Sustainable Success

LAMP HOUSE STRATEGY

Why responsible business is critical to a successful law firm merger

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Introduction

Law firm merger activity is gathering at pace right now.

The recently announced merger between Allen & Overy and Shearman and Sterling is only the most current – and high-profile – example of this buoyant market.

2022, as a whole, saw an increase in law firm mergers across the US. Overall merger activity is also up in Q1 2023, according to legal consultancy Fairfax Associates. There is a similar trend in the UK, where Jomati Consultants recorded an uplift in merger activity across 2022/21 compared to 2019/18.

Despite this flurry of merger activity, we are all familiar with past stories of law firm mergers that didn't work out. Political decision making and short term vision are two common pitfalls that mean mergers don't meaningfully create value for the firm's main stakeholders – their talent and clients.

But what if law firms considering a merger proactively applied a responsible business lens to their merger strategy? To really think through a potential merger's purpose and its impact on the firm's people, Partners and clients.

We want to help law firms think about how to do just that.

We have surveyed over 100 in-house General Counsel to understand their hopes and concerns arising from law firm mergers.

We also spoke with some of the leading global advisors to law firms, with experience in advising on mergers, strategy, recruitment, brand and marketing to get the inside story of what makes law firm mergers succeed (and fail).

With our thanks to all of those experts who contributed their time and wisdom to our research, this paper looks at how applying a responsible business lens in merger discussions can help law firms build brand combinations that achieve sustained success. It also acts as a guide for what law firms must avoid if they don't wish to add their name to the list of unsuccessful law firm mergers.

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What Makes a Successful, Sustainable Merger?

Overall, there are three core pillars a firm needs to execute on to pull off a successful merger.

Those pillars are not the new brand name, financials or KPIs – the typical preoccupations in law firm merger discussions.

Instead, it is strategy and leadership, culture and go-to market proposition.

What underpins all three of these pillars are key components of responsible business: a clear purpose beyond profit and thoughtful consideration of how to keep key stakeholder groups – like talent and clients – engaged and satisfied.

These components are often an afterthought when it comes to mergers, according to our market experts. But putting them front and centre of any merger strategy is what allows firms to thrive in the long term.

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Strategy & Leadership: Defining Your Purpose

The business leaders who are shaking up industries are those which are shifting away from shareholder primacy.

In the case of law firms, these shareholders would be equity partners. Instead, these organisations have recognised that there are finite resources (planet and people) in the world and they need to treasure each.

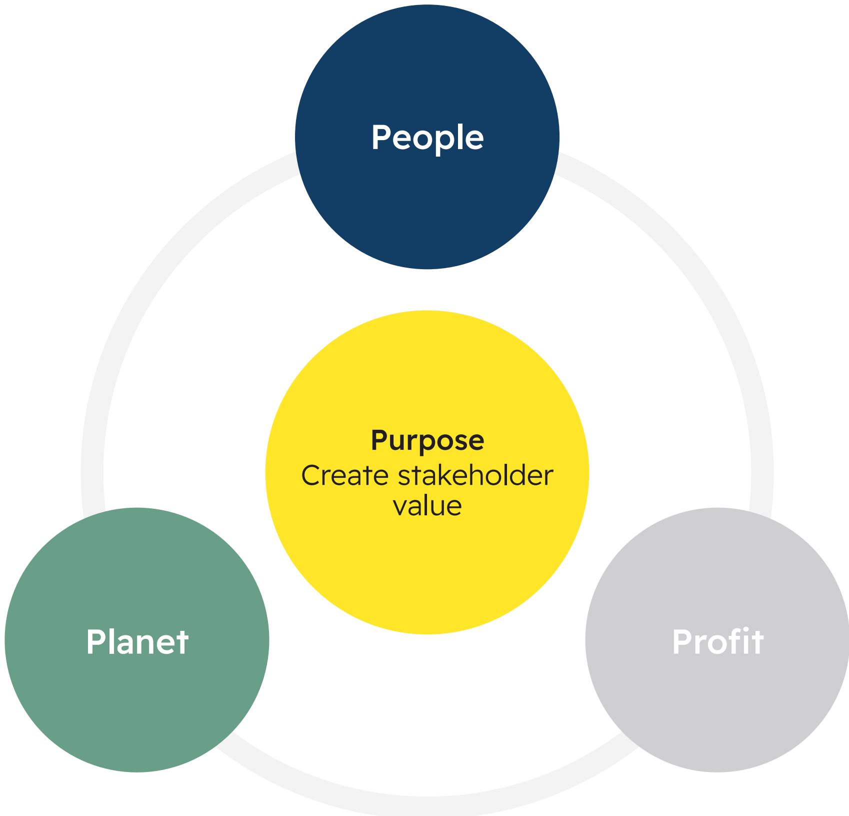
These organisations unite around a purpose: one which aims to maximise broader stakeholder value. This purpose flows into their strategy and business plans, the way they target and reward their people and the way they report on their performance to the market.

