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Lawyers prefer to advise on M&A rather than engage in it

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Though the merger and acquisition fever has continued in the Baltics for the second straight year now, the legal services industry has largely remained on the sidelines, preferring cooperation over consolidation.

Many in the industry, however, believe that the time is ripe for a wave of mergers, and a few even predict that the market will soon see the arrival of several major international players.

Latvia, in particular, has been slow in the consolidation process. It has some 50 law firms, but, in the words of one wellknown local lawyer, "almost no very good, big legal firms" in the international sense. Estonian and Lithuanian lawyers, in the meantime, have been undergoing consolidation for some time.

No one is sure why Latvia's lawyers have been slow to combine forces in an era of increasingly complex legal foundations and jurisprudence. Some speculate that it could be a fixation with independence, while others say that for now there is enough client demand to keep all the firms busy, so the need to consolidate falls by the wayside.

Besides, mergers in the industry aren't easy. Agris Repss, a lawyer at Sorainen Law Offices, stresses that marrying two law firms is "very tricky." Not only is the market small, but "most law firms provide the same type of services," he says. Client relationships are fragile and build up over time, and few lawyers are keen to share those relations with a new house of lawyers.

Instead of worrying about size, explains Repss, law firms are presently busy focusing on growth and finding the best lawyers from among the limited talent pool.

Indeed, in law firms from Tallinn to Vilnius, the buzzword is specialization. More and more clients are demanding a range of services that require a thorough understanding of specific legal areas - real estate, employment law, mergers and acquisitions.

What's more, membership in the European Union precludes that every firm digests the constantly changing body of EU law and EU directives. "There are no simple cases anymore," Repss remarks.

All lawyers polled for this survey said that first and foremost, foreign clients are interested in how local law has been harmonized with EU law. And if a firm doesn't have the specialists with thorough knowledge, it won't get the business.

Guntars Precinieks, attorney of law at Grinvalds & Partners, says that consolidation for its own sake - i.e., just to be bigger - would be erroneous. "We can't say that the merger is the only way to survive in the industry," he says. Any synergy between two law firms depends on each law firm's specialization and the staff's qualifications, he explains. And finding the perfect match is daunting.

"To my mind, the strength of a law firm lies not in its size but in the cases it handles," says Precinieks, adding that Grinvalds & Partners is not in favor of merging at the moment.

Nevertheless, there were two firms that bucked the trend. Earlier this year Loze & Partners and Grunte & Cers merged operations to create the largest law firm in Latvia. Reflecting on the deal, Janis Loze says that it was the "joint vision" that was most important in bringing together the firms. The rest, he adds, was a technicality.

"It was an unprecedented merger... Our vision is to be the biggest independent law firm in Latvia," says Loze, adding that consolidation has been particularly beneficial for clients.

To be sure, Loze, Grunte & Cers' appetite for expansion appears set to remain on the local level. As

Loze explains, going pan-Baltic is daunting since "it is very difficult to be the best in all three countries."

"Local law firms are stronger than pan-Baltic ones," he says. A pan-Baltic operation might be strong in one area but weak in another, so the best strategy is to build a solid local brand.

Not everyone would agree. Sorainen Law Offices, for instance, promotes itself as the biggest fully integrated pan-Baltic law firm with a common partnership structure. Indeed, at present it is the one outfit that undeniably possesses a brand name in all three countries.

But the distinction won't last for long. More pan-Baltic legal alliances have begun to appear since the end of last year as law firms jostle to meet clients' regional needs. Many outside investors, after all, look upon the Baltics as one market. The most notable has been Baltic Legal Solutions, which was chartered in Lithuania and combines three well-established firms - Jurevicius, Balciunas & Bartkus in Lithuania, Kronbergs & Cukste in Latvia and Teder, Glikman & Partners in Estonia.

"We have an integrated IT network that allows us to work seamlessly on a pan-Baltic basis," says Valters Kronbergs. Baltic Legal Solutions also cooperates closely with Ernst & Young, one of the Big 4 accounting firms, which helps provide an everbroader range of services for clients.

But it remains to be seen how the legal service industry transforms in the next few years. Loze, for instance, believes that much consolidation will take place, particularly Balticwide. Loze, Grunte & Cers, prefers to work on the "best friend principle," he explains, whereby the firm will refer its clients to a certain outfit in either Lithuania or Estonia, and vice versa.

Otherwise, Loze says it is reasonable to expect that several major Scandinavian chains might try to enter the market through acquisition.

Gita Kalnina, a tax specialist at IBC Consultants, a Rigabased firm, also believes that international lawyers will gradually flock to the Baltics, a unique place geographically. She says that consultant firms have been merging, and there is every reason to expect the same will happen in the legal services industry as well, since "this will provide clients with the best knowledge possible."

And where might they go? The Latvian capital, believes Loze. "Riga will have the largest law firms in the Baltics," he says.

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