



Downtown Dubai

# DLA's MID-EAST DEBACLE

DLA Piper's vast new Dubai office is mostly empty after its aggressive growth strategy gave way to a bruising retreat. **DAVID ROBINSON** reports.

Probin Dass was drafting documents in his Singapore office one afternoon when the phone rang. It was a recruiter, eager to discuss an opportunity.

DLA Piper, the largest law firm in the world, was developing a new finance practice in the Middle East and was in the market for top talent. There was a superb job for him in Saudi Arabia.

Dass wasn't sure. He had lived in Singapore all his life and had a secure job as an asset finance specialist with Norton Rose. He was 38 and married with two young children.

But he listened, and as the recruiter spelled out the opportunities, he became intrigued. DLA, said the recruiter, would soon have the largest law practice in the Middle East. Already it had a vast number of Islamic finance transactions and could offer him lots of projects. The move would broaden his skill set and double his salary. He decided to discuss it with his wife.

"I had to convince my wife to agree to put up with the hardships of living in a place like that. She needed a lot of convincing." Eventually, they decided to go.

*“A striking example of unrealistic expectations, poor execution and bad management.”*

A former DLA partner on the Dubai office

A few months later, in September last year, Dass and his family arrived in Dubai with high hopes. The plan was that he would spend a month there getting to know his new colleagues before moving on to Saudi Arabia.

His hopes, unfortunately, did not long survive his arrival. “They didn’t even know who to introduce me to. Nobody knew what was going on.”

The DLA partner who had first contacted Dass – former regional finance chief Oliver Agha – had left the firm. “There was no finance team, no partner in charge and no legal work.”

Uncertainty hung over the office. In fact, it affected DLA’s Middle East operation, including the Saudi office where Dass was due to start. Within weeks, his move to Saudi Arabia was called off and he stayed in Dubai; but the office was desperately short of work. It was suggested at one time that he work in Qatar, then in Saudi again, but these suggestions came to nothing.

Then in February 2009 came the final suggestion: he was told he was redundant. He had little choice but to uproot his wife and children for the second time in six months and return to Singapore and seek work in a depleted job market.

Dass was a victim of DLA’s wildly ambitious Middle East strategy. The firm embarked on an aggressive hiring spree, relied too heavily on one client, and pumped vast resources into building a finance team that failed to deliver. “It’s a striking example of unrealistic expectations, poor execution and bad management,” says a former DLA partner.

Faced with huge losses, the firm has slashed its Dubai workforce. Its office in Emaar Square, which boasted about 120 lawyers last December, now houses about 60, according to lawyers at the firm. The lawyers that remain have scarcely enough work to do and live in fear of losing their jobs.

#### **Growth for growth’s sake**

DLA launched its wholly-owned Dubai office in May 2006 with five lawyers.

“Our strategy is about adding value wherever our clients do business rather than about size,” proclaimed DLA Piper joint-CEO Nigel Knowles, as he sat next to then chairman George Mitchell, the former US senator, at a press conference.

“Our global footprint would not be complete without an office in Dubai and we see this as the first step in our expansion strategy in the Middle East,” Senator Mitchell added.

DLA has subsequently opened wholly owned offices in Abu Dhabi, Qatar, Oman and Bahrain, in addition to joint ventures in Saudi Arabia and Kuwait.

The three-way merger that created DLA Piper in 2005 gave the DLA brand offices across the globe. The missing link was the Middle East and Dubai was the natural focus point. It boasted annual GDP growth of more than 15%. DLA needed to catch up with rivals that had thriving operations there.

Regional chief David Church was given a mandate to aggressively develop the business. “He was pretty much given carte blanche,” says a London-based former DLA partner. Over time, Church hired a handful of Middle East department heads. He encouraged them to build competitive practices. The emphasis was on growth.

In February 2007, DLA hired Oliver Agha from Clifford Chance’s Saudi Arabian alliance firm Al-Jadaan & Partners and made him an equity partner, global head of Islamic finance as well as head of finance for the Middle East. “He promised to build the best Islamic finance practice in the world,” recalls a DLA lawyer.

Agha quickly set about putting his ambitious plan into action. He flew around the world attending conferences on Shari’a-compliant banking, roped in lawyers from across DLA’s network, and went on a massive overseas hiring spree. But despite enormous investment, his practice failed to develop.



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A former DLA Piper associate

Many new recruits quit within weeks, complaining that the finance group lacked senior expertise, and didn’t receive enough work. “It was a complete sham,” says a former associate, who quit after a few months.

This lack of expertise began to alienate clients. In winter 2007, DLA advised Noor Islamic Bank on a transaction. “We only used them once. Our feeling is that there is more specialist counsel out there,” says Omar Rahan, general counsel at Noor Islamic Bank.

