

Published by Legal Insight, No. 4 (50), 2016

LEGAL SUCCESS

Monastyrsky, Zyuba, Stepanov & Partners (MZS), a recognised leader in dispute resolution, is celebrating its 25th anniversary in 2016. While the firm's partners are usually reluctant to give interviews, they kindly made an exception for us. Yury Monastyrsky, a co-founder of MZS, told us how his firm was established and is currently controlled, how they manage to retain their team and attract clients and how the Russian market for legal services is going in general.

“A Solid Law Firm Must be Reticent”

MZS is a rather reticent firm. Why? And what did induce you to give us an interview?

We do believe a solid law firm must be reticent. That is exactly the image our clients value, and if you are reticent, they will trust you more. For a law firm, publications and public statements are a natural and low-cost method of strengthening its reputation among its colleagues and competitors. Their recognition is more valuable because it is they and not the clients who are really able to evaluate the firm's level of professionalism.

Our team was lucky in many respects as we became popular among foreign clients from the very first years of our existence as a law firm. During the last 25 years, all we did was working hard. We are fairly recognisable and successful in implementing large-scale projects, and it explains why we run no advertising campaigns, why nobody leaves us and why our profitability differs from that of some other law firms out there.

Historically, what are the key achievements of your firm?

Chambers & Partners and Legal 500, the two most reputable global directories that rate law firms internationally, have been recognising our leadership in dispute resolution for the last 15 years, and we are the only Russian firm of such international recognition. Those directories have been the most competent market researchers for a long time, and their research is based on confidential surveys of our competitors and

clients. They do understand it is the profitability per partner, which is revealed by project characteristics, and not the gross revenue, number of lawyers, numerous specialisations, journalism activity or other similar things other rating agencies use in this country that really serves as a synthetic criterion of success and quality of a law firm.

How did you become a lawyer?

It happened by chance. Upon completion of my conscript military service, I was going to pursue a diplomatic career, so I entered the law faculty of the Moscow State Institute of International Relations (MGIMO) and took interest in international law. Having graduated with an honours degree I took a short-term legal practice with the legal department of the Ministry of Foreign Affairs just to find out that employment of that kind did not suit me. To work there, you must think in a certain manner and function as part of a strict hierarchical structure. Furthermore, the Foreign Ministry traditionally suffers from underoccupancy and staff redundancy. The fine look of a diplomatic career appeared to be pretty superficial.

However, my educational background gave me a number of competitive advantages as a lawyer. Studying law and foreign languages was closely associated with reading foreign textbooks, which, as a result, gave me not only a good command of English but also understanding how legal institutions function in a non-politicised market economy. That is why MGIMO graduates were highly demanded at

that time. When I completed my postgraduate studies, a lot of young MGIMO graduates tended to be employed by the newly opened offices of international law firms such as Clifford Chance, etc. Later on, this market even became “overheated” to a certain extent.

In addition, MGIMO has a special educational tradition originating from the time of Pushkin’s lyceum: they don’t teach you too extensively, but they motivate you to learn more. That is very important: students are allowed to broaden their horizons, inculcated with a good taste and granted a considerable freedom of choice. For those who strive for knowledge, this is much more useful than having to “digest” all that educational material.

How was MZS established?

In January 1991, Vladimir Stepanov and I decided to set up our own law firm. We invited another fellow student to join us and employed a secretary. I specifically studied legal terms in English as I prepared myself for communicating with Western clients. As early as then it became clear to us that a new economic formation was ripening and big changes were upcoming, but the domestic lawyers market was still empty. The idea behind the establishment of our firm was to offer comprehensive legal services in the area of Russian law in two languages – Russian and English, so that we could compete with international companies who were aggressively expanding their presence on the Russian legal services market. That approach allowed us to attract orders from the international investment community and to work with new Russian businesses, offering them a sort of alternative in terms of services and prices. Basically, that key idea has not changed to date. All our lawyers advise in Russian law but are able to speak and write in at least two languages.

We began working in the early 1990s in an environment today’s lawyers would hardly imagine. Offices had not yet become a working format at that time, so we rented a room at 5 Tverskaya Street, in the Yermolova Theater’s building. To attract clients we published newspaper advertisements saying that we were willing to offer legal assistance. Soon an event occurred that later on gave rise to a number of solid projects. A friend of mine was hired by White & Case. The number of lawyers on their staff was not enough, so they outsourced some

orders to us. That practice area was interesting and promising, and I supervised it.

