LEGAL COMMUNIQUE. . .
ROBERT DENNEY Associates, Inc. Management, Marketing, Strategic Planning

January, 2012

Note: This article appeared in the October, 2011 issue of
Law Firm Partnership & Benefits Report. It is reprinted with permission.

Challenges and Adjustments In A Merger

Both the Smaller Firm and the Larger One Have Roles
They Must Play If the Marriage is to Be Successful

by Robert W. Denney

Author's Note: *This article first appeared in this publication in March, 2005. Although the legal profession has been undergoing considerable change since then, the issues that arise after firms merge are still the same as they were over seven years ago. Therefore, we thoughts a review was in order.*

There is a drama that is acted out every day on the stages of hundreds of law firms throughout the world. Firm A, which may have been a local, regional or even national firm, has recently merged into (read "acquired by") Firm B, a larger national or international firm, and the partners from Firm A are adjusting to being part of such a huge firm.

Some of these partners may compare this situation to their first semester at a college that was many times the size of the high school from which they had recently graduated. Others may compare it to the first few months of marriage (at least the first marriage) after the honeymoon was over. Both of those situations require learning and adjustment. However, for most partners, nothing compares to the experience of having their firm of 50 or 100 or 200 lawyers merge into a firm of 800 or 1000 or 1,500 lawyers. For some it is exciting and energizing. For most, however, it is unsettling and can sometimes be traumatic.

There are many pluses to becoming part of a much larger firm – but there are also many differences and challenges. If the merger is to be successful, the partners in Firm A must anticipate the differences and challenges and Firm B must recognize them. Let's look at those before we discuss the pluses.

SOME OF THE DIFFERENCES

In addition to sheer size, there can be many other differences, which the partners in Firm B may not recognize. Here are some of them:

- Firm A may have had only one, or several, offices. Firm B has many more, some of which may be in other countries.
- Firm A may have had 10-15 practice groups with no more than 20 lawyers in a group. Firm B has 30-40 practice groups, some of which may have 100 lawyers in the group and these lawyers are located in many different offices.
- Firm B's technology is probably far more advanced than Firm A's was.
- The partners in Firm A knew, or at least recognized, each other. Some of the partners in Firm B may never have met each other unless the firm holds occasional retreats.
- Firm A may have had a participatory form of governance whereas Firm B has a corporate form where the senior management group makes most decisions.
- Firm B probably has far more policies and procedures – or at least different ones – and it is not about to change them.
- Some of the partners from Firm A may now have far less contact with each other and, as a result, feel a loss of collegiality.

- The Firm A lawyers will almost certainly experience "E-mail overload" as a result of the increased need to use e-mail for communication with the larger firm.
- The compensation system may be different.
- And the culture probably is different.

SOME OF THE CHALLENGES AND ADJUSTMENTS

The partners from the merged-in firm should expect to face certain challenges and to go through a period of learning and adjustment. One of the first challenges will be learning the policies and procedures of their new firm i.e., its way of doing things. This will take time. To accelerate the process, large firms that have been through several mergers usually have an indoctrination program for the new lawyers, similar to the program for entry-level associates.

Another challenge for the new partners will be learning the array of additional services and expertise available in their new firm and building relationships in the firm so that they can use and market these services. This will take even more time. In fact, to be blunt about it, some of the partners in Firm B may not know all of their firm's capabilities either. This challenge can be addressed in several ways:

- Meetings of the lawyers in the practice groups from both firms. These should have been started before the merger was finalized and must continue after;
- The partners from both the former Firm A and Firm B referring work to each other; or
- The new partners visiting some of the other offices in Firm B.

In addition to learning about the services and expertise available in the larger firm, the partners (and also the associates) must learn the styles and philosophies of certain practice groups. One example is Litigation. Firm A's approach may have been to take every possible case to trial while Firm B may emphasize settlement, arbitration or ADR to a great degree. Most of the new partners will feel some loss of autonomy, particularly in accepting new matters or clients. The principal cause of this will probably be the increased potential for legal or business conflicts in the larger firm and the need to deal with them. If Firm B has a policy of not accepting certain types of matters or clients, this can also cause the new partners to experience a loss of autonomy, particularly if it means they must "fire" some clients they served in their prior firm.

