

Law firms opening up offices in the Middle East: Focus on Saudi Arabia

SIRAJ AL ISLAM looks at the factors that an international legal firm needs to take into account when opening up an office in Saudi Arabia.

The trend of international law firms opening offices in the Middle East seems to be continuing, as every law firm still prefers to have their first office in the region either in Dubai or Abu Dhabi. The former is the preference for many, and this is understandable. It is easier to recruit in to Dubai than anywhere else in the Middle East bar none: even Abu Dhabi, which is only about an hour and a half drive from Dubai.

So why is Dubai the preferred option? The answer is a very simple one, but has multi-faceted responses:

- The ease of opening an office (no need for a local sponsor);
- Many recruits consider it as a holiday destination with sunshine, beaches, bars, nightclubs - effectively a home away from home;
- There is generally no restriction on free mixing whether at work or elsewhere;
- It offers a tax-free salary which is applicable to all GCC countries.

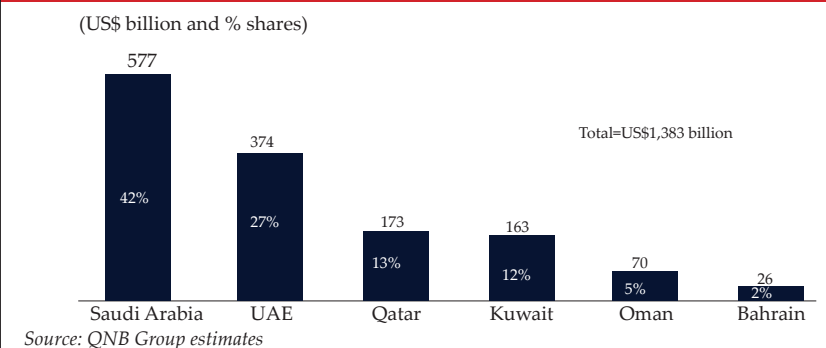
The answer, as a consequence of the above, is this: it is easier (not easy) to recruit to Dubai as opposed to any other GCC country. So, consequently, the reason for the difficulty in opening offices in other GCC countries is also very simple by analogy: the factors listed above become less applicable to many of the other GCC countries, and as the degree of inapplicability increases, so does the difficulty in opening the offices in the other GCC countries.

Generally opening offices in the GCC countries such as Bahrain, Qatar, Oman and Kuwait is becoming easier. The most difficult country, however, is still Saudi Arabia. I have used the Qatar National Bank GCC Economic Insight 2012 as the exclusive report.

The report makes the following comment about Saudi Arabia:

Saudi Arabia is the largest country in the GCC in terms of its land area,

GDP in the GCC (2011)



population and GDP. Saudi Arabia has the world's largest proven oil reserves, with 19.1% of total global reserves, and its economy is dominated by the oil sector, which accounted for an average of 50% of nominal GDP over the last five years. However, owing to the kingdom's large population, GDP per capita is the lowest in the GCC. The government uses revenue from oil exports to make major investments into basic and social infrastructure, education, health and heavy industry. These investments are aimed at encouraging development, distributing oil wealth and diversifying the economy away from the oil sector.

Specifically with regards to the GDP, Saudi Arabia accounts for 42% of the GDP of the GCC. Simply put, with the exception of some unique law firms (and I am having difficulty thinking of one) you cannot have a Middle East strategy without making Saudi Arabia part of it.

Establishing the reasons for a Saudi venture

Notwithstanding the comments above, past experience shows that there are effectively three categories of reasons as to why existing firms have opened up in Saudi Arabia.

- Client protection**
International firms have a fear that their clients in Saudi Arabia may be forced to use another international company and as a result may have concerns

that the same international law firm may effectively take over the client's relationship in other jurisdictions. As a result the firm will enter into any reasonable arrangement with a local law firm to have a presence in Saudi Arabia. The usual practice is to have one or at most two lawyers from the international firm physically based in Saudi Arabia.

- Protection of existing clients and generation of new business**
International firms in this scenario need to protect their existing clients and also will usually invest in an appropriate manner to develop new businesses in Saudi Arabia. Normally, there will be at least one lawyer from the international firm who will be physically based in Saudi Arabia, whilst others will come and go as necessary to develop business. Once new business has been generated to a self-sustaining level, new members will be added.
- New business**
In this scenario, international firms do not have existing clients and are focused on developing new businesses in a new jurisdiction and accordingly are willing to invest heavily to ensure that the new venture has the appropriate resources to succeed. The nature of such investment is to usually plan

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for a loss in the first two years, with a view to break even in the third year, and begin to generate profits from the fourth year onwards. The key factor as in any other law firm operation is ensuring that the permanent team is on the ground and additionally ensuring that the team is a stable one.

