

The Art of the Law Firm Merger

JEFF GILLINGHAM



PUBLISHED BY



IN ASSOCIATION WITH

ManagingPARTNER

SSG Legal

The Art of the Law Firm Merger

is published by Ark Group



UK/EUROPE OFFICE

Ark Group Ltd
266/276 Upper Richmond Road
London SW15 6TQ
United Kingdom
Tel +44 (0)20 8785 2700
Fax +44 (0)20 8785 9373
info@ark-group.com

NORTH AMERICA OFFICE

Ark Group USA
4408 N. Rockwood
Suite 150
Peoria IL 61615
Tel +1 773 529 5750
Fax +1 773 529 5760
info@ark-groupusa.com

ASIA/PACIFIC OFFICE

Ark Group Australia Pty Ltd
Main Level, 83 Walker Street
North Sydney NSW
Australia 2060
Tel +61 1300 550 662
Fax +61 1300 550 663
aga@arkgroupasia.com

Commissioning editor

Anna Shaw
ashaw@ark-group.com

Head of editorial

Kate Clifton
kclifton@ark-group.com

Head of production

Danielle Filardi
dfilardi@ark-group.com

Publishing director

Lucy Brazier
lbrazier@ark-group.com

UK/Europe marketing enquiries

Adam Scrimshire
ascrimshire@ark-group.com

US marketing enquiries

Daniel Smallwood
dsmallwood@ark-group.com

Asia/Pacific marketing enquiries

Jo-Anne Rowland
jrowland@arkgroupasia.com

ISBN: 978-1-906355-47-0

Copyright

The copyright of all material appearing within this publication is reserved by the author and Ark Conferences Ltd 2009. It may not be reproduced, duplicated or copied by any means without the prior written consent of the publisher.

The Art of the Law Firm Merger

JEFF GILLINGHAM



PUBLISHED BY **ark**
G R O U P

IN ASSOCIATION WITH

ManagingPARTNER

SSG Legal



Contents

Executive summary.....	VII
About the author.....	IX
Acknowledgements	XI
Part one: The Art of the Law Firm Merger	
Introduction	3
Goals	5
Objections	6
Process	6
Approval.....	6
Timetable.....	7
Help	7
Chapter 1: Why law firms should consider merging.....	9
The right reasons to merge and the rules that should apply.....	10
Measuring return on investment	11
Evaluating cost	12
Chapter 2: Initiating the process	15
What are the dynamics of a particular merger?.....	15
Getting the ball rolling	17
Chapter 3: Preparing for a merger	21
Due diligence.....	21
Chapter 4: How mergers should increase profits	25
Reengineer partner numbers	25
Productivity levers.....	26
Chapter 5: Business plans, business prospectuses and information packs	29
Information pack	29
Prospectus – strategic.....	34
Business plan – tactical	35

Chapter 6: Stakeholder management plan	39
Prioritise the stakeholders	39
Understanding the key stakeholders.....	40
Barriers to implementing merger initiatives	41
Communications.....	41
Early wins and no delays	42
Chapter 7: Integration	43
Implement business plan tracking.....	43
Continuous improvement.....	44
Value-add and improved outcomes.....	45
Chapter 8: Merger risks and what can go wrong	47
Assign key risk management responsibilities	48
Identify NewCo’s risk profile	48
Evaluate the risks	49
Establish effective risk management policies and processes	49
Communicate that risk management is everyone’s responsibility	49
Monitor policies and processes	49
Chapter 9: The end game	51
Go live	52
Chapter 10: The current market and its effect on mergers	53
Economic drivers for merger activity	54
Mergers as a cash flow improvement strategy	55
Improving cash flow.....	57
Impact of the Legal Services Act.....	58
Part two: Case studies	
Case study 1: Warner Cranston and Reed Smith	61
Background.....	61
The merger	61
Lessons learned	62
Case study 2: Reed Smith and Richards Butler	63
Background.....	63
The merger and lessons learned	63
Press release: 15 June 2006, London, UK	65
Case study 3: TLT	67
Growth strategy	67

Towards a national brand.....	68
Maximising merger outcomes	69
Case study 4: Blake Laphorn	71
Establishing local pre-eminence.....	71
Expansion into Oxford.....	72
Expansion into London	72
Post-merger growth	73
Case study 5: Edwards Angell Palmer & Dodge and Kendall Freeman	75
Identifying the best-fit merger partner.....	76
Integration.....	77
Continued growth	78
Appendix 1: Due diligence checklists	79
Partnership	79
Background.....	79
Operations.....	79
Personnel	79
Finance.....	80
Risk, contractual risk and litigation	80
Third-party agreements.....	80
Appendix 2: In-house post merger review	81
Up front	81
During the process.....	81
Numbers.....	81
Barriers to change	82
Characteristics of successful change projects.....	82
Post merger	83
Index	85

Executive summary

WHEN THE idea of this book was first suggested, I thought that I would be writing about the reasons why the legal sector was changing and how rationalisation would force firms together. I was also going to write a lot about the Legal Services Act and how commodity law and consultative law were going to separate. To an extent I have covered some of these issues but I found the legal sector changing so quickly that I would have been reporting on something that was already happening. As I progressed I found myself becoming more and more focused on how mergers should be handled to get the best outcomes. I was acutely aware that there are a lot of mergers that have not worked. That is, they have not produced the results that were expected. I wondered why.

