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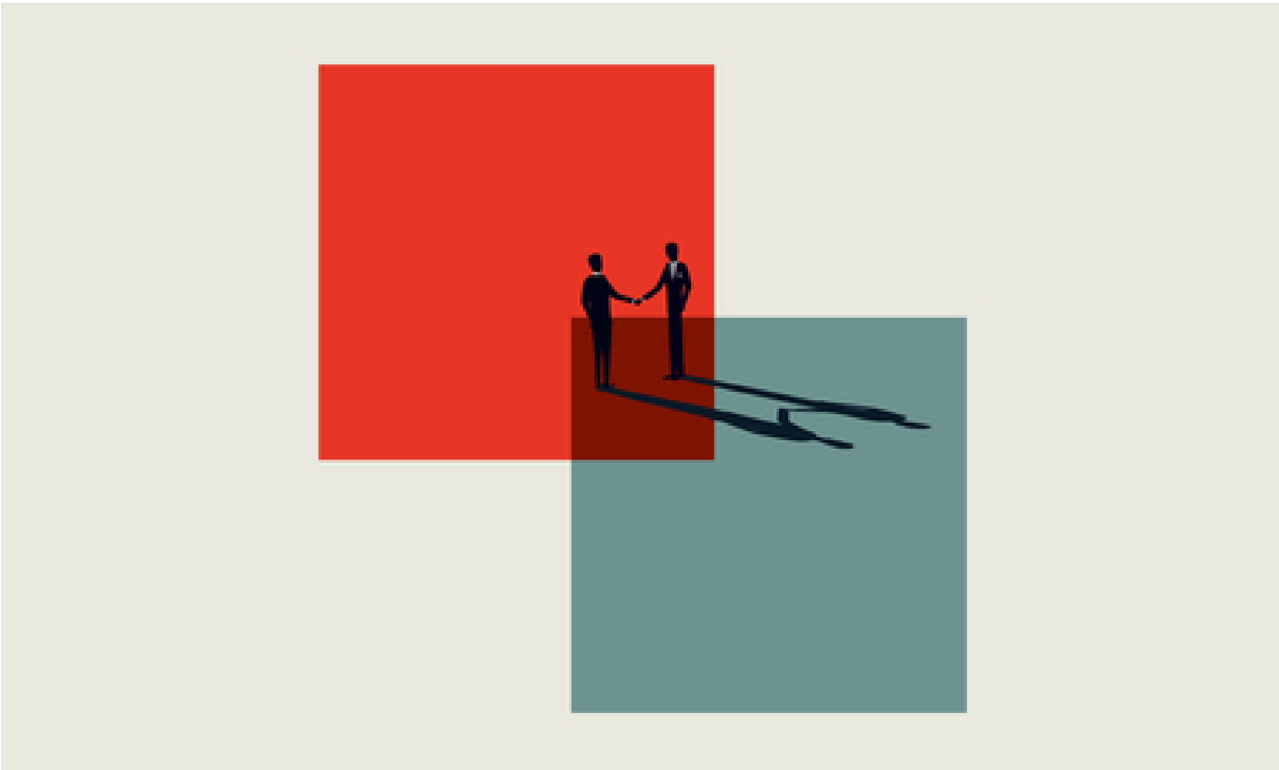
31 May 2022

Law firm mergers: the cultural iceberg below the surface

If people buy off people, then it's the individuals mergers bring together that will ultimately make them a success or failure, writes Jeff Zindani

By Jeff Zindani



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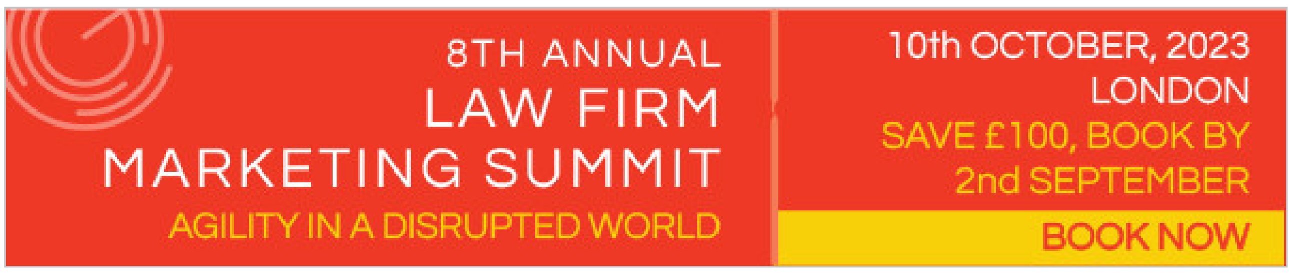
The global economy has seen more M&A activity in the last 12 months than for a number of years. It is therefore no surprise to see this reflected in the legal services market, where law firm mergers and acquisitions are on the rise.