Saudi Hollandi Bank’s head of Islamic banking Kamal Mian uses less diplomatic language. “It was terrible,” he says, recalling DLA Piper’s involvement in a \$67 million Islamic bond.

Despite losing clients and struggling to gain work, Agha continued to hire. By the time he contacted Probin Dass in spring 2008 and convinced him to join, Agha’s group had grown to 20 lawyers.

DLA also invested heavily in projects and construction. In spring 2007, it hired Damian McNair from Australian firm Mallesons Stephen Jacques as its regional projects chief. His arrival gave the Dubai office a welcome shot in the arm.

McNair had an ace up his sleeve: Nakheel. Dubai’s biggest developer controlled \$80 billion worth of real estate projects and was behind a number of Dubai’s larger-than-life projects, including its famous palm-shaped islands.

The developer provided DLA with a stream of construction work on multibillion-dollar developments such as Dubai Waterfront.

With Nakheel providing 80% of his team’s work, McNair went on a new hiring spree. His team grew to about 15 partners and 40 lawyers in little over a year.

“Everyone understood that Nakheel was the big goose that laid the golden eggs that sustained DLA Piper’s whole operation,” recalls a former associate. (DLA did not receive Nakheel’s core finance work, which stayed with Clifford Chance.)

Finance and Projects drove the hiring spree, but other practices were expanding too. Australian lawyers would, in time, dominate most groups. “Every month you would get an e-mail reporting that 10-12 lawyers had joined along with a similar number of support staff,” recalls a former associate.

DLA’s Dubai head count soon dwarfed its rivals. By the end of 2008 its Dubai office housed about 120 lawyers. (Its Middle East operation had about 140 lawyers in total.)

The Dubai offices of Lovells and Norton Rose both hold about 30 lawyers.

“It was growth for growth’s sake,” says Peter Hodgins, a Dubai-based partner specialising in Islamic insurance, who left DLA Piper earlier this year for Clyde & Co. “The firm didn’t have the client base to sustain it.”

#### **The crisis hits**

In autumn 2008, Lehman Brothers collapsed and governments around the world resorted to drastic measures to remedy the ensuing crisis. The global economy teetered on the brink.

But this did not deter DLA Piper in Dubai. The sharp rise in head count had seen the firm outgrow its 11,000 sq ft office near Dubai Media City. New recruits had to work out of hotels because there was so little space.

That autumn, in apparent disregard for the gathering economic storm, DLA relocated to a plush new 29,000 sq ft office near Dubai’s central business district, which had room for more than 200 lawyers. The merits of the move provoked fierce debate within the firm.

By this time, DLA’s London management had started to worry. The firm had pumped millions into its Middle East venture. But the Dubai office had yet to turn a profit.

That autumn, finance chief Oliver Agha departed in acrimonious circumstances, adding to the uncertainty. At the end of the year, former Europe and Asia senior partner Peter Wayte was

*“The so-called sabbaticals are just another way of terminating people. It’s been handled in a secretive manner. No one knows who has been fired until one day they’re not in the office anymore.”* A DLA Piper associate

posted to the emirate to understand what had been going wrong.

Unfortunately, everything was about to get worse.

By early 2009 it became apparent that the foundations of the Dubai economy were as shallow and shifting as the sands of the Arabian Desert.

The state-run companies that had driven Dubai’s property boom, such as Nakheel, had borrowed heavily to finance an array of glittering developments. But the downturn had left gaping holes in their balance sheets.

Dubai was saddled with debts in excess of \$80 billion. In February, the UAE central bank stepped in with a \$10 billion bailout loan to Dubai to avert a crisis.

This rapid turn of events has sent shockwaves through the Dubai economy. Real estate values in the emirate have plunged by as much as 50% and widespread job cuts have left thousands of homes and offices empty.

Some bailout cash went to Nakheel, but the developer’s debts remain enormous. The company has been forced to drastically restructure its business, merge a number of units, and lay off hundreds of staff.

The stream of Nakheel work that sustained most of DLA’s Dubai practice groups has all but dried up.

“Everything collapsed like a pack of cards,” says a former DLA lawyer.

#### **Rage and redundancies**

New recruits were still coming through the door in February 2009 when DLA’s management hit the panic button. Probin Dass was one of the first to be made redundant. Many more would follow.

Officially, the firm has made two rounds of cuts in the region. In April it announced that eight Dubai-based associates had been asked to leave. This was followed by deeper cuts in June which saw one partner among the nine lawyers reportedly given their marching orders.

Eighty lawyers remain in its Dubai office, DLA management claims. But DLA lawyers say that various methods have been used to cut jobs, reducing the number closer to 60.

Across the office, many lawyers have been subject to cost-cutting measures including unpaid sabbaticals with no job guarantees. “The so-called sabbaticals are just another way of terminating people,” says an associate at the firm. “It’s been handled in a secretive manner. No one knows who has been fired until one day they’re not in the office anymore.”