I spend my time these days exclusively consulting to law firms and putting mergers together. Having been a management consultant for most of my professional career, I find the legal sector the most interesting and the most challenging. Lawyers are polite, helpful and stimulating. They are, by definition, intelligent and able to absorb knowledge. If there is a downside, it is their reluctance to get specialists to help in times of uncertainty or when faced with a need for new skills. Management consultants do not necessarily apply a great deal of intellect to problems. They are purveyors of best practice. They put into effect processes and practices that have been used before and have been proven to be the best solutions. It is a bit like lawyers relying a lot on precedent as they practise law.

So having decided that the legal sector knew all about what was happening with mergers I thought it best to focus on what makes mergers work and be successful. I decided that I should provide methodologies and ideas that I know have worked in the past. I have tried to accentuate the most important concepts and provide more comment on the ideas that will make these concepts work.

The headline issues vary from merger to merger but the following are the ones that every merger will encounter:

- Merger strategy – why merge?
- Culture – will you fit together?
- Finances – will the merger produce better and sustainable profits?
- Manage the stakeholders – this is all about people; and
- Follow a known process – avoid learning curve pain.

One of the first things to accept is that the reasons for wanting to do a merger must be very clear and must be part of a firm's strategy. Opportunistic mergers are usually not the best solution. They tend to have no real foundation except that they are readily available. Mostly these transactions are conducted in haste, with little examination of the real issues.

As you start examining potential merger partners, make sure they fit your strategy. Do not waste time chasing after firms outside your ideals. This certainly applies to culture.

Trying to merge two firms that have different cultures will never work. If you cannot come to terms with the whole culture concept, think about values and this will lead you to the culture. A merger between a firm that wants 85 per cent utilisation and another that seeks a work/family balance is going to be difficult. Remember that these firms have built up their cultures over many years and breaking them down will take time, money and pain.

The financials should be top of the agenda. Mergers only work when the numbers work. It is hardly a good start for the future if one of the parties is subject to a distress call from the banks or if one set of partners is asked to drop their income to accommodate the others. The section on profitability highlights how you can achieve financial stability from a merger. If you cannot be totally convinced that there is financial sense, there is little point in continuing. Do not underestimate the cost of the transaction and the effect it will have on your cash flow.

The other vital area to cover is stakeholder management. You should remember that there is a great deal of change in the air during a merger. Everyone involved is concerned about their future, not necessarily whether they will have a job but how change will upset their equilibrium. Most people like routine and predictability. The chapter on stakeholder management should be used as a base for your own plan and it should fold into your communications and integration plans. Miss this out at your peril!

Merging two firms together is a change management project. It should be treated as such. It should be run by a leader and follow a process. During such a project the fee earners should be focusing on the clients. They should be charged with keeping the income up to expectation.

Finally, make sure that you measure your outcomes. During the creation of NewCo's operating model and business plan you will use various key performance indicators (KPIs) and measures. These figures should be used as benchmarks as you measure your progress. This is known as 'business plan tracking'. Most merged firms avoid this important process and then forget many of the promises they made to their stakeholders.

About the author

JEFF GILLINGHAM is senior partner, head of SSG Legal Consultancy and a key contact within SSG Mergers. He has a long track record in raising the profitability and performance levels of companies.

His expertise covers the core spectrum of management consulting services, from merger and acquisition functions to the implementation of efficient business and financial operating models, with specific focus on profitability and back office functions. He has completed assignments for legal firms with measurable success.

Jeff is ex-PricewaterhouseCoopers (PwC), where he developed the business process outsourcing service model. Relocating from Australia to South America and then Europe, he led service divisions on each continent. His most recent position was as the European CEO of a PwC professional services company with a turnover of £80m.

In 2004 Jeff started his own management consulting practice, StarPartners Ltd, which he later joined with SSG Legal. He has considerable experience in professional services with particular emphasis on the legal industry. He is a sought after speaker at legal industry conferences and is extensively published in the printed media.

SSG Legal
14-18 Heddon Street
Mayfair
London W1B 4DA

E-mail: jeff@ssglegal.com
Tel: 08456 43 93 53
Web: www.ssglegal.com

Acknowledgements

THE AUTHOR would like to thank Ark Publishing for the opportunity to have this book published. Thanks to all those who gave up their time to provide case studies and content. Thanks to my partners at SSG Legal who gave support; special thanks to Nigel McEwen, Andrew Roberts and Mike Gorick of SSG Legal who provided considerable time and help on the text and with case studies.

Finally, many, many thanks to those busy people who gave up their time to be interviewed for the case studies, including:

- Walter Cha, managing partner, Blake Laphorn;
- Tim Foster, former managing partner, Warner Cranston and Reed Smith;
- David Pester, managing partner, TLT; and
- Laurence Harris, partner-in-charge of the London office, Edwards Angell.

Jeff Gillingham
February 2009