ELITE LAW FIRM COMBINATIONS

An Exploratory Study on Merger Strategy and the Effect of Firm Culture

Dissertação apresentada à Escola Brasileira de Administração Pública e de Empresas para obtenção do grau de Mestre

NASREEM GHENET GLOVER
Rio de Janeiro - 2016
Glover, Nasreem Ghenet

Elite law firm combinations: an exploratory study on merger strategy and the effect of firm culture / Nasreem Ghenet Glover. – 2016. 61 f.

Dissertação (mestrado) - Escola Brasileira de Administração Pública e de Empresas, Centro de Formação Acadêmica e Pesquisa.

Orientador: Ronaldo Couto Parente.
Inclui bibliografia.


CDD – 658.16
NASREEM GHENET CLOVER

ELITE LAW FIRM COMBINATIONS
An Exploratory Study on Merger Strategy and the Effect of Firm Culture

Dissertação apresentada ao Curso de Mestrado Profissional Executivo em Gestão Empresarial da Escola Brasileira de Administração Pública e de Empresas para obtenção do grau de Mestre em Administração.


ASSINATURA DOS MEMBROS DA BANCA EXAMINADORA

[Signatures]
Renato Cunha-Ferreira
Orientador (a)

[Signature]
Marcos Lopes Rego

[Signature]
Luis Fernando Filardi Ferreira
# Table of Contents

- FUNDAÇÃO GETULIO VARGAS .......................................................................................... 2
- NASREEM GHENET GLOVER ......................................................................................... 2
  - BACKGROUND ............................................................................................................... 10
    - Figure 1 – *American Lawyer* 2015 Firm Revenue Chart ........................................ 15
  - CURRENT STATE OF BIGLAW ACQUISITIONS .............................................................. 17
  - FULL MERGERS V. SWISS VEREINS ............................................................................ 19
  - LITERATURE REVIEW .................................................................................................. 21
  - WHY ACQUIRE & THE RACE FOR GROWTH ................................................................. 21
  - STRATEGIC GOALS ....................................................................................................... 25
    - Capabilities Transfer .................................................................................................. 25
    - Increased human capital and size .............................................................................. 27
    - Figure 2 – Relationships Among Distinctive Characteristics, Managerial Implications, and Organizational Responses (Nordenflycht) ......................................................... 28
    - Greater geographical locations .................................................................................. 29
    - Brand positioning ....................................................................................................... 31
    - Expansion of expertise ............................................................................................... 31
    - Increased revenue ....................................................................................................... 33
  - THREATS TO ATTAINMENT OF MERGER GOALS ..................................................... 34
    - Culture ....................................................................................................................... 34
    - Poor Integration .......................................................................................................... 36
    - Figure 3 - Manifestations of Culture: From Shallow to Deep (Hofstede) ................... 38
    - Relative Standing ...................................................................................................... 41
    - Preacquisition performance ....................................................................................... 43
    - Status ......................................................................................................................... 44
    - Removal of autonomy ............................................................................................... 46
    - Compensation ............................................................................................................ 47
ABSTRACT
GLOVER, Nasreem. Elite Firm Combinations: An Exploratory Study on Merger Strategy & the Effect of Firm Culture. This addresses the strategic goals elite firms intend to satisfy by acquiring other firms, and the threat to the attainment of strategic goals imposed by the culture of the target firm which may ultimately result in significant attorney attrition.
LIST OF FIGURES

Figure 1    AmLaw 100 Gross Revenue Chart for 2015
Figure 2    Relationships Among Distinctive Characteristics, Managerial Implications, and Organizational Responses
Figure 3    Manifestations of Culture: From Shallow to Deep
**TERMS & ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmLaw</td>
<td>American Lawyer publication</td>
</tr>
<tr>
<td>AmLaw 100</td>
<td>Annual American Lawyer publication that ranks firms in the United States by a variety of criteria, the most popular of which are the rankings by revenue.</td>
</tr>
<tr>
<td>&quot;Biglaw&quot;</td>
<td>Legal industry term which refers to the largest corporate law firms in the United States. Generally accepted as any firm that appears on the American Lawyer 100 list.</td>
</tr>
<tr>
<td>Elite law firms</td>
<td>In this study, will refer to firms which appear on the AmLaw 100 FTE Full-time equivalent. Used to refer to total firm attorney counts.</td>
</tr>
<tr>
<td>MP</td>
<td>Managing Partner</td>
</tr>
<tr>
<td>&quot;White shoe law firm&quot;</td>
<td>Refers to the oldest and most established firms in the United States. Generally over 100 years in existence, and largely headquartered in New York, but other cities as well.</td>
</tr>
</tbody>
</table>
BACKGROUND

The United States represents the largest market for legal services, the most prestigious of which appear on the annual publication of *American Lawyer 100* (commonly referred to as the AmLaw 100). In recent years, several AmLaw 100 firms have merged, or more accurately have acquired other law firms, both domestically and abroad. This may be due to the belief by many firms in the industry that bigger is better, and mergers serve as a common remedy to achieve greater scale. While elite law firms have played an important role advising corporate mergers & acquisitions, elite law firms are increasingly involved themselves in mergers & acquisitions themselves, but unfortunately the due diligence employed in corporate mergers & acquisitions is not enough when considering a target firm in the legal industry. An increasing number of firms are choosing to engage in "serial mergers" to grow and achieve a commanding size, as well as an increasing national and international presence (Aronson 2007). Supply side explanations argue that the way firms are structured naturally lend themselves to growth whereas justification which emphasizes client demand (demand side explanations) argue they are accommodating increasing client needs, such as one-stop shopping and greater attorney specialization. The various strategic goals of elite law firm combinations will be delineated, and the threat that cultural differences pose to merger success will be analyzed in the following. It is maintained that without sufficient consideration of the law firm culture in a merger partner, there is great risk of high attorney attrition, thus threatening the strategic goals of the merger.

According to Aronson, there is no evidence to confirm said claims that mergers are being undertaken to satisfy client needs or expand practice areas. Aronson summarizes that there are three reputational elements that have contributed to the increase in firm mergers, and include the following: reputational signaling, herd behavior, and the role of first tier law firms (Aronson 2007).

Reputational signaling signifies that law firms are responding to changes in the legal industry landscape such as deregulation and globalization that have resulted in a more fluid market and greatly increased competition amongst law firms. Due to the fact that competition is largely based on a firm's reputation for quality work, elite law firms have become eager to show their quality to clients and other core characteristics. The second reputational component is herd behavior whereby firms concerned with their standing and brand positioning may be more likely
to engage in mergers based on the actions of other firms in the race for expansion. Lastly, Aronson argues, is the role of first tier firms which do not engage in mergers. Thus a non-first tier firm may look to ways to distinguish themselves and the services they offer with mergers offering a way to achieve that.

When large law firms acquire other firms there are can be one or several strategic goals that they hope to achieve. While there are many factors that may impede a firm from attaining the goals of an acquisition, firm mergers that do not place extreme emphasis on cultural fit will not be successful despite the initial attainment of strategic goals. Unlike industry, the "product" in professional services is the talent that can provide these services, yet as human capital they do not belong intrinsically to the firm and the "value" of the firm is retained with the professionals, thus a firm’s strategic goals can and literally will walk out the door to if the cultural distance is too wide. Subsequently, these attorneys will more likely than not join a firm that they perceive to have greater cultural fit. The following will examine the strategic goals of some of the largest and most prestigious firms in the United States that attempt to achieve growth (among other things) by turning to acquisitions, and the almost immediate and detrimental effects of poor cultural fit when not given great consideration in deciding on a merger partner. If a firm decides to use mergers and acquisitions to achieve growth, it is imperative that cultural fit be given the upmost consideration. Many have argued that the synergistic opportunities embedded in an acquisition are dependent on the strategic fit that the acquisition offers in the form of resource similarity or complementarity (Barkema 2008), but perhaps in no other industry, does merger success hinge on a variety of factors to such an extent that juxtapose nations, regions, perceptions, status, autonomy, compensation and more into this amalgam of cultural fit. Hofstede (1980, 1991) defined culture as "programming of the mind" stating that unlearning a culture, or reprogramming minds, may be difficult or impossible. Now imagine a workforce with a significant amount of the attorney population at the only firm they have ever worked at - 10, 20, even 40 years who know find themselves beholden to a new sheriff in town. To begin addressing these issues, it is important to define what constitutes "biglaw" or the large corporate law firms as a sector in the legal industry which alone denotes a level of status and hierarchy that the legal industry has long been obsessed with, and may drive the desire to achieve even greater recognition in the industry.
"Biglaw" is a legal industry term for the largest, and often most prestigious firms in the United States, although small numbers may have historic roots in the United Kingdom. In describing these firms, they are generally regarded as full-service (meaning they cover a wide range of practice areas), or at least hope to give clients the impression that they are. Additionally, they largely provide counsel to corporations and very wealthy individuals, and largely comprise the top-grossing law firms in the United States. Typically, they employ hundreds or more of attorneys and are known for paying top-market salaries often in tandem with one another on a similar "biglaw" scale. This results in a desire to remain on par with others in their peer group such that when one raises salaries, often the other follow in short succession. The goal is to be able to attract the best talent from the top law schools, and a firm that is not paying market premiums will hardly be at the top of a student's list. Talent is generally attained through their summer associate programs which recruit law students from many of the top law schools in the country, and spend a summer working at the firm before returning to complete their last year of law school. This is important to note because it establishes a type of exclusive culture that may began with a summer associate who is 25 years of age that may remain with the firm until retirement, thus greatly identifying their legal career with the firm and the attorneys around them, although increasing numbers of attorney personnel are becoming more transient in employment than in previous decades. This individuals are referred to as "lateral"s when they join a firm that they did not come up in through the summer associate program and begin their legal career with the firm. Through this terminology and distinction, one sees how exclusive the culture can be in that although this attorney is now a part of the firm, his title will forever signal that he is a lateral, and that carries the implication that he is not completely one of us. It is from this vantage point that one can contemplate the difficulties of the superimposition of a large group of strangers on this “club” which would occur in a merger or acquisition.

These firms often maintain both a national and international presence with several offices across the country or world, and are often driven for greater international market share and global reach. As a result, elite firms are eager to signal their reputation to three very important groups:

1) clients and potential clients
2) other law firms (potential laterals)
3) law students (potential associates) (Aronson 2007).

There are many annual rankings which delineate "biglaw" based on a variety of factors, but the one best known that will be used as the basis for biglaw in this paper is the annual ranking by American Lawyer often referred to at the "AmLaw 100" which does numerous categorizations of the top 100 law firms by the following metrics:

1) Rank by gross revenue for prior year*
2) Revenue per lawyer, rank by revenue per lawyer
3) Profits per partner, rank by profits per partner
4) Net income
5) Nonequity Compensation
6) Compensation average for all partners (CAP), rank by CAP
7) Value per lawyer, VPL rank
8) Profits per lawyer, PPL rank
9) Lawyers needed to generate $10 million
10) Profitability index and rank
11) Number of lawyers
12) Number of equity partners
13) Number of nonequity partners
14) Leverage
15) Profit margin

*This is one of the most popular of the various rankings.

It is safe to say that any firm listed in the AmLaw 100 would be considered biglaw in the legal industry. Additionally, these firms are categorized as corporate law firms and corporate lawyers to differentiate between the type of attorney that one hires to perhaps draft a will, or sue a neighbor. Law students and lawyers have a tendency to show great interest in rankings (as such firms have great interest in presenting well), and the AmLaw 100 represents just one publication of rankings in an area with many others, such as Vault and the National Law Journal.

The reality is that as the business world becomes more global, the demand for corporate legal services becomes increasingly global as well. In the past, many firms engaged in strategic alliances with firms often in other countries that could handle the global needs of a client.
whether it be in London or Mexico City. Many firms, realizing that the world was only becoming more global and that revenue would continue to be lost to alliances, then began to open up offices of their own in these locations so as to retain the client business rather than farm it out. With further increasing globalization, some firms took to acquiring firms in various locations and only retained strategic alliances in countries with prohibited the practice of foreign-owned law firms such as India and Brazil. Firms faced yet another threat when during the 1980s, the number of inhouse attorneys working for corporations began to increase rapidly, such that now corporations can handle some legal work in house resulting in savings as cost is a major concern. Despite the establishment of in-house legal departments within most large corporations, they generally do not handle the largest and most important matters facing a corporation, and tend to retain large elite firms to handle them. Within the legal industry, it remains the opinion that the best lawyers are still found in law firms, and not in inhouse legal departments.

As the market continues to contract, firms continue to look to ways to differentiate themselves to attract potential clients. Reputational signaling has gone up and remains the most important aspect of law firm marketing (Aronson 2007).

