

# The Law Firm Merger: A Leader's Guide to Strategy and Realisation

ANDREW HEDLEY



## The Law Firm Merger: A Leader's Guide to Strategy and Realisation

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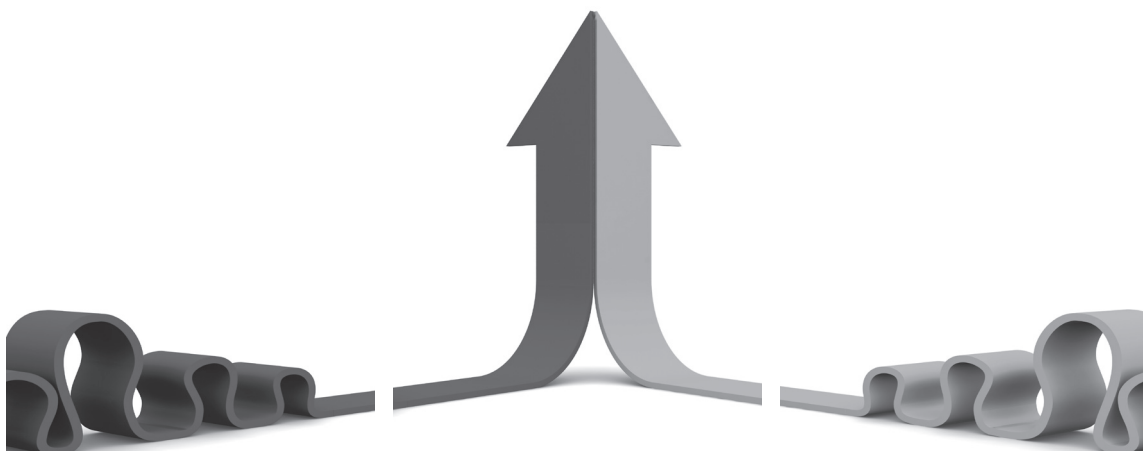
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## Executive summary

THE LEGAL services market has undergone unprecedented change over the last decade. The Great Recession has been a catalyst to accelerate the pace of this change. At its core are structural changes in the profession and the deregulation of the legal services industry, leading to a fundamental reshaping of the competitive landscape.

One feature of this paradigm shift has been the consolidation of the sector, driven through mergers and acquisitions. This activity has emanated both from within the profession – with firms merging or being acquired (whether as part of a strategic plan or because they are distressed) – as well as through external investment into the sector. It is this rise in merger and acquisition activity and the drivers for it that is the subject matter of this report, along with the creation of a route map for leadership and successful merger realisation.

*The Law Firm Merger: A Leader's Guide to Strategy and Realisation* is a guide for leaders and the leadership team with a clear focus on strategy through the lifecycle of the merger process. It sets out to describe the role of the leader as visionary, strategist, and the driver of change in the firm.

This is not a technical guide on the mechanics of documenting a merger: finalising the legal agreements or completing the financial and operational due diligence. These are areas in which legal professionals are well versed. Indeed, therein lies a danger as many law firm leaders look at a merger through the lens of the professional adviser rather than as a business leader. It is not

uncommon to meet managing partners who have very high levels of confidence that they, or one of their trusted partners, know how to 'do' a merger. However, they are talking, in the main, about the technical expertise to execute the legal aspects of a transaction. In this respect, they are quite correct – they do indeed know how to 'do the deal' – but delivering a successful merger is so much more than this. From inception to realisation, a host of leadership skills are required, with business acumen drawn from a wide range of disciplines and strong interpersonal attributes needed which must sit alongside intellectual rigour.

Crucially, a merger or acquisition is a means of achieving a strategic objective. It is a mechanism by which a firm may realise its vision, or at least accelerate its journey towards that vision. It follows that, in order for a merger to be properly targeted, analysed, shaped, and executed, there must be clarity as to what the firm's ultimate vision and strategic objectives are. This is the first job of the leadership team and everything that follows, both in strategy and execution, flows from it.

This report starts by considering the drivers which are shaping the legal services industry and how these may be better understood using some simple yet insightful analysis frameworks. It is only through a considered appreciation of the way in which these macro and micro economic and competitive pressures will impact the sector that objectives can be set and a strategy effectively shaped. In turn, this forensic

analysis of the drivers of change in the market allows for scenarios to be developed which consider the twin factors of criticality and uncertainty in their impact on strategic choice.

With the expert input of Zoe Holland (of Zebra Legal Consulting), this report explores the impact of private equity and new entrants (including those operating under an ABS arrangement) on the legal market. This also highlights the changed commercial reality introduced by these new investors, with due diligence now being more multifaceted than the historic narrow focus on finance and risk, including the introduction of specialists to undertake specific due diligence duties.

