarkable track record in the Supreme Court as Johan.

Apart from maritime law, which involved marine insurance companies and shipowners, there were two significant clients when I started. In Banking & Finance, Otto Rydbeck worked with Patrik Brummer at the stock broker Alfred Berg, and Fred Wennerholm with Claes Dinkelspiel at Öhmans Fondkommission. These types of client were crucial for the growth of business law firms.

Just a month after joining Setterwalls, I received a scholarship for a year's internship at a maritime law firm on Wall Street in New York. I was eager to go, and the firm said agreed, on the condition that I find a good replacement.

I immediately thought of my ace notary colleague from the district court, Åke J. Fors, the best lawyer at Stockholm District Court. Dr. Fors, also known as "Air Force." Åke had also studied maritime law and previously interned at the same New York firm I was heading to. Åke was my first recruit! Since then, we were involved in recruiting all partners at Setterwalls' Stockholm office until I left the firm.

The same year we started, in October 1987, we experienced a major stock market crash on "Black Monday". The Stockholm Stock Exchange fell by over 20 percent in one day, causing panic. Clients called, wanting to reverse contract notes. It was a stark reminder that economic booms don't last forever.

Even as associates, Åke and I attended partner meetings, were given significant responsibility and felt we could genuinely influence the firm's development. No one was hired without our approval. The legal quality was high, and during pheasant or deer hunting seasons, we managed the firm ourselves.

Setterwalls was also a technological pioneer. Other firms queued to learn about our innovation. Unknown to many, Setterwalls was the first firm with a computer connection between a lawyer and a secretary – yes, they were called "secretaries" at the time. Language evolves, and our first legal secretaries would not have liked being called "assistants".

Otto Rydbeck took an enthusiastic lead in the computerization process that laid the foundation for the growth that would make Setterwalls one of the largest firms in Sweden.

The firm had an excellent reputation among judges, and the elegance of our lawyers had a professional impact. No one had as good a track record with female judges as the charming Fred Wennerholm.

Although maritime law was a specialty at Setterwalls, we developed into generalists. In our early years, we worked on all types of cases – from labor law and real estate law to disputes and ship finance. The variety and breadth of work provided fantastic training for young lawyers.

Little known to most, Setterwalls had the first female Managing Partner, the maritime lawyer from Salénrederierna, Anna Surtevall, who eventually moved on to become General Counsel and globally responsible for incentive programs at Ericsson.

## **1990s: First Expansion Wave – Deregulation and New Technology**

The 1990s marked a period of significant change, driven by the rise of new technology and the deregulation of financial markets. Telex and fax machines were gradually replaced by computers and the internet, transforming the way legal work was conducted.

The financial market underwent deregulation, and currency restrictions were lifted. It's almost unimaginable today that we once routinely applied for permits for foreign payments from the Swedish Riksbank. This deregulation spurred the first major expansion among firms as the financial sector boomed. Law firms were busy assisting banks with loans to finance companies which, in turn, lent to real estate companies.

Interest in strategy and business development in the legal industry was modest at first, with an explicit skepticism towards advertising and PR. However the early 1990s saw a sudden shift. Several firms merged, including Mannheimer Swartling, Lagerlöf & Leman, Vinge and Sandströms.

The larger firms in Stockholm began relocating from prestigious addresses on Strandvägen and Norrmalmstorg to more practical modern offices in glass palaces in the city center.

### **Financial and Real Estate Crisis**

The early 1990s also witnessed a severe financial and real estate crises. In September 1990, the collapse of Finans AB Nyckeln marked the beginning of a widespread meltdown that took down both banks and finance companies. The crises created a significant amount of work for law firms, as they assisting fragile banks and real estate companies grappling with over-leveraged assets. Bad loans were bundled into companies like Securum and Retriva, which became long-term clients for many years. In 1994, I was sent to Luxembourg to review shipping loan documentation over 40 intensive working days.

This period was particularly interesting for me as an associate working with Otto Rydbeck. Otto was incredibly fun to work with and became the most well-known business lawyer in Sweden for several years. He was appointed as the government's investigator into board director responsibility in Nordbanken and Gota Bank after staggering credit losses. We interviewed embarrassed bank directors and wrote investigative reports on billion-dollar losses in banks, amidst a media frenzy.