Just last week national UK firm Shakespeare Martineau announced it was to expand into the Southwest through a merger with Bristol firm GL Law.

And in March BLM's partners voted in favour of a merger with Clyde & Co, in move that will create a £700m insurance services leviathan. Perhaps BLM losing its name in the process tells us that this is not a real merger but a corporate marriage of convenience.

As more 'merger' deals are announced, it's worth reflecting on what the ingredients of a successful combination are.

It goes without saying there must be a clear financial case, but the pursuit of revenue or scale per se cannot be a sustainable business strategy.



If people buy off people, and this applies across national and international boundaries, then it's the individuals mergers bring together that will ultimately make them a success or failure.

Rapid expansion

AIM listed law firm Knights is an example of a firm that has expanded rapidly through acquisitions.

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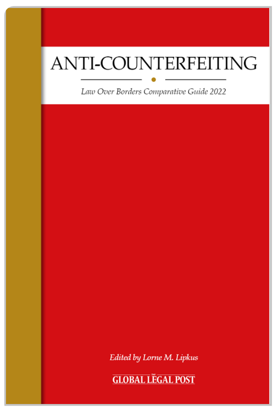
Around ten years ago the firm had offices in Stoke and Chester, 150 professionals and annual revenue of around £9m. On paper, that's a healthy regional operation in a position to pay salaries appropriate to the market.

Fast forward to the present and we have a UK top 50 law firm with turnover in excess £120m and 19 offices.



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It was very easy to see why smaller firms that felt they couldn't compete with the regional heavyweights might have wanted to join the club and be acquired by Knights. Maybe, it was the buyout attraction to the law firm owners.

In March, however, we saw a dramatic fall in Knights' share price from 365p to 165p. In its trading update to the London Stock Exchange, the company cited Omicron, illness among staff and a softening in business confidence causing a slowdown in corporate work.

On 19 May the firm announced that it was set to expand in the South East through the acquisition of Coffin Mew for £11.5m, one of its largest deals to date.

The firm said in a trading update on the same day that its performance was in line with its March statement, with expected profit before tax for the year ending 30 April 2022 to be £18.1m, down from £18.4m the previous year. The fall contrasted with the firm's revenue, which had increased by 22% to hit £125.5m.

Shares in Knights had risen 33% by 1PM on the day the merger was announced to 125.5p, though that figure was still well below the 420p recorded earlier in the year.

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That Knights' profit and share price remain subdued at a time when the legal sector is generally showing healthy profitability and resilience could be viewed as a reminder that rapid expansion through acquisitions is not always plain sailing.

Culture clash

Cultures must fit for a merger to work. If they don't, over time lawyers walk, and take their clients with them. Equity partners are, however, happy to put up with a culture they don't like if it undisputedly gives them significantly more money through a favourable deal structure. But what about junior partners and associates who are in it for the long run?

If the larger firm has a policy of full integration into its culture that sees the acquired firm immediately losing its sign and its website and email addresses replaced, this can be poorly received by employees. Such change needs to be handled carefully and will be far harder if cultures don't match or were not adequately considered pre-merger.

In my experience, the biggest mistake when it comes to law firm mergers isn't negotiating a deal, it is blending cultures. As the great American business guru, Peter Drucker, once said, "Culture kills strategy for breakfast".

This is developed further by Professor Gelfand,in her book *Rule Makers, Rule Breakers: How Tight and Loose Cultures Wire Our World*.

Professor Gelfand has carried out extensive research on 6,000 significant mergers in more than 30 countries taking place between 1980 and 2013. What she demonstrates is that cultures can be tight and loose and simply merging two businesses or law firms can lead to

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She also looked at international deals where there was an additional layer of cultural difference to contend with. Sao Paulo is not the same as Singapore nor is Leeds the same as London.

For instance, how many times have we seen a high billing, individualistic fee earner that simply does not fit in because the firm they have joined is more collaborative and people centred? Or a firm with tight systems and processes and an autocratic managing partner contrasted with a creative, laissez-faire type of practice? The list goes on.

Perhaps Prof Gelfand is right when she says that culture is like an iceberg, hiding perils below the surface.

A strategy of quickly bolting on more and more law firms may simply lead to a large scale firm but lurking below is the cultural iceberg ready to hit.

For those embarking upon an M&A journey in the legal sector, the numbers will only take you so far and from experience are usually wrong. So, before deals are struck it’s well worth spending more time understanding the cultural differences of the two firms to see if there is a good cultural fit before it's too late.

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