This will allow us to consider why a merger might be considered an appropriate strategic option, and also to clarify what the profile of an ideal merger candidate firm might look like. By adopting a structured approach, it is possible to develop a merger scorecard which can then be used to analyse prospective firms, produce gap analyses, and identify the best fit from the available options.

The need for vision and leadership in the merger process is explored in depth and, in particular, the role of the leader in developing the firm's vision and ensuring that strong focus is maintained on the client rationale which is driving the merger.

Culture is key in any merger and this applies both to the negotiation phase and the alignment of cultures as part of the integration process. Understandably, therefore, both of these areas are explored in depth within the report. The cultural and emotional intelligence of the leadership group is also important in terms of how they engage with partners (and in due course with the wider firm) in order to build commitment and win hearts and minds for any proposed union.

A review is made of some of the practical issues which may be encountered in initiating discussions and the identification of issues

in the negotiation process, the building of the merger business case and, in particular, creating opportunities to realise merger dividends with a particular emphasis on the client opportunity.

The financial and accounting issues which may be encountered in a merger are discussed by Robert Mowbray (of Taylor Mowbray) who brings his extensive experience and highly-regarded expertise to bear in illustrating both the financial factors which need to be considered in advance of any merger, as well as approaches for valuation in both merger and acquisition scenarios.

The report then moves on to outline a framework for implementation and highlights a number of issues which need the attention of the leadership team; both immediately post-announcement of the merger and then during the initial integration period. These include the importance of clear, frequent communication with all stakeholders, as well as practical issues concerned with right-sizing the merged firm. Of course, at its core, any merger is about change and creating a competitive position for the new firm that neither of its forebears could have achieved alone. It is therefore appropriate that there is a headline review of the principles of successful change management projects.

The focus over the final chapters moves to outlining some of the approaches which have been successfully used to fully capitalise on the opportunities created and to realise a 'merger dividend'. These centre on initiatives such as aligning culture, defining values appropriate to the vision of the new business, using programmes which are client-centric to unify the new firm and drive revenues, understanding service quality issues, and building cohesive and effective teams.

The importance of a clear integration plan which enables fast and decisive actions

in the first six months following a merger cannot be over-emphasised.

Unsurprisingly, given the focus of this report, the role of strategy and leadership is a recurring theme. These are the two core factors which run through any merger – being clear about why you have chosen this option to develop the firm, and displaying the personal qualities to deliver the merger in practice.



## About the author

ANDREW HEDLEY works with the leaders of law firms on issues of vision, strategy, and change. He established Hedley Consulting in 2005 after almost a decade as the business development director of two UK top 20 international law firms. His practice is recognised as a leading boutique strategy consultancy within the legal sector.

Andrew is a recognised expert in the field of law firm mergers. Whilst working within private practice he was a member of a small strategy group tasked with pursuing M&A opportunities which led to the execution of a number of significant mergers as well as numerous early-stage negotiations and evaluations. He has carried this expertise through to his consultancy practice and now advises firms at all stages of the merger process – from creating initial strategy, to candidate firm identification and evaluation, through the full negotiation and business case development process and, finally, post-completion implementation strategy and delivery.

Andrew's wider practice is focused on the legal sector and issues of vision, strategy, and change in what is an increasingly dynamic and unpredictable market. He is engaged by firms on both a project and retained basis to assist in developing strategy which responds to these challenges and creates sustainable competitive advantage. In addition to his strategic project advice, Andrew is also much sought after as a strategy group guide for away-days, a partner retreat speaker, workshop facilitator, and moderator.

He has written numerous articles and masterclass features on the subject, as well as contributing chapters on the topic to published works, including The Law Society's *Law Management Section Merger Toolkit* (2012).

He is on the editorial advisory board for *Managing Partner* magazine and writes a monthly column on the topic of mergers which has been widely acclaimed. He is also the author of Ark Group's *Developing Strategic Client Relationships* (2008) and *Client Strategy in a Changing Legal Market* (2011). Andrew is also on the advisory panel of NetworkMP, a leading peer network for managing partners of professional services firms. He sits on the judging panel of the MPF European Practice Management Awards and *The Lawyer* Management Awards. He is also the course director of the Cambridge Marketing College CIM Professional Diploma in Professional Services Marketing.

Andrew has been admitted as a Fellow of the Institute of Directors, the Strategic Planning Society, the Chartered Management Institute, Cambridge Marketing College, and the Royal Society of Art. He is a member of the Triple Nine Society and the Cum Laude Society of the USA.

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