When Otto was away on a deer hunt, I stepped in and presented Sweden's largest credit loss ever to the Swedish State's Bank Support Committee and Gota Bank's board – the "Gullstedt Credit". The committee was chaired by the then relatively unknown Stefan Ingves (later head of the Riksbank for years), who wasn't swayed by his shared Ostrobothain roots with Gullstedt (a region in Western Finland). When the credit loss was presented to Gota Bank's board, chaired by the hired lawyer Dag Wersén from Lagerlöf law firm, you could hear a pin drop. The atmosphere was tense among the members of the 20-fold board who (elephantiasis!) sat in awe, anxious about the risk of personal liability.

Those with good memory also recall Otto's involvement later in investigating the Trustor scandal, which involved the embezzled SEK 2 billion from a listed company by mastermind Joakim Posener (still hiding somewhere), with two other Swedish accomplices using Lord Moyne (Jonathan Guinness) as a puppet. Notably, one of the accomplices was dubbed "Mr No Limits" when he waved his credit card and offered girls unlimited purchases in the glitzy shops of St Tropez.

Later, Otto took on another highly publicized project: investigating Skandia's extremely criticized bonus program (Sharetracker and Wealthbuilder), which was highly beneficial for the management.

### **M&A and Expansion of Operations**

My first mega-transaction was a management buy-out in 1994, where management at Carnegie bought Scandinavia's largest investment bank, along with merchant firm Singer & Friedlander, from the state-owned Nordea bank. This transaction led to Setterwalls' issuing the largest invoice ever.

It was a demanding project, not least because of the need to entertain a jovial London lawyer stationed at Stockholm's Grand Hotel for several weeks. Despite his fondness for wine, he was always fresh as a daisy the next morning. The pace was slow, with meticulous work led by Nordbanken's lawyers Gernandt Danielsson (G&D), particularly the thorough Karl-Erik Danielsson who was flanked by a younger, up-and-coming Christer Danielsson (later chairman of the Swedish Bar Association), whom our lawyer referred to as "The Danielssons," both from Ludvika. It was a slow page-turner. Every word was valued and negotiated, a stark contrast from today's high pace.

Setterwalls expanded into aviation law with the recruitment of business-minded SAS lawyer Mats Waering and into aid law with Harald Nordenson, who brought in clients like the state's venture capital company, Swedfund International, and the Swedish state aid organization SIDA. This led to exciting assignments, with trips to Latin America for me and to the Middle East and Asia for Åke.

Although maritime law gradually took a back seat, it remained an important part of the firm's identity, especially after the catastrophic sinking of the Estonia in 1994, which became the firm's most long-standing case. Among others, this was a major focus for maritime lawyer Jörgen Almelöv, who had returned from Norway.

During this period, the firm also recruited the colorful Barbara Segesvary, one of Sweden's first female business lawyers, fluent in French and Italian, who represented clients ranging from French fashion houses to Renault. She had at least 18 pairs of glasses, in various colors, matching at least as many colorful shoes. Known for her vibrant style, she was an excellent role model for the younger generation and concluded her career with a victory in the major dispute over the failed tunnel construction in Hallandsåsen in SouthWestern Sweden.

### **EU Membership in 1995**

Sweden's accession to the EU in 1995, combined with increasing internationalization and foreign investments, significantly contributed to the growth of law firms. Barriers to foreign investments, including restrictions on share ownership and foreign property ownership, were eliminated. It wasn't until the mid-1990s that law firms began developing strategic and business models, drawing inspiration from abroad. Exchange of experience with foreign firms was important. International networks were established. For Setterwalls, joining the World Law Group in 1996, a network of leading firms worldwide, was an important milestone. The firm's foreign revenue grew as we learned from our international counterparts.

### **2000s: Second Wave of Expansion - Specialization and IT Boom**

During the 2000s, specialization became more important, with firms organizing themselves into distinct legal areas, such as M&A, IT law, tax law, and labor law. This specialist focus led to higher profitability and greater demand for lawyers with niche-sector skills.

## **IT Boom and IT Crash - Turn of the Millennium**

The turn of the millennium brought a surge of work related to the IT boom and venture capital. A new segment for business lawyers emerged as the venture capital market and the IT market sparked the need for a new important area of knowledge for firms: IT law.

With a strong international M&A wave, something new entered the firms: due diligence. Company reviews provided a lot of work. Dozens of contract binders were examined to uncover risks. But sitting like a “data room guard” was boring. Today, of course, due diligence is done digitally. And share purchase agreements grew longer and longer following the Anglo-Saxon model.

