

# PETER SCOTT CONSULTING

## Briefing Note September 2019

### **Merger without an integration plan does not work – how to achieve the potential of your merger**

Any law firm contemplating some form of merger (whether you call it a merger, acquisition or something else) should keep in mind two guiding principles:

- ***It is a means to an end** – to build a more competitive law firm able to take on and beat rivals – and not a panacea for solving all a firm's problems*
- ***It is also only the beginning, not the end of the process!***

To identify the potential benefits of any merger, it is useful to look at what firms are seeking to achieve when contemplating merging with another firm. Two factors are driving increased consolidation activity.

#### **1. The need for profitable and focused growth**

Law firms urgently need to take steps to safeguard their futures, which will depend on being able to provide their clients with the value for money legal services they require. However, the legal market below the 100 or so largest firms is excessively fragmented to such an extent that many are too small to compete effectively or be economically viable. These firms need to grow in a profitable and focused manner to generate the resources of expertise, finance and infrastructure now needed if they are to remain competitive.

#### **2. The need for succession**

Smaller firms are facing the prospect of the retirement of partners, some of whom may have been the driving forces behind their firms, creating the dilemma of how to replace them (and their capital) to secure their futures. The dilemma can be worse for sole practitioners.

**In this Briefing Note I am going to focus on the first of these, the need for profitable and focused growth, as it is firms seeking this from merger / acquisition which will need to ensure that a merger / acquisition delivers its promises.**

## **Firms seeking profitable and focused growth**

To ensure a firm will be **in the right place**, strategic planning for a firm's future direction and growth requires continuous research, analysis, planning and decision-making – and should be **client driven** because clients soon perceive if a firm is lacking sufficient resource to compete with larger and more developed competitors.

The purpose of building a stronger platform for growth should be to **future proof** a firm by focusing on those things which will be future drivers of competitiveness, to **maximise owner value**. Markets are changing fast and only by continuously questioning the validity of the status quo and adjusting as necessary, will firms be able to successfully respond to the powerful forces now impacting on their businesses. Doing nothing cannot be an option in today's aggressive and ever more competitive legal services markets.

Where firms cannot see their way **on their own** to filling the gaps in their expertise or infrastructure and, recognising that scale may be required if a stronger resource platform is to be developed, merger / acquisition then becomes a means for them to build that stronger platform for profitable and focused growth to compete with larger and more developed firms. This objective should never be lost sight of and should become the central plank of a **merger integration plan** to enable the combined business to:

- Grow its ability to attract, retain and develop the best people;
- Build a management infrastructure and expertise to underpin the efficient provision of the high-quality legal services which clients now require;
- Provide enhanced ability to exploit opportunities and to respond to threats;
- Build a higher level of sustainable profitability than can currently be achieved

There are set out in the Appendix some questions which may help you to decide if you need to question your firm's current thinking regarding its future and whether some form of merger / acquisition may help to futureproof your firm.

## **The need for an integration plan**

An integration plan which identifies the objectives deriving from the rationale for the merger should be scoped out and agreed between the parties **as part of merger negotiations**, because it will most likely be too late to try to agree these matters after the merger has happened. Firms will need to recognise that if they are to be competitive in the future, then they will need to change the ways in which they operate in the combined firm which should become a **catalyst for change**. For example, to ensure that the new firm starts

life lean with no baggage, one question to always ask of the other party as part of negotiations (and answered for one's own firm) is

***“How many of your equity partners will you bring into the new firm as equity partners?”***

A comprehensive integration plan to rationalise the combined businesses is likely to involve to some degree the **restructuring** of the combined businesses, which should involve the reorganisation of the legal, ownership, operational or other structures of the business for the purpose of making it more profitable or better organised for its present needs, which is a good way to view a merger of two law firms.

Successfully integrating two law firms into a more profitable and better organised combined business for its future needs will require a determined and focused approach, concentrating effort and resources in a prioritised way on those matters which are most likely to achieve agreed objectives within given timescales.

Having this ‘focused’ approach to rationalise the combined firm will require first identifying those critical areas of the business **where things will need to change** if the merged firm is to improve its competitiveness and to become more profitable, followed by well - planned and determined steps to implement essential changes.

**Every aspect of the status quo and planning for the merged firm should be challenged.**

Allowing fundamental problems to fester in the newly merged firm by doing nothing will not form a sound basis for achieving the objectives of the merger.

A starting point might be to ask this basic question during merger negotiations

***“What will need to change in our merged firm if it is to achieve our vision?”***

If the parties are clearly miles apart on the answer to this question, then that is probably a good reason to end the discussions at that point.

If on the other hand the leaders of each firm are *ad idem* on the essential issues that need to be addressed and how they should be dealt with, then there is probably the basis for going forward. The issues identified will then need to be prioritised and a plan for decision – making and implementation agreed.

However, the first and most important step if effective rationalisation is to succeed is to build consensus within each firm that change will be necessary and this can be built in several ways, including by –

- Delivering unpalatable ‘truths’ evidenced by feedback from clients and employees, which can be a powerful change agent;
- Carrying out a hearts and minds campaign by each firm’s leadership.

- Involving respected third parties to deliver powerful messages supporting change can also be highly effective

If consensus across both firms can be achieved, then it will also be necessary to agree -

- The objectives of the proposed changes as part of developing a vision for the new firm that describes a better future;
- The form such changes should take; and
- An explanation of what the new firm will change from, and what will need to be changed in detail.