Some of the adjustments can be traumatic. Adapting to a different culture is often one of them, particularly if Firm A had a relaxed and informal culture that most large firms do not have. Another adjustment, which may seem minor to some lawyers, can arise if a Firm A partner, who worked in a downtown office, is moved to a suburban office which he or she may interpret as being sent to "Siberia." The reverse can also be upsetting if a partner, who enjoyed working in a suburban office five minutes from home, is moved downtown and must now commute an hour in heavy traffic each way.

What is often overlooked in a merger of this type is its impact on the support staff of the merged-in firm. In some ways it can be as unsettling and even traumatic as it is to the partners. Unless, or until, the acquiring firm focuses on integrating them, Firm A's support staff will probably feel like they are in a small boat that is being tossed about in a bad storm.

'US' INSTEAD OF 'WE' AND 'THEY'

There are a few challenges that must be recognized and adjustments that must be made by the acquiring firm. Most important of these is the need to devote the time and effort needed to integrate the acquired firm. This process should be started even before the merger – such as with the practice group meetings above – and must be continued after the merger. It will take time, at least a year and possibly longer.

The key to successful integration after a merger is the attitude of the acquiring firm. It is understandable if the lawyers and staff of Firm A refer to themselves as "we" for a while and refer to their new firm as "they". However, it is not understandable – or acceptable – if the lawyers and staff of Firm B do the same. "They" should never be part of Firm B's vocabulary. From the first day of the merger, everyone in the acquiring firm should adopt the attitude that "we" and "us" includes everyone from Firm A as well. If Firm B adopts this attitude, everyone from Firm A will soon follow suit. If Firm B does not adopt this attitude, everyone from Firm A will feel alienated – as in fact they are – and the merger will never be as successful as it should be. It may even fall apart.

It is also critical for Firm B to listen to the problems and concerns of the personnel from Firm A and to acknowledge and address them. These can include compensation or desire for a role in management, which are often resolved through guarantees for several years after the merger.

THE PLUSES

The partners – and everyone – in the merged-in firm will find it much easier to face the challenges and make the necessary adjustments if they keep in mind the pluses that should result for them from the merger. These can include:

- The access to far greater resources, not only legal but also financial, technology, staff support and marketing;
- The opportunity for greater professional development and for upgrading their practices;
- The opportunity to "retool" their practices or sub-specialize;
- A bigger platform to grow their practices and the marketing resources to do so;
- Greater firm name recognition;
- The opportunity to increase their income;
- Financial security, particularly if their former firm was under-capitalized or was in financial difficulty; and
- A funded pension or deferred income program.

There is little or no honeymoon period after the marriage of a smaller firm with a much larger one. However, the drama that results from the merger need not – and should not – end in tragedy for the partners from the smaller firm. Sooner rather than later, it should have a happy ending. This will only happen, however, if all the actors from both firms know their roles and play them – with patience.

#

Robert Denney Associates Inc. has provided strategic management and marketing counsel to law firms throughout the United States and parts of Canada for over 30 years. When firms are considering a merger, we have been retained – usually by <u>both</u> firms – to conduct a Merger Due Diligence Analysis. This is an objective analysis on the feasibility of the potential merger and the issues that should be addressed if negotiations continue.

<u>Correction and Update</u>. Based on information we subsequently received from the school, the report in our December *Communique* on Villanova Law School should have said that it discovered last January that it had provided inaccurate information to the ABA regarding LSAT scores and GPAs of several entering classes but that an independent audit had found no material errors in the reports and remedial action had been taken in response to the situation.

P.O. Box 551, Wayne, PA 19087-0551 • 610-644-7020 • fax: 610-296-8726
email: bob@robertdenney.com • web site: www.robertdenney.com