A clear purpose beyond profit is something we rarely see being articulated by law firms in Lamp House's own **analysis of law firms' responsible business strategies.**

Landing upon a shared, common purpose is the first step to pulling off a successful merger. Our market experts were united in believing that taking a long-term view of the brand combination was essential to success.

Too often, firms approach mergers with a short-term view, preoccupied by issues like the name of the new brand combination, and they fail to spend significant time considering the purpose of the merger and how that flows through the firm's strategy.

This is where strong, clear-eyed leadership is absolutely crucial.



Strategy & Leadership: Defining Your Purpose

"A compensation system that really rewards that approach to clients is a must. If a compensation system doesn't match up with this new firm, it's very hard to convince people to do things."

There needs to be total clarity around the purpose of the merger itself, and that purpose should inform the firm's goals and ambitions. Firms should also go beyond thinking about the immediate future post-merger, but what the joint ambitions and goals should be in years one, two, three and ten.

Leadership should set the tone for how the merger is going to work. This involves aligning the two firms on the right financial and remuneration metrics – especially those that incentivise collaboration, responsible behaviours and client development. Pooling profits in the short term helps to demonstrate the commitment to long-term, shared success and an "in-it together" attitude.

This level of communication is particularly important in engaging Partners, who will be hugely influential to the success of the merger. Our **Leading Teams research** (in partnership with Chambers) shows that Partners' happiness at their firm is strongly correlated to levers such as believing in the firm's long-term vision, confidence in the firm's trajectory and transparent decision making processes. Partners who strongly agree strategy is effectively communicated are also more likely to recommend their firm.

This focus on purpose does of course create another challenge for leaders to navigate: showing that the purpose is authentic and lived throughout the firm. Here, practical actions taken to support the firm's most important stakeholders (talent and clients) is what demonstrates an authentic, sustainable approach.

Culture:
Caring For Your Talent

Talent can be lost way before deals are even done.

Our consultants have seen first-hand how firms begin to leak top talent once mergers are reported in the press, concerned about the potential impact (as well recruiters targeting talent and doing their best to convince them to jump ship).

For this reason, talents' needs and concerns have to be a key consideration early in merger discussions.

This is a prime time for firms to work on the new employee proposition. Looking at the two brands, what does this mean for career development, training and learning, collegiality, international opportunities and the types of deals people can work on? It should be a feature of merger talks to discuss what each firm expects of the other in this respect, and what each will deliver in return to create a compelling package for talent.

Interestingly, our consultants didn't universally believe that it was necessary for both firms to come from similar cultures in order for a merger to work out. Strong, shared cultures can be built. But what is needed is that shared purpose, alongside solid internal communications to convey it. Leadership plays a vital role in establishing and building the new, unified culture: this means clearly articulating what the culture is and what it isn't – alongside unambiguous signals that behaviours going against the new culture will not be tolerated.

The more communication that happens, the more chance there is of reducing the level of uncertainty or confusion talent feels about potential mergers.

