

Law firm mergers – the new trend in Asia

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2011 was rife with rumours about mergers between law firms. There has never been so much merger activity between firms as there was last year. It is believed 2012 will see just as many, if not more mergers. The most notable merger of 2011 was between leading Chinese firm King & Wood and top Australian firm Mallesons Stephen Jaques.

The King & Wood Mallesons merger, which becomes effective on March 1, represents the largest deal ever involving a domestic Chinese firm. It brings together approximately 2,000 lawyers across five countries.

This merger is indicative of the growing strength of the Asian legal market and particularly the ever-growing importance of China's role in the region. As the global economy moves away from the US and Europe towards Asia, international law firms are hoping to increase their presence in the lucrative Chinese market and are looking for ways in which they can secure their foothold. As the Asia market strengthens, international firms are increasingly seeing the need for Chinese partners in their firms and see mergers as an ideal solution.

Domestic benefits

Although the appeal of mergers is strong for international firms, they are not the only ones to benefit from joining forces. Chinese firms looking to widen their presence now appear to be following in King & Wood's footsteps. Two of China's most prominent law firms, Dacheng and Yingke are planning to open offices in London, while smaller Chinese firm Broad & Bright is reported to be discussing a potential merger with UK Magic Circle firm Clifford Chance.

In Singapore, the Ministry of Law has approved legislative changes that facilitate mergers between international and domestic firms. Before this, foreign firms

were allowed to open offices and practise international law there. However, those wishing to practise Singaporean law were restricted to participating in non-exclusive joint law ventures (JLVs) with local firms, and were often unsuccessful. This important move signals how attitudes in Singapore are changing to be more accepting of competition from international firms.

Leading Singaporean firm Allen & Gledhill has been in merger discussions with UK Magic Circle firm Allen & Overy since November of last year. Several prominent firms in Singapore expressed

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their support for this merger, which may have led to the final decision by the Ministry of Law allowing local firms to compete in the global legal market.

The obvious benefit for Asian firms that choose to merge with an international brand is the ability to gain international exposure by association. They will also have access to technology, expertise and marketing power that they may have previously lacked. They will also not lose large amounts of referral work from UK or US firms.

The risks

Mergers are not always easy and can actually result in failures for one or both firms. It may not always be as simple as changing the firm's name and can take a lot of time and effort to set up. We are talking about two entirely different cultures coming together and this can inevitably mean conflicting attitudes towards pricing structures among other factors, which have the potential to affect the overall productivity of the business.

Another factor that must be taken into consideration is that the policies of the Chinese government tend to be consistently changing as the nation develops and

therefore the success or failure of a partnership with a local firm could be largely dependent on this. This again highlights the considerable cultural differences between international and regional firms.

Financial situations can also raise concerns, as the finances of the other firm may not be as initially reported and result in failure for at least one of the firms. Although King & Wood Mallesons will share a common name and will hope to mutually benefit from the association, they are avoiding this risk by keeping their budgets and expenses separate.

Mallesons Stephen Jaques is also reportedly in discussions to form a further merger with Singaporean firm WongPartnership. This will be easier now that the law ministry in Singapore has become more flexible. However, there is speculation that in order for the King & Wood Mallesons merger to take off, it would need to form a further merger with a UK or US firm, rather than remaining in Asia.

If the initial merger of King & Wood Mallesons succeeds, it will inevitably paint a favourable picture for other regional and international firms and it is difficult to predict how many of these firms will want to join the race to become the market leader.



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