While many firms engage in mergers and acquisitions, it is important to note that many do not, and have not ever engaged in mergers and acquisitions. These also tend to be some of the most profitable firms on the AmLaw 100, and have often been in existence over 100 years. They also tend to be smaller in size (around 500 attorneys) and may focus on a few practice areas rather than attempt to be a full-service law firm. They may not even allow for lateral partners, or if so on an extremely limited basis. Aside from these firms, it is clear that mergers are not a passing phase in the legal industry and will continue to serve as a means of inorganic growth.
Figure 1 – *American Lawyer* 2015 Firm Revenue Chart
### Gross Revenue

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>56</td>
<td>Bryan Cave</td>
<td>910</td>
<td>203</td>
<td>$617,000,000</td>
<td>-2.91%</td>
</tr>
<tr>
<td>57</td>
<td>60</td>
<td>Locke Lord</td>
<td>847</td>
<td>177</td>
<td>$597,000,000</td>
<td>40.30%</td>
</tr>
<tr>
<td>58</td>
<td>61</td>
<td>Seyfarth</td>
<td>798</td>
<td>192</td>
<td>$580,000,000</td>
<td>6.31%</td>
</tr>
<tr>
<td>59</td>
<td>63</td>
<td>Katten</td>
<td>623</td>
<td>149</td>
<td>$581,500,000</td>
<td>4.47%</td>
</tr>
<tr>
<td>60</td>
<td>64</td>
<td>Sheppard Mullin</td>
<td>606</td>
<td>121</td>
<td>$559,500,000</td>
<td>9.60%</td>
</tr>
<tr>
<td>61</td>
<td>60</td>
<td>Pillsbury</td>
<td>598</td>
<td>152</td>
<td>$557,000,000</td>
<td>-0.34%</td>
</tr>
<tr>
<td>62</td>
<td>59</td>
<td>Hunton &amp; Williams</td>
<td>696</td>
<td>167</td>
<td>$528,000,000</td>
<td>-7.34%</td>
</tr>
<tr>
<td>63</td>
<td>62</td>
<td>Littler</td>
<td>974</td>
<td>362</td>
<td>$506,000,000</td>
<td>7.00%</td>
</tr>
<tr>
<td>64</td>
<td>68</td>
<td>Fried Frank</td>
<td>612</td>
<td>104</td>
<td>$504,500,000</td>
<td>8.67%</td>
</tr>
<tr>
<td>65</td>
<td>69</td>
<td>Fragomen</td>
<td>519</td>
<td>64</td>
<td>$484,500,000</td>
<td>12.52%</td>
</tr>
<tr>
<td>66</td>
<td>68</td>
<td>Venable</td>
<td>596</td>
<td>162</td>
<td>$477,000,000</td>
<td>7.52%</td>
</tr>
<tr>
<td>67</td>
<td>72</td>
<td>Troutman Sanders</td>
<td>626</td>
<td>186</td>
<td>$468,500,000</td>
<td>10.59%</td>
</tr>
<tr>
<td>68</td>
<td>67</td>
<td>Faegre Baker</td>
<td>670</td>
<td>227</td>
<td>$466,000,000</td>
<td>2.08%</td>
</tr>
<tr>
<td>69</td>
<td>74</td>
<td>Jenner &amp; Block</td>
<td>438</td>
<td>114</td>
<td>$465,000,000</td>
<td>13.37%</td>
</tr>
<tr>
<td>70</td>
<td>65</td>
<td>Cashwalader</td>
<td>448</td>
<td>47</td>
<td>$463,500,000</td>
<td>-3.74%</td>
</tr>
<tr>
<td>71</td>
<td>75</td>
<td>Nixon Peabody</td>
<td>634</td>
<td>150</td>
<td>$461,000,000</td>
<td>13.27%</td>
</tr>
<tr>
<td>72</td>
<td>70</td>
<td>Duane Morris</td>
<td>628</td>
<td>119</td>
<td>$434,500,000</td>
<td>1.62%</td>
</tr>
<tr>
<td>73</td>
<td>73</td>
<td>Kilpatrick Townsend</td>
<td>574</td>
<td>109</td>
<td>$411,500,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>74</td>
<td>66</td>
<td>Pombrelli</td>
<td>720</td>
<td>118</td>
<td>$401,000,000</td>
<td>11.41%</td>
</tr>
<tr>
<td>75</td>
<td>61</td>
<td>Drinker Biddle</td>
<td>544</td>
<td>176</td>
<td>$409,500,000</td>
<td>7.48%</td>
</tr>
<tr>
<td>76</td>
<td>79</td>
<td>Jackson Lewis</td>
<td>755</td>
<td>238</td>
<td>$407,000,000</td>
<td>4.23%</td>
</tr>
<tr>
<td>77</td>
<td>67</td>
<td>Lewis Brisbois</td>
<td>1,015</td>
<td>102</td>
<td>$406,000,000</td>
<td>11.54%</td>
</tr>
<tr>
<td>78</td>
<td>76</td>
<td>Schulte Roth</td>
<td>355</td>
<td>85</td>
<td>$405,000,000</td>
<td>1.25%</td>
</tr>
<tr>
<td>79</td>
<td>77</td>
<td>Williams &amp; Connolly</td>
<td>304</td>
<td>117</td>
<td>$403,000,000</td>
<td>1.00%</td>
</tr>
<tr>
<td>80</td>
<td>64</td>
<td>Ogletree Deakins</td>
<td>721</td>
<td>161</td>
<td>$399,000,000</td>
<td>6.57%</td>
</tr>
<tr>
<td>81</td>
<td>68</td>
<td>Fish</td>
<td>335</td>
<td>106</td>
<td>$395,000,000</td>
<td>10.49%</td>
</tr>
<tr>
<td>82</td>
<td>80</td>
<td>Pepper Hamilton</td>
<td>494</td>
<td>138</td>
<td>$388,500,000</td>
<td>1.04%</td>
</tr>
<tr>
<td>83</td>
<td>51</td>
<td>Boies Schiller</td>
<td>500</td>
<td>47</td>
<td>$380,000,000</td>
<td>10.14%</td>
</tr>
<tr>
<td>84</td>
<td>83</td>
<td>Kaye Scholer</td>
<td>370</td>
<td>96</td>
<td>$370,000,000</td>
<td>-1.33%</td>
</tr>
<tr>
<td>85</td>
<td>62</td>
<td>Cashell</td>
<td>312</td>
<td>62</td>
<td>$364,500,000</td>
<td>-4.98%</td>
</tr>
<tr>
<td>86</td>
<td>65</td>
<td>Fox Rothschild</td>
<td>615</td>
<td>175</td>
<td>$364,500,000</td>
<td>9.65%</td>
</tr>
<tr>
<td>87</td>
<td>57</td>
<td>Fenwick</td>
<td>300</td>
<td>67</td>
<td>$363,000,000</td>
<td>11.16%</td>
</tr>
<tr>
<td>88</td>
<td>65</td>
<td>Crowell &amp; Moring</td>
<td>441</td>
<td>96</td>
<td>$363,000,000</td>
<td>-1.49%</td>
</tr>
<tr>
<td>89</td>
<td>92</td>
<td>Haynes and Boone</td>
<td>524</td>
<td>131</td>
<td>$362,000,000</td>
<td>6.28%</td>
</tr>
<tr>
<td>90</td>
<td>78</td>
<td>Hughes Hubbard</td>
<td>315</td>
<td>74</td>
<td>$361,500,000</td>
<td>-8.25%</td>
</tr>
<tr>
<td>91</td>
<td>70</td>
<td>Barnes &amp; Thornburg</td>
<td>521</td>
<td>219</td>
<td>$361,000,000</td>
<td>4.34%</td>
</tr>
<tr>
<td>92</td>
<td>101</td>
<td>Mintz Levin</td>
<td>447</td>
<td>65</td>
<td>$360,000,000</td>
<td>13.92%</td>
</tr>
<tr>
<td>93</td>
<td>69</td>
<td>Steptoe</td>
<td>374</td>
<td>125</td>
<td>$347,000,000</td>
<td>1.42%</td>
</tr>
<tr>
<td>94</td>
<td>56</td>
<td>Blank Rome</td>
<td>477</td>
<td>118</td>
<td>$345,000,000</td>
<td>4.23%</td>
</tr>
<tr>
<td>95</td>
<td>103</td>
<td>Cozen O'Connor</td>
<td>533</td>
<td>156</td>
<td>$341,000,000</td>
<td>9.11%</td>
</tr>
<tr>
<td>96</td>
<td>104</td>
<td>Ballard Spahr</td>
<td>507</td>
<td>237</td>
<td>$337,500,000</td>
<td>8.17%</td>
</tr>
<tr>
<td>97</td>
<td>88</td>
<td>Akerman</td>
<td>562</td>
<td>193</td>
<td>$337,000,000</td>
<td>4.01%</td>
</tr>
<tr>
<td>98</td>
<td>63</td>
<td>Dorsey</td>
<td>512</td>
<td>182</td>
<td>$326,500,000</td>
<td>0.59%</td>
</tr>
<tr>
<td>99</td>
<td>100</td>
<td>Baker Donelson</td>
<td>652</td>
<td>216</td>
<td>$324,000,000</td>
<td>4.04%</td>
</tr>
<tr>
<td>100</td>
<td>59</td>
<td>Kroner Levin</td>
<td>315</td>
<td>68</td>
<td>$322,000,000</td>
<td>3.59%</td>
</tr>
</tbody>
</table>

CURRENT STATE OF BIGLAW ACQUISITIONS

In the past few years, there have been notable biglaw acquisitions that have taken place in the legal industry which are only increasing. Biglaw acquisition choices generally fall into one of four categories: 1) acquisitions of non-United States based firms (large or small) that result in expanded global geographical reach; 2) acquisitions of large national distressed firms that result in a significant increase of attorney counts; and 3) acquisitions of large national firms that are both distressed, thus increasing attorney counts and expand global geographical reach as well; and acquisitions of U.S. based boutique firms that offer access to a specific city, region, and/or practice area.

Firms that solely expand global reach are generally significantly smaller firms operating on a national scale in a foreign country. These firms offer access to a local market and the relationship may be viewed as symbiotic as the smaller firm may often view the opportunity of joining a large global United States-based firm favorably. In 2016, DLA Piper (currently the second largest law firm in the world) announced plans to merge with a small firm in Sweden. Another example is that of Dentons which itself was the result of a merger between SNR Denton, Fraser Milner Casgrain, and Salans in 2013, and became the largest law firm in the world less than two years later when it acquired Chinese law firm Dacheng resulting in a firm with over 7500 lawyers in over 50 countries. This resulted in a count differential of over 2000 more attorneys than DLA Piper which had previously held the lead. Dentons also combined with another biglaw firm based in Atlanta, as well as acquiring firms in Singapore, Columbia and Mexico. Geographical reach does carry the implication of attaining expertise as well, in that the lawyers in that country are likely to be able to advise on practice areas within the scope of that country.

The acquisition of a distressed firm is another option for firms seeking expansion; however the acquisition of distressed firms in biglaw are often other biglaw firms which are similarly prestigious with similarly educated human capital (elite law schools) and similar corporate client bases, thus are viewed as a potential asset to the acquiring firm. That said, there are very few mergers of equals despite the attempts of the combining firms to characterize their target firms as so (Aronson 2007). The acquisition of a distressed firm is potentially of interest to an acquirer as a means of expanding market share, reducing costs, reducing risk, and
improving the management of poorly managed assets (Bruton 1994). Therefore, a potential acquirer may express interest in poorly managed target with valuable resources, although the target's managers, who stand a significant chance of being replaced may be cut (Bruton 1994). While significant numbers of non-attorney personnel may be cut, the somewhat unique structure of law firms is that these managers are simultaneously both managers and the resources the firm seeks to acquire (attorneys). Therefore, while they may be relieved of their "extracurricular duties" on the executive or management committee, they still will be considered a valuable resource provided they bring substantial revenue into the firm. Nevertheless, if a firm's distress is clear and unlikely to be easily resolved, an offer from a potential acquirer may be difficult for a target's managers to resist. In 2014, Morgan Lewis acquired Bingham McCutchen, thus increasing their overall count by 750 attorneys. While Bingham was experiencing financial distress, this did not affect the perception of the quality of their human capital and the client book they could bring to Morgan Lewis. The goal of acquiring a national distressed firm is likely to increase FTE attorney counts, thus increasing firm size, provided the merger is a success.

The third tendency of biglaw acquisitions is the acquisition of a distressed firm that will not only increase attorney count, but will also expand a firm's global locations. In 2014, Squire Sanders acquired Patton Boggs resulting in a firm with over 1300 attorneys, and office locations in the Middle East – a geographical region in which Squire Sanders was previously lacking office locations. Once again, despite the financial state of the firm, the firm's prestige and established reputation as a leader in public policy was viewed as a desirable acquisition to the firm. While law firm acquisitions are thought to be fairly low in cost, poorly managed firms may require resources, such as cash, as in the case of the acquisition of Patton Boggs where Squire Sanders paid an outstanding judgment against Patton Boggs in the amount of $15M.

The fourth tendency of biglaw acquisitions centers on acquiring U.S. based boutique law firms which offer access or increased access to a city or region often synonymous which a specific industry (e.g. financial services in New York, or IT in Silicon Valley).

While these classify the overarching types of acquisitions that AmLaw 100 firms typically engage in, it is important to note that the ultimate goal is to better serve clients. With regards to acquisitions, this means the ability to expand services to existing clients by offering new markets and practice areas, and the acquisition of "new clients" brought by the target firm.
A geographical location with little corporate interest or an overlapping area of expertise with a small client base will be of little interest to a firm seeking to acquire another firm. Therefore, acquisition choices revolve around the ability expand client services by some combination of prestige, global reach, and human capital to the acquiring firm. Each and all of these contribute to the transfer of capabilities that firms seek; however the ideal acquisition would encompass as many of these strategic goals as possible.

