COVID-19 and Law firms: Successful Post-merger integration – without it you will fail

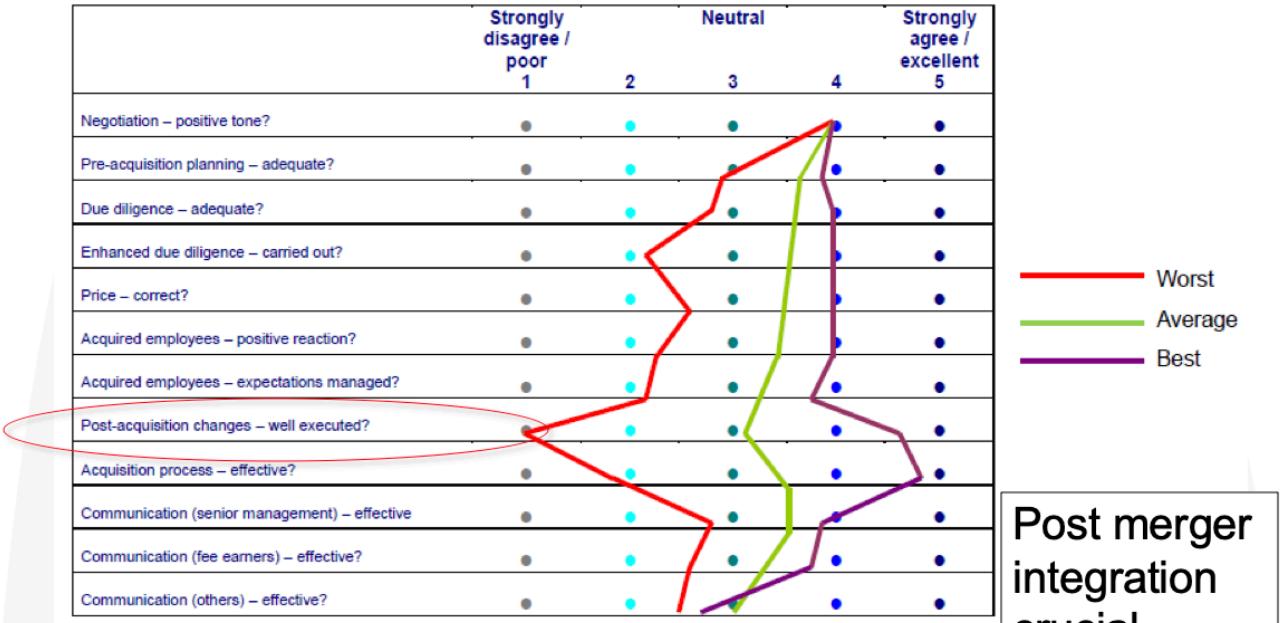
April 2020

In last week's bulletin, we looked at some of the dynamics behind deciding whether to merge with / acquire / be acquired by another firm.

We now look at the vital next steps- post merger integration. After the signing celebrations and champagne are long forgotten, this is where the hard work starts.

The successful integration of the new firm is vital to the success of the merger – and to your reputation as a leader of the new firm. It will also create the economic and political capital for you to build further growth through further mergers, having captured the best practice from the first.

All the research shows that well executed post-merger changes are the main factor in a successful merger.



