

Law Firm Mergers & Consolidations: Making the Deal a Reality

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The right merger – well conceived and well executed . . .

- ◆ *will dramatically strengthen your firm and its ability to serve clients*

A significant merger . . .

- ◆ *will transform your firm forever*

This presentation is designed . . .

- ◆ *to help you understand what mergers are like – especially the impact they have on firms and people . . .*
- ◆ *so that you can make a well-informed decision on the opportunities your firm may be considering . . .*
- ◆ *and make your own merger transaction a reality*

Law firm mergers (2000-2005)

| | |
|------|----|
| 2000 | 71 |
| 2001 | 82 |
| 2002 | 53 |
| 2003 | 35 |
| 2004 | 47 |
| 2005 | 45 |

Source: Hildebrandt International

Law Firm Mergers: Why?

- 1. Intense competitive forces*
- 2. Firms seeking broader scale & expanded geographic coverage, leading to*
 - ◆ Market segmentation, e.g., practice areas, clients*
 - ◆ Greater domestic & international competition*
- 3. Defensive strategy*
- 4. Internal growth & lateral expansion seen as too slow, inefficient*

- 1. Establish vision/goals*
- 2. Convert vision into reality*
 - ◆ *Preliminary negotiations & due diligence*
 - ◆ *Serious discussions, negotiations*
 - ◆ *In-depth due diligence*
 - ◆ *Partner approvals*
 - ◆ *Closing*
- 3. Live with new order*
 - ◆ *merger won't affect most attys & staff until this phase*

Law Firm Mergers: Change vs transition

Note difference between

- ◆ *Change, i.e., factual differences (new vs old)*
- ◆ *Transition, i.e., emotional process through which people come to terms with change*

Both change and transition are important, but transition issues are most challenging

Elements of change: Professional

- 1. Firm name*
- 2. Leadership*
- 3. Firm governance & structure*
- 4. Practice departments*
- 5. Partnership*
 - ◆ *Voting rights*
 - ◆ *Capital*
 - ◆ *Retirement*
 - ◆ *Other, e.g., benefits*

6. Partner compensation

- ◆ *Compensation philosophy, e.g., performance standards, expectations*
- ◆ *Manner of determination / process*
- ◆ *Individual partner point allocations*
- ◆ *Draws & distribution policies*
- ◆ *Blending comp ladders of the constituent firms*

7. Associates

- ◆ *Performance standards & expectations*
- ◆ *Work assignment systems*
- ◆ *Professional development, training*
- ◆ *Track to partnership*
- ◆ *Compensation, including incentive programs*

8. New relationships

- ◆ *Senior leadership*
- ◆ *Practice group & office leadership*
- ◆ *Practice department peers*
- ◆ *Compensation peer groups*
- ◆ *Administrative management team*

- ◆ *New relationships take time to develop, must be nurtured*

Elements of change: Administrative

- 1. Departmental organization & structure, e.g., finance, IT, marketing, HR, operations, risk management, et al*
- 2. Leadership, other people issues*
- 3. Policies, esp. personnel & employee benefits*
- 4. Integration, esp. IT, HR*
- 5. Departmental & office consolidations*

Culture

- ◆ *Many firms unaware of culture or its impact on behavior until deprived of or asked to change it*
- ◆ *Culture critical to law firm mergers because human capital is principal object of transaction*
- ◆ *Applies at both professional & administrative staff levels*

Thelen Marrin/Reid & Priest

- ◆ *TMJB (200)*
 - *SF, SV, LA, NY*
 - *Calif litigation, construction, proj fin & growing energy-related practices*
 - *Vulnerable in NY*
- ◆ *R&P (150)*
 - *NY, DC*
 - *Strong national public utilities & energy practice (esp finance & tax)*
 - *Vulnerable to larger, national firms*

Thelen Marrin/Reid & Priest

- ◆ *Preliminary discussions 2Q 96*
- ◆ *Exclusive discussions, serious negotiations 3Q 97*
- ◆ *Partner approvals 1Q 98*
- ◆ *Closing 6/30/98*

Firm leadership

- ◆ Principle: Tom & Rich decided key leadership positions (incl their own) w/ input from Merger Committee and governing bodies of constituent firms
 - Pros: someone must take charge, decisions were accepted
 - Cons: some feelings were unavoidably hurt