FULL MERGERS V. SWISS VEREINS

In the legal industry, there are two types of acquisitions that firms engage in, and firms that do fully subscribe to one approach or the other. One type is structured as a Swiss verein which is an "association of member organizations recognized under Swiss law. It is used to maintain separation among entities under a common brand. In the legal context, a verein is formed through simple articles of association without creation of an entity that actually practices law. Rather the firms independently render legal services and severally accept the rewards and liabilities that accompany such work. They do not share a common profit pool (Kalis 2011)."

Swiss vereins are considered much easier to form from a tax standpoint, and aside from not sharing in profits across the firm, they also may or may not fully integrate all departments such as accounting, knowledge management, and IT. This is in contrast to what can be termed a "full merger" which integrates all systems, and does engage in profit sharing. There are definitely differing views on law firms that operate as vereins and there is a general perception amongst some in the legal industry that vereins are inferior to a full merger, just as some traditional firms may scoff at firms that engage in mergers at all. One thing remains undisputed which is integration is much more difficult in a Swiss verein, and may not be a goal of the verein as much as it is in firms which fully merge. Either because of, or as a result of, the cultural distance is greater in vereins because the acquired firms continue operating, to a certain extent, as they had been prior to the combination. This may or may not be viewed as advantageous to the acquiring firm. Another disadvantage to the verein approach is expanding the provision of services amongst clients which does not come about as readily because the firm as not integrated as well. This results in a situation where there is less incentive to refer work to distant partners,
particularly when the partner will not receive any originating credit. The flow of information comprising learning and the synergy of capabilities being located in a variety of markets is hindered by organizational limits on information sharing (Barkema 1998). One may argue that just as information sharing is strained, so is the transfer of culture.

There are currently six Swiss vereins on the AmLaw 100 and include the following firms: Dentons (136+ in 57+ countries); DLA Piper (80+ offices in 30+ countries); Squire Patton Boggs (44+ offices in 20 countries); Baker & McKenzie (70+ offices in 47 countries), Norton Rose Fulbright (50+ offices in 27 countries), and Hogan Lovells (40+ offices in 25 countries).

Verein structures for law firms are increasing in the global market access race. The majority of law firm vereins have been formed since 2008 and already account for more than 20,000 lawyers worldwide. According to Kalis, they "preserve the option of an uncoupled future, and in real time they endorse independence over integration. Indeed, the very virtues ascribed to them - tax and regulatory simplicity, liability protection, financial separation - are virtues of independent law firms" (2011). It may be argued that full integration is not the goal of firms who acquire firms under the Swiss verein structure. If integration is a goal of the executive management, this structure may make a difficult task markedly more difficult.

Swiss vereins are not only easier to set up but they can be used to permit practice in countries where foreign law firms are not permitted to operate, such as Brazil whether completely legal or not. The Sao Paulo Bar Association issued a statement in 2011 that (in translation) "it is not possible to allow any financial cooperation between domestic and foreign law firms as this would eliminate the independence that is crucial to the practice of law [in Brazil]. Many viewed this as an affront to vereins operating as global firms in Brazil such as Baker McKenzie who claims they operate through an independent firm named Trench, Rossi, e Watanabe Advogados, yet maintain they have a Brazilian presence (Latin Lawyer 2010). Clearly integration of two entities that maintain they are the same on one hand, yet different on another would prove difficult. While the risks associated with cultural differences may be mitigated when merging firms retain some independence, studies suggest that independence inhibits the cross-cultural learning that can take place when firms possess strong integration capabilities. The benefits of diversity are not likely to be achieved by permitting the acquired unit to remain somewhat independent and loosely brought in to the acquirer during acquisition.
implementation (Reus 2009). There is no doubt that threats to acquisition success may be further exaggerated in Swiss verein acquisitions.

LITERATURE REVIEW

WHY ACQUIRE & THE RACE FOR GROWTH

There are two standard methods in which firms (firms in general, not specifically law firms) generally grow - organically by cultivating growth from inside the firm or by buying growth from the outside through acquisition. When firms have invested very little in organic growth and become increasingly dependent on acquisitions, a level of desperation may set in (Kim 2011). Accordingly, there are two scenarios when firms are so intent on growth that they are willing to take greater risk which can be exemplified by something such as paying a high cost for an acquisition, for example. The first situation takes place when a firm's organic growth is significantly lower than either (a) its peer firms or (b) its own historical organic growth. The second situation takes place when a firm's dependence on acquisitions for growth is significantly higher than either (a) its peer firms or (b) its own historical acquisition dependence. This results in firms that are under greater pressure to grow and thus more inclined to pay high acquisition costs in an attempt to prompt growth (Kim 2011). In law firms, organic growth remains the traditional model exemplified through their summer recruiting programs. The next method of growth is the hiring of lateral attorneys and groups (which is often time-consuming and expensive), and lastly the acquisition of another law firm.

Research has shown that human capital bridges the link between strategic goals and how well the firm performs, illustrating the need to satisfy both sides of the equation (Hitt 2011), thereby necessitating the strategic importance of human capital to increase resources of a firm. Law firm structures are based on the attainment of knowledge and the regular injection of new lawyers to receive the passed on knowledge of the more experienced professionals at the firm. Without the regular addition of new attorneys, not only would this pose a risk to the loss of knowledge, but there would be no one to perform lower levels of work that may not be appropriate for a senior attorney to work and bill higher rates on. Alternatively, there may be a need to increase depth or breadth in certain areas, and that can only be achieved through the
increase of attorneys in a firm's employ (outside of participating in a strategic alliance with a capable firm and thus forfeiting any revenue that stood to be gained). All of this relates to the techniques firms have in their employ to obtain or cultivate expertise that can provide professional services to their clientele.

Law firms continue to recruit second year law students as summer associates who work at the firm generally after their second year of law school with the hopes to receive an offer which will bring them back as a first year associate after they complete their third year of law school. This model is referred to as the "Cravath Model" and has somewhat of an implication that the associate will remain with the firm ideally for many years, possibly until retirement. Some firms only bring in attorneys through this approach and balk at the idea of bringing in attorneys who were not brought up through their ranks. Not surprisingly, those firms that subscribe to this approach would never engage in an acquisition, and quite likely would fulfill their firms needs by strategic alliances with outside firms for some needs, and increasing summer associate class size if need be. For growth focused on establishing a presence in a new market, companies often establish start-ups by sending over expatriates who carefully select and hire employees from the local population (Hofstede, 1991); however, this approach is time intensive, can be more expensive, and also removes presumably a productive employee on one market, and places them in another, possibly effecting their already established practice. The benefit of this approach with regards to law firms is that it allows those firm attorneys to hire and train a new group, which makes makes it ideal for cultivation culture or "firm specific advantages from the outset (Barkema 1998).

The next option to get new blood into law firms is lateral hires. Lateral hires imply that the attorneys brought in did not come up through the ranks of the firm, meaning they did not start out as summer associates. Lateral hires can bring needed expertise to a firm, and add heft to existing geographic locations. The downside to lateral hires is they are slow and often expensive as professionals are often highly regarded and may have the opportunity to choose between several firms. Often, they focus on recruiting 1-2 attorneys at a time which is not always efficient. Ideally, lateral hires are brought in as groups consisting of partner(s) and associate(s) from the previous firm who bring a book of business and can hit the ground running with their entire cellular organization intact. Once again, there are firms who rarely engage in lateral hires
as it is believed that they can disrupt the culture of a firm which may take the form of a "they are not one of us" view. In firms that frown upon lateral hires, or only engage in occasional lateral hires, it can also be assumed that they would not engage in any sort of combination with another firm.

The last manner in which to increase economies of scale is to acquire another firm which can add 50 to 600+ attorneys to the roster in mere months, perhaps more if a firm is engaged in numerous simultaneous acquisitions. It can also bring various office locations previously unattained such as offices in China or the Middle East - locations that may take years to grow organically through recruiting and summer associate programs; or poaching individual attorneys and practice groups one at a time; or sending attorneys from one office to start another. Assuming there is little to no debt in the target firm, acquiring a firm is relatively low cost and many times symbiotic in nature. An assessment of current firm performance can instigate a search to resolve the problems a firm may be facing; however when performance is related to the desire to to be acquired, the chance of a acquisition is more significant for firms that are under-performing, than those that are performing above expectation (Iyer 2008). If one firm is distressed, being acquired throws it a lifeline, and some firms that acquire make it a point to take every attorney in the target firm rather than weed out the ones they feel are valuable. While some may be asked to leave in the future if the acquiring firm deems them not valuable, it definitely is less of a deterrence to accept all attorneys in an acquired firm from the outset of the combination, rather than risk alienating the acquired attorneys by cutting some of their colleagues. Additionally, "strategic dependence" sways a firm in the direction of recently utilized approaches over other possible options, resulting in an immortalizing in their strategic action. Therefore, firms that have greatly expanded by way of acquisition may develop skills and abilities to grow in that manner leading to a possible dependency on acquisitions as their primary strategic growth plan (Kim 2011).

The increasing rate of competition in numerous industries has made organic growth and expansion appear time-intensive, and many in management have arrived at acquisition to be an attractive way to increase a firm's cache of knowledge rapidly, but many firms have found out that the acquisition of "knowledge" can be a difficult endeavor (Bresman 1999). Firms that attempt to grow organically can instigate engagement in acquisition if the organic growth is slow
and they desire rapid growth (Kim 2011). There is also considerable peer pressure amongst firms in the Amlaw 100. When the perception by managers is that their firm's organic growth is much slower than their peer firms, they are much more likely to grasp at growth opportunities (Kim 2011). The legal industry has seen the increasing competition and race to become the "superfirm" or one that boasts thousands of attorneys and is located in many global markets. While the traditional measure was the AmLaw 100, there are increasing references to the AmLaw 50 or AmLaw 20 firm which is not a term the publication utilizes but represents the hyperfocus on the biggest and fastest growing firms. Skadden, a firm that dominated the charts as the largest firm in the world in the 1990s is now currently not even in the top 10 of the largest firms as an acquisition frenzy has dominated those firms at the top of the chart.

Despite the rationale behind pursuing a merger, Kaul argues that acquirers go after two distinct types of targets - one with reduced capability levels that could be improved the the application of the acquiring firms prior capabilities; and the other being the firms with high levels of capability in new areas looking to benefit from the acquisition of new capabilities from the bidder firm that they can combine with their own (Kaul 2016). These two targets represent two distinct law firm acquisitions. The first is a failing national firm with reduced capabilities (poor management) who would benefit from combining and being well-managed, as it has been shown that a successful merger can improve the performance of both the bidder and target firms (Shen 2014). The second is a smaller national firm, or an international firm that is performing well, but gains the affiliation of a larger, more powerful firm and network, or the ability to appear on a larger stage. A firm is likely to track available acquisition opportunities that present in its own jurisdiction and may seize the opportunity if a candidate presents itself and can add to a firm's existing products or areas where they have a dearth in services (Lee 2010). Lee also finds that compared to acquisitions made in a firm's current jurisdiction, acquisitions made outside of the jurisdiction are inclined to be more strategic and less concerned with their current financial state. As illustrated in the previous example, international firms that are acquired tend to be smaller and fill a certain market need. While a large United States-based firm may find that a similar firm is going under and decide to acquire, foreign acquisitions revolve around the desire to service clients in very specific locations that can often be more specific than a certain region or country, but a specific city. Therefore, perhaps a firm will they acquire and well-
established large domestic firm that is failing financially “just because” but they are not likely to acquire a small boutique firm in Cairo or Tegucigalpa just because they are there. The domestic acquisition can be reactive, but the international acquisition will almost certainly be proactive.

STRATEGIC GOALS

Capabilities Transfer

The goal of acquisitions is largely viewed as the transfer of capabilities. Not only can firms obtain new capabilities, but by engaging in acquisition they can do so at increased speed and expedite the process (Wann 2009). While this remains an overall result of combining, the strategic goals of acquiring another firm in biglaw can be divided between economies of scope and/or strategic benefits. Companies that deal with relatively few competitors and customers have a narrower range of experience and narrower mental models because they confront a more limited range of challenges (Barkema 1998). Strategic benefits that an acquisition can achieve include increased lawyer count and overall firm size, greater geographical locations, brand positioning, expansion of expertise, relative standing, and greater market share. Additional strategic goals fall under economies of scale and/or financial benefits that stem from increased revenue being generated. Law firm acquisitions represent horizontal transactions because the target firm and the acquiring firm are in the same industry, and the aforementioned goals reflect those horizontal acquisitions which are often internal reorganization and greater market share (Cording 2008). Law firms are particularly interested in greater market share realized by the transfer of knowledge.

An important factor in knowledge management is the process of knowledge exchanges between business units (Bresman 1999), and this is particularly true in law firms which are in the business of essentially selling knowledge retained by the attorneys. One of the main reasons for an acquisition has often been to gain entry to the knowledge retained in the acquired company and distribute that information throughout the firm (Bresman 1999). In fact, in knowledge intensive industries, highly skilled human capital may be the main focus in strategy because acquirers want to get the experience and skillset of specific groups in the target firm (Ranft
This is absolutely true in the legal industry where firms are expanding in size and wanting to be able to service clients across a wide range of practice areas, as well as expanding the base of existing clients.