Gradually, we began to build our own foreign clientele base. What’s more, we were spotted by and soon attracted a major customer – a representative of a new Russian business, a rapidly expanding financial group that was very aggressive in the field of investments. That practice area was supervised by Vladimir Stepanov.

In 2000, Alexander Zyuba joined us. He also graduated from MGIMO and was exclusive in a sense because he could speak and write Swedish. He made his career with foreign companies: initially with Patterson Webb & Tyler and then with Mannheimer Swartling and Tetra Laval. In the 1990s, Swedish businesses were very aggressively investing in the Russian market: they set up new plants and imported and deployed new equipment, and Alexander took part in their projects as an advisor. After he had joined us, our focus on foreign clients got sharpened even more and our compliance with the Western standards improved. I consider him to be a brilliant administrator and strategist on the legal services market. After Vladimir Stepanov had ceased to work as a legal practitioner, new partners began growing up inside our firm, so it would be unfair to utilise them as mere employees.

How many lawyers and partners does your firm have today? And do you plan to expand your staff?

Partners are expected to personally control and supervise projects. Therefore, the optimum ratio is one partner per three to five lawyers. Now we have eight partners (including two title partners) and 35 lawyers. All of our partners, except for Alexander Zyuba, have grown up inside the firm. In fact, we have three generations of employees. The older generation is represented by me, Alexander Zyuba, and Vladimir Khrenov who joined us later, the medium generation includes those lawyers who graduated from higher schools in the late 1990s and in the 2000s, and the others are young people.

We are not going to expand our staff because we want to prevent the quality of our services from becoming degraded and our team interaction, which makes the groundwork developed by individual employees available to the entire

firm, from being broken. Furthermore, our compact size gives us some other benefits. Large-scale projects can generate a lot of revenues. Working on those projects, we can toil quietly and scrupulously to create high-quality products without any haste or failure for years. This marketing strategy allows us to grow progressively and prudently. However, there must also be an element of luck here: not everybody can get into the field of high-profile cases.

How is your firm managed?

Alexander Zyuba has been elected our managing director. That does not mean he is the boss for his colleagues. Alexander is mostly engaged in arranging the firm's work and internal affairs. Our partners are co-owners of the business, so they take part in management decision-making by providing advice. It becomes possible due to the compact size of our firm. We jointly hold events in line with our business strategy. In addition, each of our partners manages his or her own practice, including the related external communications. In general, the firm is usually represented by me as the only remaining co-founder or by Alexander Zyuba as its managing director. Both of us have a broad experience working for our firm, a solid professional authority and, perhaps, some wisdom acquired with age.

How do you manage to retain your team?

We pay a lot of attention to this. In our business, cohesion is very important: the services we offer are exclusive, and if our team loses any of its powerful members, our products will change and our firm will never be the same. We are not yet one of those law firms where massive migration of experts is a normal thing and employees tend to leave if solicited to do so. If we were such a firm, then we would have to be engaged in all that, if I may put it so, "hunting" – and we don't want to do so.

We never walk alone. Can you draw up a large document in two days? Yes, but only if you work in a team. Comfortable business life amongst like-minded people allows us to implement increasingly complex projects with due confidence. I am proud to say that we have lost no single partner since the date our firm was established. We did lose some lawyers and

senior lawyers, but we have never lost any practitioners, except for Mr. Stepanov who has finished his career. Our structure is essentially a pyramid – not in terms of collateral subordination but in terms of project experience. The base is formed by those lawyers who have little experience but are ambitious, work successfully and begin to grow over time. In about seven to nine years, they will be tempted to leave – whether to become in-house lawyers or to be employed by an international law firm. Some of them do leave us, but that is not bad for us. That helps us become more popular on the market and even attract new clients. We keep warm relationships with almost all of our former employees. Now we are going to bring all of them together to celebrate our 25th anniversary. I hope that will be a very informative and surprising meeting.

The business strategy to retain our team is based on a friendly corporate atmosphere that our partners keep up and cherish in every possible way. What is also important for us is that they are equal in the presence of more experienced colleagues having good market knowledge and strong authority in the firm and that everyone is independent when dealing with his or her clients. Our corporate environment makes it more beneficial to our partners to work as part of a well-established team than to leave for another firm, then leave it for still another one and so on, wasting their potential and ardour and finally burning down like a comet.