The firm denies that sabbaticals have been used as an alternative to redundancies but admits it will review the position of some staff placed on leave before they return.

Adds a Dubai-based DLA lawyer: “A rumour has gone around the office that half a dozen partners have been told that their notice period has been deemed to have begun, in case they should need to be made redundant. Unless the firm makes a Lazarus-like recovery in the coming months, they’ll probably lose their jobs.”

Dubai-based associates and salaried partners have been forced to take a 5% pay cut.

Only the TMT team has been relatively unaffected and has maintained a steady flow of work. Other practice areas have struggled. The corporate group – which hit 20 lawyers last year but has since shrunk – has failed to make significant inroads in the market. Most of its lawyers have been placed on a four-day week. “The office is half empty,” says a Dubai-based DLA lawyer.

The Dubai office’s woes are mirrored elsewhere in the region. In Saudi Arabia, for instance, the firm has struggled to build a presence – as Probin Dass found out to his cost. Foreign firms are required to have a local sponsor to operate there so, in 2006, DLA signed an agreement with Saudi lawyer Abdulaziz Al-Fahad. The union failed to gel.

Last summer it agreed a new deal with Islamic finance specialist Abdulaziz Al Bosaily. That

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*“People live in fear. It will only be a matter of time before there are more redundancies. The market is flooded with CVs. Everybody in this firm – partners, associates, trainees, legal staff and non-legal staff – is looking to get out.”*

Dubai-based DLA lawyer

tie-up ended when Oliver Agha left the firm in September 2008.

DLA hopes the agreement it reached this year with another Saudi firm, the Naji Law Firm, will make it third time lucky. “The firm made bad choices from the beginning,” says Dr Samer Amro, a former DLA associate now with Dewey & LeBoeuf.

Its other regional offices have also met with grief. In June, DLA launched in Bahrain, but Alex Saleh, then managing partner of DLA’s Kuwait office and its new Bahrain operation, quit within a month amid rumours of disagreements with partners in Dubai.

The firm’s ambition has left it with huge rental bills. DLA boasts some of the most prestigious office space in the Gulf. The 5,000 sq ft floor it leases in the Alfardan Tower in Doha costs around \$1.5 million a year, according to sources. It has space for about 80 lawyers – and currently holds six.

The rent on its huge new premises in Dubai and glamorous penthouse offices in Abu Dhabi are together estimated to be in excess of \$4 million.

To make matters worse, Nakheel owes DLA an outstanding multimillion-dollar bill. It’s unlikely to pay it all, sources say. Nakheel declined to comment. The firm says it has reached an agreement with the developer over payments that both parties are happy with.

Overall, the UAE offices in Dubai and Abu Dhabi are losing at least \$1 million a month, according to sources. The firm declined to comment on the financials of individual offices.

Regional managing partner David Church declined to be interviewed for this article. In an email he admitted “it has been a tough year for everyone in the market.” DLA remains “fully committed” to Dubai and to each of the Gulf jurisdictions in which it has a presence, he says. “You have to take a long view when measuring

success. The difficult market conditions have not altered our strategy in the market,” Church added.

The firm has altered its management structure, however. The last few months have seen London HQ take an active role in the management of the Middle East. “It’s reached a point where they can’t justify a model that doesn’t pay the bills,” says a London-based former partner.

Nigel Knowles’ right-hand man, European managing director Andrew Darwin, has made a number of visits. In July he warned staff in Dubai that more “cost cutting” was on the cards.

“We are not going to deny that there are things that have happened that we would have preferred not to have happened,” Darwin admits. “But Nakheel is by no means our only client. The office has a range of clients, but I am unable to name them because of confidentiality. Some people in litigation and regulation in the IT practice are busy. We would prefer if people in the transactional practice were busier.”

Many Dubai-based DLA lawyers fear it will only be a matter of time before there are more redundancies. “The market is flooded with CVs – from partners, associates, trainees, legal staff and non-legal staff,” says a DLA associate.

In the meantime, for lawyers still there, the days are long and slow. “Most people are lucky if they bill two or three hours a day,” says a Dubai-based DLA lawyer. The rest of the day is spent worrying, making coffee, gossiping and browsing the net. “People are very pessimistic about the firm’s future in Dubai.”

Over the summer, the comments section of *The Lawyer’s* website descended into a lengthy slanging match as Dubai-based lawyers vented their anger about the situation.

“Sadly the DLA debacle in the Middle East was all too predictable. The firm under-researched

the market and pursued a finger-in-the-wind strategy,” wrote one anonymous poster.

“The saddest part is the toll of misery of those who uprooted themselves from good jobs to follow the DLA pied piper and who are now forced onto the job market at the worst possible time.” ■