Integration – The Key to a Successful Merger

I'm not going to tell you why you may want to do a merger or how to figure out the financial side of making a transaction work. Rather I want to share with you what it takes to successfully integrate two firms. Remember rule number one – "No integration, no successful merger."

You decided to conduct a merger to achieve some strategic objective, you went through all the emotional turmoil of getting both parties to sign the documents, and you think you are done. Well, that's a big mistake. Integrating the two firms into one will be your greatest challenge.

Let's look at some key integration areas. Issues within each of these areas should be identified during the merger process and especially during due diligence.

Culture

The biggest problem in integrating two firms deals with culture. Let's define culture as "the way we do things around here." Culture can also be defined by answering the question "What's it like to work at ABC firm?" Culture is the product of the firm's history. If Firm A has developed all of its partners internally and Firm B has had a history of mergers, you can imagine that each firm will have very distinct cultures.

My experience has been that firms often fail to conduct an in-depth cultural assessment prior to completing a transaction.

Compensation and Benefits

Knowing how partners in each firm are currently paid is critical. Here are some basic questions to explore:

- Does one firm have a formula or entitlement approach, while the other shares profits equally?
- How are employees in the two firms paid?

- What are the differences in employee benefits between the two firms?
- What are the strengths and weaknesses of each pay plan? Is there a big difference in compensation ranges?

Leadership and Governance

How will the firm be governed going forward and who will be the leaders of the firm (managing partner, department heads, etc.) If these are not determined prior to closing the transaction, there needs to be a process in place that the new firm will follow. Lay out the organizational charts of both firms and then find out which aspects of each structure is effective, which areas need improvement and which areas should be eliminated.

My experience with over 150 mergers is that leadership is often lacking in both firms and the outcome is that there is a larger firm with more issues, but with weak or ineffective leadership. Just make sure you know that there is someone who can lead the firm into the future and that you develop concise descriptions of how the firm will be governed.

External and Internal Communications

Whenever a merger takes place, rumors run wild in the marketplace. "Firm A had to sell, all its staff is leaving, etc., etc." There are always a lot of questions that need to be addressed. Productivity during the first year of a merger often suffers, and hence it's critical to control external and especially internal communications.

One way to reduce the rumor mill is to create a "go-to" team of experts who can provide staff with the right answer to their questions. Holding staff meetings to address concerns and preparing a weekly integration newsletter are also effective ways to communicate.

Clients

Communicating with clients can be accomplished in various ways. For the firm's top clients, personal meetings are a must. For all other clients, a letter signed from the leaders of the two merging firms should go out as soon as the contracts are signed.

Don't forget to use the firm's website to introduce the merger. If you are using an e-newsletter you will also want announce the merger in it as well.

Performance Standards

Very seldom do the two firms have the same employee and partner performance standards. I urge my clients to develop performance standards for partners and employees up front. It may take a year or two to achieve complete integration in this area, but at least a game plan is clearly laid out.

Administration

Action plans for integrating the administrative functions need to be developed after analyzing the support requirements of the two firms. You can save a lot of time by identifying up front how the two firms are currently administered. Do partners have individual assistants in Firm A, while Firm B runs a leaner practice?

The key administration areas that you want to explore prior to signing the documents are:

- Staffing requirements. Identify the "keepers" up front and let them know on day one that they are important to the firm.
- Technology platform. Identify the common technology platform the new firm will be using – tax software, time and billing program, etc. You can't integrate firms if they are running on different systems.
- Accounts Receivable and WIP. Determine what the firm's policy will be regarding A/R and WIP. Will you have an A/R manager? What role will partners have in collecting A/R? etc.

You can see there is a lot more to a successful merger than just signing the documents. The more time you spend planning the integration, the more successful and less stressful the merger will be for all.