

LAW FIRM SUCCESSION PLANNING: DO ONE SIMPLE THING

by Alan R. Olson

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Recently, a major rainmaker in a 100-plus lawyer firm, who had virtually sole responsibility for a client generating well over \$2 million in revenue per year, announced his retirement, providing his colleagues with 30 days notice. When asked about this abrupt departure, he responded that he had acted in accordance with his firm's ownership agreement.

Altman Weil's analysis of US and Canadian Bar demographics indicates that 30%-40% of actively practicing lawyers are at an age and stage where they are beginning to retire, phase down, or contemplate phasing down. A majority of law firms, small and large, have actively practicing lawyers in their late 60s and 70s, many of whom are rainmakers.

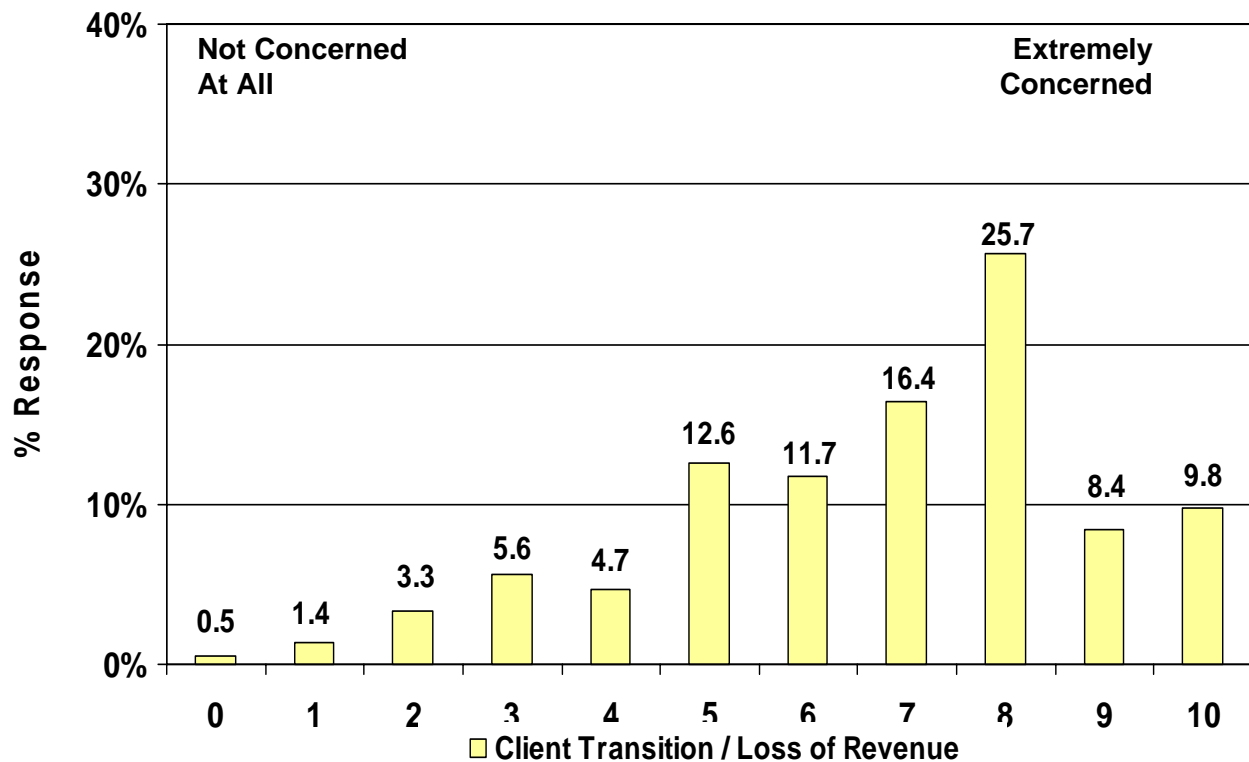
In instances where transition plans do exist, on close scrutiny, those plans often include overly optimistic assumptions, have strategic gaps, or lack realistic contingency plans. However, in our experience, many lawyers, and their firms, are simply avoiding the subject.

