

LAW FIRM MERGERS: ISRAELI STYLE

By Minna Ferziger Felig and Kimberly Lindy

Suddenly, Israel's legal community is a buzz with the idea of "mergers." Not the M&A of company clients that kept firms busy during the "Dot.Com Boom." Rather, it is mergers of the law firms themselves that are keeping everyone talking.

Mergers among law firms reached record levels internationally during the past few years. In the United States alone there were 75 mergers in the year 2000, 69 in 2001 and nearly 60 in 2002. There were also over 60 mergers in Europe and elsewhere, including several unions between British and U.S. firms. In Israel, as always a little behind the US and Europe, the trend is just beginning to hit us.

There are a myriad of reasons why firms may seek a merger, for example:

To enhance the firm's position in one or more of its markets.

To fill gaps in expertise and increase specialization.

To add complimentary practices or services.

To expand geographically.

To increase or diversify the client base, attracting clients neither firm would attract on its own.

To enhance the level of sophistication of the work through breadth and depth of services.

To broaden the capital base.

To correct internal weaknesses.

Whatever the reason, however, it is important not to move forward without giving serious thought to why the merger makes sense.

A firm should consider a merger to accomplish a strategic goal or objective. A decision to merge must be driven by business objectives. A firm should not consider a merger as a quick fix to internal problems. Like any other business, the firm's growth strategy should be recorded in a strategic plan. The firm that contemplates merger without going through a strategic planning process could be headed for trouble. A merger is a mechanism for achieving goals; it is not a goal in itself. A decision to merge should result from the firm's identification of opportunities on which it is trying to capitalize.

As a firm goes through the planning process, it should analyze its strengths and weaknesses, potential business development opportunities and impediments to taking advantage of those opportunities. The ultimate objective of strategic planning is continued economic success. Accomplishing these economic goals will be a result of the correct strategic planning process.

Israeli firms now thinking about the pros and cons of merging are at a distinct advantage in the global marketplace. They can learn from the mistakes that others have made over the last few years and not stumble into the pitfalls of their colleagues abroad.

Too often, firms enter into merger discussions for the wrong reasons, fail to carry out a thoughtful, disciplined analysis of their strategic needs, of the prospective deal and make fundamental mistakes in structuring the new combination of firms.

A common issue arising when firm leaders negotiate a merger for the first time on their own is that they assume law firm mergers work like their company client mergers. As one typical managing partner once commented “I’ve done dozens of mergers for my clients over the years, I can negotiate this deal in my sleep and I certainly don’t need any help.” That approach is neither helpful nor realistic. In reality, law firm mergers tend to have far fewer financial issues and far more complex people, structural and technical issues than in corporate mergers. Unlike companies that sell a product, the operating assets of a law firm are people, who can leave if they don’t like the new arrangement.

The following are some fundamental questions that need to be asked when considering a prospective merger:

What can the firms accomplish together that cannot be realized separately?

Do the firms share a common philosophy about staff compensation and other work place issues?

Do the firms share a common commitment to internal development and external marketing?

Have the firms checked potential conflicts?

Have the firms reconciled any unfunded retirement, compensation or buyout arrangements?

Have name issues been discussed?

The likelihood of a successful merger is higher when firms have identified and agreed upon their long-range business goals and the steps necessary to achieve them. Such joint strategic planning should be discussed in as much detail as possible, sooner rather than later. The more obstacles that can be predicted and avoided, the greater the chance that the merged firm will succeed in actually focusing on the initial objectives they set out for themselves and will reach their ultimate goals.