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Initiating Client Succession in Your Law Firm

By Eric A. Seeger

I received an email this week from a law firm administrator that sounded a familiar theme:

> *Dear Mr. Seeger,*
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> *Our firm is reaching a transition point, with key equity partners nearing retirement. Due to the success of the firm and the longevity of the partners' relationships, much of the strategic and succession planning has been pretty much avoided. We do have a partnership agreement which sets out the retirement provisions.*
>
> *We have been approached by a firm about a merger, which has brought on quite a bit of discussion on where we are going to be when the first two equity partners retire in three to five years.*
>
> *We need help with these key issues.*

At Altman Weil, we have been helping law firms work through succession and transition planning for four decades. Lately, however, more and more firms are coming to us requesting help and advice on how to handle urgent succession issues. Macro trends have placed an increasing number of firms in a position where these issues are now staring them in the face. In some cases, merger strategies, strategic planning, even recruiting plans need to be put on hold until critical succession and transition decisions can be sorted out.

DRIVEN BY DEMOGRAPHICS AND ECONOMICS

Like many trends in the profession, the surge in interest in succession planning was predictable, driven by demographic trends in the U.S. population and in the profession. A huge wave of baby boomers has been pushing through the workforce and is now at retirement age or within sight of retirement—as much as 40 percent of the entire U.S. lawyer population by some estimates. ABA data and U.S. Census Bureau data confirm the progression of a massive cohort of people moving out of the working population and into retirement. What is happening in the general population is happening in the legal profession as well. There is a very significant aging of the lawyer population overall.

On top of the general demographic trends, add what is happening over the last two years in response to the economic downturn, with associates being let go and underproductive lawyers of all stripes being cut loose. The pruning that took place across the profession—which in large measure occurred below the equity partner level—made it even more clear that capability is lacking in the "middle" of many firms to sustain the business after senior leaders exit. This can be a question of life or death for some firms.

A DIFFICULT SUBJECT TO BRING UP

The lawyer mortality rate remains 100 percent. Every lawyer currently practicing will someday stop, maybe gradually and intentionally, maybe abruptly and finally. Yet despite the fact that every career must end, most lawyers do not like to talk about it with their colleagues.

Starting your succession planning efforts can be difficult simply because it is an awkward subject to talk about. Many firms balk at starting the conversation because it requires talking about matters of mortality and uncertainty, and because high achieving professionals tend to have a lot of their personal identities wrapped up in their professional identities. It's a delicate area and a potentially emotional subject. The dynamics of a professional partnership can also complicate things; many partners avoid confronting other partners because of their equivalent professional status and, in this case, perhaps their seniority as well. Many firms do not have a culture where people confront each other with hard truths.

Sometimes we are asked how a firm can start dealing with succession issues when the lawyer most in need of a succession plan (like the founder or major rainmaker) will not engage the issue. The best you can do in such a situation may be to enlist other influential partners to make a direct appeal, explaining that people are asking questions about the future and it is unfair not to be able to answer them. Try to start the dialogue by using other lawyers who are highly credible, respected, and trusted.

It is beyond dispute that a firm's senior lawyers aren't getting any younger and, for the good of the firm and the clients, all parties need to figure out how to manage successful transitions. Succession events are critical in the life of a law firm and need to be handled in a responsible, businesslike way, with empathy and sensitivity of course, but handled, not avoided or postponed until it's too late to deal with them constructively.

In a firm with clear succession issues, there are only a few basic options available—deal with the issues now (recommended); deal with them later (potentially in crisis mode); ignore them (which means dealing with them later, under avoidable pressures); or impose an alternate solution like splitting up or being acquired, which in some cases may be the best option. Firms that do not proactively address their succession concerns will have their problems solved for them when key clients or lawyers leave the firm.

THREE QUESTIONS

Effective succession planning requires candid discussions centered around three questions. If firm management, lawyer, and client can share and mutually understand their answers to these three questions, fashioning mutually-agreeable solutions becomes a lot easier:

- What do you want?
- What do you expect?
- What are you afraid of?