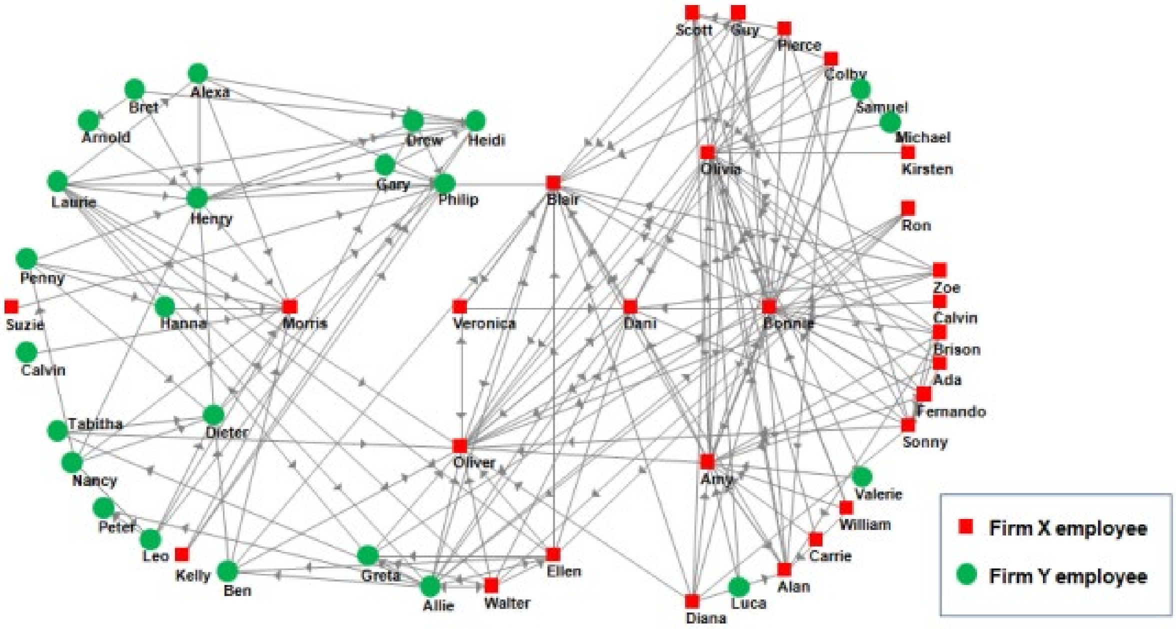
Mitchell & Hill, Ashridge Journal, 2004

One managing partner who called us in to support the post-merger integration surprised us when we asked what the current plan was for integration. "We haven't got a plan", he said "The partners would never have voted for the merger if they had realized how difficult it was going to be".

He was certainly correct that merging law firms is hard.

Some of the complications are that the principal assets are people and the leaders in a merger create “the High School Dance”- “the teachers can organise the dance (but) they cannot determine who dances with whom” (Empson).

Secondly, the glue that holds practices together is not tight control by top management but the personal relationships between partners and associates- and they are all highly able, intelligent, and often classic “insecure high achieving professionals”. Complex relationships need to be actively managed.



Clients meanwhile are becoming more demanding, more price sensitive and less loyal, often seeing little differentiation between firms. They will need to be persuaded that the merger is good for them – especially if the newly merged law firm aims to gain a greater share of their legal spend.

A third hurdle / complication is the financial management of the new combined law firm- particularly combining two law firms’ P&Ls and balance sheets, with possibly different end years, with different PMSs and always with different definitions in the detail. Now, newly available technology we have seen will allow leaders of the new firm to have access in real time to combined management information from day 1 so the new firm can hit the ground running - but again, the right choice of system needs to be made (and agreed on BEFORE the deal is signed) .

Much has been written on the theory. Some key lessons are: -

- "Follow the money" and the rationale for the merger
- Tailor actions to merger rationale
- Resolve the power & people issues quickly
- Start integration when (or before) you announce the deal
- Define a clear decision process
- Handpick integration leaders
- Commit to one culture
- Win hearts, minds and trust
- Maintain momentum & performance
- Invest to build repeatable integration on the next merger opportunity

However, our experience at managing mergers in law firms (both as managing partners and as advisers to law firms) develops this further.

Why are we doing this?

Firstly, and crucially, it is vital to have a clear rationale for the merger. It is not enough to state, for example "we are looking build scale in London" (Managing Partner, Law Firm), or worse, to join two law firms who are both in financial difficulty.

