

RAPID PRACTICE EXPANSION: TO HIRE OR ACQUIRE?

NATIONAL EXPANSION

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Whenever the topic of law firm expansion comes up, the conversation naturally turns to the seminal question: do we merge with another firm? Or grow via lateral hires from the cream of other firms? Although the answer is 'both', many of the biggest law firms to come about in the past couple of years have been by way of big law firm mergers.

The 2019 mega-merger of Drinker, Biddle & Reath with Faegre Baker Daniels, resulted in the 1300 lawyer, 21 office FaegreDrinker. A year later, Pepper Hamilton LLP and Troutman Sanders LLP merged to form the 1200 attorney TroutmanPepper spread over 23 locations. But lateral acquisitions of partners– and even whole sectors–from competing firms have also served to gain rapid expansion for law firms intent on rapid growth. We will examine the pros and cons of these different dynamics.

'Merger of Equals'

Although economies of scale may have been the driving force behind many law firm mergers in the 1980s and 1990s, 21st Century law firm mergers are much more about globalization and the need to quickly get into a promising niche without going through the traditional staffing and marketing growing pains. Those needs may be strictly market-driven, or, determined by client demand as the trophy client itself evolves into a new or expanded market, or its legal needs change as a result of its own merger or acquisition activity. Keeping that client from jumping ship to another firm is of paramount concern.

Although occasionally, a larger firm might acquire a smaller firm in the interest of bringing on board a niche practice that is lacking or not sufficiently developed in the larger firm, in most cases, merger talks occur between similar-sized firms. Yet, given the fierce competition in the legal marketplace, many firms dismiss the notion that their proposed deal is a 'merger of equals'. This is particularly true when the larger firm wants to bring onboard a quick book of \$20 - \$30 million in billings from an otherwise 'inferior' firm. When a smaller firm is, in fact, acquired by a larger firm, it can be because the smaller firm has found itself

struggling to compete and needs a big firm savior.

The Denton's Dynamic

The world's largest law firm, Dentons, which boasts over 10,000 lawyers, makes it a 'practice' to acquire several law firms from around the world each year. Their reach includes unlikely and disparate locations such as Peru and Oceania with the goal of having a global market reach as well as expertise in different political climates, economies, and cultures. Given that strategy, there is hardly a practice area or industry they cannot serve with expertise. Certainly, their mergers raise issues far more complex than those that come up among U.S.-domestic or even U.S.-European mergers.

Merger Expansion Has Its Price

Merging law firms has been compared to a kid moving into a new neighborhood. Not only will there be new people to meet and live with every day, but new customs and 'ways of doing things' must be learned. In fact, 'incompatibility of cultures' has been a factor in some firms not going through with their intended mergers. Therefore, understanding how firm cultures and systems will overlap, or, which firm culture will dominate, or, prevail in a given practice area, is crucial to achieving

Executive Summary

› The Issue

How to achieve rapid expansion, particularly into a growing practice niche.

› The Gravamen

Either through merger or lateral hiring, law firms can ramp up a new or expanding practice area without going through the usual process of long-term staffing, training, and other growing pains.

› The Path Forward

Depending upon whether the move is for globalization purposes, servicing client needs, or neutralizing the competition, different strategies will apply to a law firm's rapid expansion decision-making.

a smooth merger.

The next big item is an Ethics issue: Real or potential Conflicts of Interest must be thoroughly analyzed and resolved upfront to prevent an unpleasant surprise after the marriage. A 2015 Federal District Court ruling granted a motion to disqualify a law firm after determining that a merger of two firms had created 'concurrent representation of adverse clients'. (*Western Sugar Cooperative v. Archer-Daniels-Midland*, 98 F. Supp. 3d 1074, 1082 (C.D. Cal. 2015)).

Large Lateral Leaps

Aside from Merger Mania, big law firms are also going after the competition big time with a 'Taking Out the Competition' strategy. Whereas single digit hires may have been wooed to make lateral partner moves in the past, in April 2022, Paul Hastings announced a 43-attorney hire of restructuring attorneys from Stroock & Stroock & Lavan, which more than doubled the size of Paul Hastings' restructuring group.

During the same period, Fennemore Craig did a 24-lawyer 'poach', while Parker Poe grabbed 16 attorneys in one fell swoop.

By this method, Prized Practitioner assets can be brought on board, not unlike free agents in the world of sports. In most cases, luring whole sectors from another firm is part of a 'cherry-picking' strategy that brings 'Instant Practice Expansion' without some of the aforementioned challenges of a firm merger.

Regardless of which strategy is employed, both merger and lateral hire tactics are changing the landscape of the legal services market and driving growth in an increasingly competitive arena.