Taking this a step further and making it a two-way dialogue is one of the ways in which our consultants have seen mergers be successful. Consultation with top talent, especially at Partner level, is an effective way of making people feel heard. It also provides a space for people to raise any worries or fears about the proposed merger, which can – and should – be addressed to win buy-in and engagement for the new brand combination. These one-on-one conversations can also help socialise the new brand before official launch.

As part of these conversations, there is an opportunity for the firm to help people understand how the two brands align. Engaging key influencers within the firm early on is also a good tactic; those people with a powerful voice within the firm need to be on side so they can advocate for the new combination rather than negatively influencing opinion among their 'followers'.

Culture:
Caring For Your Talent

“You may win every point in the negotiation and lose the merger. You’ll get the merger done, people will feel stiff, and they will go at the earliest possible opportunity. What have you bought? Nothing, you’ve bought an empty building.”

Go-To Market:
Creating Value For Clients

As well as talent, clients are another important stakeholder group that law firm mergers need to create value for.

We surveyed 120 GCs across markets to understand how clients feel about the potential upside and drawbacks of firms they work closely with merger.

Looking at what clients saw as the main benefits a law firm merger would provide to them, clients mostly highlighted factors that, executed upon properly by firms, would help expand the relationship.

What do you see as the main benefits law firm mergers can provide to you as a client?

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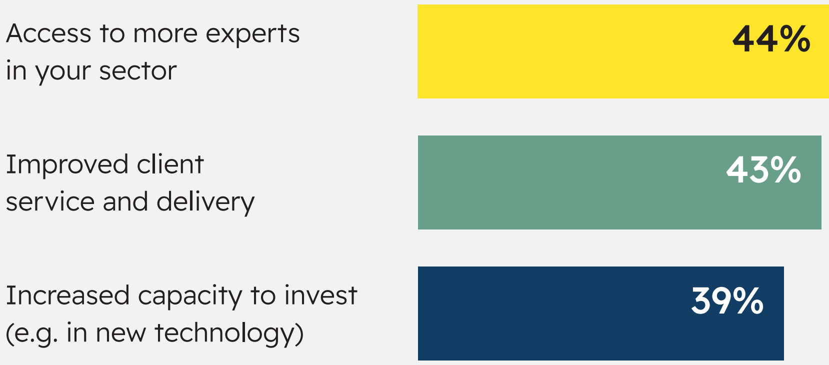

Having access to more experts in their sector was mentioned by 44% of clients as a potential advantage and improved client service and delivery came next. Benefiting from a firm's increased capacity to invest in new technology was third, mentioned by 39%. A further five benefits could be envisioned by a good proportion of the clients interviewed.

With this in mind, developing a client proposition that responds to these latent client needs should be a focus of any merger strategy.

Partners from both firms need to develop a shared understanding of the firm's strengths and synergies, becoming confident with the capabilities of their equivalent firm.

Go-To Market:
Creating Value For Clients

In practice, this means Partners actively working together. One of our market experts provided the example of Partners sitting down together, taking a list of each firm's top 20 clients and then thoroughly reviewing for any conflicts and identifying potential to grow these client relationships. This more methodical approach should also help firms work through what kind of messaging they need to develop that will articulate the purpose of the merger, and the benefits, to each of these high priority clients.

We also asked clients what concerns they would have about one of their most-used law firms merging with another.

What would be your biggest concerns if one of your most-used law firms merged with another firm?

