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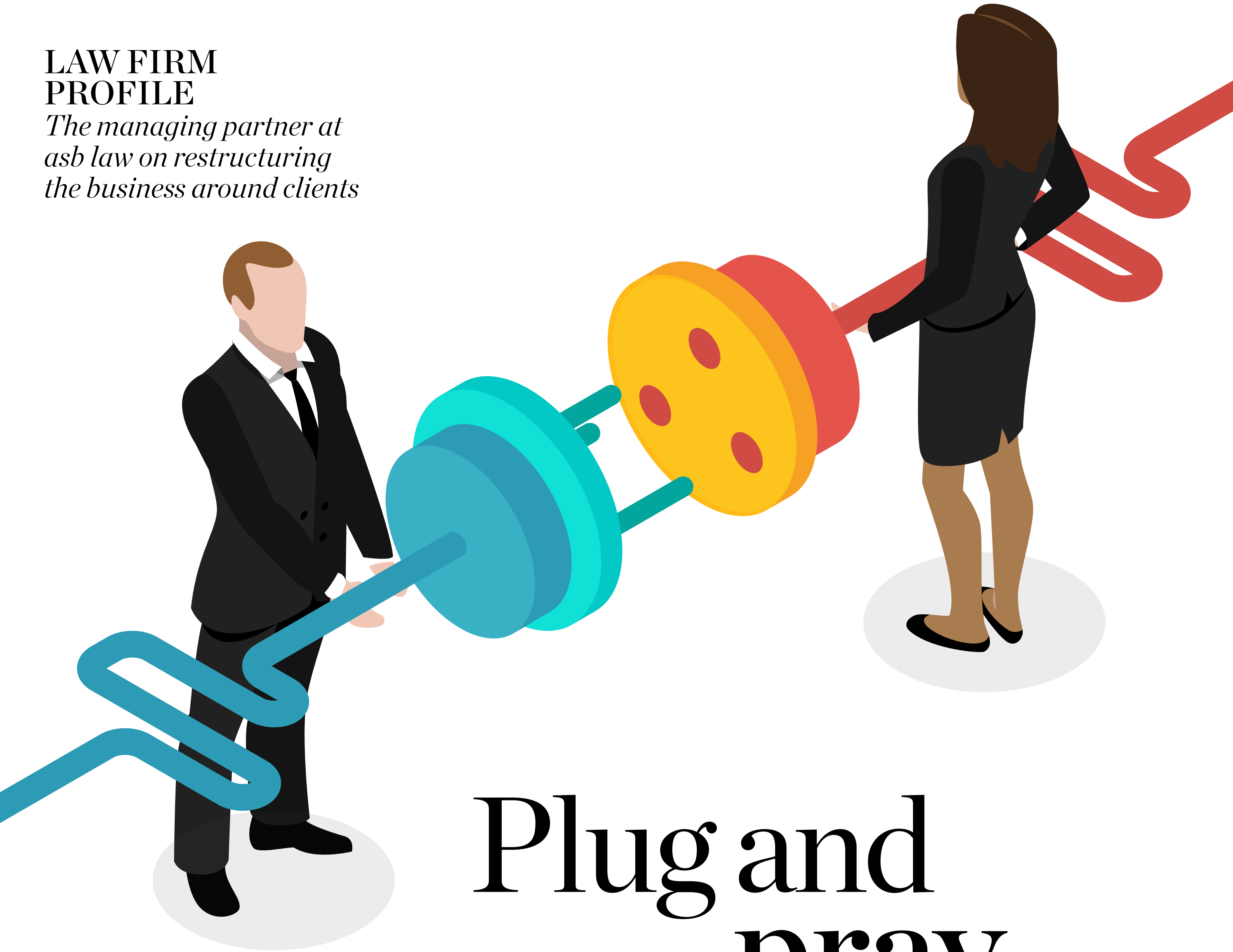
LAW FIRM PROFILE
The managing partner at asb law on restructuring the business around clients

