

LAW FIRM MERGERS - ARE YOU TRULY SYNERGIZING OR JUST FOLLOWING THE TREND WITH A HORSE-BLIND APPROACH?



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No one can deny that Law Firm Mergers in India is the 'In-thing' right now. Call it the need of the hour driven by a growth strategy, a strategy to combat competition or simply a smart move in anticipation of a stronger top-line, the trend of mergers is here to stay. Whether the mergers in the past have been success stories or epic failures, one thing is for sure that they are being talked about like never before. Law Firms are increasingly exploring synergies in whatever manner possible and in much more innovative ways like Brand Mergers, Exclusive Referral Relationships and Geographical Synergies, without having to necessarily opt for a full Balance Sheet merger. This article talks about what is driving the Law Firms to increasingly fall back on mergers as a growth strategy and whether there is actually a secret formula for a successful merger.

The increasing buzz around Law Firm mergers in past couple of years could perhaps be attributed to an approach that used to be followed by countries in the past. Alliances, as we have read in history books since childhood, have been one of the ways in which countries used to unite and become a stronger force against rival countries. Law Firm mergers are being showcased as one such move that makes the merged firm stronger vis-à-vis its competitors. The anticipations are simple – larger bandwidth, more partners with book of business, addition to bouquet of practice areas and advantage of established brand values. All these factors are believed to take the merged firm to a league higher than other firms in the similar band. So what truly are the factors that tempt the stakeholders to opt for merging their practice? The answers are simple, and somewhat cliché.

One of the major factors that tempt smaller firms to merge with bigger firms is the advantage of an established brand. Larger firms already have a brand value associated with their name. Smaller firms seek shelter under such firms to take advantage of their robust client base, well-known brand and perhaps a great monetary remuneration for letting go of the name by smaller firm. The advantage to a larger firm in such a merger would be a diversified practice (if practice areas of the smaller firm are different), an augmented book of business (and consequently better bottom-line) and availability of a cheaper manpower to handle existing and new business. Of course, the merged entity will definitely be larger in terms of revenues and head count – both of which are key factors to determine a band in Indian scenario.

Another important factor that encourages firms, mostly of similar sizes, to merge, is the diverse practice areas that they would be able to offer to their clients as a result of such merger. This is the most common strategy when both the firms aspire to eventually become a full-service firm and take advantages of cross-referrals by referring clients to each other's practice post-merger. Not only between Firms with diverse practice areas, but also between boutique firms of similar size, this kind of 'equal-to' merger has gained trend in recent times because of a simple reason – the merged entity will be reckoned as a 'Power House' for that boutique practice area. With recent trend of clients opting for a specialized law firms, this merger serves a great advantage. Of course, this merger may also result in some clients being given up by the merged entity, owing to conflict of interest reasons. But the loss of revenue in most such cases is more than made up by the sheer increase in number of clients wanting to reach out to such 'Power House' for specialized advice.

Talking of a large country like India, with great diversity in language, customs, religions and local practices, most of the clients prefer to engage counsels with expertise of a local geographical region. This mindset, perhaps is the reason why most of the Law Firms are desirous of opening offices in different cities, covering the entire landscape of the country. Since setting a Law Firm at each location calls for, besides monetary investment, being well-versed with local practices and procedures of each regional forum, the Law Firms consider it as a far better option to simply

enter into alliance with a local firm. This is especially beneficial for clients as they get access to best of vernacular talent, under the supervision and comfort of their existing counsel. When law firms witness a large chunk of their clients being involved in matters at a particular location, they usually start exploring merger options at such locations so that the business that is being passed on to other local firms or counsels can be catered to by the Firm. Such alliances aim at enhancing service capabilities of the merged firm to wider geographical client base.

Another recent merger trend being noticed is something you may call as a 'Distress Call Merger'! This kind of merger is usually explored when the key stakeholder, say Managing or Founding Partner, has either lost interest in the business, or has not been able to grow business beyond a point, leading to stagnation. Such stakeholders see mergers as a possible option to restructure their practice under the tutelage of a bigger (or more efficiently run) firm. There are several cases where the Managing Partners have been so deeply involved in execution of matters, that other critical activities to be undertaken by a Managing Partner, like business development or networking, have taken a back seat. While this execution-oriented approach gives impetus to their practice in initial years of inception, the pipeline eventually dries with virtually no efforts to grow the practice. To get out of such stagnation, such stakeholders opt for a merger with a firm that is more professionally run and that has efficient systems, processes and practices to leverage contacts, build relations and run in a well-managed profitable manner.