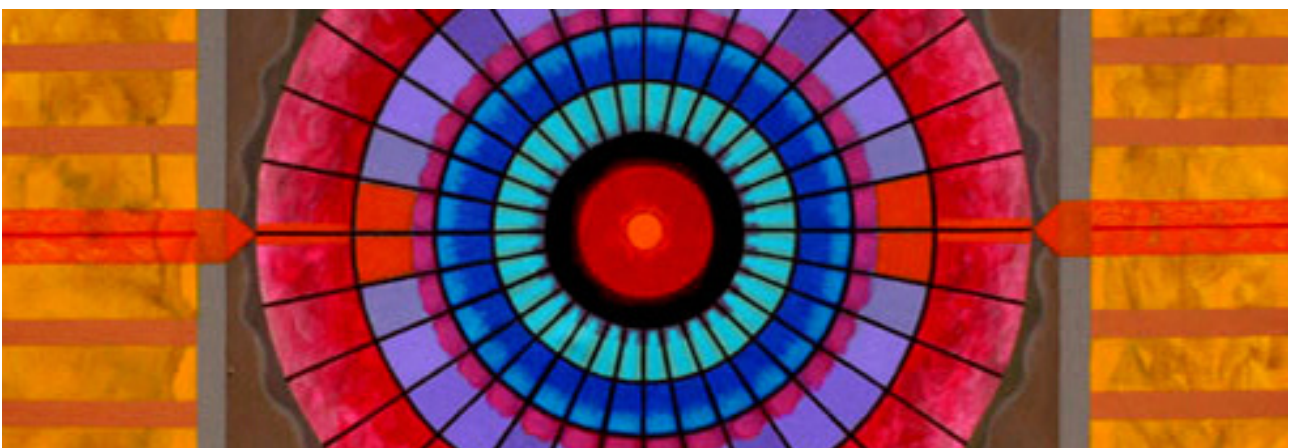
Action

1 Analyze:
Determine the true underlying purpose of your intended expansion before deciding on a strategy for expansion.

2 Scouting:
Do your research and scout the market as to which firms or practice sectors will be the best fit for your firm's expansion plans.

3 Marriage Proposal:
Once the merger is decided upon, exercise all due diligence to practice compatibility and resolution of any Conflicts of Interest and what the loss of a conflicting client might mean for your overall bottom line.

4 Poaching Partners:
If the merger scenario is not a suitable one, then apply your efforts to bringing on board the star performers you need to achieve your rapid expansion goals, or even the acquisition of an entire practice sector from the competition.



Further Reading

1. <https://www.law.com/therecorder/2021/12/01/midsize-law-firms-are-seeking-mergers-amid-succession-challenges/>
2. <https://centerbase.com/blog/practice-area-expansion-everything-your-firm-should-know/>
3. <https://lawfirmambition.co.uk/topics/strategy/developing-specialist-practice>
4. <https://www.lawyermarketing.com/blog/ready-set-grow-priming-your-law-firm-for-expansion/>
5. <https://clsbluesky.law.columbia.edu/2020/01/06/the-future-of-the-large-law-firm-growth-mergers-and-inequality/>
6. <https://www.lexisnexis.co.uk/blog/future-of-law/organic-growth-mergers-acquisitions>





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After receiving his Juris Doctor degree from The John Marshall Law School in Chicago, Mr. Brochin served as an Administrative Law Judge with the Illinois Department of Labor for six years where he presided over cases dealing with job separation issues and matters pertaining to contested Unemployment Insurance claims. He also co-wrote the agency's administrative rules, and periodically served as a 'ghost writer' for Board of Review decisions.

Following that position, he was Director of Development for a Chicago-area non-profit college where he was responsible for High Net Worth donations to the institution. For the next eighteen years he practiced as a solo practitioner attorney with an emphasis in the fields of Real Estate law and Commercial Contracts transactions, and was an agent for several national title insurance agencies.

In 2003 he was recruited to head up a U.S. title insurance research office in Israel, a position he held for four years, and between 2007-2017 he participated in litigation support for several high-profile cases. He has taught Business Law as a faculty member of the Jerusalem College of Technology, and has authored a wide variety of legal White Papers and timely legal articles as a professional legal content writer for GPL clients. Separate from his legal writing, he has co-authored academic articles on Middle East security topics that have been published in peer-reviewed publications.



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William Anderson is Managing Director and Head of Law & Compliance. He leads the GreenPoint practice in providing regulatory, legal, and technology solutions to law firms, legal publishers, and in-house law departments around the world, overseeing our team of experienced US attorneys and data and technology experts. Will has over 25 years' experience working with corporations to improve the management of their legal and corporate compliance functions. Will began his legal career as a litigator with a predecessor firm to Drinker, Biddle LLP. He then served as in-house counsel to Andersen Consulting LLP, managing risk and working with outside counsel on active litigation involving the firm.

Will has leveraged his legal experience interpreting regulations and appearing before federal (DOJ, SEC, FTC) and state agencies (NYAG) to oversee research and other areas at Bear Stearns. In this capacity, he counseled analysts on regulatory risk and evolving compliance requirements. Will also consulted on the development of a proprietary tool to ensure effective documentation of compliance clearance of research reports. Will then went on to work in product development and content creation for a global online compliance development firm pioneering the dynamic updating of regulated firms' policies and procedures from online updates and resources. Will holds a Juris Doctorate with High Honors from the Washington University School of Law in Saint Louis and is admitted to state and federal bars. He lives in Pawling, NY, with his wife and daughter.



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