Acquisitions have been widely recognized as an important corporate strategy, and although can lead to the attainment of many strategic goals and benefits, they also involve significant risk. By engaging in acquisition, firms can remove some competition or attain economies of scale or market share (Wan 2009). Despite what may appear to be a quick fix for growth and expanded capabilities, the challenges for professional service firms engaging in acquisitions are significant (Wan 2009). Professionals are characterized as having mastered a specific area of expertise, thus retaining a base of knowledge. In the United States, lawyers are professionals who must attain a Juris Doctor degree and pass the bar exam which gives them license to practice law in a specific state. As such, a professional service firm is a firm that relies on a workforce with significant expertise, and further defined as presenting with three factors - "knowledge intensity, low capital intensity, and a professionalized workforce" (Nordenflycht 2010). Knowledge intensity is the most salient characteristic of professional service firms and represents the fact that firm performance depends on having a significant amount of complex knowledge, and implies that this is embodied in the highly skilled workforce in their employ and not solely amongst the management or support levels (Nordenflycht 2010). This is why attorney attrition as the result of a poor merger can decimate the goals of an acquiring firm when the professionals expected to bring increased capabilities to the combined firm walk out of the door taking their capabilities with them. Low capital intensity signifies that a firm's output does not involve significant amounts of non-human components exemplified by inventory, equipment, etc.; while the author characterizes knowledge intensity as having "opaque quality" meaning the quality of a professional's opinion is difficult for clients (presumably non-experts) to evaluate, even after the conclusion of services (Nordenflycht 2010). Law is specifically categorized as having low intensity and a professionalized workforce which the author notes is not true of all knowledge intensive firms (Nordenflycht 2010). This opaque quality may in fact contribute to the importance of firm status. Since clients may have little to no professional knowledge to judge the advice being provided, there may be a level of comfort or choice in firm simply dependent upon the firm's reputation and prestige to otherwise reassure a client which lacks the
ability to judge the quality of the services being offered.

Ultimately, synergy is the ideal in related mergers (such as law firms), and abounds when the combination of parts within the new combination can lead to greater revenue, greater efficiency, or an organization that is greater than the sum of its parts (Chatterjee 2007). Presumably, this can be obtained by a variety of components which include increased size, greater geographical locations, expansion of expertise, and greater market share afforded by synergy. In order to engage, the acquiring firm must have both a goal and the necessary resources to participate in the merger process (Iyer 2008). Resources include the costs associated with any type of merger, or additional costs that may arise if the target firm is distressed or indebted to other entities which are not totally uncommon in failing firms.

The following will outline the various approaches that fall under the aforementioned strategic goals of acquisitions performed by AmLaw 100 firms.

**Increased human capital and size**

Increasing FTE attorney counts resulting in an overall increase in size is a goal that many firms are focused on when pursuing acquisitions. Unless a firm is a first-tier firm, one of the common ways biglaw is defined is by the size of the firm with some increased status the higher up the scales one moves. The AmLaw 100 lists the 100 largest firms in the United States by attorney counts, and the sheer basis of the list allows for firms to gain access by increasing their attorney counts; however, with regard to firms already on the list, it allows for greater recognition by moving up the ranks representing a larger firm. The takeaway from this list is more than sheer numbers - it signals to clients and potential clients that firms have manpower, and can address the corporation’s legal needs whatever and wherever they may be. To the best law student, it says look at us - we are big, global, and we are the firm that you want to join! Lastly, it says to attorneys already established in other firms that if you decide to leave your firm, we are the firm you want to come to. In that sense, increases in attorney counts ultimately serve as a form of marketing. The number of attorneys in a law firm is almost always referred to in any article, usually within the first couple sentences. Interestingly enough, an article may not specify in what areas a firm practices, or all of their office locations, but it will most definitely
specify how many attorneys a firm has and many firms are in a race to top of the AmLaw 100 in the quest for recognition. More individuals means more individuals billing clients.

While the billable hour remains the standard in law firm billing, many would simply assume that greater numbers of attorneys naturally result in increased billings which would translate into greater revenue for the firm. While greater counts may generate more revenue, it is erroneous to conclude that this translates into greater profits for the firm. While it is doubtful that any firm would acquire another firm if it knew it would lose money, acquisitions that simply maintain the current rate of profit would still be considered for the previously mentioned reasons surrounding firm size, marketing, and business development.

From an internal standpoint, more attorneys means more clients and more potential for cross-selling to existing practice groups within the firm, but there are risks. Sharing or combining resources can result in a decrease in performance because of the shared access to "suppliers, labor markets, distribution networks, and product markets" (Mingo 2013). In law firms, product markets represent clients and the inevitable risk of combining resources (attorneys) is that valuable clients may be lost due to client conflicts. This means that opposing corporate clients, or competing clients were handled by each of the legacy firms and it would be imprudent to represent both under the same firm, possibly malpractice. Some may be on opposing sides of the same lawsuit, and certainly would not take it kindly that their firm is now representing the opposing party. This means that one matter must be dropped from the firm, and can often result in both clients seeking new counsel in disbelief of the new relationship. While often these potential situations are uncovered during due diligence, when firms are searching for potential client conflicts amongst tens of thousands of matters, there have been cases where the conflicts have not been discovered until post merger to the dismay of clients and partners.

Greater geographical locations

Another potential benefit of acquiring a firm is the acquisition of new office locations in new countries or regions of the world, in fact another industry ranking is dedicated to firms that have the largest global reach and this serves as a point of pride in firms who are eager to share their amount of office locations and the number of countries they are locating in for marketing
purposes. When acquirers do acquire target firms in new markets, they are generally willing to
go after more elite targets in line with their combination capabilities, whereas firms with less
capability wherewithal or ability generally limit their acquisitions to interior firms in existing
markets (Kaul 2016). That is to say, firms that are more geographically diverse or that have
more experience in acquisitions will pursue or consider a wider range of firms (Kaul 2016). In
the past, elite firms largely utilized affiliate firms to serve global business needs. For example, a
"biglaw" firm in the United States would refer to a "magic circle" firm in London for U.K. based
matters, or have an ongoing relationship with a firm located in Mexico City to handle parts of a
matter which required their services. As globalization increased, firms have opted to develop
new firm locations internally or through acquisition. Whereas initially, this practice may have
been limited to one office in a geographic location such as Europe or Australia, now one finds
multiple offices throughout a region. In fact, the previous approach of developing affiliate firms
to service countries without an office is now often due to governmental restrictions, rather than a
firm not having made an effort to secure an office location. For example, India forbids foreign
law firms to have offices or practice within India. In another example, Brazil restricts foreign
law firms to enter into partnership or employ Brazilian attorneys. In the case of Brazil, it is
interesting to note that this restriction against foreign firms was imposed by the Brazilian Bar
and not the federal government. Due to the nature of law as a profession, globalization can be
greatly limited by foreign governments and professional licensing societies and global law firms
eagerly await access to these restricted markets comprising two BRIC countries - Brazil and
India. Therefore, not surprisingly, firms may turn to acquisitions for entry into markets that are
far from its current operating base (Lee 2010).

Firms take into account tangible resources (buildings, capital), and intangible resources
(human capital, brand strength) in the formation and execution of strategy, although intangible
resources are more likely to produce a competitive advantage than tangible resources (Hitt 2001).
While the acquisition of new geographical locations for law firms may represent increased
knowledge, the reality is that the tangible acquisition (building, real estate) is as important to the
firm as the knowledge it brings with it. For example, if an extremely knowledgeable team on
Italian maritime law was in practice, but were practicing out of Madagascar - this does not
provide the client with the same sense of know-how as a team operating off the Italian coast, or
even inland. Therefore, geographical acquisitions represent more than just new resources, but imply that professionals are in the "eye of the storm" with their fingers on the pulse of what is happening in that jurisdiction. The motto of one prestigious firm states that the firm is located "in global markets that matter" implying that if they are not located there it is because the location is not yet of importance to the global business world.

Once again, increased geographic locations mean access to new markets and the ability to service an existing client who may need counsel on operating in those markets. On the opposite side, in countries that make it very difficult for foreigners to operate in their jurisdiction, the office locations will generally serve clients who wish to bring business or operate in the United States rather than vice versa. Growth and globalization have resulted in local knowledge having potential usage outside of that jurisdiction, further facilitated by information technology (Bresman 1999).

Brand positioning

Large law firms also seek greater brand positioning - to be the largest, the most international, or the definitive firm to seek counsel for a specific area of legal practice. While some of these markers cannot be changed (for example, the age of the firm), others can simply be an acquisition away to boost numbers and global reach. The reality behind these two aforementioned goals come down to brand positioning and marketing for large law firms who want to be known amongst their peers and ultimately potential clients. What is interesting to note is that the most elite firms in biglaw do not engage in acquisitions, nor possess many global locations, if any, outside of New York and possibly London. What they do possess is extreme prestige, a propensity for hiring the best and the brightest from the top law schools in the country, and an unmatched reputation for practice in specific areas, particularly financial services. While these reputations are firmly entrenched, it leaves little room for creating a name for yourself outside of expansion and feeding into the view that bigger is better, whether by numbers or locations if you are a firm that does not have "history" on your side.

Expansion of expertise
Expansion of expertise as it pertains to acquisitions allows firms to acquire both large firms and boutique firms which have made a name for themselves in a specific area of law, and often offer geographical access to a practice area that supports a specific industry in their location. A smaller scale version of this involves poaching practice groups from other firms by offering them various incentives to bring their operation to the proposing firm. However, when a target firm can offer expansion of expertise and access to a geographical market, many firms will propose to acquire the firm in its entirety. While these are often smaller firms, there have been cases of large distressed firms being acquired largely due to their reputation and expertise in a specific practice area although it may constitute a minor percentage of revenue in relation to the remaining practice areas. Because many AmLaw 100 firms do attempt to portray themselves as full service law firms whether entirely accurate or not, the probability of overlap in expertise is quite high and can be viewed from various angles as to how beneficial that can be to the acquiring firm. All being relative, a practice area that may constitute say 14% of revenue in the target firm may only constitute 1.2% of revenue in the acquiring firm, and will hopefully bring a large established client base and the opportunity to provide work to other areas in the combined firm.

Expansion of legal expertise is also the most obvious representation of the knowledge transfer that the acquiring firm hopes to retain. It should be noted that knowledge transfer does not simply flow from the acquired firm to the acquiring firm, but it may be transferred in both directions. When knowledge is cross-transferred, it is referred to as reciprocal knowledge (Bresman 1999). Reciprocal knowledge is by far the most ideal because it represents the potential for the establishment of new knowledge, thus potentially creating greater competition in new competitive products and systems (Bresman 1999). This is particularly attractive for law firms who are facing a contracting market and can make a name for themselves in newer niche fields of legal expertise that may arise from cross-flow of knowledge and information. The transfer of knowledge is attained when the acquirer receives the capabilities from the target firm (lawyers), and applies them to commercial ends (Ranft 2002). This means it is not enough to "acquire" the attorney, but the attorney must produce output or, in fact, there has been no transfer of knowledge. The individual has not produced. In many ways, this can be viewed as acquiring knowledge v. extracting value from the knowledge. Without the extraction, there simply cannot
be much benefit to the acquisition. Organizational task needs differ with the capabilities of the target that motivated the acquisition, so if the target firm retains a unique skill or expertise, the need to retain them in the new entity will be high, whereas if the benefits are generic in nature, there is less a need to maintain the organization post-acquisition (1994). Therefore, the extent to which acquisition synergy is needed rests on the maintenance of unique capabilities reflecting organizational task needs. Once again, if a bidding firm is attracted to the well-established M&A practice of another firm and acquires them, there will be a high level of interest in retaining the attorneys post-acquisition than if the combination was pursued strictly to add heft to a firm without any unique capability.

In knowledge based organizations, above average profits are best achieved and sustained when the knowledge is special and not easily substituted, thus difficult to copy (Ranft 2002), and elite law firms, in and of themselves, represent a collection of knowledge that is reputed to be of the highest order. Even more so, law is based on interpretation - whereas the knowledge may lie in a database or in Lexis Nexis, the ultimate value is the interpretation and application of that knowledge which is unique to the individual thus representing organizational knowledge that can be deemed rare, and is precisely what gives certain firms competitive advantage. What further complicates things is it has been noted that while a person may retain the tacit skills and expertise, they also form interactions and relationships which blend their specialized knowledge with the complementary skills and knowledge of others (Ranft 2002). This blend of knowledge is what the establishments of practice groups in law firms facilitate, and even cross-functional relationships arising from complementary areas of law. When we remove one cog in the wheel, the outcome is not the same, but further, one cog (representing an attorney) may not have as much impact, but similarly, often these professionals decamp in groups thus maintaining their structure in tact to provide unique, and highly skilled counsel to clients.

Increased revenue

The economies of scale from potential tangible financial benefits come in two forms - increased billings due to increased size and increased billings due to increased intra-unit referrals
meaning an existing client who may have a new matter in a previously unaddressed area, may now be able to use the services of the combined firm. Another example may be the ability of an existing client to centralize previously divided work between different firms into one entity. While these may result in increased revenue, it may not increase profits for the firm. The overarching goal is that the previously mentioned economies of scale all lead to greater market share and client services thus revenue, particularly through cross-selling clients who need assistance in various practice areas that the firm can now service. Cross-selling, or cross-promotion is an example of planned synergies that are anticipated to increase revenues (Chatterjee 2007). This represents the ideal that the new combined firm is greater than the sum of the previously separate entities. This also illustrates why integration is critical to the realization of synergies that lead to increased market share. Thus, managers should expect synergistic outcomes to be quite difficult and potentially elusive as they are often "one-off" initiatives and therefore unique resulting in exorbitant expenses and prone to integration difficulties (Chatterjee 2007). According to Chatterjee, one way to approach mergers is with the strategic goal of cost reduction rather than viewing it as a having the potential to increase revenue. In law firms, the greatest expenses are compensation and real estate, and prestigious firms must position themselves in highly desirable offices and neighborhoods to reinforce their status, but in many cases the workspaces may not be filled to capacity, so consolidation of offices in duplicitous cities can lead to cost reduction in real estate.