The IT crash that followed led to a decrease in M&A activities and an increase in insolvencies. Setterwalls adapted by shifting its focus to insolvency issues. The firm brought in prominent figures such as the client magnet Odd Swarting, and Sweden’s most renowned bankruptcy trustee at the time Rolf Åbjörnsson, who sought internationally experienced assistance with Sweden's largest bankruptcy at the time – the insolvency of Swedish insurance company Folksam's international reinsurance business (LUAP), which primarily operated from London and had gone bankrupt.

## **New Players in Law Firms**

As Setterwalls expanded, the firm experienced increasing competition and needed more professional leadership roles to support its growth. Non-lawyer positions such as CFO, office manager, marketing manager, IT manager, HR manager, KM manager and Risk Manager became essential. The role of Managing Partner (MP), traditionally held by a partner, evolved. Vinge attempted with an external MP, but he was not very long lived.

In 2004, I became MP for four years coincided with the firm growing at an unprecedented level – 30% annually – doubling the firm’s size. We were convinced it was necessary to beef up significantly to belong to the top division.

Being an MP is like having the firm under your skin 24 hours a day. As an American MP put it, “Being a Managing Partner is like being at a churchyard. You have a lot of people below you but no one is listening.” It wasn't quite that bad.

## **Tragic Challenge to Fill the Void After Otto Rydbeck**

At the peak of his career, when Otto Rydbeck was most recognized for his work on Skandia's option program, he and his daughter Ebba tragically lost their lives in the 2004 Boxing Day tsunami in Thailand. This disaster also claimed the lives of Tomas Ander lawyer at Gernandt Danielsson and associate Thisbe Ander at Grundén & Gozzo Advokater. Such an incredibly sad and unnecessary loss. As MP at the time, I faced the difficult task of leading the firm through this period of disaster management when the media pressure was intense.

The tsunami also marked a significant breakthrough moment for Swedish pro bono activities. The Bar Association immediately initiated the “Legal Assistance for the Tsunami Victims” project, through which Swedish lawyers provided free advice to individuals affected by the natural disaster. The response from the legal community was overwhelming, with more than 24,000 hours of legal assistance offered by both business lawyers and lawyers working with family law and criminal cases.

## **Finnish Firms Established in Sweden**

The Finnish firms Hannes Snellman and Rochier established themselves in Sweden in 2006 and 2007, stirring the waters among business lawyers. Their arrival attracted several prominent lawyers from established firms to join these newcomers, reshaping the landscape of legal practice in Sweden.

## **Controversy over “Controlled Auctions” in 2007**

In 2007, at the height of the economic boom, a significant controversy arose among business law firms over "controlled auctions." The three largest firms at the time called for changes to the Bar Association's ethical rules to prevent foreign international firms from entering the Swedish market, fearing that such a move would lead to “some kind of soot death” of Swedish firms. They argued that, with client consent and "Chinese walls," firms should be able to represent multiple bidders simultaneously, a practice allowed by some foreign firms. However, the Bar Association rejected this request, and years later, it's evident that no foreign takeover of Swedish business law has occurred. While some firms with foreign names exist, they remain distinctly Swedish in practice, holding a limited portion of the market.

## **Next Collapse - 2008 Lehman Brothers**

The Lehman Brother's bankruptcy in 2008 triggered a recession that brought mergers and acquisitions (M&A) to a standstill. The massive hiring of associates stopped and clients became increasingly price-sensitive, pushing for fee negotiations. The traditional hourly billing model was questioned, leading to the adoption of alternative payment structures, such as discounts and price caps. More legal work shifted in-house (often staffed by the most experienced ex-law-firm staff) and law firms had to adapt to earn trust. Corporate lawyers became cautious about hiring lawyers. It was important to stay on one's toes and earn the clients' trust as advisors.

When I stepped down as MP before the Lehman crash in 2008, many of my older clients had been reallocated to others within the firm. To bring in new business, I started visiting other law firms worldwide. We became active in the International Bar Association (IBA), organized "Swedish crayfish parties," and receptions at the Swedish embassies in Tokyo, Vienna, and Washington. There were many roadshows, and we developed our World Law Group network, where I sat on the board for six years.

