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Are You Clear About Why Your Firm Is Seeking A Merger?

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This is the first of my regular Managing Partner columns on law firm mergers. Over the coming year, I will be exploring mergers as a strategic option from a range of perspectives. Beginning by understanding the drivers that suggest merger as the best means of achieving objectives, I will outline the building blocks of the process through to the challenges posed by postmerger integration.

What will become clear is that by developing a well thought through route-map, applying rigour to one's process and taking steps to avoid being derailed or diverted by the many roadblocks and cul-de-sacs that will be encountered on the journey, it is possible to maximise the chances of success. To be clear, success is not a matter of serendipity, but flows from clarity of vision, leadership and management.

A fundamental question is why it might make sense for your firm to merge. Put most simply, a merger makes sense if the result is a better opportunity to compete together than alone.

Becoming more competitive can mean a number of things – creating an ability to grow revenues faster than costs, to reduce costs and so utilise assets better, to open up new markets, to improve financial strength or to reduce risks. Creating competitive advantage also means improving profitability and shareholder returns in ways that are sustainable. It is through these lenses that any opportunity should be viewed.

Some of the most common benefits seen are an ability to extend into new markets or penetrate existing ones more deeply. These markets may be geographic in nature or based around specific client sectors. Improving reach can be seen to be a key driver for many mergers, especially those that target increasing share-of-wallet with significant clients or where a key objective is to leverage a well-established brand.

In many instances, the act of merger has the effect (at least initially) of strengthening the perceived brand position – lifting the glass ceiling and allowing the enlarged firm to access new higher quality opportunities.

Whether this effect is any more than transient depends on the ability of the management team to embed best practices, behaviours and service levels. This will give substance to a more powerful brand proposition. Failure to do this simply results in a large firm with a small firm mentality, with all of the inefficiencies and idiosyncrasies so created.

If a merger does not ultimately deliver a client benefit, then the likelihood of it creating any longer term competitive advantage must be questionable. The ability to access new clients and serve existing ones more comprehensively should be central to any managing partner’s thinking.

A key criterion for many clients, especially in-house counsel, is how well a firm can demonstrate strength in depth of resources in core practice areas – often referred to as its bench strength – so that the risks inherent in over-reliance on any individual or small group are reduced. A perceived improvement in bench strength will generally flow from any union, although how effectively this enlarged ‘team’ actually plays a team game ultimately holds the key to success.

A further advantage may be the acquisition of new skills or capabilities that complement or enhance both antecedent organisations; these may be legal skills, but will often also include improved management capabilities and better market or client knowledge.

Of course, any merger presents opportunities for operational efficiency improvements too. Indeed, looking from the outside in, some mergers may appear to present little else!

This is not to say that improved overhead efficiency is not important – squeezing the combined middle line may deliver the one-off savings needed to absorb the not insubstantial costs of merger and provide some transient improvements to overhead ratios.

However, a merger that does nothing else but this is unlikely to deliver any longer-term respite from the changes that are sweeping the legal industry. Such mergers may be economically necessary, but should be viewed for what they are – an opportunity to buy time.

For firms at the mid-sized and smaller end of the spectrum, a merger may be a defensive play to reduce business risks, deal with succession issues or create a safer harbour for the firm. Such alliances must also address the question of whether this is simply a play for time or an effort to define a new strategic path. If the former, then what is the next move?

A merger should be a means of fulfilling one or more strategic objectives: it is axiomatic that those within the firm have clarity as to what these objectives are. An unambiguous and detailed understanding of ‘why are we doing this?’ and ‘what are we trying to achieve?’ provide the navigational beacons, guide decision making and ensure that efforts and resources are focused on the areas that take the firm closer to its goals.

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