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## Baxter v Knowles

The two most aggressively expansionist firms in the world are going head-to-head in the race to go global - and there's no love lost between them. Steve Hoare reports on the clash between DLA Piper and Orrick



DLA Piper Rudnick Gray Cary and Orrick Herrington & Sutcliffe are the fastest-growing firms in the world this year. They are both led by charismatic leaders, Nigel Knowles and Ralph Baxter respectively, and both have been in charge for more than a decade. They were both also quick to take advantage of the disintegration of Coudert Brothers.

The rush to recruit the cream of Coudert reached its zenith in China. On the record, both firms deny any clash. Behind the scenes, though, sources at DLA Piper were keen to stir things up, while Orrick was left fuming at Knowles's attempts to gazump it in Beijing.

Knowles took the feud one step further in the pages of The Lawyer (17 October) when he claimed his firm was the biggest in Singapore and, more importantly, in China. While this is factually questionable, it was also a broadside of one-upmanship aimed squarely at Orrick after the two firms had resolved their battle for the associates in Beijing.

Orrick would like to think it is above such squabbling. When asked about competitors, Baxter and other Orrick partners mention Latham & Watkins, but not those upstarts at DLA Piper.

"There's not a clash between DLA and Orrick. DLA recruited some partners [in China] and is proceeding to recruit some associates, and so be it. What we've always expected to get, we will get," states Baxter.

### Rivals - or worlds apart?

Even if you leave aside the more colourful off-the-record briefings - the office lockout and the clandestine meetings with the Chinese Ministry of Justice - both firms at one stage laid claim to the majority of the associates in Coudert's Beijing office.

Originally, Orrick struck a deal with nine of Coudert's 11 equity partners in China. Baxter also cut a deal with Coudert's dissolution committee, which included the transfer of furnishings, fixtures, operating systems, receivables, payments, intangibles and goodwill in Beijing, Shanghai and Hong Kong. As part of the deal, Orrick was to extend offers to all associates and staff in the three China offices.

The two remaining partners, including influential Beijing managing partner Jingzhou Tao, agreed to join DLA Piper, which also put out offers

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to Coudert's Beijing associates. This is what caused the friction, which was in no way alleviated by the fact that Tao had to leave his own office for rented accommodation.

Baxter continues: "Next year, in the spring, a number of law school graduates will graduate and the best of them will be recruited by Latham and by Orrick. Latham and Orrick are not in a clash, we're in a market. Latham and Orrick and Shearman & Sterling want the same people. That doesn't put us at odds with each other, we're just in a market.

"In China, the quality of lawyers that worked at Coudert is outstanding and any law firm would want them. That somebody else would want them doesn't put us in a clash. We're not in very direct competition with DLA. DLA's business objectives are quite different. Their idea of how many offices you need to have, where you need to have them and why you need to have them are very different from ours."

Baxter cannot bear to bracket his firm with DLA Piper. The irritation in his voice is evident. The Beijing saga upset him. According to some sources, when Knowles pounced, Baxter had some pretty stern words with Knowles's management colleagues in the US offices of DLA Piper.

If Baxter does not consider DLA Piper to be a rival, and indeed they are very different firms, Knowles certainly sees Orrick as a competitor in his mission to transform DLA Piper into a "top five, global, full-service law firm". In fact, he claims it already is a top five global firm.

### **The battle for Coudert**

But let's rewind. What have the two firms done this year? What did they do to Coudert? And where do all these new teams and offices fit in with their respective strategies?

If Coudert was the first truly international law firm, it is fitting that DLA Piper and Orrick should be the ones to inherit the biggest chunks of its practice, as they both aim to be among an elite of global law firms. Both view the market similarly as consolidating rapidly and they aim to be top. Crucially, both have the finances, professionalism and chutzpah to carry it off.

Orrick's early-year form included two raids on Heller Ehrman, taking a total of nine partners from Heller's recently merged Venture Law Group, and the launch of an office in Taipei.

After completing its transatlantic merger in January 2006, DLA Piper's first significant hire of the year was the recruitment of half of Coudert's four-partner Bangkok office in March. Two more partners leaving Coudert gave little indication of the chaos to come. Partners had been leaving Coudert gradually over the space of two years, and it would be Orrick rather than DLA Piper that would prove to be the catalyst for Coudert's demise.

Knowles's first major coup of the year was his capture of EY Law's 100 lawyers in Russia, Georgia and Ukraine. It was a bold move, and one with which not everyone agreed. "Nigel said it was a good idea to take on the EY Law team and he pushed it through," says a partner at DLA Piper. "If you're in a law firm and you elect your managers, you have to let them manage. That was Coudert's problem essentially. Nigel's very good at driving things forward."

At around the same time Orrick was in talks with Coudert's former Paris managing partner George Yates. This really was the beginning of the end for Coudert. At the time, Orrick partners muttered about Yates being a "very influential guy"; just how influential became clear when Orrick swooped for Coudert's London and Moscow offices. The haul totalled eight partners in London and three in Moscow.

Coudert's chairman Clyde Rankin told the Orrick defectors that they were destroying the firm. Baxter describes it as a "transformational event" for his firm's London office. And it represents a clear illustration of the Orrick philosophy, and to a certain extent that of DLA Piper too.

Baxter explains: "You can expand lawyer by lawyer, and that's the slowest possible way to do it and the highest risk way to do it. If you hire one lawyer at a time 100 times, you'll have a group of people who'll interact in a certain way, but you'll only know that once you're done. If you hire 100 lawyers all at once, you'll already know how they work - that's why merger is appealing.

"Teams of people who have the tradition of working together, they have a social cohesion and therefore have a more predictable cultural future and cultural impact on the firm that we already are.