Having examined some of the factors driving the stakeholders towards opting for merger, the question is – whether there is indeed a secret formula for a successful and seamless merger? Well, while no approach is fool-proof, it is most important is to understand where lies the focus of the merging firms? Are they driven by a short-sighted approach to have immediate profits? Is there a thorough study conducted about feasibility and cultural integration of the two firms? And most importantly, is their vision limited to the four 'M's-Money, Marketing, Mark on the Map and Multiplicity of Practice Areas? If the answer to above questions is 'yes', then it is clear that they are headed to a dead-end through the proposed synergy.

The true focus of each stakeholder from a merger should be two-fold – 'Whether my client is going to benefit?' and 'Whether the merged entity would be one-up in terms of sheer talent and technical expertise?'. It is definitely not sufficient if the merged firm has an office in a different location and is able to cater to clients' geographical needs in that particular area. The clients will always look for the best advice. Until they are convinced that the lawyer from the office of the merged firm at the remote location is technically sound to advise them on best legal course of action, there is no guarantee that the client will fall back on the merged firm, after trying it out for maybe one or two test assignments. This is also the answer

to the belief of stakeholders that once they have added to their practice areas through a merger, the clients will always approach the merged firm for any work related to augmented practice areas. The clients today have full choice to be catered by the best or specialized firms, at very competitive prices. Until they are convinced by the expertise of the Partner of the merging entity, there is no assurance that their assignments for that practice area will flow to the merged firm. Any stakeholder with such an expectation is highly mistaken. The clients will swear by the talent, expertise, experience and quality of advice given by a lawyer. That is why one of the most important factors that should actually drive the need to merge is ascertaining the benefit in terms of talent that will be on-boarded with such a merger.

The other key factor, creating value-addition for clients, is also equally important. The merging firms should actually be able to create something 'new' to be offered to the clients. This calls for the key stakeholders to sit on

the drawing board and examine all the strengths that can be combined to raise the value to be offered to the client. Are the billing practices of one firm stronger than the other? Are the operations like time-tracking, business support, paralegals stronger in the other firm? Can the firms imbibe the best practices of each other by letting go of their rigidity to change or simply their ego? It is really sad that while this is one of the most critical exercises that needs to be undertaken by both the merging entities, it is not always done. Most of the firms are still driven by superficial interests like drawing advantage from the brand built by the other firm, larger share of profits owing to larger revenue, etc. What the firms fail to understand is that in the normal course, a merger is a life event. It is something that has overbearing and long-lasting effects.

Something as serious as conjoining the Balance Sheets of two firms cannot be undertaken by only looking at short-term monetary benefits. What if the merged firm is able to make more money for initial years but owing to different temperaments between workforce and incoherent work cultures of two firms, they eventually end up splitting! The harm caused by such a demerger would any day outdo the short-term benefits of the merger. Therefore, culture test, practice planning, financial budgeting, marketing strategy must all be first agreed upon between two entities exploring synergies. Only when there is a tick mark against each of these bucket-list items is when the firms should contemplate a merger. Again, what is important is to understand the vision of the stakeholders and the real driving force behind seeking a merger.

To sum up, don't just go for a merger thinking that it is 'cool' or it is the best way to create a 'buzz' and have publicity in the fraternity. Go for a merger if you really feel that you need to create better service avenues for your clients. If that is your aim, you will focus on building a team of quality professionals and seek alliance with a party that shares your vision of providing world-class, efficiently run and competitively-priced service to clients. In such cases, both the firms will sacrifice personal vested interests and build a culture of knowledge creation and knowledge sharing - a culture that will be the ideal cultivating ground for learning from each other and nurturing true expertise. If you understand and believe that the real essence of the word merger is 'oneness' of the goal to serve the clients better, you will be able to create a successfully merged entity that is integrated from the word 'go'.