## **2010s to Today: Third Wave of Expansion - More M&A and Stock Market Frenzy**

A few years after the Lehman crisis, business firms began to recover, and a third major wave of expansion followed, driven by M&A, IPOs, capital raisings, private equity and a booming real estate market. The recovery peaked during the pandemic in 2021, which was a record year. Swedish business lawyers have never made as much money as in 2021, but the stock market listings in Stockholm were globally at their peak. When the Swedish business community is doing well, so are the firms. However, since 2022, growth has slowed due to high interest rates, the war in Ukraine, and global economic downturns.

Despite these challenges, earnings remain strong, particularly for firms able to adapt their structures to the changing market. It is good not to have all your eggs in one basket during a recession when M&A decreases. Firms with strengths in large disputes and international arbitration are well positioned to weather economic downturns.

## **Reflections - What Does the Future of the Law Industry Look Like?**

### **Future Opportunities and Challenges**

The future of partnership in large law firms poses a significant question: Do people aspire to be partners and is it a realistic goal?

The legal profession is incredibly dynamic and varied, offering a diverse range of experiences. However, the path to partnership is becoming increasingly challenging, with many young lawyers opting to leave after a few years for corporate roles. Law firms serve as an excellent training ground, but young lawyers come and go. Firms are fantastic nurseries and excellent for CVs. But becoming a partner can be compared to getting married. Ideally, it is a lifelong project to jump on the “platform” to partnership that a well-functioning law firm represents. Leaving can be like a difficult divorce.

The willingness and ability to refine and adapt a firm over time varies among partners. Implementing changes often requires altering individual behaviors. It can be difficult to “teach old dogs new tricks” in a conservative industry where a partner may see themselves as “God's gift to the firm.” It’s tough for those who are not considered meeting the requirements. Friendship should not be confused with partnership.

In recent decades, becoming a partner has become significantly more challenging. Moreover, the younger generation increasingly questions whether the intense effort required is worth it. Many young professionals adopt a “what's in it for me?” mindset and often pursue alternative career paths after a few years of training. To retain talent, firms must now prioritize development programs, diversity, and work-life balance.

While firms could take greater responsibility for the broader perspective of the lawyer's role, it is often more profitable and practical for young lawyers to focus on their specialty. Specialization has made the role of associate lawyer more monotonous, which is not always good for the young lawyer's development. On the other hand, someone who now only works with, for example, M&A becomes very technically skilled due to the high frequency of M&A cases in recent years. Repetition is the mother of knowledge. And it's very rewarding to see how quickly the young become skilled in the craft. However, the role of project manager can be difficult to assume when large transactions require broad experience and coordination in several areas of law to close the deal.

Here, firms face the challenge of allowing younger lawyers to circulate more between different areas of law, but this seldom happens in practice.

### **Few Women Become Partners – Still**

One of the most pressing future challenges for law firms is retaining women, as the proportion of female partners in Sweden remains lower than in most other countries. Despite women comprising 60-65% of newly graduated lawyers, their representation in partnership remains disproportionately low. When firms lose women, they lose competence. Despite decades of discussion, the progress in increasing the number of female partners has been frustratingly slow.

For several years, I participated in the Bar Association's Ruben Project, which encouraged younger women to pursue careers at firms. In this context, I often referred to a firm in Setterwalls' international network with the highest proportion of female partners. Surprisingly, a top firm in Muslim-majority Malaysia has a 50% share of female partners. This is not because men in Malaysia take on more responsibility for children and the home but because there is a culture of hiring



domestic help. Although it is of course a luxury to afford a cleaner, cook, and gardener as a business lawyer in Malaysia, it is essential to avoid stress by organizing everyday life with all possible help during the early childhood years. Even though men in Sweden are, or should be taking responsibility at home, it is naive to think that this always works out perfectly. My recommendation to younger professionals is to ensure you have help at home in one way or another – after all, there are only 24 hours in a day.

Firms could do more by offering more flexible partnership terms, especially during the early childhood years, for both women and men. The fact that women leave firms shows that the current business model, centered around hourly billing, does not encourage female partnership. This issue is not solely the firms responsibility, but also the clients. Clients need to be educated to not always base fees on time spent. If there is ever to be a meaningful increase in female partners, shifting the hourly billing norm towards a more business-oriented approach would be beneficial. It's worth considering whether clients and firms could agree in engagement agreements not to always "run a taxi" and let the time spent determine the fee size. Although this is possible in theory, and supported by the Bar Association's guidelines on good legal practice, it remains challenging to apply in practice, especially as this model is the norm for international firms.