Who in your firm is responsible for HR matters? Do you have an HR director?

The HR policy is my responsibility: I personally conduct interviews with the candidates, asking them basic questions and paying attention to how they think, whether their knowledge is structured and whether they are passionate. It is easy to find out all those things during one hour of conversation.

Now the third generation of lawyers is active on the market – that is where we need to search for new talents. Many young lawyers prefer public service to employment with a law firm. Some want to work for international law firms. That is why we try to enroll more young people for the future.

Many practicing lawyers criticise modern education alleging that today's graduates appear to be unready for practical work and are buried in theory. What do you think about that?

I believe that is just a benefit of the Russian education system.

As I mentioned previously, a legal education system should not be designed to train in practical skills or to focus on every nuance. What really constitutes the base of a successful lawyer's career is not any special knowledge but some sort of general culture. The most important thing is that people should gain basic knowledge and then work on their own, orientate themselves and make choices. In the mind of a keen lawyer, knowledge of law quickly gets structured. Comparative jurisprudence is a good technique for acquiring such basic knowledge.

We should never forget which system of law we work and live in. The continental model of jurisprudence provides much room for creativity. An expert should not look for precedents, freely interpreting them and catching their general sense, but rather be guided by a concept and institutions. The Anglo-Saxon law lacks clear notions. A purchase and sale agreement drawn up by European lawyers will consist of two or three pages and cover all the important matters. Documents created by British or U.S. solicitors can include dozens of pages of excessive and unclear texts. The services they offer are much more expensive. British and U.S. law firms tend to work as factories with numerous fractional specialisations. I doubt the quality of such "one-size-fits-all" services offered by all those monsters. In my opinion, only continental law firms are capable of rendering legal assistance based entirely on the needs of their clients, without having to do any unnecessary work.

In the Roman model of law, a lawyer must be versatile, especially if he or she appears before court. Whether he or she wishes it or not, a lawyer who is successful in dispute resolution comprehends nuances much more deeply than an industry expert. As we implement our projects, we study not only the law and precedents but also the relevant academic literature, be it construction, taxes or copyright. The general legal sense of a problem is always composed of civil law and understanding of liability, guilt and other similar categories.

Sometimes, it may be reasonable that some narrow but well-recognised experts are involved in a project – such as patent agents, accountants, appraisers, etc. But if you want to attract the best specialists, it would be a better practice to find them at the open market.

So you don't split your services into practices...

No, we don't. However, as the market was booming, some specialisations did emerge. For example, Mikhail Motrich became Chambers No. 1 lawyer in Mid M&A in 2015 and 2016 owing to certain transactions. But dispute resolution remains our core business. Sometimes, we leave our "fortress" and launch "attacks," trying to retain our "conquests," but we are ready to come back to our "fortress" as the crisis unfolds.

Are your major clients Russians or foreigners?

Now about 65-70% of our clients are based in Russia. That said, we, like our competitors, strive to attract more foreign clients. Foreign businesses need comprehensive, highly paid legal services. For them, lawyers are sometimes the only source of reliable information. While Russian clients usually require the essence and results but not the accompanying awareness, foreigners are more afraid of potential risks and tend to get insured more often due to their culture and habits, which results in increased volumes of the services they use. They pay more and, I would say, "more willingly."

Where do you find your foreign clients, and does a law firm need to have an office in London to deal with them?

Like all respectable lawyers and advisors, we are linked to problems that are solved under domestic law. Therefore, we can only work abroad on those international arbitration projects that use Russian law. No Russian law firm would be able to properly run a foreign office. Even their provincial offices in Russia cannot get enough caseload, not to mention a London-based office. Most of those Russian and foreign businesses who have investment interests in this jurisdiction are based in Moscow. Even St. Petersburg lacks such high concentration of

businesses, although some law firms are present there. In Russia, you just cannot open an office outside of the capital – nobody will visit it. It is even undesirable that your office be located beyond the Third Transport Ring in Moscow.

Is your firm a member of any legal association?

No, we use the so-called “best friend relations” model. First of all, when you are part of an association, you have to recommend to your clients a company or lawyer whom you have never dealt with. Second, if your network includes a London-based firm and your project is to be implemented under English law, then you would *a priori* have to be content with your role of a minor office. Perhaps, someone would be happy to fill such niche between major global players and local firms, but we are not interested in working this way.

Who are your key competitors?