The greater the market expansion that is achieved, the greater the acquisition performs (Cording 2008). The idea is not for simply the consolidation of a new firm, but to reap benefits greater than what could be achieved operating separately, thus driving greater revenues.

THREATS TO ATTAINMENT OF MERGER GOALS

Culture

A synergistic effect in acquisitions is difficult to achieve solely by improving technology in firms or adding talented individuals to the company roster (Chatterjee 1999), but the addition of new talent is exactly what law firm acquisitions revolve around. Acquisition failure is often attributed to the numerous difficulties integrating the target firm with the acquiring firm, and
often stem from organizational problems, such as cultural clashes or conflicts surrounding human resources (Ranft 2002). It is our position that cultural clashes which present themselves in various forms in law firms are by far the most important predicator of law firm merger success, or lack thereof.

The greatest threat to law firm combination is poor cultural fit which comprises obvious markers of culture and seemingly innocuous factors that drive cultures in large law firms. Management must weigh cultural fit from early in the search process, and in the post-merger integration process to the same extent that it considers the financial and strategic elements involved. Not only can poor cultural fit threaten chances of reaching synergy, but can increase the premiums of the integration process, thus threatening the intent of the merger to begin with (Weber 1996). In professional service firms, the risk is having the knowledge walk out of the door. To mitigate the process, expectations much be managed, a good stream of communication should be open, and an acculturation to both the national and corporate culture to the acquiring firm should occur (Weber 1996). This may be possible when bridging very small gapss in culture, but would prove unrealistic if the gaps are too wide. Organizational fit is also referred to and arises in the post-acquisition phase (Barkema 2008). Cultural fit is extremely important in law firm combinations because some of the cultural indicators cannot be changed, such as status. For example, "white shoe" law firms denote "[A]s applied to large legal and financial firms and their employees, conservative, staid, well-established, financially powerful; formerly and less frequently today, elitist, WASPy; the opposite of blue-collar." They have generally been in existence over a century and carry a level of status associated to them, but a firm cannot become "white shoe," you either are, or you are not, much like an ivy league university, although the line is not as delineated but there are certain white shoe firms that are without debate, such as Cravath or Sullivan and Cromwell. Unlike other industries which may view culture, structure, systems, and processes as separate and unique, the risk with poor cultural fit in law firms is that they are a reflection of the culture and thus entwined and inseparable. Thus, being acquired by a firm with a different culture may lead to strife and conflict, and the acquired firm may be hesitant to implement the needed changes (Barkema 1998).

In many ways, the firm can be viewed as a type of social community developed over many years from first joining the firm just out of law school to retirement. A social community
presents itself when a common set of values and beliefs among a group of individuals sets the stage for a "governance system in which the risk of opportunistic behavior is low" (Bresman 1999). While employee resistance can involve lack of trust, hostile behavior, an aura of self-preservation, and an "us v. them" attitude (Cording 2008), these can be particularly pronounced in law firms where employees often refer to the legacy firms in the identification of other employees post-merger, thus refusing to shed their prior affiliation in the target firm. This could be exemplified by one employee meeting another and inquiring if they are "legacy firm X" or "legacy firm Y." This type of behavior leads to inhibition of the acquirer's ability to foster cooperation and the knowledge transfer required for achieving strategic goals (Cording 2008).

Service firms mostly compete on the providing of intangible outputs that represent a set of relationships between those involved (employees and clients). Due to the service industry dependence on a strong cultural belief system, information relevant to corporate culture management will be of great use to those managers making structural integration decisions (Pablo 1994). As a result, managers need be especially concerned with the compatibility of views surrounding acquisition. Unfortunately, having a marketable good or service is the result of the successful extraction of knowledge, but it is not enough to simply "purchase" the capability for it must be cultivated and integrated for much time past the part of concluding the deal (Ranft 2002). If the culture of the target firm is not weighed pre and post deal closing, and determined to be a good or decent match, suffice it to say, the ability to extract value from attorneys in an elite firm market will be very low.

**Poor Integration**

Integration has been defined as "the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole" (Pablo 1994). Poor integration is an immediate threat to a successful law firm combination, and done well may be the only antidote to two firms with worrisome cultural distance, although some cultural indicators are immune to change. Regardless, post-acquisition integration is one of the most important issues facing two newly combined organization, and one that must be performed
properly or one risks under or over-integration which can result in failure or the destruction of value (Pablo 1994). Failure or destruction of value in law firms can only mean one thing - attorney attrition, thus it is to be avoided for the most successful outcomes. Therefore, it is important to understand the goals of the managers in implementing integration strategy which can classified as low, moderate, or high. Pablo defined the following "A low level of integration is conceptualized as one in which technical and administrative changes are limited to the sharing of financial risk and resources and the standardization of basic management systems and processes to facilitate communication. A moderate level of integration includes increased alterations in the "value chain" as physical and knowledge-based resources are shared or exchanged. Administrative changes at this level may include required selective modifications in reporting relationships and delegation of authority, with such structural changes necessitating reframing cultural bases of decision making. The highest level of integration is conceptualized as being quite inclusive, involving the extensive sharing of all types of resources (financial, physical, and human), generalized adoption of the acquiring organization's operating, control, and planning systems and procedures, and complete structural and cultural absorption of the acquired firm."

In the legal industry, there are two types of integration. One can be classified as low/moderate integration which would be implemented by those firms utilizing a Swiss verein structure. The second can be classified as a high level of integration which are utilized by non-verein structures seeking what they term a "full merger." Swiss verein structures may engage in both low and moderate integration, for example, by employing low integration with certain foreign acquisitions and moderate integration with other foreign office locations. Regardless, they will not be sharing financial risk and resources, whereas full mergers will be sharing financial risk and resources in the structure of a full partnership. If cultural indicators can and are to be mitigated then proper integration is imperative. Integration poses one of the most important roadblocks to mergers of equals, or large mergers in general which are inherently difficult to integrate (Chatterjee 2007). Additionally, the integration issues can also be underestimated, particularly when weighed against the inherent cultures existing in distinct law firms. The greater the extent of integration, the greater the internal reorganization goal
Figure 3 - Manifestations of Culture: From Shallow to Deep (Hofstede)

achievement (Cording 2008). When we view this through the lens of law firms, it can not only facilitate the cross-selling of services, but operationally can contribute to seamless client service. It is not uncommon for clients to feel uneasy, particularly clients of the target firm, when they are informed that the firm they have retained is being acquired. There is often concern surrounding potential departures of professionals they may have worked with for years who know the ins and outs of their cases, and there can also be the perception that their legal matters may not be receiving proper attention amidst the chaos and confusion a potential merger can bring to a firm, particularly one that is distressed. There is also concern that files and information relating to matters may be lost or misplaced amongst the potential turmoil. Market focus is defined as the extent to which management remains attentive to client needs during the integration period (Cording 2008; Homburg 2005). Naturally, a firm would not want to isolate or ignore their single source of revenue (client work), but it has been shown that increased market focus during the integration period by serving clients, raising customer value, and paying attention to market-related issues during this period will have greater success in market expansion with the benefits being attained at a greater speed and directly affecting expansion strategic goals through cross-selling, increased employees (attorneys in this case), expansion in to greater market segments (adding breadth or depth to legal practice areas), and greater market share rather than more obscure measures of firm performance. That is to say, that the greater focus on client service, the greater the chances of market expansion strategic goal attainment (Cording 2008).

Speed of integration is also viewed by the effect it can have on reducing client uncertainty, by not only implementing beneficial components to clients surrounding service offerings, pricing policies, business development, and points of contact but also by mitigating the amount of time the bidder and target firms remain in the spotlight, thus quelling rumors as fast as possible which add to customer uncertainty (Homburg 2006). It is also beneficial to stifle rumors which can greatly affect attorneys and staff as well. While partners may be more informed on what will transpire, associates and staff may be dependent on the rumor mill for information. In this interim, not only can clients be lost, but valuable resources for the attorneys as well, (many of whom may take their non-attorney personnel with them leaving the firm) with lessened administrative support in a time where it may be greatly needed.
The transfer of knowledge is at the center of reasoning for a merger between law firms which results in learning being imperative for successful integration (Cowen 2012). Not only, must it be done properly, but it is best done fast, especially in law firms where attrition rates can rise rather fast. With the application of identity theory in an organizational context, the two firms merging each represent a social group with each group leaning towards a social identity with merger altering the social groups with the imposition of a new group (the newly merged firm) which can trigger issues with social identification, whereby the newly formed group members compare the new group to the group in which they belonged pre-merger (Homburg 2006). As was previously explained, many of the individuals have been members of their legacy firm groups for significant amounts of time, and when they see the social fabric of their firm changing by their colleagues departing, they may be more apt to depart as well. Thus, speed of integration, defined as the speed of integration as the "shortness of the time period needed to complete the intended integration of systems, structures, activities, and processes of the two companies" has a positive effect on mergers and acquisition performance (Homburg 2006). The level of integration is defined as the degree of postacquisition change in an organization's technical, administrative, and cultural configuration" (Pablo 1994).

Proper integration is in many ways an extension of the resources and units of the acquiring firm. Therefore, if it is assumed that the units of the acquiring entity are being well-managed and executed well, the various kinds of resources to support the integration should transfer unencumbered to the acquired entity (Mingo 2013). This is where cultural distance may hinder successful integration because firms may place and funnel significant resources into the units that support their values, thus an acquired firm with great cultural distance may find that some units of great importance to them are not efficiently managed thus leading to poor integration. The acquiring firm may not even be aware of the level of discontent a target firm may be experiencing, or there may be a lot of push back from the target firm on the newly imposed approach or lack thereof. An examination of the corporate culture of the target firm can help to determine what should be changed or even retained of the target firm's routines and this can lead to more successful integration by providing an outline from the onset (Nadolska 2007). This may assist in alleviating concern over certain issues, but if two values are at opposite ends of the spectrum, not taking that into account pre-merger may lead to a disastrous outcome. In
many ways, successful integration and culture are intertwined - one facilitating the success implementation of the other. Therefore, the ramification of the negative effect of cultural distance on acquisition performance is likely to impede integration capabilities (Reus 2009).

Integration may seem conceptual, but the most basic level involves getting individuals to interact with each other in newly combined firms. While this may be challenged by geography, ceteris paribus communication (face-to-face and other interaction media) between the acquiring firm and the acquired firm is positively related to knowledge transfer from both acquiring firm to acquired firm and acquired firm to acquiring firm in combinations (Bresman 1999). For firms challenged by distance, the positive acquisition effects of communication outside of face-to-face interaction can still be achieved, thus bettering the quality of the relationship between firms through the use of technical meetings, extended interoffice visits, and jointly-held training classes (Bresman 1999).

In certain industries, integration is rarely achieved with ease through mere interactions with the top executives, but involves professionals from both entities in the integration process because integration success is critically dependent on employee dedication and retention (Cowen 2012). The legal industry most certainly represents an industry that requires full commitment to integration by the attorneys rather than the few partners who comprise the executive committee. While the executive committee would engage in initial merger talks in a law firm acquisition, the onus would fall to them to convince the rest of the partnership to vote for merging. This would also entail convincing partners to commit to the new firm, not just simply vote pro-merger and depart.

Relative Standing

Relative standing from the viewpoint of the acquiring firm would question whether the target firm can raise the profile of the acquiring firm by any of the ways previously mentioned, or by bringing a level of prestige to the acquiring firm. Even simply engaging in merger talks can bring attention to an acquiring firm that may have been relatively unknown prior to the talks. Though the population that this paper focuses on may be relatively small compared to other industries (100 firms), the fact is not all of the firms share the same levels of status when
compared to others, and can vary significantly. Additionally, just one significant acquisition or a few can shoot a firm onto the AmLaw 100 rankings by sheer numbers. Relative standing was described by Robert Frank as outcome of the social setting (Hambrick 1993; Frank 1985), and the significance applies in how it can affect departure rates. A low relative standing would mean acquired executives are made to feel inferior, that the acquirers view themselves as superior resulting in the removal of autonomy, status, and resulting in a hostile environment. To the greater extent that these conditions transpire, the higher the rate of departure is to be expected. On the contrary, when the relative standing of the acquired executives is higher, the departure rates are not anticipated to be as high. Relative standing contributes to the culture of the new firm whether ill-perceived or not. As long as acquired attorneys feel inferior, the potential damage is set in motion regardless of the true intentions and beliefs of the acquiring firm, and it will be difficult to offset the perception of the acquired lawyers. Negative interactions which may occur between two attorneys of different legacy firms will travel throughout the acquiring firm. In one instance, an attorney in the acquiring firm remarked to an attorney from the acquired distressed firm "we saved you guys" leading to resentment on behalf of the acquired firm and further fostering a "them v. us" climate in the combined firm. Interestingly enough, the lower the pre-acquisition performance of an acquired firm, the greater chance acquired executives will depart. However, in application of relative standing, the performance of an acquired firm may not be nearly as good an indicator of executive departure as its performance relative to that of the acquiring firm (Hambrick 1993). It can be imagined that two similarly distressed law firms have little relative standing to get in the way of trying to make things work for survival as opposed to a situation where one firm is fine and the other being thrown a lifeline.

