

# Law Firm Culture: Key Indicators for Merger Success

By Alan R. Olson

**I**n a newly merged law firm somewhere in the United States, a group of partners engaged in meeting after meeting, trying to reach consensus on a firm-wide business casual dress code policy. Management and leadership were not able to resolve their differing viewpoints so took the issue to the partner group for what was hoped would be a fast and final decision. Months passed without resolution, as partners from the two merged firms lined up in opposition, generally along office lines. Comments on other issues, unrelated to business attire, crept into discussions and escalated in the meetings. Frustrations mounted, caused by dysfunctional meeting dynamics combined with the painful recognition of the amount of partner time being spent on “business casual.” The wasted time increased. Eventually, a peacemaker suggested that each office adopt its own separate business casual dress code. Finally, both offices could agree, and the issue was “solved.” Within three years, the firm chose to dissolve, and the two major offices separated to try to assume their basic pre-merger status, although that was very difficult to do.

The scenario described above could never happen with a group (or two groups) of highly intelligent, highly motivated lawyers, could it? The answer unfortunately is yes – and many variations on this theme have played out across the legal landscape.

## Culture Is Critical

Altman Weil has decades of experience in facilitating successful law firm mergers. In those years, we have also received many calls from post-merged entities, requesting help in “fixing” merger problems, or reviving a dysfunctional or partially merged firm. The following points are critical in considering law firm mergers and addressing the vital connections between culture and successful merger.

- **Successful mergers require the expenditure of resources.** Mergers can vault firms to new levels of recognition and economic performance. They are also expensive – but failed mergers are more expensive. Law firms, particularly their leaders and managers, can devote substantial amounts of highly valuable time, energy and dollars in the pursuit, evaluation, integration and consummation of mergers with other law firms. Some firms use outside experts to assist in these areas, to augment their expertise and to add perspective. Devoting these types of internal and external resources to a law firm merger is highly appropriate, because the consequences of a dysfunctional or failed merger are likely to be much more costly – and more painful. The baseline requirements for a successful merger are that it be premised on real strategic value and that it yield financial value in at least the long-term.
- **To be successful, a merger of two law firms must achieve functional, and ideally optimal, alignment of a single firm culture.** The importance of culture has become more widely recognized by the legal community in recent years. Even so, culture typically receives much less attention – within individual law firms, and in mergers – than strategy or finance. As successful mergers demonstrate, the cultures of two law firms can be successfully aligned, or can be complementary, making the merged entity culturally stronger than either antecedent firm. But mergers can fail due to cultural incompatibility. In fact, some mergers have failed almost solely due to culture, despite the merger’s strategic, financial and other added value. Additionally, cultural problems can diminish the strategic and financial value of a merger if people don’t work together well, understand, or appreciate each other.



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**Culture ...** *continued from page 3*

- **Culture is an esoteric topic.** Culture does not involve concrete statistics or easily described fact patterns. It not only appears conceptually amorphous, it cuts across numerous substantive, operational and procedural vectors. Its impact can range from low to high and from hidden to obvious. The simple, practical definition that I use for culture is borrowed from anthropology: culture includes shared values, customs and beliefs. To shape the inquiry, we can also add that culture is who we are, and who we want to be. The application is more important than the definition, however.
- **The manifestations of culture are identifiable, often concrete, and can be meaningfully assessed.** This is of great importance in looking at culture and mergers. Culture is as culture does might be another way of putting it. Because culture affects multiple operational and procedural areas, there are many opportunities to assess the compatibility of two firms' cultures by looking at these areas and the underlying values, customs and beliefs inherent in each.

**Manifestations of Culture**

Following are some of the prominent areas that provide indicators of law firm culture. Note that some cultural differences may suggest incompatibility or might make the merged entity stronger if the best attributes of "Column A" can be combined with the best attributes of "Column B." Also note that when a much larger law firm is acquiring a smaller entity, the larger firm's culture and cultural manifestations are likely to dominate.

**Economics and Performance Expectations**

- Lawyer performance expectations
- Performance assessment: Degree of focus on individual performance vs. team, practice group and firm
- Economic assessment: What is a

- great year? A solid year? What is an acceptable year?
- Vacations: Minimal vacations vs. "You need to get away to stay sharp."
- Sabbaticals: Mandatory sabbaticals vs. "What is a sabbatical?"
- Associates: Is associate economic performance a shared responsibility, up to the associate, or "sink or swim"?
- Time, billing and collections: Do partners view timekeeping, billing and collections as their responsibility, or firm management's?
- Accountability: Does management deal with sub-par partner performance? How? Over what time frame?

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***"...culture includes shared values, customs and beliefs."***

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**Management and Administration**

- Management structure: Dedicated lawyer-managers vs. "Many of us manage, when we have the time."
- Supervision: Laissez faire or close supervision?
- Philosophy: Partner autonomy or central authority?
- Committees: Number, role, importance and performance of committees
- Meetings: Number, role, importance of meetings

**Leadership**

- Who leads? Single leader, oligarchy or town meeting democracy?
- Roles of leaders?
- Leadership styles: Autocratic, participative, supportive, etc.
- Succession: Are there leaders of the future?

**Compensation Systems**

- Type of system: Formulaic, subjective, lock step, combination systems?

- Number of tiers?
- Retrospective? Prospective?
- Measurements: What types of performance are measured and how?
- Incentives and rewards: How much is individual performance or teamwork incentivized and rewarded?
- Administration: How are systems administered? Who decides?
- Tradition: How long have the systems been in place?
- Philosophy: How much is a system viewed as "untouchable"?
- If so, why?

**Conclusion**

Successful mergers require the successful combination of two firms' cultures. Otherwise, at a minimum, the merged entity will under-perform, will likely experience a rocky few years, and could even fail. The importance of culture has come to be more appreciated by larger, increasingly specialized and compartmentalized law firms. Nevertheless, culture is still given far less than its due in many pre-merger and merger processes.

For law firm managers and leaders, the maxim is that you do not need to focus on culture *per se*, but should focus on the manifestations of culture, as windows on your firm's and another firm's compatibility. As shown above, some of these manifestations are easily identifiable, and often very tangible. Focusing on these, even before a merger candidate has been identified, will help you analyze your own firm and separate the negotiable issues from those that are non-negotiable. ♦

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