When it vereins, it pours

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BIG mergers between law firms are not yet mentioned in the same breath as such ill-fated combinations as AOL and Time Warner or Bank of America and Countrywide. Yet *American Lawyer*'s annual ranking of firms based in the United States suggests that some of the big legal tie-ups of recent years are on a rocky path.

In its report, on April 28th, the magazine highlighted the disappointing performance in 2013 of a group of firms it called the "six giant alternatives" (see chart). All of them have set up "vereins"—a Swiss partnership that lets them maintain separate national or regional profit pools under a single brand. All but one are in America's top 15 by revenue, and were created through mergers during the past decade. Last year their combined profits per partner (PPP) fell by 8.2%. The remaining 94 firms among the country's 100 biggest enjoyed a 2.7% rise in this measure.

The vereins protest that the headline numbers are unfair. Four of the six actually increased their PPP in 2013; the other two, Norton Rose Fulbright and Dentons, were born just last year in mergers between highly profitable American operations and foreign firms that were far less lucrative, and which therefore dragged down the combined average. Peter Martyr, the head of Norton Rose Fulbright, says that each of its constituent parts performed better in 2013 than 2012. Nonetheless, the figures do show that the big advantages hoped for when these global alliances were formed have yet to materialise.

The vereins cannot blame their underperformance entirely on their global spread: White & Case, which is not a verein (it has a unitary structure), posted PPP of $1.9m despite earning 58% of its revenues abroad; in contrast, the most profitable verein, DLA Piper, had $1.3m. Most of England's "Magic Circle" of big law firms have also expanded abroad ambitiously, and they also out-earn the vereins on a per-partner basis.

There is little sign that the vereins' size is helping them much in terms of economies of scale: among the most profitable firms in the league table are a handful which, at around 2,000 lawyers strong, are about half the size of the vereins DLA Piper and Baker & McKenzie.

One explanation for the vereins' disappointing performance is that in many cases the law firms that joined the alliances were not leaders in either their national markets or their specialist areas, and joined them in the hope that becoming part of a global giant would solve this problem. Jay Rains, an executive at DLA Piper, says its new scale has helped it attract both multinational clients and high-powered lawyers "who would not have been interested in the predecessor firms…we're now acknowledged to be a challenger brand to the pre-eminent firms."

Steve Immelt, the incoming boss at Hogan Lovells, a "giant alternative" firm formed in 2010, says that "Some [vereins] were not as profitable to begin with, and it should not be a surprise that when you put them together, you don't have alchemy happen." He says, "It's not the structure. It's where you are in the market and what clients are prepared to pay you."

The vereins' doubters suspect that their balkanised compensation system discourages lawyers from collaborating across borders. Any time partners refer work to colleagues in a different profit pool, they shrink the pot from which they will draw their own rewards. "The more alignment of remuneration you've got, the greater the chances of providing the service the client wants," says Tony Williams of Jomati Consultants, which specialises in the legal business. Lawyers at vereins have a habit of insisting that their own firms are seamlessly integrated, while disparaging rival vereins as operating a "franchise model". They cannot all be right.

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