

The Golden Age of The Legal Entrepreneur - - Why Now and Why It Matters

Law is seldom associated with entrepreneurs. Lawyers are a cautious bunch focused on precedent, risk containment, and tend to be reactive—not innovative. [Entrepreneurs](#) are a different breed. They create new business models in response to market voids, deploying risk capital to achieve customer satisfaction and scale. Entrepreneurs require passion, knowledge, vision, process, resources, expertise, execution, results, performance metrics, constant improvement, collaboration, transparency, scalability, and access to capital.

A raft of entrepreneurs is entering the legal space. They are tapping into latent demand for access to legal services as well as expertise-differentiated, efficient, cost-effective, predictive, digitized, and scalable legal products and services for corporate legal buyers. Entrepreneurs are melding legal, technological, and process expertise—and capital—to reengineer legal delivery and provide easy, affordable access. A law license is not required, but industry knowledge and capital are.

We are entering the golden age of the legal entrepreneur. Why is this happening and what does it portend for the future of the profession and the industry?

A Legal Career Was the Safe Route

A law license was once a passport to a financially stable, secure, socially respectable career. A law degree, licensure and ‘paying one’s dues’ as a well-paid firm associate generally yielded a steady return on investment throughout one’s career—albeit without residual equity upon retirement. The golden ring was partnership at a large firm, and those that did not win the sweepstakes were commonly placed in-house at firm clients or became partners at smaller firms.

Lawyers controlled all facets of their market -- education, licensure, state Bars, practice and ethical standards, organizational structure, economics, and delivery. They sold one thing—legal expertise—and had a monopoly. Self-regulation ensured that ‘non-lawyers’ -- everyone without a law license—could not own, invest, or engage in ‘the practice of law.’ It was left to the lawyer-controlled state Bars to determine—often with vague standards—what ‘practice’ meant. Practice was territorially limited to ensure resident lawyers would not have their turf invaded. The legal profession was provincial, parochial, and exclusionary—by design. Lawyers dictated the terms of engagement to clients and perpetuated the illusion they alone were qualified to solve business challenges they characterized as ‘legal.’

Lawyers crafted language, procedures, and an insular, homogeneous culture to differentiate themselves from the rest of society. This supported a “lawyer/?non-lawyer”

worldview and preserved their hegemony over the delivery of legal services. It also perpetuated the myth of lawyer exceptionalism. Law firm structural and economic models were predicated on lawyers performing all 'legal' work with a labor intensive, 'no stone unturned' approach regardless of client objective or value. Budgets, price predictability, and knowledge management were not a part of the law firm *modus operandi*, although their business clients operated that way for decades.

Competition among law firms was generally friendly; each firm had its client 'relationships.' There was little movement among partners or clients. This persisted into the 1970's when law, like baseball, entered the free agency era. Steve Kumble, Joel Hyatt, and Steve Brill were three early lawyer/entrepreneurs that transformed legal practice into the legal industry and created a roadmap to the present.

The Early Legal Entrepreneurs

Steve Kumble was the architect of Finley Kumble (FK), a brash, upstart New York law firm that, within a decade, became one of the nation's largest, most powerful, and high-profile firms. Kumble aggressively poached talent from established white-shoe firms, something that shocked the staid legal establishment. FK offered rainmakers and high-profile politicians eye-popping compensation packages, many of them guaranteed. The firm grew with astonishing speed, geographical reach, and media coverage. Kumble secured large credit facilities from the firm's banking clients and embarked on a roll-up strategy designed to attract national clients.

Kumble was law's Gordon Gekko, and he encouraged firm partners to flaunt their financial success. He instilled an 'eat what you kill' atmosphere and compensated partners accordingly. The 'partnership' was a disaggregated collection of tents in a bazaar that operated under a common brand name. Finley Kumble may be best remembered for its spectacular fall, but the firm's true legacy is the culture, compensation model, and ruthless competitiveness it forged that is endemic to most firms today.

Steve Brill, Founder of *The American Lawyer*, regarded law as an industry and focused his keen eye on the economics of legal practice. His annual survey of law firm finances, the 'AmLaw 200,' was a watershed in law's transition from practice to big business. Brill established profit-per-partner (PPP) as the holy grail of legal metrics. Brill's devastating Finley Kumble expose led to the firm's bankruptcy.

Joel Hyatt, the founder of the eponymous Hyatt Legal Services, pioneered low-cost legal service for millions of disenfranchised middle-and lower-income Americans. He later founded Hyatt Legal Plans, which became the country's largest provider of employer-sponsored group legal services, pioneering the concept of legal services as a fringe benefit. Hyatt understood the economics of scale as well as the distinction between legal practice and the business of law.

