

Acquisitions as an Exit Strategy in Indian Law Firms

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For most businesses in India as elsewhere, acquisitions are seen as a tool to further growth and diversification. For law firms as well, acquisitions are often seen as a method by which the acquiring firm is able to venture into new practice areas while achieving cost synergies brought on by the increased scale of operation. However, recently businesses in India have begun to look at acquisitions as a form of ‘exit strategy,’ or a method by which entrepreneurs are able to sell off their investment in a business that they founded. Thus, acquisitions have also begun to function as a form of exit planning for founders who are looking to retire in the near future.

This type of strategic acquisition becomes especially relevant in the context of law firms which have been started and managed by an individual or a group of individuals who would like to see that the firm continues to flourish even after their exit. For such founders, passing on the ownership to a suitable acquirer appears to be a far more favourable option than dissolution or liquidation of the business that they helped start.

This article seeks to analyse the feasibility of such strategic acquisitions for founders of law firms in India. It focusses further on the steps to be taken in order to begin the acquisition process and looks at the advantages that such acquisitions seek to offer.

Feasibility for Indian law firms

In India, law firms can be divided into two categories on the basis of their business structure and scale of operation. The first category comprises large full-service law firms, most of which are structured as limited liability partnerships. In such firms there is a clear succession plan in place, with the retirement of a senior partner resulting in a junior partner’s being promoted to take the retiring partner’s place. For such firms, acquisitions for the purpose of exiting are less feasible due to their size and scale of operation, nor are they required since such firms already have some form of exit planning in place.

Strategic acquisitions become more relevant for the second category of law firms in India, which are largely family-run businesses, smaller in size and often structured as sole proprietorships. Such law firms sometimes find a vacuum being created in the succession space when the founder is aging and wants to retire. For such firms, acquisitions form a feasible exit strategy as these firms are usually involved in niche practice areas which makes them a good acquisition target for larger law firms

seeking to diversify. While an acquisition results in the founder giving up his control of the firm, often founders continue to work in the capacity of mentors even after acquisition, using their association with the firm to ensure the smooth transfer of clients as well as to maintain employee morale after the acquisition. They may continue in advisory roles for the specific practice area in which the acquired firm was specialised, using their years of industry experience to cultivate new leadership and management skills.

Preparing for the Acquisition

Once a firm decides to adopt this exit strategy, several steps must be taken before venturing further, in order to ensure that the acquisition is successful and founders are able to easily exit the firm.

1. The first step in this regard is to search for an acquirer that best suits the firm's strategic goals. It is necessary to determine which law firm would be the best acquirer – ideally one that has similar management ethics as the target firm, so as to ensure efficiency in operation even after the acquisition.
2. It is also necessary, once certain possible acquirers have been identified, to evaluate and improve the existing systems and policies within the target firm as well as create a comprehensive profile of the firm's areas of expertise, in order to make the firm more appealing to the acquirer.
3. Since structuring of the acquisition would be largely dependent on market trends, it is also necessary to carry out an in-depth market analysis of recent market trends.
4. Correct valuation of the firm's assets should be undertaken before the process of acquisition can be started. This will include determining the value of the firm's fixed assets, liquid assets, and goodwill, as well as human capital.
5. A thoroughly undertaken **Conflict Check** is another critical aspect which comes into play while considering a merger.

Since each firm remains unique in the manner in which business is carried out, as well as other management practices, it is not possible to pinpoint an exact plan that must be followed before approaching the acquirer. The strategy adopted would depend on the acquirer and the target's objectives and goals as well as the time frame available.

Advantages of Acquisition as an Exit Strategy

Selling the business of a law firm to a market competitor has a substantial advantage for persons who are looking to give up complete ownership control over the firm, as this allows for the fastest method of achieving maximum liquidity. For the founder of a law firm looking to retire, therefore, such a sale would be an ideal exit option. Smaller firms which are involved in niche practice areas also form the best targets for larger law firms seeking to consolidate the acquired business and diversify their practices. An acquisition by a competitor could also result in increased valuation of the firm if the target is a well known firm in the specific practice area in which it specialises, since the price of the business would be what it is perceived to be.

Conclusion

In a country like India, acquisitions form an appropriate exit strategy for law firms in the country which are structured as small, niche, family-run businesses. In addition, acquisitions in general have the known advantages of increasing the value of the company and making operations more efficient by increasing their scale.

However for law firms in particular, it is also important to remember that acquisitions risk making clients nervous, which might lead to loss of business. Thus when a founder wishes to completely give up his ownership control over the firm, an acquisition might be the step forward, if carried out cautiously after adopting a plan that takes into consideration the unique position of the target firm, allowing the firm to embrace a deal best suited to its needs.