Recently, there has been coverage that Cadwalader, a prestigious New York firm is looking for a merger partner. Cadwalader is so highly regarded that provided they do go through with a merger, the acquiring firm will receive a lot of attention, and perhaps too much attention. With increasing information in the digital age, good news and bad news travels fast, and clients are pretty informed on the on goings of law firms. That is to say, if Cadwalader combines with another firm, but large numbers of the Cadwalader attorneys leave, clients and the legal industry will be aware. For example, when relatively unknown Cleveland-based law firm Squire Sanders acquired Patton Boggs, a DC-based firm widely known for their public policy practice, even
paying an outstanding judgment of $15 million to acquire them, it was largely covered in the legal press community. The new firm, Squire Patton Boggs, now had 44 offices in 20 countries; however, large numbers of Patton Boggs attorneys decamped to other firms following the merger. Despite the name, Squire Patton Boggs, clients are in the know as are colleagues in other firms which is to say Squire Patton Boggs is not Patton Boggs. Patton Boggs, for all intents and purposes, lives on in other firms such as Akin Gump, Paul Hastings and Jones Day, but not at the firm with the eponymous name that acquired them.

According to status transfer theory, whom a firm acquires will be an important factor in determining its post-combination status (Cowen 2012). It can be argued that this postmerger status can be fleeting depending on whether significant numbers of attorneys remain with the combined firm. Firms are no longer the sole source of legal representation amongst large corporations, but work with in-house legal departments on matters who are attorneys as well and likely to remain informed of the mergers and acquisitions taking place in the legal industry, particularly firms that are on their roster.

Luckily for the acquiring firm relative standing has diminishing returns post-acquisition. That is to say, the longer an acquired executive remains with the newly formed firm, the less correlation with departure. The greatest effect will occur the first year post-acquisition, followed by significant effects (but less aggressive) in the second and third years. The fourth year will lack any evidence of departures related to relative standing (Hambrick 1993).

Preacquisition performance

Preacquisition performance of the target firm can affect a subsequent acquisition in various ways, particularly in distressed firms. Because distressed firms are often in distress before they seek a potential combination, there has often been sufficient time for attorneys to leave to other firms, and when talk of a potential merger arises even more individuals may look to lateral to a firm of their choosing rather than be acquired by one that they do not want to be a part of for one reason or another. The performance of the acquiring firm appears to have a positive relation to the success of the acquisition and studies show (not surprisingly) that firms performing better financially make better acquirers.

Preacquisition performance and its impact on firm culture can have an immediate effect,
particularly an underperforming firm where distress can be perceived by attorneys and nonattorneys alike. Rumors can swirl, concerns about not making payroll can reverberate, and emotional outbursts are not uncommon amongst employees wondering if they will be soon be unemployed. The lower the pre-acquisition performance of the target firm, the higher the chance of target firm executives (Hambrick 1993). Similarly, acquiring firms that are more aggressive in seeking acquisitions during and climate jolt are more inclined to perform better (Wan 2009). The problems that arise when acquiring underperforming firms are undoubtedly related to increased or decreased chances that the attorney(s) will leave the firm. Not unlike a sinking ship, attorneys will often seek employment in a stable environment when they learn that their firm is failing, and due to the intricacies of the law firm, they are more likely to leave as more and more attorneys leave the firm. It is suspected that the sentiments of those that remain when seeing many of their colleagues depart, are only exacerbated as the new firm imposes new rules and regulations during the integration process.

**Status**

Relative standing and status are a huge source of pride in law firms, which can be exemplified through the numerous industry rankings that are published that include anything from size and revenue standings to best quality of life and best practitioners for a specific area of law. Firms want to be known as having the best lawyers to provide the best services to their clientele, and being an old profession, much of the prestige is tied to how established the firm is in their respective practice areas. Quite frankly, acquisition success is threatened when the acquiring firm has what is perceived as lower relative standing or status. When the acquiring firm "marries down" it may be more likely to attain the acquired attorneys who perceive themselves to have "married up"; however, when the acquiring firm has obtained a target firm of greater relative standing, many of the attorneys may look to depart to firms that have similar or greater relative standing than the acquiring firm. Thus, when status differences exist between two entities, the result is status erosion for the higher-status firm and status improvement for the lower-status one (Cowen 2012). Accordingly, when examining the theory of status transfer, whom a firm acquires will be an important determinant of its postmerger status (Cowen 2012).
It can be argued that law firm status is more than just outside perception, but an intrinsic part of the culture of the firm, and if not thoroughly taken into consideration in a potential merger may result in failure. While research on status transfer concludes that entities of higher status are preferable to those of lower, and if higher status options are not presently an option, the firm should look for ones with similar to equal status. This may not be applicable in the legal arena which does engage in mergers with smaller, lower status domestic and international firms with success and will be further explored when we look at how experience affects merger success.

For a successful acquisition, senior executives (or the executive committee of a law firm) should take a target firm’s status into account as it represents an intangible asset which provides unique opportunities and advantages when the firm stands in comparison to other firms, but also leads the transaction process. Not only should the acquiring firm consider their own status, but its relativity to the target firm because it is important for status levels to be congruent with expected roles during the deal because it can greatly influence the success and outcome (Shen 2014). This is extremely important in law firm combinations because of how status is a fairly large contributing factor to firm culture.

It can also be challenged because large entity mergers between a lower status acquiring firm and a high status target firm can result in large amounts of attorneys leaving the firm. In examining two firms, it is not just the status of each entity that is important, but the status of one relative to the other and those relative levels will affect how the two entities interact and ultimate outcomes (Shen 2014).

While it would be rare to see every individual of the acquired firm depart - one may find that those who did stay are simply close to retirement and feel joining a new firm may not be worth the effort for the little remaining time they have in their careers. Additionally, some senior associates may be enticed by the possibility of making partner more easily in a group that has been left with some holes, although many will depart with partners to a firm of greater perceived status if given the chance.

Status differences affect concrete outcomes of merger integration by either positively or negatively affecting interfirm coordination (Cowen 2012). Cowen argues that while chances of conflict are greater when the status is similar, he anticipates that significant differences in status
will have a positive effect on the acquirer's status outcome. The issue that presents when determining status in law firms is that there are varying "indicators" of status, thus creating a situation whereby one firm sees itself as having greater status than the other while simultaneously the other firm sees itself as retaining superior status. One firm may be bigger, one may be much older, one may be in better financial standing, and one may be distressed financially. In certain situations status may be in the eye of the beholder law firms causing a situation where both firms refuse to defer to the other firm based on them viewing themselves as having greater status in the legal industry. While suffering from financial distress may not broadcast the most positive image in law firms, it does not lend itself to eroding status to the extent that it may in similar industries. Even failed firms that no longer exist can and are still referred to as "good" or "great" firms in retrospect. They may even be viewed as victims of their own success - lucrative, but misled by poor management.

Removal of autonomy

Removal of autonomy in the target firm is a large threat to acquisition success, and is an interesting dimension because it can encompass many different areas of an attorney's practice. It is not only hard on the firm, but particularly difficult to digest in offices where the target firm was headquartered and thus much of the firm's management. Perhaps, due to the nature of the profession, law firms are very hierarchical, often caste-like. It begins with the classification of the attorneys - equity partners, non-equity, partners, of counsel, associates, summer associates, lateral partners, lateral associates, staff attorneys, and more. Then there is often an overlying belief which places those who work in the headquarters to be greater in standing than those which work in regional offices. Thus, imagine one day an individual who was at the top of the food chain suddenly finds themselves at the bottom of the food chain and none too happy. Suddenly, the conference that the target firm paid for you to attend each year is no longer covered by the firm and you have to request special permission to attend... and it was denied. This is often super-imposed onto perceived geographical hierarchies. As a prominent partner in an east coast firm stated when his firm was acquired by a firm headquartered in another region "I don't take orders from [Midwestern city].” Not surprisingly, this partner left to another firm,
taking his practice group with him. Rookie mistake or not, inexperienced acquirers can regularly impose specific procedures on the target firm without taking into account differences in corporate culture, and further exacerbated by differences in national culture (Nadolska 2007).

Removal of autonomy is also related to the imposition of new rules and approaches by management. Overly controlling, or micro-managing procedures and practices, such as requiring reports with frequency or that require great detail, may be accepted with ease (Zander 2010). It will be very difficult for a partner-level attorney to find it necessary to report to an entirely new chain of hierarchy, and one that may or may not include him. For example, rules and procedures surrounding client development may change - whereas before expenses related to business development may have been subject to the discretion of the partner, a new system may require all expenses to be pre-approved. Another example can be something as simple as the new firm not allowing for the booking of first class seats in travel, whereas the previous firm did. These may appear to be small issues but these issues are often a reflection of the culture of the firm - and the changes may not sit well with the acquired firm attorneys.

Compensation

Compensation is a huge determining factor in acquisition success, not only what you will pay, but how pay is determined which undoubtedly is a reflection of the culture of the firm, particularly as it pertains to partner compensation, but also to associate compensation as well. Research has shown that professional service firms with similar outlook in strategy can be faced with difficulties due to the fact that their cultures value different competencies (Cowen 2012). This is reflected in law firms in the various approaches that are taken in determining compensation.

For associates, the traditional system was a lock-step system where your position as a first, second, third year associate and so on was tied to a specific salary and the only part that may vary among individuals was what your annual bonus may be. Recently, perhaps due to changes in the economy, an increasing number of firms are switching from lock-step to a merit-based scale which will take into account whether the attorney has made their billable hour requirement, and performed any other tasks or hours as required by the firm. There is no
baseline salary guarantee solely based on the year-level of associates. If attorneys find that there will be cuts to their previous salaries or changes to the previous salary scale they had known that may result in significant losses of income over the course of a few years, they will often leave the firm.

With regards to partner compensation, firms employ varying approaches which may or may not take into account the amount of hours billed, the amount of new business generated, if someone was the originating partner on a new client now being advised by other attorneys and practice groups in the firm and so on. While some firms may employ a more shared approach to compensation, others may operate on an "eat what you kill" type compensation model. The complexities of compensation are great and can contribute to a more inclusive, teamwork based culture, or one what values the lone wolf. Differences in compensation approaches will be reflected in the firm culture, thus affecting success integration and exchange of capabilities.

In circumstances where the target firm is distressed, sometimes firms have already instituted salary freezes or cuts, or have asked partners to take less of a draw in order to keep the firm afloat, thus resulting in people being even less likely to deal with further changes to their salary structure upon being acquired. In these instances, they will often look for another firm to join.

Although culturally embedded approaches can foster greater learning, they are difficult to transfer (Cowen 2012).

There can also be varying expectations on how many hours partners are expected to bill. In some firms, partners can get away with billing less hours than that of what is required of an associate. In other firms, partners are expected to maintain their billing levels, and may be asked to leave when they do not. Therefore, compensation drives how one comports in a firm thus significantly driving culture.

Cultural distance - Corporate Culture

Cultural distance is one of the biggest determinants of acquisition success, and as was previously mentioned, some firms are so guarded with their culture that they rarely bring in laterals, let alone engage in combinations for fear that it will disrupt culture. Firm culture is
reflected in many aspects of the firm and comprises many of the areas being addressed as threats to success. Views on compensation are part of the culture, allowing people to adjust their billing requirements to work part-time can be said to be part of culture. The difficulty in determining firm culture is that there is often an underlying belief that may stand in stark contrast to what is being touted by the management and the firm website. For example, the firm may say "we embrace pro bono as a firm and encourage the taking on of pro bono matters." The firmwide cultural reality may be those who take on pro bono are sending the message that they do not have much billable work, or as one associate mentioned when speaking behind closed doors "we don't really want us to do pro bono." This probably would not be a great fit with a firm that has the highest ranked pro bono program on the AmLaw 100 and that lends associates to legal service providers for six months during their second year.

Culture is also defined as the extent to which entity members have similar beliefs about the best approach to doing things; therefore a newly combined entity has to choose on a course of action to follow, whereas the members may disagree on the best approach (Van den Steen 2010)

Cultural fit is also reflected in how firms view clients. Some firms have a culture where partners and practice groups run very independently which has been referred to a cowboy culture, whereas some firms value teamwork and see the client as a client of the firm and not the individual attorney, thus fostering a culture which promotes expansion of business by sharing clients with other attorneys who can address their needs in additional areas. This is often in relation to the compensation system employed by the firm.

Valuing diversity is another area of focus that is embedded in the culture of the firm and can stand in stark contrast with firms that do not value diversity. Not only does current literature maintain that diversity leads to greater revenue but it can also affect how the firm scores on related rankings. With the legal industry historically, and particularly in elite firms, being quite homogeneous in race and sex, some firms have made greater efforts than others to ensure as best they can that candidates being considered for employment, and eventually possibly partner-status, are afforded equal opportunity. Further, some have developed programs to recruit and screen for potential candidates from groups with low representation in the legal industry. Some even retain full time Diversity Partners on staff. This may not sit well with a firm that is not
interesting in financing such a program, or simply does not have a vested interest.