They are those international law firms acting under major global brands of legal services. They advise in different languages, have a strong financial status, invest a lot of money in marketing and solicit experts they need. In crisis, they become even more dangerous because they can afford not to think of profit here and now. According to their business model, each law firm represents a network consisting of a central office, which is most often based in London, and peripheral offices located in other countries, such as Russia, some of them generating super high revenues, while others remaining unprofitable.

As Moscow is No. 3 global venture financial centre among the so-called “new economies,” yielding only to Mumbai and Shanghai, most international law firms are eager to retain their teams in Moscow. However, they utilise their employees to cover up projects in other jurisdictions, and those network firms also tend to dump, for example, by providing their services at heavily discounted rates based on lump-sum payments in rubles.

To which extent are Russian law firms different from Western ones?

If we talk about international law firms, the differences are enormous. The Russian and Western markets have different degrees of maturity. In the West, gigantic law firms with hundreds of lawyers and dozens of offices serve the global investment processes, working with banks and investors. In such companies, the management is built not on personal contacts but on various rules and regulations. They function as corporations even though they are not ones as business owners and shareholders tend to run their businesses themselves. The phenomenon of growth of such firms appeared after the 1980s when the economy began to look like financial capitalism. Such firms are present in all jurisdictions, even in Afghanistan or Estonia, though the first market is risky and the second one is tiny. In the Russian Federation, the market for legal services is rapidly emerging, which makes it quite interesting.

How does the current crisis affect Russian law firms? What makes it different from the crises of 1998 and 2008?

We are now facing an economic recession caused by an abrupt decline in investment activities and a shrinking role of borrowings from major banks. As a result, the number of active players on the legal services market decreases and the profitability of legal services declines. This trend will most likely last for several years more. And then we will inevitably see a growth, but the professional environment will never be the same. It will be described by a smaller number of foreign players and a stronger role of mid-size Russian law firms with maximum 30 to 50 lawyers.

The number of foreign clients has declined now, and many large-scale Russian businesses prefer to retain their own in-house lawyers who are dependent, cheaper and safer in terms of keeping their projects in confidence. This trend may change in the future, but so far it is rather steady. But every lawyer needs to grow. Getting into the groove is one of our professional risks that becomes especially high in in-house settings where employees have to perform routine functions and lose systemic knowledge. Business owners and managers have not yet realised that external lawyers are by default engaged in diverse projects and, having to solve more complex issues, can do their job faster and more efficiently.

I think it is a tough time now for law firms with less than 20 employees. They just cannot allocate the roles in a team so that it earns enough money, has a decent office and attracts new, young and ambitious experts. At the same time, major firms whose growth resulted from the multiplication of their specialisations cannot but experience difficulties, too.

One specific feature of our business is that any law firm will inevitably hide its profit drops or cuts in its practices or staff. International law companies have invented a technique called merger, with the resulting consolidation of efforts and synergy of two or three major firms being announced to the market. As a rule, such merger entails huge layouts and results in a loss of practices and rating positions. For the Russian law firms, this crisis is fraught with staff cuts, fragmentation and pull-out from the market. Our analysis of the industry reviews proves that specialty sectors have got consolidated both in Russia and elsewhere since the year 2015. We currently live not in the time of expansion of legal services, but of waiting and retention.

Comparing the current crisis with the previous ones, it is not all that bad. The 1998 crisis was the most severe for lawyers. Those law firms that had not become fully fledged by that time had to close down. By the year 2008, there had been built a business environment with a plethora of companies having experience, offices, clients and best practices and a large market of lawyers had been created.

Will the upcoming arbitration reform have any impact on legal services?

This will be an epoch-making event for the Russian market for legal services. According to the reform plan, we will have venues for fair, competent and scrupulous dispute resolution after 1 September 2016. The required foundation has already been laid down, and a licensing system for selection of arbitration centres has been introduced.

Historically, it was decided to create a system of accessible and inexpensive justice as far back as during the years of the Soviet Union. Such system was expected to facilitate the settlement of social conflicts. For that reason, the routine approach to resolving disputes tends to replace the exclusive one, with exceptionally long trial terms and a very low duty prescribed and the

judicial system being generally orientated towards working with the public even when it deals with business disputes. At the same time, the system is functioning quite well, with no papers being lost and judgments being handed down. These are all remnants of the Soviet discipline.