Options for operating in Saudi Arabia

The following are the current methods by which law firms are conducting business in Saudi Arabia.

(a) Ad hoc

This falls into two categories. Either a local law firm needs the assistance of an international law firm, as it does not have its own internal team of lawyers, and accordingly, approaches an international law firm, or alternatively an international law firm is very likely to get a piece of work, due to expertise or an existing relationship, and needs to pair up with a local law firm to qualify.

(b) Licence

In this scenario, the international law firm pays a fee to a local qualified lawyer to effectively use the lawyer's license, but essentially the agreement is that the local lawyer is not to interfere, or in some extreme cases have any involvement with any legal matters that the international law firm is working on.

(c) Two-firm approach

Here, the decision is similar to option 2; however, unlike in option 2, the Saudi firm does have a degree of substance, in that it has an existing practice and there is a desire to continue to build on that independently; yet at the same time to have an international law firm working side by side.

(d) One-firm approach

In this set-up, the local Saudi lawyer is effectively a partner in the international law firm and to all intents and purposes (other than Saudi law purposes), the image is of one firm and there is a genuine attempt to operate as one firm.

Opening in Saudi Arabia

Let's assume you are the managing

partner of an international law firm and have decided that you are going to open in Saudi Arabia. You are not going to go for option 1, as you are actually taking this venture seriously. So what are going to be your biggest hurdles, in no particular order of priority?

(a) Finding a local sponsor

Finding a sponsor who is going to fit into your organization is going to be very tricky.

(b) Recruiting of international caliber lawyers

Saudi Arabia is unique in that for most Muslims, it has a special place in their hearts and as such, it is a slightly easier sell to Muslim lawyers as opposed to non-Muslim lawyers. However this should not be taken as given, as I am aware of numerous Muslims who have tried it for a number of months and could not wait to get out. To non-Muslims, it's much more of an issue.

Having said this, there are lawyers, who due to the current ongoing financial issues, are willing to do a 'tour of duty', and there are also others who have been here for a significant number of years and genuinely like being in Saudi Arabia. The crux of the matter is this: it is difficult to persuade lawyers to come to Saudi Arabia, and even more difficult to have them stay here for the long-term. Law firms are coping, but on the ground stability is a concern for clients.

Signs are up: Ready for business

By now our managing partner has found a local Saudi sponsor, and not only that, but has recruited enough lawyers, and the signs are about to go up.

(a) Retaining lawyers once on the ground

Retaining lawyers is always an issue, but in a country such as Saudi Arabia, it is even more of a concern than any other GCC country. Examples of horror stories which deter potential lawyers from coming to the kingdom are as follows:

(i) Initial impressions

Some employers make basic mistakes such as not providing a pick-up at the airport or not providing initial

accommodation at a hotel. Employers are reminded to ensure that new employees' initial impression of their new place of employment is critical. Make sure you give the new employee the opportunity to go in and out of the country; let them adjust to their surroundings.

(ii) Residency permit

Some local employers for whatever reason fail to get the most basic paperwork in place and as a result, there are lengthy delays in getting the residency permit of sometimes months. By the time the residency permit has been issued, some employees have already decided to leave, as they feel their firm did not look after them well.

(iii) Administration

Ensure that you have sufficient administrative support, such as getting decent secretaries and most importantly an office runner and an office driver. A lawyer's value is in their ability to focus on client work and bill and not to spend time locating where they need to go to meet the client.

When things go wrong

Sometimes, the employer and employee decide to part with the company. In Saudi Arabia, unfortunately, high turnover rates even amongst lawyers are not uncommon. The termination should always be amicable and on good terms. If you are going to let go of someone due to lack of billable hours, admit that the partners have failed to do their jobs and have not generated enough business and that's the reason for letting go of someone. Partners of the firm are responsible for generating work and associates are there to do it (this applies anywhere, but it is even more pertinent here, as you are effectively setting up a new business venture).

Conclusion

In summary, focus on getting the foundation and the basics right, and the rest will fall into place with hard work and dedication — like most things in life.⁽³⁾

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