While providing concrete examples of areas that comprise culture in law firms, it is important to understand the consequences of culture clash caused by two groups that are separately homogeneous, but different from each other which results in decreased delegation post-merger, meaning a manager in the combined firm is more likely to delegate if their subordinate came from the same firm than if they are from different firms originally. Additionally, the overall level of satisfaction and drive will decrease after a merger, but an employee will average higher satisfaction and drive if their manager comes from the same pre-merger firm (Van den Steen 2010). This is not difficult to envision in law firms which have practice groups comprising associates and partners who feed the associates their work. A relationship has been established, perhaps some mentoring, and an overall familiarity. Perhaps, this partner has told the associate they do great work and are on the path to partnership. Now imagine this partner leaves the firm on the heels of the merger, leaving the associate to find work from a new unknown partner, and having to prove their worth to a new firm which that they may have spent 1-8 years doing at the acquired firm (attaining partnership is on average 8 years). While they will work with a new partner, they will not immediately get a partner-advocate that can advance their career goals and they may not even provide the amount of work the associate was previously accustomed to. In the legal industry, delegation to associates is in fact, training, professional development, and revenue. Even if a partner does not leave the firm, the lack of delegation can signify what is referred to as "eating off an associate" or the partner retaining work for himself that is better suited to an associate. The instability that a merger can bring, particularly in a distressed firm can result in these events. This may also be compounded with fears that a valuable client may depart resulting in an overall feeling of instability. These will all affect the corporate culture of the firm.

Cultural distance - National Culture

International acquisitions are the most important form of FDI, and the subsequent integration processes are commonly riddled with problems. National cultural distance threats would apply to firms that are acquiring firms abroad and can present themselves in various
forms, particularly on how they influence corporate culture. An acquired international company has been described as a "grey box" to represent that the acquiring firm will not know all they want to know until the acquiring management begins to remove and view the contents of the target firm (Zander 2010). The contents of the "grey box" represent firm approaches, and numerous other aspects that simply cannot be uncovered by due diligence. That is to say rather than a black box (no knowledge) or a clear box (complete knowledge), the acquisition is a "grey box" and only a certain amount of information is known before integration begins in an international acquisition (Zander 2010). In one example, an employee in the DC office of a large international firm was going to be in Japan, so the employee contacted the Tokyo office to schedule a visit and arrange for a visitor office. When the employee arrived to the Tokyo office they were kindly greeted and taken to their visitor office by a firm representative. The representative then informed them that in order to visit the office, a formal introduction should have been made whereby the employee informed their supervisor, the supervisor informed the office managing partner who then should have reached out to the Tokyo office managing partner requesting a visit and stating the purpose, then the subsequent approval would have trickled back down through the chain of command and eventually to the employee approving the visit. This approach stood in great contrast to the culture in the United States offices where summer associates and new employees were encouraged to simply drop in and introduce themselves to partners and other individuals at the firm. The employee had assumed that they were simply one firm; however, the Tokyo office had been acquired and still maintained a view of being separate enough to expect a formal introduction. Additionally, senior managers may also view themselves, and be looked at by others, as representatives of the national culture they represent, and which may be positioned up against the national culture of the firm (Weber 1996).

In mergers and acquisitions, differences in national culture better predict stress, negative views towards the combination, and partisanship more so than differences in corporate culture; however, this is not to assume that they are not both important as both national and corporate cultures are required elements in the determination of outcomes in merger developments (Weber 1996).

While difficulties remain in the transfer of knowledge between business entities in the same country, the problems associated with the knowledge transfer are exacerbated with greater
geographical and cultural distance (Bresman 1999). This remains extremely problematic in an industry that revolves around the transfer of knowledge.

Attorney Attrition

The largest threat to combination success in the legal industry is attorney attrition regardless of the underlying causes which are often related to poor cultural fit and poor integration. The reality is many acquisitions fail to achieve their strategic goals resulting in structural difficulties and subpar performance (Ranft 2002). In law firms, this largely represents one phenomenon - attorney attrition. While it is possible that the loss of valuable clients (whether by choice or conflicts) could contribute to a less than ideal situation the by far more likely result is attorneys leaving the newly combined firm. When attorneys leave they take not only their present value, but their future value with them and this threatens both economies of scale and scope in a law firm by reducing overall size, potentially, reducing size in attractive locations, affecting firm image in media relations and clients by the coverage that lawyers are jumping ship, potentially taking the areas of knowledge and expertise with them that were most attractive to the acquiring firm, and in general not making a positive contribution to the relative standing of the firm. From various viewpoints, the departure of acquired executives is of "practical and theoretical" importance (Hambrick 1993). While the most salient contributing factors to departures of large numbers of attorneys have been discussed, it is important to outline what the immediate effects are of attorney attrition. Because of the way law firms are structured with attorneys generally comprising teams in various practice areas, departures can have a snowball effect. For example, an partner with a significant book of business will depart to a new firm. Once settled, he or she will begin the process of bring over the attorneys that comprised his practice group at the previous firm. Not only may they bring over other partners or senior associates, they often bring junior associates, paralegals, and secretaries, leaving the prior firm with quite a deficit in a time of uncertainty.

The lower the rate of turnover initially post-acquisition, the greater the achievement of greater market expansion (Cording 2008). Put simply, a law firm acquisition cannot be a success if substantial amounts of attorneys walk out the door taking their capabilities with them. A
strategic task can be defined as the "successful sharing or exchange of the critical skills and resources that form the foundation for value creation" (Pablo 1994). To accomplish the strategic task; however, it requires that specific foundations of those skills and resources be retained. Therefore, the task of the organization is the preservation of the "unique characteristics" of a target firm that are the source of important strategic resources (Pablo 1994). In this case, the strategic resources are the attorneys which is why attorney attrition will directly affect the acquisition of capabilities (knowledge) which is the currency in professional service firms.

Revenue. The effects of substantial attorney attrition huge in law firm mergers. The obvious effect is on revenue as attorneys will desire to take their clients with them so the combined firm will not gain the immediate revenue from that attorney's book of business. They also will not get future revenue that could have presented itself by expanding client services due to the increased breadth of the combined firm.

Loss of Expertise and breadth is another result of substantial attorney attrition. In the Patton Boggs example previously discussed, the loss of significant partners, particularly renowned public policy partners, was not only a great loss of expertise, but a significant loss of networks and connections. Loss of expertise also very important in the legal industry because of the way junior attorneys are trained and developed which is under partners. When these partners leave, they also take the knowledge with them that was utilized in the attorney development of junior attorneys. In a way, that knowledge is an intangible asset of the firm which passes down from partners to associates, and then when those associates become partners, that knowledge is transferred to new associates. The departing attorneys will now take those assets to a new firm and contribute to the development of their associates. Many times partners will attempt to take their entire group to a new firm, possibly leaving the previous firm gutted in a certain practice area, some of which may have been the main reason the acquiring firm wanted to acquire the target firm.

Diminished status can lead to attrition when the target firm has higher status than the acquiring firm and members of the higher status organization may not be pleased with having to be managed and directed by members of the lower status entity, thus resulting in possible departures (Hambrick and Cannella 1993) because they fear having their high status 'contaminated' by the low status of the acquirer (Cowen, 2012). Additionally, the greater the
extent to which autonomy is removed from an acquired firm, the greater likelihood an acquired executive's will depart Hambrick 1993).

**Distressed Firm.** Attorney attrition, particularly in a distressed firm, can take a situation from bad to worse. There can be many reasons for a firm to become financially distressed, and one of the reasons in law firms is the underutilization of attorneys, meaning they are not billing ideal numbers of hours. Unfortunately, when attorneys decide to walk it is because they can walk, and the acquiring firm may be left the hangers on, and not the high billers they were hoping to retain.

Attaining the strategic goal of market expansion requires that the newly combined firm coordinate the resources of each of the legacy firms to maximize the interdependent resources and business development goals to serve clients (Cording 2008). The possibilities of resource maximization are greatly reduced if the resources (attorneys) in the acquired firm begin to drop for whatever reason. Voluntary and involuntary departures are instigated by the same factors - a patchwork of manifested beliefs about superiority and inferiority (Hambrick 1993). As it has been discussed, perceptions of status and superiority are embedded in the very culture of the biglaw legal industry.
SUMMARY CHART

IMPEDIMENTS TO ATTAINMENT OF STRATEGIC GOALS

Culture*
Poor Integration*
Relative Standing*
Preacquisition Performance
Status*
Removal of Autonomy*
Compensation*
Cultural Distance – Corporate Culture*
Cultural Distance – National Culture*

\[\downarrow\]

ATTORNEY ATTRITION

\[\downarrow\]

REDUCED ATTAINMENT OF STRATEGIC GOALS

Capabilities Transfer
Increased Human Capital & Size
Greater Geographical Locations
Brand Positioning
Expansion of Expertise
Increased Revenue

*Component of Firm Culture
RESEARCH METHODOLOGY

This paper utilized an exploratory research methodology for this paper centering on the strategic benefits of elite law firm mergers and how differences in culture threaten merger success. The research approach, and was chosen because it permits for the identification of key issues and key variables, or more specifically the key issues prompting acquisitions in elite law firms, and the key variable that pose challenges to merger success. This approach fits the overall research design because it allows for the understanding of the issues more thoroughly, and using it to make further inferences on the issue at hand by examining the mass responses.

The method of data collection utilized was interviews with legal executives (specialists) leading firms on the 2015 AmLaw 100 listing. The interview consisted of a set of four open-ended questions. It utilized specific theoretical perspectives to assist in analyzing the responses and/or explaining the observed behavior. One of the perspectives was that answers largely were to be formulated from the perspective of the acquiring firm, rather than the target firm. An accurate assessment of relationships, patterns, and trends will be obtained by grouping responses of similar sentiment, although when the sentiment is repeated numerous times, the duplicate statement will not be repeated in summary.

According to Jupp (2004), exploratory research is a methodological approach "that is primarily concerned with discovery and with generating or building theory." Accordingly, the exploratory researcher "does not approach their project according to any set formula. She/her will be flexible and pragmatic yet will engage in a broad and thorough form of research." It is further explained that those embarking in exploratory research are interested in the development of theory from data stemming from ongoing discovery (Jupp 2004).

The sample population for the interviews was selected from the managing partners of all of the firms on the AmLaw 100. 100 managing partners (each managing partner on the AmLaw 100 list) was invited to participate in an interview. 23 managing partners responded and were subsequently interviewed. 3 additional managing partners responded, but opted not to participate because their firm had never engaged in combinations, nor had any plans to do so in the future. As such, they thought they had little to share on the topic. Despite the respondents’ concerns,
combination experience was not a requirement to participate in the interview, and does not represent a potential confounding variable or error. As a member of the elite law community in the current legal industry, general views of law firm mergers were acceptable. There were no anticipated problems with the application of this methodology or method of data collection. The confidential nature of the interviews permitted participants to speak with greater candidness.

INTERVIEWS

The research was conducted in 2015 during the months of July & August. As decisions about mergers pertain to senior executive management, it was important to speak to individuals who would be involved in a law firm merger process, or who had direct experience in the merger process. In the law firm structure, the managing partner is the equivalent of the C.E.O. This individual is both an attorney and the executive head of the firm. There can be one managing partner for the entire firm, or one overarching managing partner for the entire firm with additional managing partners for each office location. Managing partners generally retain a limited legal practice in addition to their managing partner duties. This individual is also the chair or head of the executive committee which would be heavily involved in merger negotiations.

As the interviewer, the author did disclose her current employment and background as it relates to the topic. Although, confidentiality was guaranteed, the author felt it necessary to disclose her association with the elite legal industry lest the interview would prefer to withhold information that may be of interest to a competitor.

The questions were utilized to offer a loose structure to the conversation, but participants were invited to share any and all thoughts related to the topic. The goal was to determine what the driving forces were behind firm acquisitions, challenges, culture and any further clarification. Because of the focus on the importance of culture, when a challenge was shared, the author would ask the interview if they classified their response as a component of culture which was in important distinction.

DATA ANALYSIS
INTERVIEW QUESTIONS

In this section of the study, the responses of the law firm managing partners will be categorized and presented, highlighting key findings as well as interpretation, particularly as it applies to what comprises culture in large law firms. The focus of the conversation was the goals of acquiring another firm (although occasionally shared hypothetically from the perspective of a distressed firm), and related topics. While some of the commentators spoke from direct firm experience in mergers and acquisitions, some of the interviewees shared views from an observatory standpoint as a member and senior executive in the group of elite corporate laws. Any commentary shared outside the scope of the questions, but related are shared in the additional commentary section.

The findings are presented in the following order, mirroring the flow of conversation with the interviewees:

1. What are the strategic goals of mergers & acquisitions (in elite law firms) from the perspective of the target firm?
2. How does your firm approach combinations?
3. What are the challenges to merger success?
4. What views do you hold on swiss vereins as it applies to mergers and acquisitions?

FINDINGS & DISCUSSION

What are the strategic goals of mergers & acquisitions (in elite law firms) from the perspective of the target firm?

As previously reviewed, mergers and acquisitions continue to occur with increasing frequency amongst elite law firms in the quest for growth and encompass many approaches that are often inter-related. They often revolve around economies of scope and/or strategic benefits which may attain significant increases in size, greater geographical locations, brand positioning, and expansion of expertise. This was confirmed by numerous managing partners, and one referred to the increasing peer desires to be a "superfirm." This would be a firm with thousands
of attorneys and located in dozens of countries. Duplicate responses illustrating the same or very similar point are not always repeated below. Many quotes can apply to more than one area (particularly overlying reasons and brand positioning), thus the author has chosen the most relevant classification they see fit.

