

California Law Business

Closing Argument Sandford Lechtick

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Adapt Or Die

Law **firms** are finding that they must either conform to new economic **realities** or perish

To paraphrase an old soldier, law firms don't die, they just fade away. Some dissolve, many reconfigure and change their names. Others survive, grow and prosper. With all the changes, one thing is clear: Law firm leaders must focus more attention to talent reconfiguration issues - especially those involving revenue-producing partners, practice group acquisitions and mergers.

Consider the following firms, all of which were at one time profitable and prominent California institutions: Kadison, Pfaelzer, Woodard, Quinn & Rossi; Wyman, Bautzer, Kuchel & Silbert; Memel, Jacobs, Pierno, Gersh & Ellsworth; Gendel, Raskoff, Shapiro & Quittner; Rosen, Wachtell & Gilbert; McKenna & Fitting; Cooper, Epstein & Hurewitz; Macdonald, Halsted & Laybourne; Ball, Hunt, Hart, Brown & Baerwitz; Gold, Marks, Ring & Pepper; McCutchen, Black, Verleger & Shea; Shield & Smith; Parkinson, Wolf, Lazar & Leo; Lawler, Felix & Hall; Overton, Lyman & Prince; and Sachs & Phelps. Today, all are footnotes in a back issue of Martindale-Hubbell. The above firms are just a smattering of those that either imploded, went belly-up, fragmented, dissolved, reconfigured or were absorbed by big firms during the past decade.

Several months ago, Layman, Jones & Dye, a successful Orange County business boutique, was acquired by international mega-firm Bryan Cave in a deal facilitated by our firm. Many were surprised - especially since the Layman firm was doing well, not looking to merge and had touted the advantages of staying small and autonomous. Many in the legal community were equally surprised when Los Angeles based healthcare powerhouse Weissburg & Aronson announced its intention to combine with 470-lawyer Foley & Lardner from Minneapolis. Others were caught off guard when well-known intellectual property firm Spensley, Horn, Jubas & Lubitz of Century City joined forces with L.A.'s Loeb & Loeb; when a 40-lawyer environmental coverage and business litigation contingent bolted from L.A.'s Adams, Duque & Hazeltine and joined San Diego based Luce, Forward, Hamilton & Scripps; and when Hufstedler & Kaus, a top litigation boutique was gobbled up by Morrison & Foerster. Yet these deals did not happen during the rah rah days of the '80's, but rather in 1995.

Managing partners, department chairs and partners at firms are increasingly eyeing revenue-producing laterals. A growing number are considering law firm mergers and practice group acquisitions. I also see more healthy and dynamic firms evaluating the competitive and financial advantages of hooking up with the right firms as Layman, Jones did with Bryan Cave. On the flip side, partners, especially revenue producers, are increasingly contemplating the once unimaginable - evaluating opportunities elsewhere.

It wasn't too long ago that such a thought was akin to cheating on their spouse. Clearly, the changing business climate has inexorably altered law firm talent ebb and flow.

While this lateral acquisition phenomenon and what it represents is not all good - we know what happened to Finley Kumble - law firm leaders and partners cannot ignore the changing economic realities of their ramifications. To put it more bluntly, law firms will either adapt or perish. While lateral strategy is not the only answer, many prominent lateral-adverse powerhouses such as O'Melveny & Myers, Latham & Watkins and even Munger, Tolles & Olson have successfully diversified their practices, solidified client relationships and added to their expertise by capturing outstanding laterals. Latham and O'Melveny, as well as Orrick, Herrington & Sutcliffe have made lateral partner and practice group acquisitions a key component of their growth in San Francisco and New York offices. In an ironic twist, California firms now are turning the tables on their New York competitors and cherry-picking in the Big Apple. Latham & Watkins, for instance, beat out several New York firms and captured the "crown jewels" of Mudge Rose Guthrie Alexander & Ferdon, a 30-lawyer, highly profitable litigation group.

And many California firms have formed successful alliances with major firms headquartered outside the state. For instance, L.A.'s McCutchen Black was acquired by with Cleveland's Baker & Hostetler and L.A.'s Lawler, Felix & Hall combined with Arter & Hadden, also from Cleveland.

Yet not all mergers have worked. Some have been outright disasters, such as Macdonald Halsted's acquisition by Baker & McKenzie. There have also been notable "de-mergers," for instance; Los Angeles based Hennigan & Mercer's un-combination with Washington, D.C.'s Howrey & Simon. Los Angeles' McKenna & Fitting married Sellers, Conner & Cuneo, also from Washington, D.C., in the mid '70s, only to be divorced by it in 1990.

Where is the acquisition trend headed? You may need to work beyond the corporate environment for an answer. It's not just Bank of America with Security Pacific or Chemical Banking Corp. with Chase Manhattan Corp. or Time Warner Inc. with Turner Broadcasting or Walt Disney Co. with Capital Cities/ABC Inc. Talent reconfiguration is impacting numerous industries across the board, including accounting, health care, retail, real estate, construction, financial services and insurance. If one wants to look into the law firm crystal ball, one doesn't have to look much beyond the overall business climate. Business and law are like lettuce and tomato on a bacon sandwich.

While none of this is rocket science stuff, it is evident that law firm leaders must focus more attention on the following interrelated challenges:

- How can we compete most effectively in the marketplace?
- What internal changes should we make to minimize turnover - especially for revenue producers and future leaders?
- What steps should we take, consistent with our growth objectives, to solidify our client base and expand into new practice areas?
- How can we make our firm more attractive to laterals?

- How can we instill greater entrepreneurial spirit and energy?
- What type of firm do we want to be? What do we stand for? Where are we headed? How should we get there?
- How can we promote greater cooperation and communication with the diverse practice disciplines we have? What mechanism can we put in place to encourage synergy and cross-selling? Concurrently, how can we minimize the “me only” empire-builder fiefdoms?
- How can we more effectively juggle bottom-line economic considerations with touchy-feely cultural issues?

In short, law firms will either adapt to the changing business climate or adapt themselves out of existence. Partners, especially those who have been practicing more than 20 years often comment how they miss the good old days when things were more collegial and the practice of law wasn't so bottom line.

Unfortunately, those days are gone and will probably never return. The key is not how to fight change but exploit it, and turn it to your advantage. Those that make the necessary changes and effectively balance cultural user-friendly touchy-feely people issues with the cold, objective bottom line issues can survive and prosper in the coming years. The challenges lie in finding that special equilibrium.

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