ANDREW HEDLEY, DIRECTOR, HEDLEY CONSULTING

Mergers can be effective in moving partners out of their comfort zones

Many merger business plans talk about creating a firm which is better than the sum of its parts by taking an external view. They wax lyrical, for example, about new markets, additional venue streams, sweating the client base through broader and deeper practice capabilities and a strengthened brand. The focus is on revenue generation opportunities.

They will also speak in detail about cost savings of both a one-off and an ongoing nature. Calculations will show how, after initial merger costs are accommodated, the combined cost base will be lowered, thus improving the margin.

Both of these areas are, of course, very important, but there is another aspect of the model for a successful firm which often does not receive sufficient attention. How will the new firm be structured, governed, managed and operated in a way that is different – and better – than the sum of its antecedent parts? These are the aspects of a merger which have the potential to take all partners outside of their comfort zones.

While a market perspective is crucial, it is but half of the challenge. It is enticing for the merger team to create a compelling external narrative, but this should accompany what will often be a rather more difficult sermon about the need for internal change.

It is the job of the management team to capitalise on the Trojan horse opportunity that a merger presents, to address longstanding internal issues and the best position the new firm for anticipated future challenges; in other words, to use the merger as a catalyst to ensure that the new firm is fit for the future in a way that its predecessors could not be.

At the highest level, this should mean looking hard at both governance and management. The aim is to ensure that the firm can be run both efficiently and effectively, while not losing the necessary checks and balances needed to give confidence to its owners.

This may mean that partners experience a sense of loss and detachment from the decision making core for day-to-day issues. It should be a desirable by-product of an enlarged and more sophisticated business that personal control over operational management is ceded to others, allowing partners to focus on client management and revenue generation. However, such changes are often resisted by those keen to maintain the old status quo.

“How will the new firm be structured, governed, managed and operated?”

It is also axiomatic that, in creating a larger firm, there will also be a need to upgrade management systems, policies and practices. A move to common working practices, coupled with the end of personal fiefdoms, will present challenges, but is necessary if the new business is to realise any operational advantage. It is these operational improvements that will ultimate translate into increased productivity, lower costs and improved profits.

A merger should also ensure that the future ownership structure is appropriate, that performance is managed in a way that reflects a new commercial paradigm and that rewards are aligned with this. To be clear, what this means in practice is a move to a more meritocratic system with contribution to the success of the business being measured and rewarded more objectively.

This could, for example, result in a tripartite approach in which partners are rewarded for their investment (i.e. capital), their lawyering (including how they manage their teams as well as their own technical skills) and their wider contribution (which might include additional management roles or client development successes).

It follows that a balanced scorecard approach is likely to become commonplace, with a range of criteria that contribute to success being measured and the historic lockstep being consigned to the scrap heap.

Necessary changes to working practices must form part of any future operational plan, using technology as a means of creating competitive advantage and challenging longstanding assumptions of how work is processed and at what level.

It is an uncomfortable truth that the future practice of law will require fewer humans and more technology. How can a merger be a catalyst to set the new firm in the right direction at a pace which outstrips the competition? How much discomfort are partners prepared to accept?

A merger is a time of high tension. How easy is it to get a partnership to vote for a world which will make life more challenging for all, and may have terminal career consequences for some? Turkeys don’t vote for Christmas, do they?

Psychology research is clear – people will only change when they perceive the pain of change to be less than the pain of staying where they are. When the place they are is already very challenging and the prognosis strongly suggests an ever-worsening climate, acting now to avoid even greater pain in the future is not so unappetising a prospect.

A merger is a once-in-a-generation opportunity to create the best footing for future success – grasp it! mp

Andrew Hedley has been advising law firm leaders on strategy and change management for over 15 years (www.hedleyconsulting.com)