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Italy: Via Dolorosa

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Employment and political reforms, and a programme of privatisation could ease Italy's and its legal market's way through these punishing times

Italy is continuing to battle through turbulent economic waters. The recession hit the Mediterranean nation hard, with Italy reportedly the most debt-laden country in the EU after Greece. The legal market has felt the effect of this, with firms' growth having stalled.

"It's a tough market," says Portolano Cavallo partner Francesco Portolano. "We were growing at double-digit rates but now growth has slowed."

Italy

One effect of the crisis has been increasing unemployment. According to the Italian National Institute of Statistics, unemployment hit a record 12.7 per cent in November 2013 – the highest since records began in 1977. Unemployment among those aged 15 to 24 has also hit record levels, at 41.6 per cent. As a result, the prospects are not good for lawyers or aspiring lawyers. Many young Italians are leaving the country or considering leaving in search of opportunities.

"The Italian economy hasn't had a good year in general, so certainly it's not a good time for lawyers to find employment – especially those looking to join a partnership," says Bonelli Erede Pappalardo managing partner Stefano Simontacchi.

Boutique parade

With the crisis causing revenues to fall at a number of Italian firms, many have cut their workforces.

"Almost all law firms have reduced their number of lawyers in the last couple of years," says **Lexellent** partner **Sergio Barozzi**.

"The crisis has increased the pressure on the performance of partners," adds Pedersoli e Associati partner Ascanio Cibrario. "This has led non-performing partners at a number of big firms to leave and opt to form boutiques."

M&A activity, notably at the top end, has been badly hit and the volume of transactions is down.

As well as falling revenue, profitability is reportedly down at many firms and the number of spin-offs launched by partners leaving bigger firms where they are no longer making the sort of money they did before, is on the rise.

Barozzi says he sees spin-offs almost every day.

“Most of the new boutiques are the result of the crisis,” agrees Legance managing partner Alberto Maggi “Many lawyers who were at bigger firms left and started their own boutiques. Most of the big firms weren’t able to maintain the level of salaries.”

Examples of recent spin-offs include the launch of litigation and arbitration boutique ArbLit by Bonelli litigation partner Luca Radicati di Brozolo and senior associate Michele Sabatini last year.

A number of boutiques have also expanded, showing their growing popularity. For example, early last year, a team of senior lawyers from Freshfields Bruckhaus Deringer’s Milan office left to join former colleagues at boutique Orsingher, set up by former Freshfields IP partner Matteo Orsingher.

It has not just been Italian firms that have been affected but the Anglo-Saxons too.

“UK firms that came to Italy have suffered a lot and have reduced their workforce,” says Chiomenti Studio Legale managing partner Filippo Modulo. However, he adds that firms such as DLA Piper are recruiting, and says Chiomenti itself is not too badly affected by the crisis.

“We haven’t reduced our workforce,” says Modulo. And demand for jobs remains high: “We receive a large number of CVs – over 2,000 a year.” He adds that the firm goes to the US recruiting every year in the last week of January, with three or four partners visiting US universities to conduct interviews and select candidates to join the firm in September.

Maggi also says his firm has not been affected too much, with headcount rising between 2012 and 2013. He predicts a spate of hiring in the corporate and finance sectors in the coming months.

One firm that has grown significantly is Gianni Origoni Grippo Cappelli & Partners, which broke through the 500-staff mark in 2012. Founding partner and corporate head Francesco Gianni says the firm’s efforts to modernise and institutionalise in the past few years have brought benefits.

“Economic downturns can bring interesting opportunities for those organisations that have prepared themselves to navigate the turbulence,” he says. “In the past few years we’ve been hiring some of the most outstanding and respected lawyers

in the market, strengthening our capabilities and our brand. There are opportunities in the market that should be considered.”

Jobs plan

With unemployment a national issue, the government is considering big changes to tackle it, including adjustments to the employment legislation, with a proposal for a so-called ‘Jobs Act’ by Matteo Renzi, leader of the Democratic Party and mayor of Florence (see box, below).

This is still in its early stages and what it will entail remains vague, but the idea is that it will ease the struggling labour market. It is expected to have a focus on cutting the cost of labour by reducing taxes and giving more protection to employees who lose their jobs.

Cutting employment costs is an issue that needs to be addressed. The cost of labour in Italy is too high. According to statistics from Eurostat, Italy’s hourly labour costs have been rising steadily and are significantly higher than in the UK (see table, below).

