ANDREW HEDLEY, DIRECTOR, HEDLEY CONSULTING

A merger is an opportunity to bring about positive cultural change

A firm's culture is both one of its core defining characteristics and, for better or worse, a driver of its longer-term performance. Changing a deeply-embedded culture is one of the most challenging and transformational opportunities for any leadership team. At a time of merger, it is one way in which real synergies can be realised.

When law firms assimilate and analyse the characteristics of a potential merger partner, either as part of an initial disclosure exercise or more detailed due diligence, many things are evaluated, but cultural issues are often ignored or given superficial treatment.

Why then is cultural alignment, in many cases, not even considered at an appropriate level of detail until after the deal is done? It is one of the most significant determinants of success in both the short and longer term for any merged firm.

Two common reasons are:

1. the management teams of the merging firms have a more optimistic view of cultural fit than is found in reality; and
2. there is a deep-seated belief that it will be too difficult to make this assessment prior to merger.

In some cases, this will be because the discussions are at an early stage and not in the public domain, while in others it will relate to a reluctance to commit to an additional project stream in what is already a complex and time-bound process.

Management optimism

Taking the first of these issues, it is likely that the respective management teams will be culturally closer to each other than the rank-and-file partner or average lawyer, secretary or business support person in each firm. After all, they are the ones who have put their heads above the parapet to accept management responsibilities, they have (regardless of how much they deny it!) a genuine interest in management and in building a firm which is more than simply a collection of individuals. They are clearly comfortable that they can work together – if they were not then their negotiations would have foundered at an early stage.

The danger, of course, is that the senior managers project their own 'cultural fit' onto the combined business. While on occasion this will prove to be a sound judgement, it may often fail to appreciate how distinct the cultures, which are about to be joined in the union of a merger, actually are.

> **"Management teams of merging firms have a more optimistic view of cultural fit than is found in reality"**

Without proper appreciation of these differences and a plan to ensure they integrate harmoniously, each giving something positive and sacrificing negative aspects, the result will inevitably be a clash that can resonate throughout the business for years to come.

Pre-merger assessment

Turning to the second reason for not addressing culture early, an assessment of likely fit can be made in a number of ways.

At its most straightforward, a joint partners' meeting provides an opportunity for both firms to answer the most fundamental question: "can I imagine being in partnership with you?"

While this is helpful, it is also a superficial exercise – it may ensure that significant differences are highlighted and resolved, but it will not pick up on the nuances of culture and behaviours which, if not dealt with early, can become pernicious.

A more detailed understanding can be gained through the use of assessment tools such as online surveys and face-to-face structured interviews. Building on research that has identified the key behaviours that drive profits in professional service firms, coupled with those that erode it, the insights can be invaluable in highlighting both cultural dissonance and alignment.

Each firm could conduct its own cultural assessment to a common model and set of assessment criteria. The results would then be directly comparable and could be used to inform the merger negotiations, in the same way that financial analyses or client assessments (again produced to a common standard) are used to compare performance in other areas.

Of course, alignment is not necessarily always a wholly-positive attribute. One oft-heard comment in negotiations is that the "biggest strength of the merger is our cultural similarities, but it's also one of our biggest challenges".

The new management team could use the map of both firms' pre-existing cultures to agree the core cultural attributes of the new firm and their relative importance. A weighted gap analysis could then be undertaken to produce a clear prioritisation of where cultural change efforts need to be focused.

A merger is an opportunity to bring about positive cultural change. With a clear plan, the emergent culture can be both different and better than both its antecedents. Without such a considered approach, there is a real danger of introspection and post-merger stagnation. mp

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