Portfolio Media. Inc. | 111 West 19th Street, 5th floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

4 Potential Sticking Points For Allen & Overy And Shearman

By **Aebra Coe**

Law360, London (May 23, 2023, 9:54 PM BST) -- As the Allen & Overy-Shearman combination hurtles toward a partner vote, the firms' leaders face a number of challenges as they look to secure support for the merger and then integrate the two legal practices.

The merger would bring together London-based Allen & Overy and New York-based Shearman & Sterling, creating a new firm to be called Allen Overy Shearman Sterling. (iStock.com/Anatoleya)

This isn't the first time the industry has seen a large trans-Atlantic law firm merger, but such deals are exceedingly rare because they are challenging to pull off, law firm combination experts told Law360 Pulse. In addition, despite the deal's potential benefit to both sides, there are unique factors present that could make this tie-up particularly challenging to execute, the experts said.

The combination, **announced Sunday**, would bring together New York-based Shearman & Sterling LLP's 700-lawyer international practice, which has a strong presence in transactions and finance, and U.K.-based Allen & Overy LLP's more than 3,000 attorneys globally. The new firm is to be called Allen Overy Shearman Sterling, or A&O Shearman for short.

In many ways, the deal is a big score for both firms, with Allen & Overy adding significant strength in the U.S. and Shearman finding a strong merger partner amid a string of attorney departures.

But that doesn't mean it's a done deal and all will be rosy. Law firm merger consultants say there is a lot of work that needs to happen behind the scenes in order to pull off one of the largest trans-Atlantic combinations in the history of law firm mergers.

Here is a look at four potential sticking points that the A&O Shearman deal is facing.

Addressing Departures

Probably the biggest threat to the merger is the potential for a continued outflow of lawyers from Shearman during the transition period and even after the combination is completed, according to Jaap Bosman, a law firm strategy consultant at TGO Consulting.

Shearman was reported to be in the early stages of discussing a merger with global giant Hogan Lovells in late December, but **the talks fell through** in March. After that, Shearman experienced a series of high-profile partner departures, including the **exodus of its entire German office** to Morgan Lewis & Bockius LLP.

"Shearman traditionally has had a great reputation, but their Hogan Lovells adventure has dented that. Some of their best partners left as a consequence," Bosman said. "Challenge No. 1 will be to stop the bleeding."

In order to avoid losing too much talent, both firms will need to tap into a sense of excitement among partners regarding the potential upsides of the deal, and they will also need to present a rigorous integration plan, according to Tony Williams, a law firm management consultant at Jomati Consultants.

Such a plan would need to demonstrate how working together can bring attorneys from both legacy firms to new heights, he said.

"The challenge always in a merger is you've got the inevitable recruiters in peoples' ears whispering, 'Jump now. It's not going to work,'" Williams said. "They need a properly tailored plan with specific responsibilities and accountability. There's no way you can wing it on integration."

Getting Partner Buy-In

In addition to preventing too many attorneys from leaving, Allen & Overy and Shearman also need to secure votes of confidence from their partners in order to see the deal succeed, according to law firm merger adviser Kent Zimmermann of the Zeughauser Group.

The deal needs approval from 75% of partners at each firm to go forward, the firms' leadership confirmed Tuesday.

Zimmermann says he advises law firms to make a compelling case for a value proposition for the combined firm first, and then move swiftly to secure the partner vote and get the deal done. Too much lag time between the partner vote and cementing the combination can create more challenges, he said.

"There's a saying, 'Time kills all deals,'" he said. "Even though there's a lot of integration to do, it's important to not stretch the time out any longer than necessary and to try to push as much as possible on integration post-closing to get it done before conditions change either in one of the firms or in the market."

Another potential challenge when it comes to securing buy-in from Allen & Overy's partners is Shearman's current financial position. One source who has worked with Shearman noted the firm has significant pension obligations to retired partners, which could be a heavy lift financially. Additionally, Shearman has conducted **two rounds of staff layoffs** so far this year and has seen its revenue and profits per equity partner decline, which could be viewed by some as indications of weakness.

Avoiding a Culture Clash

A trans-Atlantic merger can bring a clash of cultures, and finding a balance where attorneys in each location feel a sense of familiarity with workplace cultural norms is essential to retaining talent, according to Ronald Wood, a managing director in the partner practice group at legal recruiting firm Major Lindsey & Africa.

"If they can bridge this, I think [the combination] can work," Wood said.

Although the language is identical, the wider cultures within the U.S. and U.K. are very different, according to Bosman of TGO Consulting, with U.S. culture "very much pragmatic and business-focused" and the UK more of a class-based society.

And while Allen & Overy is an international firm, its center of gravity when it comes to power, and in a sense, culture, is London, Bosman said.

"The typical London partner culture will likely not go well with Shearman," he said. "Key to potential success of this merger is therefore the extent to which the new firm will in reality be truly international."

A Compensation High Wire

One big element related to culture is compensation, with many large U.S. law firms adopting heavily performance-based partner compensation systems in recent years, and large U.K. firms slowly transitioning from seniority-based compensation models to so-called modified lockstep systems.

While the firms confirmed they will use a modified lockstep compensation system, Major Lindsey & Africa's Wood says he believes A&O Shearman will likely transition from that arrangement to one that is more merit-based over time in order to continue to be competitive in the U.S. lateral market.

"You can't come into the U.S. market with a seniority-based compensation system and recruit top talent," Wood said.

At the same time, promoting collaboration among the combined firm's global lawyers is going to be key in effectively integrating the new law firm, and one way to do that is by avoiding a purely "eat-what you-kill" compensation model, according to Gloria Sandrino, a managing principal at recruiting firm Lateral Link.

That doesn't mean avoiding merit-based systems completely, but does require some balance when it comes to partner compensation.

"A&O has been trying to increase its U.S. legal footprint, and the Shearman merger will give the firm a strong footprint in the U.S., but taking advantage of the expanded footprint will require integration and cross-selling," Sandrino said. "To have a successful integration strategy, the firm will need a partner compensation formula that rewards integration and the sharing of origination credit."

A spokesperson representing both Allen & Overy and Shearman declined Tuesday to provide additional comment on the merger beyond what the firms released Sunday in their announcement.

--Additional reporting by Xiumei Dong. Editing by Jill Coffey and Jay Jackson Jr.