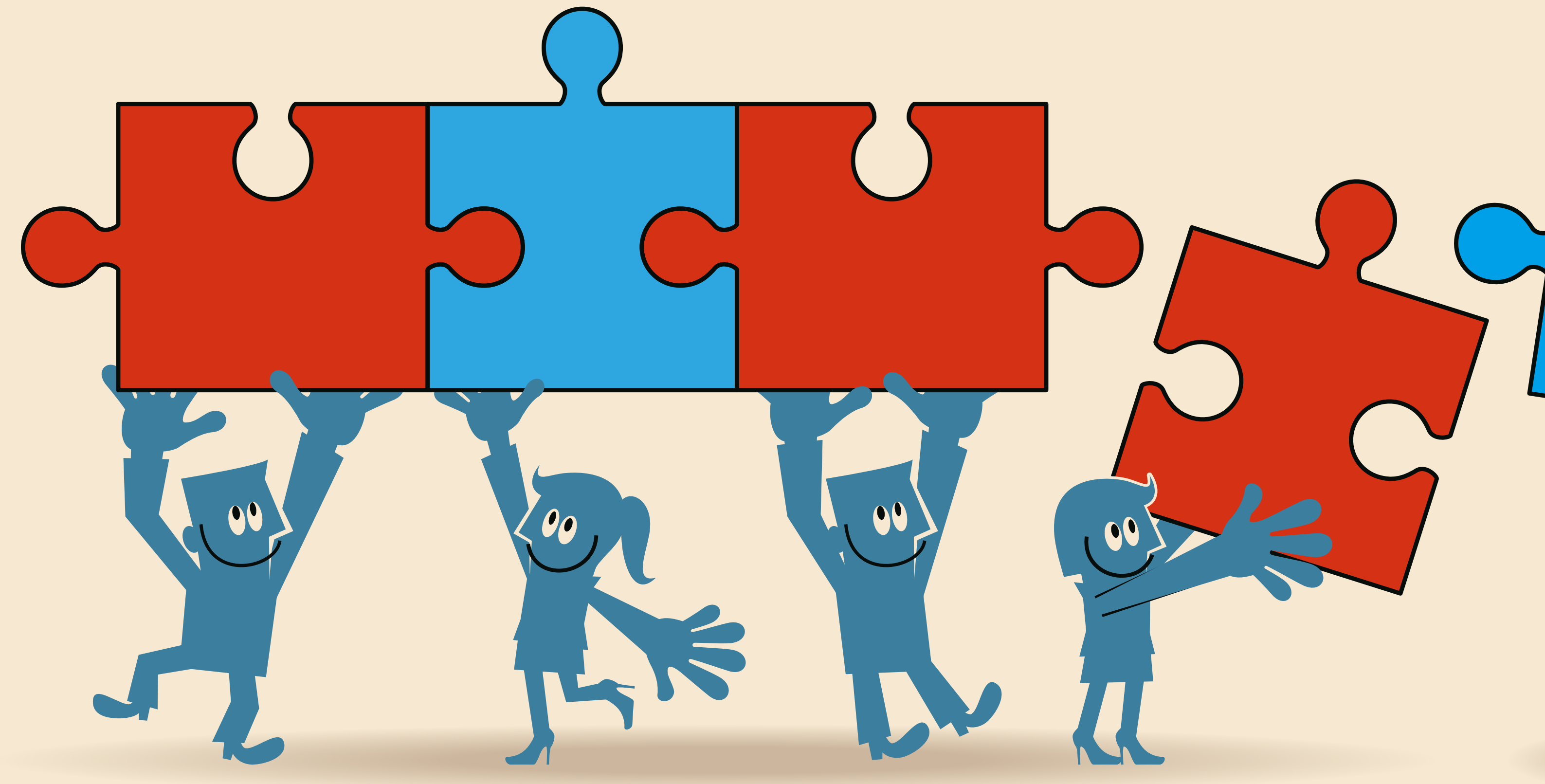


Plug and pray

Mergers are good for business when they're done right. How firms ensure a successful union, though, is the difficult bit

BOOK REVIEW
McCarthy Denning's CEO reads Radical Business Model Transformation

PUT THE PIECES TOGETHER



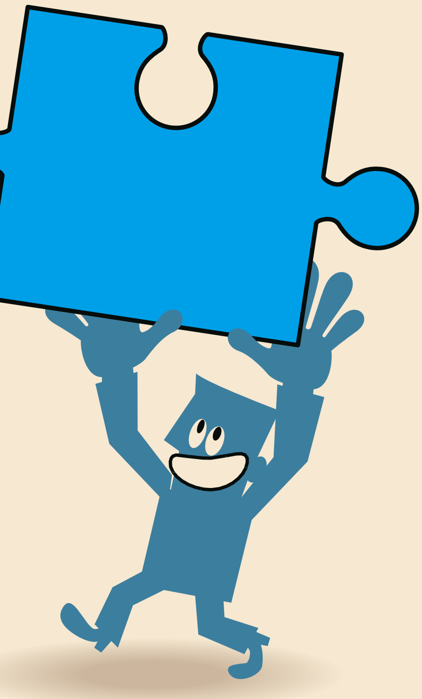
Duncan Ogilvy, consultant at 3Kites, sets out the key challenges of mergers and how SME firms can come together to make them successful

We're not at the point of frenzy but there is a significant amount of merger activity in the legal market – and there's no sign that will change any time soon. Many mergers will bed down and deliver the desired results, but many others won't. So, why do so many mergers not turn out the way the leaderships in both firms hoped? There isn't a one-size-fits-all answer to this question, but there are numerous considerations firms could take to give them the best possible chance of a successful merger.