The post-merger integration plan should be scoped and agreed as part of the negotiations **before** the deal is agreed because it will be too late to agree this after the merger has happened. The plan will need to focus on delivering the value identified in the rationale for the merger and in particular:

- Challenge every aspect of the status quo in both legacy firms and identify those critical areas where **things will need to change**

- Ensure the new firm starts life lean and with no baggage. Allowing fundamental problems to persist in the new firm instead of tackling them will not create a sound basis for achieving the agreed vision for the new firm. One of the most crucial questions to be asked by each side early in negotiations is: -

  "How many EPs will you be bringing into the new firm?

- 'Bite the bullet' in relation to any long overdue decisions regarding rationalisation of those parts of each legacy firm which will be a drain on the resources of the new firm or serve no strategic purpose.

Secondly, it is also advisable to genuinely treat this as a merger, not an acquisition, (whether or not it is in reality) and honouring the heritage culture and traditions of each firm while giving clear, consistent messages as regards the new entity.

Thirdly, each firm merging will have a distinct culture, and in the pre -planning the integration this is a vital point to consider. If the cultures are utterly incompatible (as discovered in some US/ UK merger discussions), it may be better to abort the merger altogether. Ignoring culture as an issue is not recommended- "culture eats strategy for breakfast" (Peter Drucker).

A forensic view of the two cultures using an evidence-based tool (rather than "gut feel") is essential. This can identify practices where issues may arise; and importantly, form the basis of building a new firm with culture that is the best of both worlds and which aligns with the merger rationale. In one culture we worked on, the larger firm had a centralised, logical rational culture, good at managing lock-up and risk, but less good at organic growth. The smaller firm was entrepreneurial and great at seizing market opportunities, but poor at managing cashflow and risk. The challenge - which was achieved - was marrying the best of each culture. This is best achieved by leading by example and building a complementary reward and recognition process.

Throughout the process the watchword should be “The train is about to leave the station – however there is still time for you to jump on board”.

It is also important not to delay the integration because merger should be a catalyst for change. You as a leader will have a window of opportunity post-merger when people will be expecting and open to change. We recommend taking this opportunity and doing the “heavy lifting” in the first twelve months.

Year 1

- Ensure at the outset that there is effective leadership in place at all levels in the new firm to take it through its first critical stage of life. The ‘Top Team’ will need to be chosen carefully, have the necessary skills to implement the terms of the merger and its integration and be able to work together as a task force to achieve the full potential of the merger.
- Focus on key people and clients, establishing trust and confidence, managing expectations about results
- Manage the language – refer to “legacy” firms
- Actively manage the post honeymoon 6-12 week “Why did we do this?” mood dip
- Combine teams- offices/ projects/ clients
- Drive operational integration and ensure operational platform including PMS is sorted in Year One
- Communicate success stories and personal partner experience of merger benefits to build momentum from Q2 onwards

Year 2/3

- Capitalise on unified platform, plan for and step up in performance
- Don’t talk integration after Year One
- Demonstrate real progress and ramp up from a base of trust and confidence
- Ensure lessons are internalised for the next merger opportunity

A few final thoughts

Those who have the responsibility as leaders of a merged firm may also like to consider the following –

- 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. 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 – success will depend on it.
- Quickly enhance the quality of the management capability if necessary. It may be hard but "the people who got you promotion may not be the right people to keep you in the Premier league". Therefore, upgrade systems and people and do not avoid or delay taking tough decisions.
- Harness all the energy and ambitions which are released by the merger; and
- **Above all, get your people working together in the same environment- e.g. offices, PMS, reward and recognition- so that after a while nobody will be able to see the join.**

After the current COVID-19 crisis, mergers- domestic and international- will continue to dominate the headlines as consolidation accelerates.

The success or failure of the merger will be determined by the success or failure of the integration.

Can you and your firm afford to fail?

If you would like to talk to us to discuss further, please contact Peter Scott or Paul Browne.

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