The areas in law firms often identified on merger where change is needed include –

#### **- Leadership and management**

Law firms need to be led and managed as businesses and in a new firm it will be vital that governance and management structures are streamlined and fit for purpose. Effective leadership will need to be in place at all levels in the new firm to take the merged firm through its first critical stage of life and partners in particular will need to become good at business and not just be good lawyers.

#### **- The way people work and how their performance will be managed and rewarded**

A merged firm will need to become more efficient and productive than its legacy firms and people will need to perform in the manner and to the standards required by clients if the new firm is to achieve that competitive edge needed to beat its rivals. In return for improved performance, there should be a review of how the new firm will fairly match reward to contribution and how performance and reward are aligned with and enhance the strategic objectives of the merged firm.

#### **- The ability to anticipate and respond to clients' needs**

A focus on more effective client relationship management will need to become a top priority in a newly merged firm as client bases are brought together. Pro-actively understanding what it will take to add value to the merged firm's clients if it is to retain the clients of both firms (not always a given) and develop even more business with them.

## **- Strategic positioning of the new firm and each of its component parts**

Very few, if any law firms can be all things to all men, and so identifying at the outset of the merger the right focus for the new firm in terms of its work types / client types to build its future competitiveness, will be vital.

As part of an integration plan, it should be agreed that the parties will 'bite the bullet' and take any long overdue decisions to drop practice areas which are losing money, or are a drain on cash resources or otherwise will serve no useful purpose for the new firm..

## **Implementation following merger**

The implementation of agreed changes to rationalise a merged business is sometimes the most difficult task, often because of fear of change on the part of those within a newly merged firm. This is where having strong communication skills and powers of persuasion are needed to get across the message that there is no alternative but to change.

To quote from one of the best books on change I have read, (*"A survival guide to the stress of organisational change"*, Price Pritchett & Ron Pound, 1997 Pritchett & Associates, Inc.) -

***"The organisation is going to change – it must – if it is to survive and prosper. Rather than banging your head against the wall of hard reality and bruising your spirit, invest your energy in making quick adjustments. Turn when the organisation turns. Practice instant alignment"***

Mergers between law firms are about people and implementing change is about taking people with you on the journey. Here are some thoughts which may help with this task -

- 1. Ensure you have the necessary skills**
- 2. Prioritise what can be realistically achieved**
- 3. Know your partners**
- 4. Let your partners take 'ownership' of the restructuring**
- 5. Tame your 'big gorillas'**
- 6. Develop partner accountability**
- 7. Use the power of a team such as a 'task force'**
- 8. Strike while the iron is hot**

## 9. Employ sanctions

## 10. Bank progress and move on

### A few final thoughts

Those who have the responsibility to lead 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 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 all the energy and ambitions which are released by the merger; and
- Above all, get your people working together so after a while anyone looking at the merged firm will **not be able to see the joint!**

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## Appendix

<b>NEED TO MERGE?</b>	<b>YES</b>	<b>NO</b>
Are you unable to improve profitability because your firm lacks economies of scale and efficient use of people or other resources?		
Do you in a planned and methodical way <b>listen</b> to clients, prospective clients and referrers of work about:  - How you are perceived in the market-place?		

<ul style="list-style-type: none"> <li>- Any capability gaps and improvements needed to your service?</li> <li>- Their legal needs in the future?</li> <li>- Your strengths and weaknesses compared to competitors?</li> </ul>		
<p>Do you currently have a clear, achievable and resourced plan to plug any gaps in your ability to provide clients with what they want from you and to ensure continuing client satisfaction and loyalty?</p> <p>OR</p> <p>Is a lack of financial or people resource preventing you from filling those gaps in your client service offering?</p>		
<p>Are you now in the right place in relation to your strategic focus and are your existing strategic plans realistic and achievable within given timescales?</p>		
<p>Have you concluded that you will not be able to achieve your realistic strategic goals on your own?</p>		
<p>Are you clear as to the strategic risks to the future of your firm?</p>		
<p>Has a client ever used a competitor firm in preference to you because you were not considered to have the necessary knowledge or expertise?</p>		
<p>Have you lost valued clients and good people to firms which are larger and more developed than your firm?</p>		
<p>Are there potentially profitable markets / areas of work or sectors which you have concluded you will not be able to access on your own?</p>		
<p>Do you have clients who individually each represents more than 5% of your turnover?</p>		
<p>Are you finding it difficult to '<i>stand out from the crowd</i>' and to create meaningful differentiation from your competitors?</p>		
<p>Are you unable to retain or to recruit the people you really want?</p>		
<p>Will succession be an issue for your firm in the next 5 / 10 years?</p>		

<p>Are you able to fully resource your support infrastructure needs, including</p> <ul style="list-style-type: none"> <li>- Finance</li> <li>- Business development</li> <li>- Risk and compliance</li> <li>- HR</li> <li>- Technology</li> <li>- Knowledge management</li> </ul>		
<p>If you currently do not have one, would a full time managing partner or CEO who is able to successfully build your firm's competitiveness and profitability, be desirable and acceptable to partners?</p>		
<p>Are there any changes necessary in your firm which currently cannot be implemented because of your inability to have access to sufficient resources or for any other reasons?</p>		