However, there are cases that require a deep dive into, and a thorough perusal of, the problem. Only a few arbitration tribunals and arbitrators are currently able to do that. They mostly involve old respectable professors – not more than three or four dozens of them across Russia. I hope the reform will help create a market for such centres and attract talented young people who are full of interesting and original ideas, keen on practical jurisprudence and familiar with foreign law and statutory concepts. Of course, the number of such people is rather small, but we need to begin with someone. The reform will not at all detract from the authority of the old arbitration centres. On the contrary, I believe a competition will gradually arise among them enhancing the quality of their work and reducing the need to recourse to Western arbitration tribunals. It would be more comfortable and cheaper to conduct arbitration proceedings in this country.

However, the current plan of reforms has considerable drawbacks. First of all, it does not emphasise the special role, importance and capacity of international commercial arbitration, which usually functions independently of the national judicial and internal arbitration systems and is not required to follow the principle of uniformity of the national practices, providing a customised, special protection to foreign investments and investors.

Furthermore, the arbitration reform has failed to lay down a foundation for the emergence of specialised industry tribunals to resolve disputes related to construction, investment, insurance, etc. It is necessary to establish the relevant independent centres. The key goal of the reform – the creation of a self-governed arbitration community – has not even been discussed. Therefore, there will be no ground for expelling from the arbitration business those lobbyist arbitrators whose role is not to resolve disputes based on profound knowledge of law matters but to exert influence on decision makers leaning on back-room interests and biased opinions. That means arbitrators' motivation in many special

cases will remain opaque in the foreseeable future.

Should the market for legal services be entirely dominated by lawyers?

The institution of legal profession provides an ideal cover for us, lawyers, but it can take no monopoly position in the Russian Federation mainly due to the local traditions and political processes. As we know, in the past, during the pre-Soviet era, lawyers were too much engaged in human rights protection, thereby antagonising the authorities and regulators. They published speeches that were basically political. To those in power, lawyers had always been dangerous law-protected opponents and oppositional heralds. That is why I believe the past experience clearly shows that the institution of legal profession will not become a monopoly until it becomes really professional, with the canons of self-government growing inside, to an extent that lawyers are strictly prohibited from expressing any political ideas or engaging in human rights protection under the threat of deprivation of their legal status. I don't think it will happen in the near future.

In your opinion, what is the major problem faced by the market for legal services that actually prevents it from developing?

I can answer this question very briefly: that is the biased decisions adopted by judges and the shill nature of our law enforcement system. It happens for a variety of reasons, sometimes very trivial ones, which undermines the value of professional legal services. Any bankruptcy proceedings are prone to obviously fabricated evidence and misleading documentation. And the law-enforcement system does not respond to that challenge. That is why bankruptcy as a general institution of market stabilisation and renewal does not work in Russia. There are numerous other examples of such biased approaches – everyone knows them very well.

What merits do you think a lawyer must have to serve a business?

As I told you earlier, every good lawyer should be a versatile expert keen on law and in particular its main branch, civil law. He or she should read various books, including publications in foreign languages, communicate with his or her colleagues, discuss vibrant matters of legal practice and be vigorous and friendly. Such lawyer also needs to learn to work in a team, share with his or her colleagues valuable information that can effectively help create a legal product required by the clients as soon as reasonably practicable and get rid of snobbery, non-public behaviour and arrogance. In addition, it is important that a lawyer understands that his or her duties may require working overtime to achieve the results desired by the client, without regard to time, efforts or nerves. Working on the projects with defined terms and quality parameters, lawyers feel themselves like galley slaves. But they may enjoy a wider freedom in some other aspects.

Those lawyers who focus on their professional growth should, whenever possible, distract their attention from destructive data flows: not to read pulp fiction and not to waste their time watching TV or indulging into any other entertainments that dull attention and concentration. In general, internal concentration is a key to success. Unfortunately, the new generation tends to spend more time on playing with gadgets than on reading solid literature – a vice that effectively impedes their development and idles their thinking.

I have some personal priorities: I read articles published by solid legal periodicals, especially if their authors are well-recognised jurists. Fortunately, the old-time system of selection based on theses still exists and works in Russia. It is very pleasant and useful to read the papers written by those young talented civilians who received their doctoral degrees in the last few years, especially if you are an ossified practician. Such reading develops your thinking, facilitates your self-improvement and enriches you with new knowledge and information.

Monastyrsky, Zyuba, Stepanov & Partners	
Established: January 1991	Office: Moscow
Partners: 8	Lawyers: 35