



Summer 2003

Making Law Firm Mergers Work

Law firm mergers have become increasingly common, and rough economic times are prompting even more firms to consider the move. Before embarking on such a major undertaking, firms need to carefully consider several issues.

Why Are You Merging?

Experts say it's important that law firms have a sound strategic reason for merging. A firm shouldn't enter into a merger solely because it can't survive on its own or to decrease its workload. Instead, a merger should be based on strategic reasons geared toward positive outcomes. Often, these reasons are related to geographic or practice area considerations.

From a geographic perspective, the merger of two general practice law firms located in the same area might not produce any real gains for either firm. Although the client base may be slightly larger, the target market remains the same, and the merged firm will not be able to offer its clients anything beyond the pre-merger services.

On the other hand, such a merger might be attractive because of the economies of scale that can be achieved or because of issues related to partner retirement or firm continuity.

A firm that seeks to serve multiple geographic areas, thereby gaining access to a significantly larger client base, might consider expanding by merging with a firm already located in those areas.

A similar rationale applies to mergers based on practice areas, where the ultimate goal is a synergy that benefits both firms. A firm with a strong bankruptcy practice but little corporate work prior to the bankruptcy stage might want to merge with another firm with a corporate practice but no bankruptcy expertise.

Or an estate planning firm, with high-net-worth clients, might merge with a firm that does corporate work, producing a firm that can serve both high-net-worth individuals and their businesses.

Avoiding Culture Clashes

Culture issues may play the most pivotal role in the success or failure of a law firm merger. A firm's culture includes how it practices law, manages the practice, and deals with clients. If one firm's attorneys are extremely conscientious about billing and following other procedures, but the other firm operates much more loosely, a merger could be a disaster.

To avoid creating a split personality within the merged firm, the individual firms must achieve a melding of the minds so that every attorney is working from the same firm psychology. A failure to do so can result in internal animosities and external confusion and dissatisfaction.

In looking at firm culture, the firms must also address how they deal with staff. Issues such as secretarial sharing ratios and degree of supervision and control, as well as benefits and operating procedures, are all important.

It is not enough for the practices to be compatible for the attorneys; they must also be compatible in all areas of operation.

Systems Integration

With the myriad computer programs on the market for timekeeping, billing, document management, accounting, word processing, and other key functions, it seems likely that two merging firms will need to integrate their systems into a single, firmwide system.

This may seem daunting, but it can be accomplished if representatives from both firms get together in advance of the merger to establish a plan for getting the new firm where it wants to be.

Exit Strategies

Prior to merging, firms should develop exit strategies for two different situations — partner retirement and merger failure.

The merging firms probably will have different retirement approaches, addressing when and how partners leave, how the firm buys them out and on what basis. Partners who are nearing retirement within their own firms will be particularly sensitive to how these methods are reconciled.

It will be crucial to get these partners on board with the new approach, without making the firm financially vulnerable in the process. The new firm's retirement program should be devised with input from younger and older partners.

Merging firms must also recognize the possibility that, over time, the merger just won't work out as planned. As part of the merger agreement, the firms should negotiate a "de-merger" clause to undo the merger if necessary.

The de-merger clause needs to have a very limited time period to it, or the danger exists that the firms will never really merge, but just keep doing what they were doing before until the time to de-merge.

While additional negotiation will no doubt be called for if the merger fails, such a "prenuptial agreement" can at least provide a framework for sorting out the details.



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