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Law firm mergers: What are the ingredients for success?

Posted By *Legal Futures* On July 14, 2022 @ 12:00 am In Blog | 1 Comment

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Zindani: Culture is like an iceberg

There have been some big mergers in recent weeks: Weightmans and RadcliffesLeBrasseur completed their combination, growing their presence in London and Leeds. The merged firm will have 225 partners and a total headcount of over 1,400.

Clyde & Co finalised its merger with BLM, creating a £700m insurance services leviathan. Like RadcliffesLeBrasseur, BLM is losing its name in the process, perhaps a reminder that – like most merger deals in the legal sector – one firm is the dominant party.

Partly due to this imbalance, merger deals will not always plain sailing, so it's worth reflecting on what the ingredients of a successful merger or acquisition 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.

Success or failure?

If people buy from people, then it's the individuals they join together who will ultimately make this a success or failure.

AIM-listed law firm, Knights PLC is an example of a firm that has expanded rapidly through merger.

Around 10 years ago, it had offices in Stoke and Chester, 150 professionals, and an 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 multiple acquisitions later, we have a top-50 law firm with turnover in excess £120m and 19 offices.

It was very easy to see why regional firms which felt they could not compete with the regional heavyweights might want 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 a staggering 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.

That Knights is experiencing difficulties at a time when the legal sector is generally showing healthy profitability and resilience is a reminder that mergers are not always straightforward.

Blending cultures

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 identity, with 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 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 the insightful Professor Michele 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 serious failures if they are diametrically opposed.

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 London.

For instance, how many times have we seen a high billing, individualistic fee-earner who 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 Professor Gelfand is right when she says culture is like an iceberg, hiding perils below the surface.

A strategy of quickly bolting on more and more law firms may 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 cultural fit before it is too late.