Labor Arbitrage and Technology

A second wave of legal entrepreneurs appeared around the turn of the millennium. This coincided with the early days of eDiscovery and the offshore migration of high-volume, low-value tasks--principally document review—once performed by high-priced BigLaw associates. Legal staffing companies were another form of labor arbitrage, allowing firms to tap into talent on an as-needed basis--and with a handsome mark-up-- rather than a fixed cost.

The next step taken by legal entrepreneurs was to invest in technology that reduced the massive cost and compressed the delivery cycle of manual review of documents and, soon, other ‘legal’ activities. David Perla and his colleagues at Pangea3, Dan Reed at UnitedLex, and a handful of others built early law firm alternatives that combined technology, business acumen, process, and labor arbitrage to compress delivery time, reduce cost, mitigate risk, and scale tasks that once required high-priced firm lawyers.

Perla and Reed, both large firm alumni, recognized the importance of capital, technology, and scale. Operating outside the regulatory constraints confronting law firms, they created corporate structures and economic models that rewarded output (efficiency/results), not input (hours/origination). Pangea3 raised over \$12.5 million, including a C-round investment from Sequoia Capital, to build a global operation that was acquired by Thomson Reuters six years after its launch. Reed also tapped into investment capital to build UnitedLex, transforming it into the paradigm of the contemporary law company. The recent ‘rebadging’ of hundreds of GE and DXC in-house personnel by UnitedLex is evidence of a tectonic shift in legal delivery that Reed and others are pioneering.

The Golden Age of The Legal Entrepreneur

The convergence of the global financial crisis, a remarkable acceleration of technological advances, and globalization have produced a climate conducive to legal entrepreneurs. The financial crisis and its aftermath forever changed the buy/sell dynamic of goods and services—law included. ‘More with less’ is the new normal.

Technological advances—cloud computing, smart phones, social media, artificial intelligence, and other applications-- have altered the way people live and work. The agile workforce, gig economy, transparency, predictive power of data, metrics, and collaboration of humans and machines has accelerated disaggregation and turbo-charged the growth of law companies, legal tech, and legal operations. Law is no longer solely about lawyers, and law firm demand is stagnant even as demand for legal services is rising steadily.

Globalism has created challenges and opportunities for business that legal expertise alone cannot address. Corporate legal buyers must navigate a complex web of often-conflicting regulations and a new array of existential enterprise threats—cybersecurity, data protection, and the impact of social media to cite a few. This requires differentiated expertise in law, technology, and business that is scalable, agile, geographically dispersed, and digitized. Entrepreneurs are answering this challenge.

Clients—not lawyers—now determine value, risk tolerance, and required expertise. Legal entrepreneurs are addressing these customer needs, providing predictive tools, performance metrics, predictable pricing, digitized processes, 24/7/365 access, transparency, and the right resources for the right task/matter. Entrepreneurs—not law firms—are responding to the ‘more with less’ challenge.

Burford Capital, LegalZoom, and Dentons are among a growing list of entrepreneurial legal enterprises that are transforming the market. Each has built on the foundations laid by earlier legal entrepreneurs.

Burford Capital provides specialized finance to the legal market. The company offers a range of legal and litigation finance solutions to lawyers and clients engaged in litigation and arbitration. Burford launched in 2009 and now boasts a market cap of almost \$4.5B. The company invested \$1.3B in 2017, bringing its total investment portfolio commitment to \$2.4B as of the end of 2017. Burford is quietly transforming legal economics by deploying capital to create flexibility.

Dentons, launched in 2013, can fairly be described as the first legal conglomerate. Not only is it the world’s largest law firm by headcount, but it is also a referral network, a legal network, and a legal technology incubator. Dentons has constructed an interlocking portfolio of legal services entities that leverage expertise, geography, technology, entrepreneurial vision, capital, and brand.

LegalZoom (LZ) has revolutionized the delivery of ‘retail’ legal services. Not only is it a household name, but it also has served more than 5M customers including more than 1M small and mid-sized enterprises. LZ has deployed substantial investment capital to create a self-help and low-lawyer touch technology platform that makes access to legal services easier and more affordable than traditional small firm models. The company’s customer satisfaction rating is considerably higher than that of elite corporate law firms.

Conclusion—What This Means

Law has several challenges including a distribution problem, an access to justice crisis, and a high-degree of consumer dissatisfaction. Legal entrepreneurs are circumnavigating antiquated regulations to respond to these challenges. They are deploying capital, technology, and legal ,business and other required expertise to provide retail and corporate consumers easier access to and efficient delivery of legal services. Legal expertise is no longer synonymous with legal delivery; it is a component that is being leveraged by new business and economic models.

Lawyers have failed to satisfy law’s [wicked challenges](#). The smart money is betting that entrepreneurs will.

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