The Swedish Bar Association's guidelines on good legal practice state that the fee should be "reasonable". When assessing what is a reasonable fee for an assignment, factors such as what has been agreed with the client, the scope of the assignment, its nature, difficulty, and importance, as well as the lawyer's skill, the work's result, and other circumstances are considered. For example, it is possible to agree in advance on a fixed price.

As AI becomes integrated into more law firms, it is likely that more creative business models will emerge, which could benefit women in the profession.

### **Working from Home – Learning from the Pandemic**

During the pandemic, it was proven that working from home is entirely possible. This has sparked debate within firms about whether to allow everyone – both associates and partners – to choose this options. Personally, I do not think it is appropriate, except during the early childhood years, for those who want to develop professionally. This is especially for the younger lawyers who often live in cramped conditions and need to integrate into the firm culture. As a business lawyer, building contacts and a personal network both within and outside the firm requires a great deal of social engagement.

### **Specialization and Different Earning Capacities Among Partners**

Specialization has led to increased profitability, as it is easier to charge more for highly qualified work. This has also resulted in spin-offs into smaller niche boutique firms. However, this specialization creates challenges for larger firms, as profitability varies between the areas of law. For example, it is much harder for a partner in tax law, labor law, or IP to be as profitable as a partner in M&A or litigation. This is the "price" of offering full-service legal practices. The trick is to still maintain the full-service concept, not least to be able to conduct high-quality and swift due diligence. To hold together law firms with partners of varying earning capacities, adjustments are made to the traditional "true and fair partnership model". Today, it can be said that the profit structure often lies somewhere between two extremes: what is usually called "eat what you kill", where individual performance determines income, and the "coop model", i.e. equal sharing.

This is often combined with "lock-step". It may take between 8-10 years as an associate to become a partner, but once there, one steps onto a ladder of varying lengths during which the new partner can climb for a higher share of the pie. In addition, extra bonuses are sometimes given to "very high performers". Personally, I have never had any problem favoring those partners who choose to devote – or sacrifice – their lives to the firm.

### **The Big Accounting Firms and the International Law Firms**

In 1997, some lawyers left Lagerlöf & Leman law firm in Gothenburg to form KPMG Wahlin Advokatbyrå AB and join KPMG's international network of auditors and lawyers. The Bar Association ruled that this was against the ethical rules of lawyers regarding independence. Despite this, Multi-Disciplinary Practices (MDPs) have been repeatedly painted as a threat to the business law firms over the years. The concern is that the largest accounting firms would take over business law due to their size and the proximity to clients that auditors have. Several have built up "transactional services" departments and, despite recruitments from law firms, with mixed success, try to get the large transaction assignments.

Many of the mega-large international law firms such as Latham & Watkins, Clifford Chance, and A&O Sherman (merger of Allen & Overy and Sherman & Sterling 2024) collaborate on an ad hoc basis with Swedish law firms. Without their own offices in Sweden, they of course need help on site. None of these international giant firms have any interest in establishing themselves in Sweden in our relatively small legal market, as charging their \$2,000 hourly rate is not feasible. Larger markets are of greater interest to these firms.

However, some developments have occurred in recent years, with DLA Piper in Stockholm growing stronger in M&A and CMS recently establishing itself in Sweden through a merger with Wistrand. But these firms essentially only have Swedish lawyers in Sweden, so the Swedish firms can rest easy. Neither "the Big Four", investment banks, nor the really large international firms will take over business law in Sweden.

### **New Main Types of Business Law Firms – Division of Large Firms?**

There is a question as to whether smaller and medium-sized firms in Sweden need to become large and more "industrial" to survive. However, being very large does not always bring great advantages. The desire for larger mergers and the formation of large firms is hampered profitability concerns related to the 3:12 tax rules and the risk of conflicts of interest.

Top firms must continuously consider whether it is possible to maintain the full-service concept. Profitability-wise, it is tempting to focus on M&A and capital markets. This ongoing transformation is leading to very profitable firms with core activities in M&A, capital markets, and disputes where it may be difficult, and perhaps not desirable, for partners in tax, labor law, IP, and IT to take place.

Perhaps three main types of firms will emerge: (i) pure M&A and capital market firms with supporting units in, for example, labor law, environmental law, and IT, (ii) more typical full-service firms that will try to retain full service without becoming a pure M&A firm, and (iii) niche boutiques in IT, disputes, tax, and labor law.

