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The difficult matter of getting into bed together

By Tom Braithwaite

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Merger activity burst into life this summer, boosting the profits of law firms that helped bring them about.

If they had any time on the beach, many lawyers were trying to spot themselves in *Fish Sunday Thinking*, a novel by a young solicitor that revolves around sex at a top practice. Are law firms themselves as keen to get into bed together?

The main spur to merging is the increasing complexity of international work, according to Peter Charlton, head of corporate at Clifford Chance. The UK firm, which took over New York's Rogers & Wells in 2000, is top of a recent Mergermarket league table of M&A advisers, with 189 deals worth €196.8bn in the third quarter.

"It is difficult to imagine a major M&A deal today that doesn't demand an international perspective, experienced resources in depth in many jurisdictions and a sophisticated process for project management," he says. "Even a relatively small deal recently required Clifford Chance to co-ordinate across 18 jurisdictions, involving 13 corporate partners from 11 offices."

Thomas Forschbach, a Paris-based private equity specialist at Latham & Watkins, agrees that lawyers' M&A role has changed. "Ten years ago you just needed to be a good lawyer. Now, the workload is higher and more complex. When you think about a deal that involves 30 countries - which is not improbable, you realise that infrastructure and a firm's footprint are important in deal management."

But in spite of this push to bolster infrastructure, firms considering mergers are struggling to find synergies, encountering cross border culture clashes and looking at alternative routes to expansion.

David Barnes, head of corporate at Linklaters, says making "lateral hires" - poaching successful lawyers from rival firms - can be a less risky and more rewarding strategy than a full tie-up. "We've laterally hired somebody recently in the Netherlands and the States where we're trying to grow. The alternative is merger but we are currently finding it easier to get the exact skillset [from] individual partners."

One testament to this is Barry Bryer, an M&A specialist who joined Latham & Watkins in July from Wachtell Lipton Rosen & Katz. Joining a bigger firm has opened his eyes to the benefits of a large full service outfit with specialities catered for in-house. "It's fantastic not to have to subcontract out," he says. "And you find better responsiveness when dealing with people in your own firm, even in different countries."

One lawyer who argues the logic of mergers is still compelling - particularly for UK firms - is Nigel Knowles, joint chief executive of DLA Piper Rudnick Gray Cary, itself the product of one of the largest recent mergers last January. "As corporates globalised or had intentions to globalise, they were looking for a pan-global, full-service provider. If you want to act for some of the largest corporates doing some of the largest deals in the world you have to be in the US."

But his own experience of overseeing a law firm merger reveals some of the reasons behind the steady, rather than spectacular, number of mergers. When, as boss of UK-based DLA, Mr Knowles went looking for a US merger opportunity, he initially got short shrift.

"Unfortunately it was our experience that not many US law firms saw things our way." A different working culture, most notably in how partners are paid, has stood in the way of a number of transatlantic mergers and poisoned some that have gone ahead.

But DLA did find a match: "The one that stood out as being on our wavelength was Piper Rudnick," says Mr Knowles. "We were both merit-based with similar profit sharing mechanisms." UK firms have largely stuck with a "lock-step" method of sharing profits which rewards seniority over performance.

There are signs that firms now will have less trouble than DLA in finding a fit. A survey

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last month by Legal Week and EJ Legal revealed that 54 per cent of UK firms "sometimes" receive merger approaches by a US counterpart, and 13 per cent "often" receive them.

But there must be a broad similarity of approach, says Mr Knowles. "We were both multicultural. You have to have a single charging policy - but you don't have to have a single culture. You have to recognise local cultures. If in Australia people don't wear a suit but a jacket and tie, it's not a problem. If in New York, they get to work at 8am and in Hong Kong at 9am, it doesn't matter."

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