

One-Third of Texas Law Firm Leaders Say They Are Open to Merger Talks

A new survey finds that 82 percent of Texas law firm leaders have been approached over the last year about a potential combination, and 32 percent say they are open to considering it.

By Brenda Sapino Jeffreys
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Texas' legal market is burning hot, so it's not surprising that 82 percent of law firm leaders in Texas have been approached over the last year about a combination with another firm, according to a new survey. In addition, 32 percent of those firm leaders said they are open to considering a firm combination over the next three-to-five years.

Results of the 2018 Law Firm Leaders Survey Texas, conducted by consulting company Zeughauser Group and released Thursday, also show that the highest priority growth areas for the firms are, ranked in order of importance, Houston, Dallas and Austin.

According to the survey, 35 percent of the firm leaders who responded want to expand in Houston, 31 percent in Dallas, and 27 percent in Austin. The survey includes responses from 60 leaders of Texas law firms, ranging in size from 10 to 200 lawyers, with 43 percent of the firms in Houston and 38 percent in Dallas.

Kent Zimmermann, a consultant with Zeughauser Group in Chicago who has worked on a number of mergers involving Texas firms, said the level of interest in mergers expressed by the Texas firm leaders is consistent with what he saw in similar surveys that Zeughauser Group conducted in Chicago and Los Angeles. He said the level of interest in mergers in Chicago and Los Angeles was about the same, but many more firm leaders in Texas have been approached about a merger than in those other markets.

Zimmermann said it seems there is no shortage of firms interested in moving into Texas, or growing in Texas. "A good portion of these firms are attractive combination partners," he said.

That interest is already playing out in the Texas market. Only weeks into 2018, a number of out-of-state firms have either moved into the state or have opened additional offices there. Firms have also expanded with lateral hires. High-profile market moves in 2018 in Texas include White & Case's new office in Houston, Shearman & Sterling's new office in Austin (with one in the works in Houston,) and a new office in Dallas for Katten Muchin Rosenman, which has Houston and Austin offices.

Additionally, Houston-based Andrews Kurth Kenyon is merging on April 2 with Virginia firm Hunton & Williams, while Dallas-based Gardere Wynne Sewell is in merger talks with Foley & Lardner. Another Dallas-based firm, Strasburger & Price, is in talks with Clark Hill.

The firm leaders who participated in the survey are more bullish on their firms' future prospects than on the Texas legal market as a whole. A total of 84 percent were optimistic about the future of their own firm, but only 69 percent were optimistic about the future of the overall environment for Texas law firms. A total of 65 percent of the leaders expect the level of competition from out-of-state firms will grow some, and 24 percent said it will grow significantly. Only 11 percent expect it to decrease.

The firm leaders said the top objectives of combining with another firm are to increase profitability, put the firm on a long-term path to stability, enhance a competitive position relative to larger competing firms, and bolster the firm's breadth and depth in a chosen area of strength.

Litigation is the area that the law firm leaders most want to expand over the next three to five years, with 56 percent targeting that practice. Additionally, 40 percent want to expand corporate, 27 percent are looking to add in labor and employment, 24 percent in energy and 23 percent in real estate.

Zimmermann pointed out that the demographics of the firms included in the survey may be a factor in that litigation-heavy result. About 58 percent of the headcount of the firms that responded focus on litigation, followed by 16 percent on real estate, 15 percent on corporate work, 13 percent on intellectual property and 7 percent on energy.

While Houston, Dallas and Austin are the cities where the Texas firm leaders are most interested in growing over the next three to five years, 6 percent of the firm leaders want to do the same in Chicago. In addition, 5 percent want to grow in New York, San Antonio or Washington, D.C., and 3 percent are looking at Denver, Miami or the Silicon Valley. Only 2 percent are targeting Atlanta, Los Angeles, New Orleans and Seattle, according to the survey.

The law firm leaders in the survey said the need to transition client relationships to the next generation is one of the top challenges they face. Zimmermann said that is a big focus at many firms. "That's a huge worry to firms, especially when there is not a next generation of business developers in the firm who are going to carry the firm forward with strength," he said.

One of the other top challenges, according to the survey, is transitioning leadership to the next generation. Sixty percent of the firm leaders identified this as one of their three biggest challenges.

Zimmermann said that it is this leadership transition issue that may actually force firms to consider a merger, as a new generation of leaders sees more long-term advantages to a combination than leaders who will retire in five to 10 years.

"Typically, it's that next generation of talent that brings the conversation [around] to the future," he said.