Tsunami of Change

The huge wave of baby boomers who entered legal practice 30 or 40 years ago, today represent a rapidly cresting tsunami of change. Many law firms are on the brink of rapid and dramatic personnel shift. The depth of change will be most stark in law firms where baby boomers have been instrumental in building, growing, managing and leading.

This dramatic demographic event has not gone unrecognized by law firm leadership. In the Altman Weil *Law Firms in Transition Survey 2011*, 47.3 percent of law firm leaders cited their respective law firms' preparedness to deal with retirement/succession of baby boomers as an area of most concern (the highest response rate for this question). In the *Law Firms in Transition Survey 2012*, failure to successfully transition key clients with resulting loss of revenue was the top succession planning concern (depicted below), followed by concerns over leadership succession and loss of expertise.

CLIENT TRANSITION / LOSS OF REVENUE



Knowing is Not Doing

One of the main themes in Jeffrey Pfeffer and Robert Sutton's highly pertinent book, *The Knowing-Doing Gap*, is that identifying, and talking about, an issue or problem is not the same as addressing or solving the problem. This principle is especially applicable to law firms. Lawyers generally excel at issue analysis and discussion, but law firms are seldom structured for easy implementation of new ideas.

Despite the generally high recognition of the need for succession planning, many law firms have been reluctant, or lax, in developing adequate succession plans. Many—if not most—law firms have been dealing with succession planning case-by-case (which might be appropriate), and *ad hoc* (which is not). Moreover, lawyer succession issues are often addressed belatedly, if not grudgingly. Many firms persist in avoiding the issue, hoping that, given time, transitions will spontaneously take shape and work out.

In addition to the knowing-doing gap, there are myriad reasons why law firms, populated by highly intelligent, forward-thinking and risk-averse stakeholders, have

continued to avoid succession planning issues, taken minimalist approaches, or practiced brinksmanship. Some typical excuses we hear from law firms are:

- **Inertia or aversion to planning:** Historically, things have worked out over time; we've never had to plan this before; we're busy enough with the day-to-day pressures of serving our clients and running our business without worrying about what *might* happen;
- **Concern over lawyer retention:** We have seniors who are highly productive, at the top of their profession, and they are not receptive to discussing phase downs, transitioning their clients, or becoming lame ducks – *we don't want to antagonize productive partners*;
- **Concern over client retention:** We've been going above and beyond to retain and serve our clients, be completely reliable and responsive; if we broach the topic of transition, we are by definition, raising the prospect of change and potential instability;
- **Lack of viable successor(s):** Our next-in-line, or our next generation, might not have the high-level expertise, client and industry knowledge, or the requisite "fire in the belly" to take the baton;
- **Over-reliance on compensation systems:** Our (formulaic or subjective) compensation system provides for decreasing compensation as individuals reduce production—therefore, our transitions are covered automatically.

Solutions—The Way to Get Started (or Make a Fact-Based Decision Not To)

Clearly, law firms must not only recognize the need for succession planning, but also plan, act, manage, and compensate for upcoming transitions. The best solution is to factually determine if the firm has significant succession issues, and whether their breadth, depth and substance merit development of a succession plan of some kind.

There is one simple thing you can do immediately to objectively assess (and demonstrate to your partners) the need for succession planning in your law firm.

Conduct a demographic analysis of the ages of your lawyers. Subject to firm size, the analyses should typically be done at the firm, practice/industry group, and office levels. The chart below, based on hypothetical data that might represent a

small firm or large practice group, illustrates that clear, impactful conclusions are available through an easily undertaken demographic analysis.