### **New Areas with a Bright Future**

With increased regulation, especially of the financial market after the financial crisis and anti-money laundering regulations, compliance has emerged as an important area for firms. There is also growing demand for business law services related to sustainability, CSR (Corporate Social Responsibility), and

anti-corruption. Additionally, helping clients navigate complex regulations in areas such as environmental law and data protection is becoming increasingly important.

### **AI's Impact on Law Firms – An Earthquake in the Legal Market?**

At the IBA in Paris in October 2023, AI was identified as the most critical issue facing the legal profession. According to the IBA, AI will cause a "real earthquake" in the market but also opens up opportunities for new business models.

AI is considered the most profound industrial revolution in human history! A "true game changer" for law firms. This is the view of Zack Kass, former CEO of OpenAI, who led the launch of Chat GPT. He gave a fascinating presentation at the IBA. Besides the "existential risks" that require global regulations, he emphasized that all lawyers must learn to use ChatGPT and claimed that law firms that do not embrace AI will fall behind. "Proper use of AI can increase job satisfaction and productivity."

Are we facing a new bubble? It wouldn't be the first time a technological hype later proved to be a fad. But generative AI stands out; it addresses language, which is the tool we lawyers use.

As someone now running my own business at a more leisurely pace, I find Chat GPT (sometimes called "guesswork 2.0") very effective – akin to "a very junior associate" for \$20 a month to quickly produce a first draft of a contract or legal investigation. But it must, of course, be used with great caution, double-checked, and carefully processed. The technology contributes to speed but not always to quality. Here, experience and knowledge are required to use and interpret the chatbot to avoid errors.

At the Swedish Bar Association's international division conference in Malaga in March 2024, Jose Luis Lorente Howell (Bird & Bird in Madrid) gave a presentation where he pointed out that many foresee a wave of new digital tools for legal services because "generative AI will automate countless processes currently performed manually." It will be cheaper with AI for clients, who will use AI to handle simpler legal matters themselves, and according to pessimists, this will inevitably lead to a reduced need for lawyers.

Lorente Howell pointed to a recent report from Goldman Sachs indicating that 44% of the tasks performed by lawyers could be taken over by digital tools.

The more optimistic view is that AI will not replace lawyers, but rather lawyers who cannot use AI will be replaced by those who can. AI will not eliminate the need for legal advice, but will allow firms to focus on more complex issues. This shift should allow law firms to earn more money than on the repetitive tasks that AI can handle.

Lorente Howell points to managing partners at large Spanish law firms who say there will be no shortage of work. "Engaging in repetitive clauses or analyzing hundreds of emails in litigation is not work that creates value. This should not be work for juniors. They should engage in more interesting work. AI will free up resources that can be used for much more profitable work."

So, AI looks set to affect pricing as well as the way lawyers work, but perhaps not as strongly the need for junior lawyers, at least not in the larger firms.

This raises the question: How should younger lawyers be trained if AI handles routine tasks? Relying too heavily on chatbots for legal research may hinder the development of essential legal skills in the next generation of lawyers.

It will be interesting to see how AI will affect business law firms.

With AI, many questions arise related to risk and quality, copyright, attorney-client privilege.

Who is responsible for errors? The fundamental principles remain: lawyers must recognize that AI cannot replace their responsibility for any mistakes. Regulations are on the way. Soon, rules on liability regarding AI will be based on an EU directive presented in September 2022.

There is some comfort for us lawyers in knowing that AI cannot replace human qualities such as judgment, vision, wisdom, courage, empathy. If or when AI takes over more of the firms' operations, the crucial factor in attracting and retaining clients will lie in the quality of the human relationship between the lawyer and the client. This will require even better critical thinking and creativity in proposing legal solutions. Therefore, the ability to offer more personal and tailored relevant client advice will become more important than ever.

### **Lawyer – a Vocation that Spans into Senior Years**

Another noteworthy trend is the increasing number of senior lawyers who have left partnerships to practice independently. This allows them to take a more traditional legal role as a "consigliere," offering their extensive commercial and legal experience as an advisor and interlocutor. As a relatively new "digital nomad attorney" who embraced the flexibility of remote working during the pandemic, I can personally attest to the freedom this approach offers in life after the partnership.

**Håkan Fohlin, June 2024**