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The Forgotten Side of Law Firm Mergers

By James D. Cotterman

Much is written about how to effect a merger — the business case, the due diligence, the negotiation, issue resolution and the like. Yet when it comes to putting two organizations together and making them work as one, the common thinking is, “It will just happen.”

Well, it doesn’t just happen. Merger integration is the two-thirds of the merger that most people underestimate, ignore or give little attention and priority. Yet the integration process has a lifespan that can be measured in years, while the deal itself may have taken only months to conclude. In law firms the problem is worse, as the key individuals who put the deal together quickly return to the practice of law. Meanwhile, the administrative staff struggles with making it all work. And unfortunately, the administrative side of merger integration is only one piece of the overall integration effort.

Integration means implementation, and the implementation of a merger involves administrative combination, business practice alignment, and cultural inculcation. The implementation of a merger is where most deals fall flat. All of the energy and attention is concentrated on how partners will get paid and who will control clients, and little attention is paid to the physical and emotional combining of the firms. Typically, the firms will negotiate for several months, reach agreement and set an “effective date” that may only be a few weeks away. Agreement is reached and the negotiators walk away considering the “deal” done. *Wrong!* Before the deal is done, during the negotiation and due diligence phases, issues relating to how to make it all work should be explored.

It is in these early stages that the firms must figure out how they will live and work together. Combining disparate filing systems, telephone systems, time and billing systems, accounting systems, training programs, support staff assignments, associate practice assignments, client lists, employee benefit programs, compensation programs, space assignments and literally hundreds of other details, must be discussed

and fully meshed before the combined firms can really begin to practice as one entity. Although negotiations typically span less than 12 months, implementation will span 18 to 36. Planning, organization, cooperation, communication and patience are critical during this phase. Everyone must resolve to become re-educated as a “member” of the new combined entity.

There are three broad categories of implementation activity:

1. integrating the delivery of legal services — how the fee earners (lawyers and paralegals) will organize and work together;
2. building a single administrative and support structure; and
3. melding two cultures into one.

Planning

The best implementation programs are, obviously, those that are well conceived. The outcomes are planned and achieved through a series of activities. Resources in terms of people and money are allocated with the costs typically being considered as a cost of doing the deal. In strict accounting theory, these costs would be capitalized and amortized over a long period of time as the benefits of the investments are realized, even though this is not how most cash basis law firms treat these costs. Good implementation programs are monitored and corrections made in real time as required.

Communication

After planning, the single most important attribute of a successful integration involves ongoing communication. Create a post-merger newsletter (or special merger page on your intranet) and have leaders circulate them weekly for at least six months to inform the entire firm on the status of merger-related issues. Regularly patrol the halls and become acquainted with new fellow-workers. To the extent geography allows, re-establish office and workspace assignments to avoid continued physical separation of members

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of the newly combined firms. Hold monthly departmental meetings with merger status being an important part of the agenda. Hold quarterly firm meetings where executive management reports on merger status and the firm as a whole. Responsible lawyers should meet individually with assigned lawyers to discuss the problems and opportunities that have been presented as a result of the merger.

Finally, hold numerous informal social events (ice cream socials, pizza lunches, afternoon softball games, firm night-out events, and the like). These activities foster social interaction that break down barriers, relieve stress and build new relationships. They also educate a firm's employees, help fight inaccurate rumors, and reduce fear and uncertainty.

Best Practices

Pursue the implementation as a combination of the best that each firm has to offer. You want the best people, the best systems, and the best procedures to form the new firm. This is simply meritocracy at its best. Seek out the best ideas and give people a chance to contribute. It is so easy for the phrase "but we have always done it this way" to bias decisions. Fight against that tendency. Long-term success is more probable if good ideas and good practices are encouraged, identified and implemented. Don't use the implementation, however, as an opportunity to redesign everything. Implementation programs should bring the two firms together smartly and quickly. Major redesign of systems and policies can wait. Acknowledge the potential opportunity and promise to return to it after implementation has been achieved.

Cost Reduction

A word about cost reduction. Every merger or acquisition that this author has been involved with had an element of post-deal cost reduction through efficiencies of the combination.

It is part of the game. Savings opportunities exist in law firms, although probably to a lesser extent than is intuitively assumed. Identify the opportunities and plan for the adjustments. Handle personnel adjustments at one time so the fear can recede. Do not stretch this process out over an extended period of time. Communicate often to dispel unfounded rumors. Treat people leaving with respect and compassion. The people who remain will watch the process closely and it will have a lasting effect on employee morale.

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Transition Teams

Identify a transition team and leaders for the administrative and professional practice efforts. Ideally both firms should contribute personnel to the team. The team's job is to develop the strategy, timetable and budget. It will establish task forces, determine the need for outside advisors, lead the communication efforts and manage the process.

Administrative task forces may cover such areas as finance, technology, facilities and human resources. Professional practice task forces for each practice area and major offices complete the effort. The task forces will examine specific areas to make recommendations and assist with the implementation.

Outside advisors can be an appropriate investment to gain objectivity, to tap into others' experiences with massive change efforts, and to supplement existing personnel on the front

lines. PR and marketing consultants can manage the public "face" of the merger and the new firm's identity. The firm's outside accountants should be one of the advisors to the finance task force. Pay and benefit consultants might assist the human resources task force. Space planners and commercial real estate brokers may advise the facility task force. IT consultants might assist the technology task force. Law firm consultants typically advise the transition team.

Here is a short list of key considerations for the transition teams:

Systems/Technology

- Changes to systems and procedures should be communicated to all members of the firm before they are implemented, and then they should be confirmed once the change is made.
- Time and billing, accounting, client and other database files require careful, detailed review to ensure accuracy of data migration.
- Regular training and refresher courses should be held for both lawyers and staff to ensure everyone understands and complies with new systems and procedures.

Marketing and PR

- Create a compelling story about improvements in scope and/or scale.
- Publish the message to the business and legal press.
- Take a "show on the road" by visiting key clients and prospects to discuss your new capabilities.

Human Resources

- Be mindful of the implications when disrupting existing work relationships as you reorganize for efficient, blended operations.

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- Ensure that pay and benefits are equitable across the new firm. Pay adjustments are often required to make people whole with changes in benefits and to align pay programs.
- Welcome the new members and assist them with the transition.

Financial

- Look for opportunities to achieve efficiencies long-term, but avoid making cuts until you really know which adjustments are the right ones to make.
- Remain focused on timekeeper productivity. The business of the firm — serving clients' legal needs — must continue with as few interruptions as possible. Get good information into the hands of practice and office leaders to assist them in managing workloads and ensuring that client deadlines and expectations are being met.

- Compare pre-merger assumptions with actual implementation results so that the firm learns for future efforts.

Conclusion

Law firms seeking to realize their pre-deal expectations once post-deal reality sets in should focus on implementation. Make it a priority. We all know the fragile nature of the professional service firm. Bringing two firms together to form one is a major effort, both professionally and administratively. This is part of the leadership's job. Doing it well sets up the new firm to quickly capture the advantages set forth in the merger prospectus. ♦

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