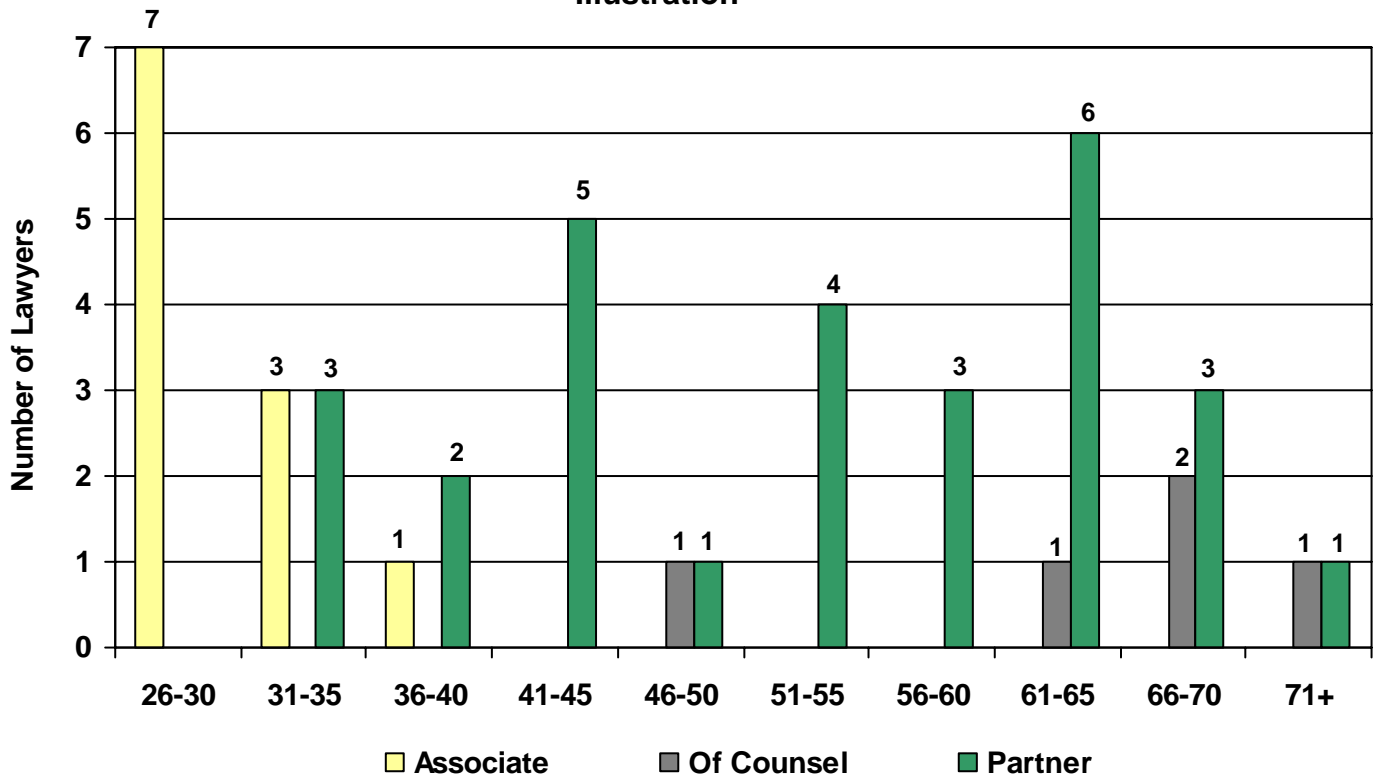
In this example we see a firm or group that has 14 lawyers age 61 or above, including 10 partners. It’s likely that, in most firms, these 10 partners will be responsible for very substantial client revenues. The eight partners age 46 to 60 are, in general, most likely to be “next in line” for assuming major client responsibility—but, of course, the firm can not *assume* that client transitions will occur, nor be successful. Clearly, the demographics raise important questions:

- Are there sufficient seasoned lawyers to transition the clients of 10 senior partners, or 14 senior lawyers?
- Does the firm have the requisite levels and types of expertise, skill and ambition to successfully transition and retain the seniors’ clients and legal work?

If it has not already done so, this firm (or practice group) should conclude that it needs to begin evaluating the specifics of pending changes, and developing concrete transition plans—and do so immediately.