The first pitfall to avoid is not merging sensibly or for the rights reasons. The potential arguments for a merger are numerous (they could take up an article on their own) but include: scaling to take on major matters, spreading support costs among more fee earners, reducing exposure to one client or work type, recruiting to manage succession, and cross-selling opportunities – to name a few. Mergers can be a means to an end but should not be the end in itself. Two small firms in difficulty could come together thinking it will solve their problems and end up with one larger firm in difficulty.

Even if a merger looks attractive, due diligence is needed. One dealbreaker that should be flushed out quickly is the other firm's culture and approach to management. It's hard to articulate what makes a firm tick, but as consultants who work with many different firms we know how important this can be. The leadership in both firms will need to be comfortable with each other, and have a shared view of matters such as ambition, accountability and attitude to risk.

Another dealbreaker could be financial performance and debt. Significant variation in financial performance will need to be addressed. The other firm may be capable of integration with a change in partner profit-sharing ratios or some key retirements, but if there's an underlying difference in profitability then the causes need to be properly understood before the firms integrate. Some firms avoid debt while others are up against borrowing



limits. Such differences could be managed but does it point to a fundamentally different approach to financial risk?

What about conflicts? It's no good if the target firm's best client is regularly transacting with your best client so that a merger would rule one of them out. And think about claims histories. Your firm may have an enviable claims record with affordable PI insurance, but that might end if the target firm has had a major claim.

And a merger is not just about equity partners, but about employees (lawyers and support staff) and clients – what is in everyone's best interests? Decisions are, of course, for the leadership but most will at least want to consider the impact on that wider group.

If your potential merger gets this far, the real work starts here. It's vital to consider how the project will be resourced. It will be necessary to take senior people off their day jobs to do it or seek outside help from (dare I say it) consultants. Key points of principle need to be resolved early on, such as the firm's name, where it will be located, decisions about profit sharing and the delicate matter of governance. A merger project team will need representatives from both sides, but the new firm may benefit from more streamlined management. While you will need the leadership on the merger project team you may involve outside consultants to help the management team to work through some of the detail.

"The prize for creating a new firm greater than the sum of its parts should make the effort worthwhile."

Finances will feature prominently. Costs of the merger should be budgeted and a budget for the first year of the operation should be established. You should seek the help of the firm's accountants if you don't have the resources to do justice to this fundamental task. At 3Kites we are well placed to help the merger team consider infrastructure, including IT. In a perfect world the new firm would have single, firm-wide systems on day one. Pragmatism may prevail and some systems (such as case management operating out of one office only) might initially be left alone. Or the merger may provide a catalyst for new systems, perhaps because the existing infrastructure is nearing the end or isn't suitable anymore.

Attention to staff is vital and should focus on harmonising people data, benefits selection, self-service, and broader policies such as salary levels, TUPE, redundancies and such. Everyone wants to know exactly where they stand, so if possible one wants to keep negotiations confidential until answers are available to as many of these questions as possible. Take time to bring in policies covering flexible working if it enables the new firm to manage its premises better.

Once you are in a position to go public, communication needs careful planning. This is often under-rated – poor communication could jeopardise success if everyone is not on message.

Clients, targets and other contacts will be the lifeblood of the new firm and must not be taken for granted. In particular, who are they and what data do you hold about them? In passing it's worth mentioning the GDPR, which will be implemented next year – this is a great chance to ensure that data held on all contacts is GDPR compliant.

Knowledge management may not immediately spring to mind on a merger to-do list, yet we believe that effective KM is a key enabler for an effective merger, and failure to plan for it can make it hard to get the best from the new firm.

With so much to think about, it's hardly surprising that some firms struggle to make a success of a merger – yet the strategic arguments in favour may be compelling and there are some highly successful merged firms around. It needs proper resource and careful planning but the prize for creating a new firm greater than the sum of its parts should make the effort worthwhile. LPM