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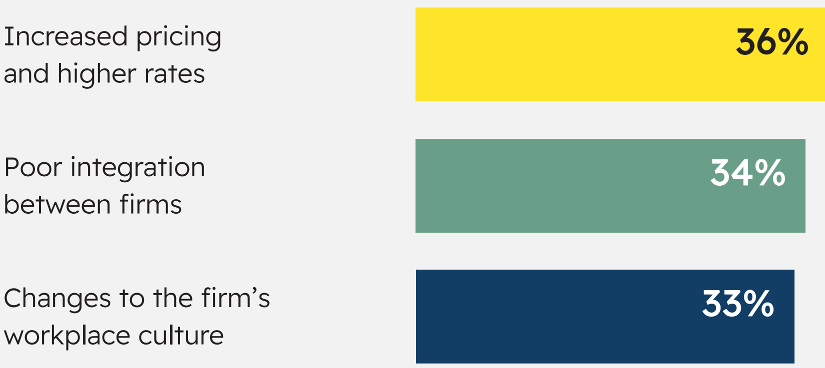

Interestingly, there was not one glaring factor concern for clients. The most worrying aspect for clients was facing pricing hikes, mentioned by 36%. On the whole though, clients are generally most fearful of losing what they have. Concern about poor integration between the firms, the impact on internal culture and the client experience were all mentioned by a third of GCs surveyed.

As well as undertaking the internal due diligence on how a merger impacts specific clients, there should be some outward consultation with clients too, to integrate their opinions into merger strategies.

Typically, consultation with clients about mergers usually happens after the fact.

Go-To Market:
Creating Value For Clients

> “The more you can get to data or the more strategic rationale for names, the easier the process is. Understand what legacy name has the most equity [and] use real strategic rationale for why you would go for one name.”

But, there are ways to include the client voice in decisions during the earlier, more sensitive stages of merger discussions. More objective, market-level research is one way of exploring perceptions and opinions towards the different brands involved in merger discussions. Because this is a more independent view, it can also be useful in delivering more robust statistics on which brands have more equity and the strongest propositions among legal buyers – which can also help remove the heat from the more emotional and political decisions that need to be taken around the new name and brand identity.

Wider brand perceptions research with key clients can also be helpful for scoping out what they see as the firm’s main strengths, what its culture and values are, how the firm’s people represent these, and any gaps in the firm’s offering. If a firm doesn’t wish to embark on more overt ‘brand’ research during merger discussions though, then similar questions can easily be integrated into any existing client feedback initiatives to gather this insight in a more low-key way.

Once merger talks become advanced, and perhaps start appearing in the press, firms should also not shy away from broaching the subject with clients. Again, this can be done sensitively and positioned as an exercise with only a select group of trusted clients to hear their initial reaction. This early feedback is a great opportunity to test the new proposition, identify any concerns, and use this to refine the overall strategy and work on the external communication that will be rolled out to the wider client base and market, as a whole.

Summary

A responsible business approach to merger strategy is not one we see being applied consistently or thoroughly in merger discussions.

But, our research is clear that these three components – having a strong purpose, creating a culture which supports talent and developing a client proposition that is genuinely valuable – are those factors which will help any new combination to thrive.

Making responsible business a guiding light in merger discussions allows firms to focus on how it can get mergers right and deliver true benefits for its shareholders, not just its stakeholders.

It means firms need to be less insular and less narrowly focused on the due diligence around a merger. Instead, working collaboratively across firms, communicating as much as possible and engaging stakeholders earlier in the process through consultation and research all help firms to focus on bigger picture issues and drivers of long-term success.

About Lamp House Strategy

Lamp House Strategy is a specialist in stakeholder research through a responsible business lens.

We provide invaluable ESG data, rigorous insight and broader stakeholder research services.

We take a data-led approach to understanding the needs of key stakeholders – like clients, talent and suppliers – and use our teams' combined 20 years+ of experience to guide law firm strategy.

We have changed the dialogue on a number of important topics within leadership teams and we now take the same data-driven approach to deliver insights which help law firms to reframe responsible business as a symbol of sustainable success – something that benefits them, their teams, the wider industry and the bottom line.

Our solutions

- Responsible business strategy development and benchmarking
- Stakeholder voice including client feedback interviews and talent surveys
- "Leading Teams", global talent benchmark, in partnership with Chambers
- Thought leadership research
- Brand development research
- Merger intelligence
- GC and talent data and insights
- Insight-led presentations for partner retreats, boards and practice and sector group workshops.

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To learn more how we can help your firm, get in touch with:

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