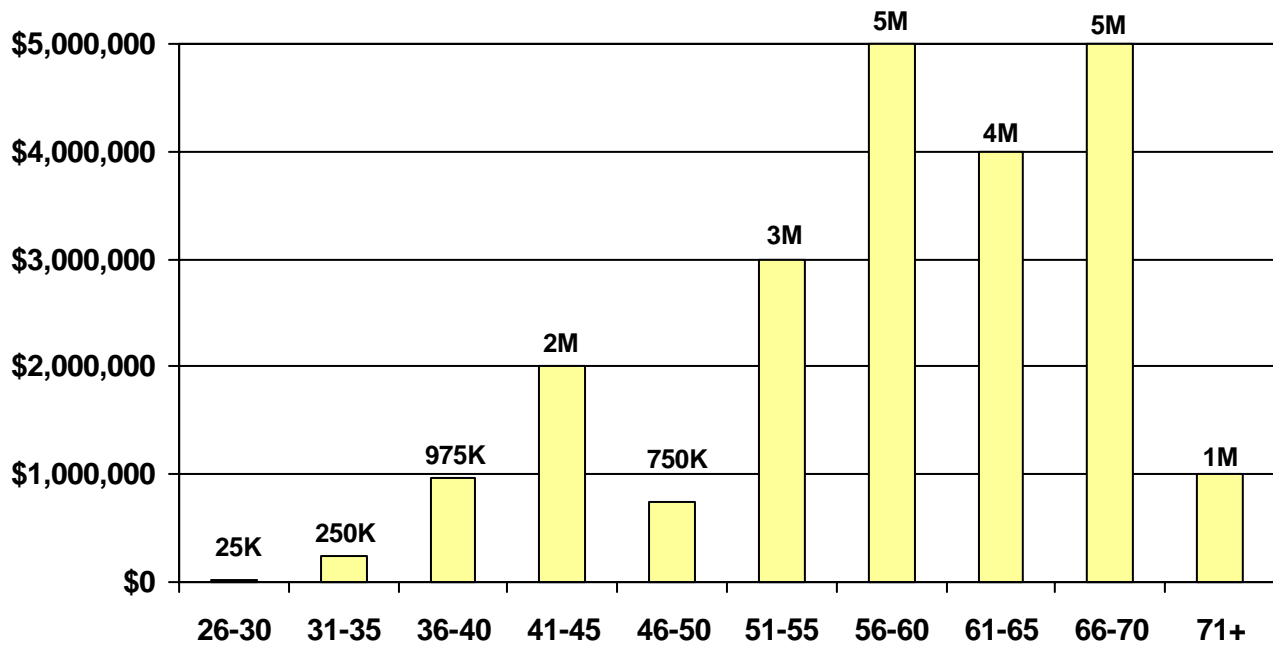
**XYZ Firm (or Practice Group)
44 Lawyers**

Illustration



Next, using the same demographic breakdown by age range, show Billing Attorney totals (or alternatively, Originating Attorney totals). This adds a dollar value to the equation and may inject a more immediate sense of urgency. In the representative example below, a major succession planning initiative appears warranted—and perhaps critical.

XYZ Law Firm
Total Billing Attorney Revenues by Age Group
44 Lawyers; \$22M Revenues



Conclusion

This fact-based, numeric depiction of your firm and practice group demographics, and accompanying origination statistics (or Responsible/Billing Attorney totals), will provide a concrete starting point for decision making regarding succession planning. It will also indicate the size, scope, breadth, and severity, as well as potential benefits of planning, potential risks of inaction and the overall level of urgency of your firm’s challenge.

The elements and details of the succession plan you need, will vary substantially by firm. What is common in law firms, of all sizes, shapes and specialties, is the absolute need to get started today.

About the Author

Alan R. Olson is a principal of Altman Weil, Inc., serving clients from the firm's Midwest office in Milwaukee, Wisconsin. For over twenty-five years, he has advised law firms across the country on strategic planning and practice management.

Mr. Olson is a thought-leader in the emerging discipline of succession planning for law firms, including leadership and management transitions, practice transitions, compensation systems and key client retention strategies. In 2011 he co-authored the *Altman Weil Flash Survey on Law Firm Succession Planning*.

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