

KNOW HOW

LAW FIRM MERGERS AND ACQUISITIONS

The golden rules for success

Jeff Zindani of Acqira Professional Services explores the practicalities and risks of law firm mergers, and how firms can protect themselves from a merger going wrong.

Law firm growth by private merger and acquisition (M&A) is becoming big business. In particular, the availability of cash and low interest rates is already fuelling an M&A boom and it is no surprise that in recent months there has been a flurry of activity, from the mega merger of Clyde & Co and BLM, to acquisitions by publicly listed law firms such as Knights plc, which has seen its revenue increase by over £100 million in ten years, and smaller acquisitions by regional players such as Yorkshire firm Switalskis, which has made two acquisitions in six months.

Well-planned and well-executed deals can transform a law firm, but without careful planning, mergers may be doomed to fail. However, firms should not let the risk of failure deter them from the benefits of growth as they can take steps to protect themselves.

Scaling up

It appears that the majority of law firms got through the COVID-19 pandemic relatively unscathed, with many firms thriving during this period. But looking ahead, storm clouds are gathering. The Bank of England is predicting that the UK will go into recession in 2022 and while some law firms are well-equipped to handle a downturn, others will be far less optimistic. Where growth has stalled, rising costs, such as salaries and indemnity insurance, mean that some firms are in danger of imploding if they fail to act decisively.

Some firms are already focusing on the need to scale up. Indeed, research published by Acqira in January 2022 suggested that nearly half of managing partners were actively considering an M&A transaction in order to

grow their firm rather than traditional organic strategies such as hiring more solicitors or attracting new clients (www.acquiraps.co.uk/News-Insights). For some firms, it is not just about growth but also survival, meaning that there is likely to be even more law firm M&A activity in the next 12 months.

Well-run, financially stable firms, on the other hand, are in a good position to take advantage of opportunities to make acquisitions in what has been a buoyant legal services market. As one private equity firm observed recently, the legal sector produces almost “eternally profitable results, which makes investment a no brainer!”

Fear of failure

In the middle of this M&A wave, it is worth considering whether a merger really is the right approach for law firms. All the empirical research in this field shows that most M&A attempts will fail, yet law firms are still doing deals when they know that this could be bad news for them. Other firms, as is often the case, are persuaded not to acquire due to the fear of failure, which means that they are potentially missing out on a successful option for growth.

The reality is that not all M&A deals are going to fail, but poorly thought-through and executed ones will. There are several ways in which law firms can protect themselves from a merger going wrong. The legal sector is, of course, very different to other business sectors, particularly due to the heavily regulated environment in which it operates. There are, however, some golden rules that should help partners and law firm owners when they start to think about M&A strategies for growth.

Finances not strategy

Firms should be careful not to sacrifice finances over strategy. Too often, partners

will get over-focused on the strategy of M&A, getting carried away with the momentum of a deal and forgetting to ask the simple question of why they are considering a merger at all. If the business case cannot be explained in a few words rather than in complicated and visionary language, it is likely that there will be trouble ahead.

The process of due diligence will add a degree of protection, but even this can sometimes be no more than a box-ticking exercise when the underlying financial model is inherently flawed. In some mergers, the financial case may be so weak that it could cause immense damage to the acquiring law firm.

Potential benefits

Acquiring firms should consider what they are actually bringing to the table in terms of leadership and strategy. It is easy to assume that all will be well, but firms should try to avoid getting into a muddle of illusory synergies when they do not exist.

Necessary resources

Acquiring firms should ensure that they have the necessary resources to make the merger work. Bolt-on acquisitions where a law firm acquires a niche business can work very well without a huge effort at management level. Larger acquisitions that increase debt levels and pressure from day one, however, can get off to a bad start.

In one recent deal, a management team walked away when they realised how much more of their time would be required to make the deal work and how this would affect the running of their existing practice. An already stretched practice can be tipped over the edge by an acquisition.

Culture kills deals

Culture clash is one of the most overlooked problems for law firm M&A. Bringing two

distinct cultures together is no easy feat, but perhaps the biggest mistake is not to accept that there are any cultural differences at all. Cultures must fit for a merger to work. If they do not, over time, lawyers will leave, taking their clients with them. Equity partners might be happy to put up with a culture that they dislike if it undisputedly gives them significantly more money through

a favourable deal structure, but this may not be the case for junior partners and associates.

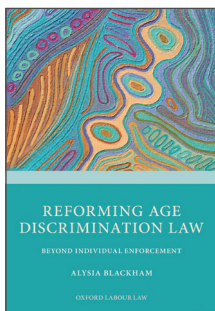
Need for a plan

Getting buy in, not just from partners and other key stakeholders, but also from staff and clients, is also key to success. A detailed M&A plan is essential. This will need to go through various phases from pre-merger

to post-merger and must be long term in nature in order to work. Without a detailed integration plan, which is also carefully executed, firms will be setting themselves up for a failed merger.

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BOOK REVIEW



REFORMING AGE DISCRIMINATION LAW



Author: Alysia Blackham
Publisher: Oxford University Press
Price: £80
Format: Hardback

Despite the introduction of age discrimination laws, ageism remains a prevalent problem that affects both younger and older workers. This book provides a roadmap for the future development of age discrimination law to better address workplace ageism. Drawing on comparative perspectives from the UK, Australia and Canada, the book analyses existing age discrimination laws and their enforcement, and proposes concrete suggestions for legal reform and change.

The book considers age discrimination law in the context of claims, negotiations and alternative dispute resolution, hearings and judgment, positive duties, agency enforcement and collective enforcement. It includes useful insights from statutory agencies, lawyers, unions and other experts. The book then goes on to propose a new four-fold model of reform that aims to improve the individual enforcement model, strengthen positive equality duties, bolster the roles of statutory equality agencies

and enhance collective enforcement. It explores how these options might address the limits of existing laws, and the practical measures that are necessary to ensure their success and to move beyond the individual enforcement of age discrimination law.

This book will be a useful resource for employment lawyers, academics and anyone interested in the future of age discrimination law and policy. **AD**