Overlying reasons.
"The market is not static, it is rare you can toe the line and not have to adjust"
"Need something you cannot build, the investment is already made and there is no cost"
"Increased regulatory focus means its harder to have what you need at that size"
"Wave of consolidation happened earlier in other industries, and is now hitting legal"
"Grow according to how clients purchase services - more global (less balkanized)"
"Some want to be the largest firm, most offices serving clients, remaining competitive in markets where clients now need legal services."
"There is a war for talent and a war for clients"
"Growth, non-organic growth"
"Want to grab a piece of a contracting legal market"
"Lateral growth is slow & expensive"

Increased size.
"Want heft - the ability to service clients more broadly"
"Hard to attract needed talent and deal flow at current size"
"Critical mass - one stop shopping"
"Can't attract the level of talent you want at the current size"
"Bigger gets more attention"

Greater geographical locations.
"Want markets where they can distinguish themselves"
"The client is involved in another market, and we want to be able to service them"
"To enter a new market"
"There is an acquisition binge for geographical reach"
"Geography - it is hard to start office organically" (Meaning international locations)

*Brand positioning.*

"How can the firm differentiate itself and build the brand"

"What clients want - one stop shop. Some believe bigger is better"

"Engage in real competition rather than modest improvements"

*Expansion of expertise.*

"The target firm has a sector they want, new depth, practice are"

"Increased regulatory focus means its harder to have what you need at that size"

"Add services (increase new breadth), strengthen areas that it perceives to be weak"

"Double down on practice strength depth"

"Capabilities they lack - workload is not increasing so need new focus"

*Unique circumstances.*

"Two bads come together for a third way forward" (meaning two financially stressed firms believe that by joining forces, they will be made stronger).

"Partnership doesn't want to do the internal changes that are needed so they seek a combination"

(It can also be the case that it is simply too late to implement needed changes, such as in the case of Howrey, one of the most profitable DC firms during the 1990s which went under in 2011) (Nanda 2012).

"Get new leadership" (This also implies a firm is not performing well under current leadership).

Some classified the goals into offensive and defensive. Offensive refers to strategy such as increased size, greater practice areas, etc. Defensive referred to responding to client needs and wants. That is to say, acquiring what is necessary to address a client need that the firm currently cannot service so as not to risk them being poached by another firm. Additionally, it was stated that what is wanted is "1+1=3." This refers to the synergy and cross-selling that is hoped to be
attained by combining with another firm. According to one managing partner, "offensive reasons are best."

Many offered reasons not to pursue mergers and combinations which included economies of scale. It was stated that combinations "do not get dramatic savings on costs." Another interviewee pointed out that clients are at risk in a bad merger which can result in loss of business. This was further substantiated by another MP who shared that there is no better time to reach out to your clients than when undergoing a merger.

How does your firm approach combinations?

In addition to asking what the overall strategic goals of a law firm acquisition are which were shared by the MPs, what specific approaches where taken when considering a combination by the acquiring firm was also inquired about. This allowed insight from MPs who had actively participated in combinations at their firm, rather than an overall generalization of strategic goals from those firms that do not engage in combinations. One MP emphasized that it was of the utmost importance that there was "NO FINANCIAL RISK" to a potential combination. That risk could encompass anticipation of vast departures, conflicts and loss of valuable clients, or even the potential costs associated with a distressed firm (perhaps debt, or outstanding judgments against them). Firms must ask themselves does the "merger fit with the strategy? What is the firm looking for" as explained by one MP.

MPs also spoke of proper due diligence when evaluating a potential target. Confirming a general "consolidation movement" in the legal industry, one MP shared that their firm had been approached by "at least 25 firms" interested in combining. To illustrate the amount of effort and overall trend in consolidating, another MP shared that they "assess the market for potential combinations daily." Yet another MP shared that when they were looking for a UK firm to combine with, they "spoke with 12 firms" before finding one they eventually combined with.

Another MP stated that the combinations "must advance the firm." They further explained that as part of their firm's strategic plan, they wanted to be the leading firm in five industries. As such, a "combination must add one or more of the focus industries" for
consideration. As an addendum, the "geography must make sense. The product and geography must match. Look at the product first, geography second." That represents the strategic plan of one specific firm who also shared that the strategic plan is mapped out every five years.

There were also differing approaches to bringing on the entire firm, or simply certain practice areas which is often referred to as "cherry picking" where the firm invites and keeps the group(s) that is/are deemed most attractive to the acquiring firm. While one MP acknowledged that it was likely that the firm would "need to leave some practice groups behind," another MP stated that their firm approach is that they "invite all acquired attorneys" to the combined firm. It was further explained that while all were invited, some would depart because their practices may be very local in nature, thus they didn't need the overhead required in a large firm. This was further confirmed by another MP who acknowledged that there would be a "winnowing out" post-merger.

Additionally, the target firm needed to have "similar core values and culture." This was further exemplified by an MP with headquarters in the Midwest who described their firm as having "Midwestern values" and therefore a differing attitude such as "sharp elbows" would not be a good fit. Further, when evaluating a firm, they wanted a firm that was "collegial and valued pro bono and community activities." Another consideration was that there must be financial fit (which includes compensation). Overall, as pointed out by one MP "you want an internal culture, and teamwork approach such that lawyers stay."

This brings us to a very important aspect of the combination process: buy-in. One MP stated the importance of "not losing the confidence of the partners. This was also echoed by an MP who shared that "you have to get buy-in, and maintain buy-in." Not only is buy-in necessary for the votes, but maintaining it represents a commitment to the combined firm which will undoubtedly experience some forms of adversity through the consolidation process.

What are the challenges to merger success?

Culture was recognized almost immediately as to one of the greatest challenges to a successful merger by 97% of the interview participants. Some MPs pointed to culture and then proceeded to describe what that entails, while others spoke of specific issues and when asked if
they considered the issue a cultural one, they answered affirmatively. As explained by one MP
"cultural fit – philosophies, approaches, hardworking partners? In some firms partners are not working attorneys. Are they very entrepreneurial? They originate and expand relationships and teams as opposed to being silo-ed. Hearing 'my client' is a red flag. Is there teamwork? Are they collegial?"

Another shared that there needs to be "strategic alignment and cultural alignment." This was further substantiated by an MP who stated the challenges are "cultural – compensation, management, maintenance of quality."

This was echoed by one MP who responded that the challenges are "compensation systems, governance systems, different profit metrics, methodology, economics metric standpoint, partner productivity – are they less tolerant and have an 'up or out' approach [to billable hours]." This was further supported by another MP who stated that "1800 hours is fully utilized" in their firm. Additional examples include "Culture – do they practice similarly? Do they have the same worldview? How do they relate to attorneys/staff?" When it was inquired if culture drove compensation, an MP responded that "compensation is a reflection of the culture, ethos of the firm" and further explained that it is one of many indicators of culture. Additional responses included:

"Cultural clashes, what is palpable, how does information flow?"

"Firm culture can be a collection of entrepreneurs v. inclusive esprit d'corp and collaboration"

"Cultural compatibility – are the financial and compensation systems so different?"

"Cultural fit – shared vision. Shared premium on hard work, commitment to pro bono, diversity, financial fit"

"Cannot do merger is inconsistent with cultural norms"

Conflicts was also mentioned as a challenge to merger success, although for the purpose of this thesis, conflict is categorized as something to be discovered and dealt with during the due diligence process, and of concern are post-merger results and challenges in this line of questioning. That is to say prior client issues were hopefully discovered early enough in that the parties could determine if they will continue with merger negotiations or not.
What views do you hold on Swiss Vereins as it applies to mergers and acquisitions?

There were strong opinions on Swiss vereins, their role in mergers, and the challenges to what can be defined as one firm culture. There were defined as engaging in "incremental integration with separate profit pools, separate governing bodies, and separate accounting systems" as opposed to what was referred to as a "full merger" or "real merger" by many MPs. One described a real merger as prompting "Full blown integration mode at full speed. Full integration is linked to seamless client service. There is also a single profit pool making for an efficient single office law firm"

This was confirmed by another MPs who stated a "real merger is worldwide profit sharing, more integrated and has one mindset. Vereins are much easier, have less complicated tax issues (no international issues), and are not good for integration."

The lack of profit sharing seemed to be what provoked the greatest disdain for the verein structure, and numerous MPs made statements such as:

"Real mergers eat out of the same trough"

"A single partnership makes for the biggest article of faith"

"It's better when all offices are pulling on the oars together"

"The Chinese firm that Dentons acquired has a revenue per lawyer of $88K. How does that work?" (MP referenced The Economist)

"Swiss vereins are individual partnerships. They do not maintain culture. Management is easier as the countries stand alone"

"Verein is a poor structure – one P/L is better"

One MP expressed that they felt it was purely a "marketing scheme" and another shared they are "dubious, very dubious" when it came to the verein structure. Yet another expressed "In a verein client relationships are separate. How can that be put out to the world as one entity? Conflicts? Economic reasons are a plus, but they are fooling themselves and clients to client obligations."

There were also sentiments expressed that vereins were not optimal structures for the synergy and cross-selling that a firm ideally hopes to benefit from in a merger. As one MP explained "A Swiss Verein may result in blowback to the firm from a subpar inhouse referral."
When there are two separate pots what is the incentive to send money, especially when you are not familiar with the quality of the work?” Another shared a similar view regarding cross-office work stating under the "European structure (Swiss verein), there is less motivation."

The former MP of a verein-structured global law firm acknowledged that "vereins get a bad name." They further explained that they structured their firm as a verein when they combined with a firm in the U.K., and that by structuring the merger as a verein it saved roughly $10M. They also shared that it is possible to mitigate what are perceived as the negative effects of the structure, and "not let it get in the way of collaboration." In studying a firm with an existing verein structure, the management realized they were "not interested in replicating the existing models" and "wanted the verein to be invisible to lawyers & staff." An MP of another firm acknowledged that this firm had managed to "tamp down on some of the challenges of a verein."

CONCLUSION

According to Pervaiz and Zafar (2014), mergers in the era of globalization need to be approached under the role of strategic management. Globalization has created an extremely competitive business environment which is becoming increasingly dependent on being able to deliver core business on a global scale, and the legal industry has not been immune to this being the counsel to many corporations functioning globally. Mergers have become the preferred approach to increasing growth and accomplishing target improvements in revenue for companies around the world (Pervaiz 2014). While mergers should be carried out under strategic management, the findings of the interviews suggest how important culture is to merger success. Any legal management strategy incorporating merger strategy must consider the culture of the potential combination partner if they wish to obtain merger success. To what degree merger success is defined is debatable, but it surely reflects the retention of significant lawyers in the target firm, particularly in practice areas and geographies of significant interest to the acquiring firm.

Based on the exploratory interviews undertaken to support the qualitative research, it is believed that this study makes significant contributions to the mergers and acquisitions literature
in relations to the extensive reach of culture in law firms which is much further-reaching than other industries or professional services. Areas identified in large law firms which either drive the culture, or are driven by the culture include the following:

1. Relative Standing
2. Status
3. Compensation
4. Cultural Distance - Corporate Culture
5. Cultural Distance - National Culture (if applicable)

These five areas previously listed that reflect culture in law firms can result in amplified differences when compounded with the following:

1. Poor Integration
2. Removal of Autonomy
3. Attorney Attrition
4. Preacquisition Performance

When the factors defined above are taken into consideration, the question that presents is: *What is the ideal merger target from the perspective of the acquiring firm?*

When status is too similar (both relatively high), the result can be infighting and issues related to removal of autonomy. In addition, the threat of attorney attrition is greater. It is important to remember that the quality of the product (legal skills) is deemed relatively high despite what may have been poor management of firm resources. It is not that these firms lack clients, in fact many times the issues facing distressed firms partially stem from poor financial management, for example clients not paying their bills in a timely manner, yet continuing to accrue legal bills in tens of thousands, if not hundreds of thousands of dollars thus effecting the bottom line. Therefore, the reputation of the firm does not greatly suffer despite poor management. A firm may want to consider a smaller firm of lesser status, but these firms are often not as attractive to acquiring firm who desire attorneys and firms that are more on par with
them - attending the same law schools and attracting similar large corporate clients. As one
managing partner remarked "firms are like a sports team, they are only as good as their players." Thus, it is imperative to vet potential partners through cultural fit if a firm wishes to retain as many attorneys as possible. Even despite the perception of good cultural fit, proper integration must be embarked upon immediately and at a rapid pace to best mitigate the potential for attrition. A firm may want to ask if a combination is worth it if they only retain 50% of the attorneys?

The least ideal situation surrounds acquiring a firm of significant size and much better status. One may argue that these facts alone denote an unbridgeable gap in culture which may be true. In this case, firm management may want to ask themselves if they would be content with only retaining 20% of the attorneys. As firms accept lateral attorneys and practice groups with greater ease, it will not be difficult for an attorney from an established firm, or with a partner with a significant book of business to be hired by another firm. Additionally, it would be quite ill-advised to make any payments on behalf of the target firm. While combinations consume a lot of time and energy of the management and staff, a failed merger without payout can be a learning experience and exercise; however, when significant sums of money are exchanged the outcome is even more difficult to swallow if the combination fails and can bring the current management into serious question should that occur. Attorney attrition is not only an inevitable part of combinations, but an increasing phenomenon outside of combinations as attorneys seek opportunities and greater compensation practices in other AmLaw 100 firms. As such, unless a firm simply hopes to obtain real estate in various geographies with some attorneys, cultural fit must be the most important consideration in strategic management as it pertains to large law firm combinations.
BIBLIOGRAPHY


Wan, William P., and Daphne W. Yiu. 2009. “From Crisis to Opportunity: Environmental Jolt,