So will the Jobs Act bring the change Italy’s labour market is crying out for? Simontacchi says: “That’s the hope,” but adds he is not sure the act by itself will bring significant change.

Gianni says that while the precise nature of the reform remains unclear, change is essential.

“Structural reforms are urgently needed,” he says. “Italy must show its commitment to improving its global ranking, especially attracting foreign investors and helping Italian companies to become more competitive in international markets.”

Stable talk

There has also been some progress in reshaping – once more – Italy’s voting system. This will be the fourth time in recent years that Italy has adopted a new voting system as the country continues to face issues surrounding its political landscape. Political instability has been a key issue for years, slashing foreign investment.

A new voting system has been the subject of a big debate, with the Italian parliament looking for a way to set the country on a path to much-needed stability.

“It’s a priority on the government’s agenda and supported by all political parties,” says Maggi. “Electoral reform is advocated by most political parties and this will have an important impact. The expectation is that reform will bring stability, which is fundamental if the country wants to be competitive in the economic arena.”

Former prime minister Silvio Berlusconi, who now leads a revamped Forza Italia party, and Renzi have made a deal and agree what the reforms should entail.

"This is an important step in terms of stability," says **Barozzi**.

Poste haste

Developments in the country's employment legislation and voting system may bring positive change. And there is further reason to be upbeat, with the announcement of a privatisation plan to reduce the country's debt.

This is set to come to fruition this year, starting with the sale of the Poste Italiane. The company will be partially sold off, with up to 40 per cent up for sale as Italy follows in the footsteps of the UK and Portugal, both of which recently privatised their postal services.

The sale of Poste Italiane could bring in €6bn (£5bn) and may take place this year.

The wave of privatisations has been well received by lawyers, who hope the work will not only help Italy reduce its debt but also give the legal market a boost with a good volume of work.

Privatisations are set to move on to state-owned companies such as energy giant ENI, shipbuilder Fincantieri and air traffic control company Enav.

"Privatisations will continue and clearly this will open up the capital markets sector," says Simontacchi.

So, with the proposed Jobs Act, electoral reform and a privatisation programme, there could be hope.

"It's been tough for the past few years, but we're moving in a positive direction – it will take time," says Modulo.

"Everything's a consequence of the two or three years of severe crisis," adds Cibrario. "The legal market, like the economy, went through years of recession. Now everyone wants to move forward."

Goodbye to coalition chaos

The proposed electoral reforms by Matteo Renzi would ensure there is always a majority party at the helm of the government. After the 2013 election the country had a coalition government and, given Italy's growing political instability, reform is likely to help.

The proposals would see a party with at least 35 per cent of votes get a 'boost' of up to 18 per cent, giving it the necessary majority to rule.

If no party gets at least 35 per cent there will be a second round of voting between the two biggest, with the winner getting the majority.

The recruiter: lawyers are more realistic now

Giorgia Naccarato is owner of recruiter FootprintLegal and part of the company's Italy team.

She says there is unemployment in Italy's legal market both in private practice and in-house.

"The in-house market has been affected by the crisis," says Naccarato. "Companies are scared of taking risks so they are postponing hiring secondees. And in private practice there are not as many opportunities. Firms are getting rid of senior lawyers and bringing in junior ones."

Demand is exceeding supply.

"Lots of lawyers are looking for jobs but there's not much demand," she says.

Despite this, Naccarato says the market is stable and adapting to the situation – something the people are also starting to do.

"People are more realistic now," says Naccarato. "It took a while to understand the situation but they now know if they want a job they have to be flexible."

Matteo Renzi: Italy's saviour?

Matteo Renzi has had a rapid political rise. Still shy of 40, Renzi took over the reins of the Democratic Party in December 2013, adding the position to his authority as mayor of Florence. Even though he has not long been in the job, Renzi has already made headlines with his proposed Jobs Act and involvement in making a deal with Silvio Berlusconi for electoral reform.

A rising star, great things are predicted. He is tipped to be Italy's next prime minister. Could he also be Italy's saviour?

Key figures: Italy

GDP: \$2.7tr

Inflation: 0.7%

Population: 61m

Life expectancy at birth: 82

Unemployment: 12.7%

Source: Italian National Institute of Statistics, World Bank