

With mergers on the rise, how can law firms ensure their success? (ABA Journal), 11.26.2024

By Susan Mangiero

Judging by recent headlines about law firm mergers and acquisitions, legal consultants must be on speed dial.

In September, Ballard Spahr and Lane Powell announced their agreement to combine, effective Jan. 1. Troutman Pepper and Locke Lord also agreed to merge at the start of the new year. Lathrop GPM and Hopkins Carley combined in October. A July analysis done by Fairfax Associates, a professional services consulting firm, counted 29 mergers completed in the first six months of 2024.

The reasons for expansion include access to new geographic markets and industry expertise, operational economies of scale, and the ability to better serve clients that have complex legal needs.

Jennifer Moss, a managing director in the Boston Partner Practice Group of Major, Lindsey & Africa, expects more consolidation going forward.

“These deals are client-driven. Companies are trying to reduce the number of law firms they work with,” she says. At the same time, Moss says clients need a firm that can serve and support them in various locations and practice areas. “Typically, this means leaving smaller firms in favor of bigger ones.”

These mergers may make it easier for clients to select a single firm that can satisfy both goals of streamlining the number of law firms they must work with while still being confident they will have access to the services they need.

But law firm consultants caution that mergers can lead to problems for both attorneys and their clients if certain issues and potential complicating factors are ignored.

Mergers impact all aspects of law firm operations, including business development, client conflicts, client management, compensation, culture, human resources, leadership, marketing and technology. Just as law firms need to conduct proper due diligence with prospective merger partners, so too must their clients and prospects evaluate whether the soon-to-be combined firm is the right fit.

Of course, Moss points out that this can lead to higher bills and fees compared with those of regional law firms.

“It’s up to the relationship managers at the combined firm to convince existing clients they will be receiving excellent value,” she says.

Convincing clients

Jenn Bankston—who is head of Austin, Texas-based Bankston Marketing and has been chief marketing officer for three law firms, including an Am Law 200 member—agrees mergers and acquisitions are on the rise but cautions partners to make sure they get their branding message right.

“There must be a relevant story to motivate current clients to stay post-combination and prospects to sign on the dotted line,” she says. “Every attorney who manages a relationship must tell the same compelling story about how the marriage of two law firms is helpful to their clients.”

Cultural fit is a sine qua non for any merger or acquisition. “Without it,” Moss says, “a transaction is likely to fail.” She points out that attorneys at smaller firms may feel bigger firms are more impersonal and less collegial.

Meanwhile, firms also might have different structures and systems in place, especially governing client relationships and compensation schedules.

“Post-combination, a client relationship could be transferred from a partner of the smaller firm and reassigned to a partner with the acquiring firm,” she says. “This could present a problem if compensation for partners of the combined firm is based on originations and later billables.”

Another potential trouble spot is the loss of hard-to-find talent due to unhappy lawyers, especially if a primary reason for a merger or acquisition was to grow the pool of knowledgeable attorneys with experience in specialized areas such as life sciences, health care, technology and financial services. Moss explains that the merged firm may have a two-tier partnership structure and cautions that partners might get put into a nonequity track if they don’t qualify for equity status.

Additionally, increasing the pay for a desired junior rock star attorney could upset and unsettle other individuals at the same level, potentially accelerating departures.

“In the event lawyers leave prior to or at once after the restructuring, the combined firm could face the risk of losing clients or a more turbulent transition for clients who stay if teams servicing those clients are disrupted,” Moss says, adding that staff redundancy and paying out severance packages may limit short-term net revenue.

Bankston encourages small-to-midsize firms to stay the course if they can carve out a profitable niche. She mentions spin-offs as a possibility when conflicts arise because of a merger or acquisition and the unified firm cannot negotiate a solution.

“A small or midsize firm is often nimbler than a behemoth,” she says. “It may have the ability to adapt to fast-changing market trends and can potentially serve different client bases such as middle market clients.”

Both Bankston and Moss expect further unions of different-sized law firms.

Bankston predicts a continued need for technologists and other business professionals to meet the growing industry demands.

Moss sees heightened interest in private equity and possibly bankruptcy, depending on how near-term economic winds blow.

“The flurry of law firm mergers makes sense given the increased competition and the hunt for qualified legal professionals and clients,” she says. In the words of author William S. Burroughs, “When you stop growing, you start dying.”