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A case study of a successful merger process – part 2

This is the second part of the case study of a merger discussion which led to a successful conclusion and the establishment of a new merged firm. In last month's Briefing Note we had reached the point where the two firms had held an initial meeting and had scheduled another meeting. We continue with a series of questions put to one of the managing partners involved and his answers are set out below.

With hindsight, how important was that second meeting?

Very important. Unknown to us the other firm had already been approached by another party and so they had choices. Luckily for us we gave that meeting our best shot to try to persuade them that together we could build a great firm. That meeting also began to establish:

- good relationships and a rapport between individuals
- relative positions and strengths
- crucially we laid the foundations of who was to drive the merger discussions and who would eventually lead the merged firm

What was discussed at that meeting?

The first question we asked was

'Can you deal?'

because we needed to know that we were dealing with people who had authority to negotiate. Our team consisted of me as the managing partner and a small team of three other partners all of whom were involved in management. That team conducted the negotiations throughout. The other firm had a similar team.

At the outset we adopted a very structured approach, agreeing that there was a process to go through to get from A to B and that there would be hurdles to overcome. We established an issues list and an outline of a path to follow covering for example:

- an initial examination of each other's businesses to establish whether at this stage there was enough 'mesh' between the two firms to go forward
- the business and financial cases would need to be put together, by the individual firms and jointly with a view to the proposed merger being initially opened up to both

partnerships. Both our firms rationalised a merger between us as a stepping stone – i.e. we could together build a firm which would be better able to take on the competition and build for the future.

- Technical issues would need to be identified and plans made for dealing with them. It was agreed a small group would be put together involving both FDs and our respective accountants.
- It was agreed to take on a PR firm to help both firms handle the internal and external communications. At the outset wording was agreed if either firm was approached by the media, along the lines of *'yes we are talking and if and when we have something concrete to say you will be the first to know'.* In fact we were approached early on and promised the journalist an exclusive, the result being that when the merger was announced we were given headlines on the front page!
- Generally we both realised we needed good professional advice, including (externally), accountants, PR and input from consultants experienced in mergers, and (internally) from HR, IT, business development and facilities people and in due course we put together our internal teams to put together a plan for the new firm.

At what stage did both of you involve your partnerships?

We both agreed at the end of the second meeting that we both believed there was enough potential in the discussions to tell both partnerships we were talking and to arrange a series of meetings between the individual groups within both firms for them to 'get to know each other'. The partnership meetings were called within two weeks of our first having met and were arranged for precisely the same time. The initial reaction of both partnerships was quite positive – which was a good sign. We considered it was important to involve both partnerships at an early stage so the partners on both sides felt they 'owned' the process.

It was also important to get them together with their counterparts fairly quickly because they wanted to know 'what they were like' – mergers can create lots of insecurities for many people and it is best to let them see what the other partners are like 'in the flesh'. However, having said that, the advice we received was that each of the meetings should be 'chaperoned' by members of both firms' negotiating teams in order to ensure that the process was not taken off course. We were told it was important to do this because 'difficult' partners (most firms have some) might try to de-rail the process. In fact as it happened it was crucial that we were present at one or two of the meetings to keep the process on track.

These meetings were held quickly to keep up the momentum and we went round the partnership following each meeting to obtain feedback.

Were there any potential 'showstoppers' and how did you deal with them?

The potential showstoppers included the following:

- Suspicion by partners of the other firm's motives
- Partners' insecurities / ambitions. Interestingly, with only one or two exceptions it was clear which partners should be running which groups within the new firm. Likewise the two managing partners were 'ad idem' and my counterpart had no difficulty in agreeing to my taking the position in the new firm (I think he may have been a reluctant managing partner in his firm!).
- Senior staff insecurities / ambitions and hostility
- Potential business conflicts
- Size of future equity / how to 'fuse' two very different locksteps which each had partners at different levels and progressions
- What to do with certain offices

Surprisingly 'name' was not a problem because we were not prepared to get hung up on it and so we dealt with it at the outset, recognising that the 'goodwill' of both firms resided in their partners and it would be them who would make a success of the new firm.

We overcame the potential showstoppers by:

- Giving 'comfort' to the partners as to the financial case. Our two firms enlisted the help of a neutral accountancy firm who stringently tested our numbers and assumptions and reported to both partnerships. Happily things worked out well and their projections were shown to be accurate.
- We carried out extensive due diligence using very experienced professionals (in relation to financials, risks and on people) to provide further comfort to partners.
- The issues over bringing together two different locksteps probably took up most time and at the end of the day it was a matter of 'horse trading' to get everyone on board and relatively happy.
- Most problems related to our senior staff (on both sides) as longer term there would only be one top position to be filled. We took HR advice and interviewed the incumbents, involving a neutral external party on the interview panel.

How did you then obtain approval by your partners for the merger?

Throughout the negotiations we had not only kept partners aware of what was happening and to explain the rationale behind the merger, but as issues were raised we went out of our way to find solutions to problems. Accordingly by the time both firms held their formal partners' meetings (both meetings held simultaneously) we had answers to any issues they might throw at us. We prepared a memorandum setting out the case for merger covering in particular the strategic, business and financial case incorporating all the work we had been doing, together with an outline of our integration plan so we could ‘hit the ground running’. This involved putting together an implementation group to manage the integration which started work immediately the vote was passed. We had several months before the merger was to be completed and we made good use of that time.

What were some of the most important lessons you learned from the merger negotiations?

- Even though we completed negotiations in four months, we could have been more realistic about certain timescales – things always take longer to accomplish than you think!
- Keep up the momentum – once the momentum slows there can be a risk of people beginning to find problems with everything.
- Take the best possible professional advice.
- Do not avoid taking any necessary tough decisions **before** the merger is completed as afterwards it can be too late.
- Do not take your eye off running your existing business.
- Above all, throughout the process – **‘communicate, communicate, communicate’** particularly internally and once the merger is in the public domain, externally with clients and the market place.

With hindsight, would you have dealt with any matters differently?

There was some fall out from one particular group in the other firm and with hindsight we should have put more effort into retaining them because even though there were some issues between them and their former partners, they were good people and would have been of benefit to the new firm.

Which lessons did you learn from your post – merger experience?

- It is the beginning, not the end!
- Think bigger and adapt to the enlarged size of the new firm by growing with it.
- If a managing partner, rethink how you operate personally and in particular delegate more – you cannot in a larger organisation do it all yourself.
- Put a lot of effort into managing performance issues in the new firm.
- Quickly enhance the quality of the management capability if necessary
- Upgrade systems and people and do not avoid taking tough decisions.
- Harness the energy and ambitions which are released by a merger.