

Verein talking



Tony Williams, principal at Jomati Consultants, says that firms tempted to try a verein arrangement need to weigh the pros and cons carefully before concluding they can comfortably have their cake and eat it

The recent decline of KWM Europe into administration has brought into sharp focus the fundamental differences between a 'combination' using a verein-type structure and a full economic and operational merger.

A verein structure is, in effect, an association of independent law firms. The verein or co-ordinating vehicle may require certain standards for membership, control the use of the brand name and provide for the means of coordinating the member firms and funding the verein and certain shared services, such as brand development, marketing and IT. But the member firms maintain their own governance structure, profit-sharing schemes and a high level of operational independence.

Some combinations have used a verein as an interim structure before moving to de facto full financial and operational integration. Others intend to maintain the independent structure for the long term. Although we refer to 'vereins', a variety of legal entities are used – but the fundamental approach is similar.

A verein-type structure has the following perceived benefits:

- If the business case is strong, the firms can proceed with an opportunity immediately, without needing to have similar economic performance, profit-sharing schemes or governance structures.
- Each firm has a high degree of operational

independence, so nobody is 'taken over'.

- To some extent, the member firms can 'have their cake and eat it' by retaining their independence but operate under one – supposedly unified – legal name.

- Combinations can be effected more quickly than a full merger, as the level of due diligence and the integration required by a full merger may not be considered necessary (although post-KWM Europe this view may change).

However, these advantages need to be balanced against the perceived disadvantages:

- Independence may mean incentives to work effectively together may not be present, or at least not be as strong, as in the case of a full merger.

- Any 'issues' the member firm has before joining the verein are unlikely to be solved by membership of the verein, and may be temporarily papered over.

- Issues such as different conflict rules and professional indemnity insurance arrangements can cause challenges in relation to global client relationships.

- Member firms are usually not legally obliged to support another member that gets into difficulty.

Given the business imperatives for many law firms to operate internationally, it's likely that the verein structure will continue to be used.

However, anyone contemplating its use needs to clearly understand and mitigate the potential downside of the model. ▀

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