"We learnt that best when we brought in 40 litigation lawyers from Donovan Leisure Newton & Irvine in New York in 1998. Since then we've had a healthy appreciation for the potential of bringing in entire teams. We don't go looking exclusively for teams. Most firms take a look at the individuals. Our instinct is, 'let's take them all'. We're more open to teams than other law firms. We see a value in a team."

As does Knowles. He talks equally passionately about culture. "We recognise that, while we have a vision and a strategic plan, we don't have a single business model. So we do recognise that local culture has to be embraced and built within a practice," he says. "We don't expect ex-pats to go in and run things. People like being empowered.

"I think the US firms are regarded as having very tight control from the US. We have a model, but within that model we allow people to get on with it and we support them rather than find reasons to second-guess them or find fault with them."

Orrick's raid signalled the final death throes for Coudert and Knowles sprung into action to see what DLA Piper could take. When Coudert cut adrift its German operation in an attempt to streamline it for a merger with Baker & McKenzie, Knowles saw an opportunity to bolster his German team. He would eventually secure Coudert's five German partners.

Knowles takes up the tale: "By that stage we knew Coudert was in talks with Baker & McKenzie, and we knew that Coudert was going to go. We started digging around at bits that we found interesting, and then came the announcement that the discussions between Baker & McKenzie and Coudert had fallen apart."

Despite the rancour caused by his firm-destroying raid on Coudert (Coudert threatened to sue Orrick), Baxter immediately went to work on securing the remaining jewel in Coudert's depleted crown: China. Of course, DLA Piper's digging around would also lead Knowles to Asia.

### **Now what?**

Two months on from the initial clash, the situation appears to be resolving itself amicably, with the two firms having pretty much split the Beijing associates between them. Regulatory issues still need to be solved for both firms and permanent offices found for Tao and his DLA Piper colleagues, however.

At the very least, DLA Piper's Asian managing partner Nick Seddon and Orrick's man in China Cameron Cowan will admit to it being a complex process. Seddon has the added burden of integrating Coudert's Singapore and Tokyo offices, but both firms have teams of professionals

in place to identify expansion opportunities and to integrate these new offices.

Baxter has Mark Levie, managing director for transactional practices, and David Syed, Orrick's managing partner for Europe, always sniffing out new opportunities. Syed's latest coup is the merger with French corporate powerhouse Rambaud Martel. Like Coudert, the firm had been fatally wounded after suffering various raids, but also like Coudert, it has respect in the market and some good lawyers and clients.

The job of integration goes to the executive director for Europe (and former European legal director at Ernst & Young) Alexandrina Le Clezio and two division operating officers, Josh Rosenfeld and Brian Schare. "Ralph had the foresight many years ago to build up this team of professionals, who many firms would see as second-class citizens. It's great to have the strategy and vision but you need to execute," says one Orrick partner.

Knowles, whose responsibilities at DLA Piper cover everything outside the US, has trusty generals in Seddon, UK managing partner Andrew Darwin, Continental Europe managing director Stefan De Kayser and chief financial officer Paul Edwards. He has enlisted his older partners, who are nearing retirement, to "put the DNA of DLA into the new offices".

"What we actually did, by announcing our merger [with Piper Rudnick Gray Cary] was to put in place the foundation to grow a very special full-service, global law firm," says Knowles. "We're now near the end of the assembly stage and into the making-it-work stage."

So the infrastructure is in place, but how is the firm funding this expansion? Knowles claims that it all comes out of working capital and will not dent profit. "One of the great things about momentum is that we've always managed to tread a very even line between investment for tomorrow and financial return today," he explains. "This year we've had investments pay off that we made last year and the year before. We've always had new profit streams come on in each year, and that's allowed us to maintain that momentum going forward."

"Any firm that has no momentum and suddenly has to invest and hasn't got past investment to payoff finds that profit dips, but we haven't done that because we've always been going forward."

Baxter is less gung-ho about profit. He will not be drawn until the year-end, but is fairly sure that the expansion will not cause a massive dent. "We budget for expansion every year, so it's always embedded in our economic model, despite this being an unusual year," he explains. "We budgeted for this much growth. We can accommodate this much growth in a year. We had very ambitious plans to expand in the year 2005. We were more successful than we could have expected to be, but we were hoping to do this much."

So how does this all fit in with the strategy? Unsurprisingly, these guys love that 'global' word.

"Orrick has a global strategy. We believe that the globalisation of commerce has changed the world for all law firm clients. Our idea is to serve our clients as effectively as we did in simpler times. We need to serve them in the principal places they need lawyers and in the principal practice areas they need lawyers," says Baxter.

DLA Piper sees its influence as more pervasive. Knowles explains: "We're a relationship-driven firm. We want to have a relationship with the client where we have contact with that client all day, every day. So we're not looking for that one-off transaction. We want to do their HR work, the


technology, IP, real estate, litigation, M&A, tax, pensions, corporate finance, everything you can think of, all the time."


But other than serving the every need of everyone all of the time, you get the feeling that Knowles does not have much time for blue-sky thinking.

"When you say 'set the strategy', these things only take five minutes. It wasn't a mind-blowing, towel-around-the-head thing to work out that we ought to be a top five, global, full-service law firm. Because what else can you be?" he says matter-of-factly.

Both Baxter and Knowles talk about the consolidation of the market and both are determined that their firms will profit from it. Organic growth (read 'partner-by-partner') is not really an option for either. Baxter's next project is Germany, while Knowles is looking at the Middle East.

Last week, DLA Piper completed its Coudert raids. It made two senior Coudert associates partners in Moscow, the very same office that Orrick had raided to kick off this affair. But, as Baxter says, they are not really in competition.

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