Practice group leadership

- ◆ Principle: *firmwide practice groups, one leader rather than co-leaders in most cases*
 - Pros: *firmwide groups encourage integration, single leadership consolidates focus*
 - Cons: *single leader often leaves one side unhappy*

 - *Note no apparent correlation between integration success and single leader*

Firm governance

- ◆ Principle: *transitional structure for 2½ years, with equal representation from constituent firms*
 - Pros:
 - *Transition period > 1 yr good idea, encourages stability*
 - *Allows most partners & constituencies to be “represented”*
 - Cons: *Detracts from one-firm philosophy, preserves pre-existing divisions*
 - Note: *Permanent structure adopted by partners preserved geographic equality (East vs West)*

Partnership structure

- ◆ *Principle: leave three historic classes intact at first, then phase out non-voting income class*
 - *Pros: Fairness, didn't ruffle feathers or force partners to choose*
 - *Cons: Added complexity, inefficiency*

 - *Note: Each change causes disruption. Disruption has a cost. Be sure gain from each change is sufficient to compensate for disruptive impact.*

Partner capital

- ◆ Principle: *Freeze constituent-firm capital accounts at closing-time levels, all partners contribute to capital going forward according to income-participation levels*
 - Pros: *Fairness, but note that capital levels per partners were reasonably compatible to begin with*
 - Cons: *Some disparities remain today, but they're minimal*

Partner retirement

- ◆ Principle: TMJB (65) vs R&P (72), subject to performance standards; TRP firm retirement age set at 72, also subject to performance
 - Pros: Fairness, but note performance standard qualifier
 - Cons: None, performance standards provide adequate protection

Partner compensation – the “zipper”

- ◆ *Principle: Except in extraordinary circumstances, relative participations of each partner unchanged for 18 months in relation to other partners in his or her constituent firm*
 - *Pros: Predictability, allow ample time for evaluation of individual partner performance*
 - *Cons: Partners who fell just short of “extraordinary” performance (about 2/3rds of partners!) very unhappy*
 - *Note need for special treatment of investment in contingency cases*

Relocations – attorneys & staff

- ◆ *Principle: Encouraged partners, associates & admin staff relocations where in best interests of firm & its clients; I spent every other week on East Coast for 5 yrs*
 - *Pros: Relocations had very positive impact on integration, one of best things we did*
 - *Cons: California partners complained of “abandonment,” East Coast partners “didn’t see enough” of me*

 - *Note: in hindsight, we should have involved more partners in integration process*

Communications

◆ Principles:

- *Integrate all systems (voice incl national 4-digit dialing, video, data) ASAP, regardless of expense*
- *Hold partner retreats both pre-closing (but post-approval) and post-closing*

- Pros: *Again, among best things we did*
- Cons: *Cost, but worth every penny*

Biggest surprises

- ◆ *Partner expectations – R&P component, although weaker pre-merger, was significantly stronger post-merger*
- ◆ *Pre-merger tension between high-value & mid-value TMJB practices exacerbated post-merger*
- ◆ *Cultural differences, esp. in terms of partner expectations of personal contact w/ firm leadership*
- ◆ *Impact of change on people – transitions must be managed*

Learn everything you can about people & cultures at constituent firms

- ◆ *Identify points of difference, congruence, shared vision*

Hold facilitated meetings among, e.g.,

- ◆ *executive committees*
- ◆ *policy committees or other governing bodies*
- ◆ *practice department chairs & other key partners*
- ◆ *comp committees*
- ◆ *administrative leaders*
- ◆ *Allow ample time for business and social interaction*

Develop formal integration plans at every level. Take them seriously, monitor progress, celebrate successes.

Bend without breaking . . .

- ◆ *Deal with problems pre-merger rather than post-merger*
- ◆ *Develop combined-firm policies sooner rather than later. The longer you delay, the more difficult it becomes to effect change.*

As general rule, lawyers don't like spending time on "soft stuff."

- ◆ *But the "soft stuff" often trips you up, so take the time, spend the money.*

Remember that key firm & administrative leaders are months ahead of most people in adjusting to the new order.

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But do not underestimate the impact of change on your people

Transition is a process that must be managed effectively, with both forcefulness and thoughtfulness.