Running a law firm, a business, or a law practice requires some degree of emotional intelligence. Believe that all parties have the courage and skills needed to articulate their positions and come to agreement on a solution that works to advance or satisfy everyone's interests.

Remember too that transitions can be triggered on the client side, not just on your side. They have retirements and transitions and restructurings in their organization also. That is why a two-way dialogue is so important. You want to know what their future intentions and variables are too.

WIN-WIN-WIN: CLIENT TRANSITIONS

Law firms, lawyers, and clients need to work through succession issues together, because ultimately everybody wants the same things: continuity, predictability, positive working relationships, and high levels of quality, comfort, performance, and trust. To maintain these critical relationship elements, it is important to get an early start working toward shared goals.

Transitioning clients effectively can, and where possible, should take a number of years. We recommend a deliberate process of phasing in new lawyers to serve the client over a period of not less than three years. That gives the firm time to assess progress and to make any personnel adjustments that may be necessary. You may not get the staffing right the first time.

If you are just getting started with transitioning clients, be selective and smart about how much you try to accomplish in the early stages. Set yourself up to succeed by starting with just a few clients. Also recognize that some clients are more important to the firm than others, and frankly, some lawyers and practice groups are more important than others (as anyone knows who has ever had to negotiate a client conflict issue between partners). The clients you focus on transitioning should reflect some combination of financial importance, strategic importance, and do-ability. Keep it practical, especially in the early stages when you need to demonstrate within the firm that succession planning is a good thing for everybody.

If your firm has a key client program of whatever sort, that's a good place to start. But whether you have such a program or not, you still know who your major clients are and which relationships may be in jeopardy as you look a few years down the road. Start with one or more of those clients.

INTEGRATING SUCCESSION PLANNING INTO BUSINESS PLANNING

In a larger law firm, strategic planning or business planning should be done at each of three levels—firm, practice groups (sometimes departments or offices), and individual lawyers. At the practice group level, consideration should be given annually to how the group will pursue high-potential client opportunities, increase or improve its competitive capabilities, improve its profitability, and increase its overall contribution to the firm. Succession issues should be identified and addressed as part of the practice group planning process. Which important clients in this group need to be transitioned in the next three to five years? Do we have the capability and the right personnel to continue to serve those clients at a high level? Do we know the billing attorneys' intentions? The clients' intentions? Have we initiated discussion with the clients? If, as we suggest, the business goal of a practice group is to "acquire, retain, and grow clients at a profit," clearly there will be succession implications with some key clients that should be rigorously addressed and systematically implemented through your firm's normal planning process.

Drilling down to individual lawyer plans, firm management must see to it that lawyers "of a certain age" are accountable for documenting or otherwise going on record with their future work intentions and their plans for transitioning key clients.

FINANCIAL CONSIDERATIONS

The question of how to compensate senior lawyers as they wind down or phase out allows no easy answer; the analysis is specific to each firm. The goals include:

- Retaining and motivating valued senior lawyers to remain with the firm
- Fairly compensating individuals
- Maintaining excellent client service throughout the transition
- Avoiding service gaps or hurried hand-offs
- Integrating new relationship lawyers intentionally and over time
- Developing any needed capability in the successors
- Retaining and expanding the client relationships
- Avoiding surprises

Ideally, some compensation should be linked to getting these things done.

We recommend that a framework or guidelines be established, but that the firm retain flexibility within the guidelines to respond to individual circumstances. There is no right answer that applies neatly to every situation. There are a variety of viable paths, and firm management's job is to put each transitioning lawyer on the appropriate path.

It is important to understand each lawyer's motivations and circumstances so that each deal can be structured to achieve harmony between interests. Finally, it should be made clear that an arrangement that is made with one lawyer is not an entitlement for all lawyers who follow. The interests of the firm are paramount, and the firm has the final say.

IMPLEMENTATION BASICS

The basics of effective law firm succession planning are straightforward: start early, involve the client, stay on top of it, and address everyone's needs fairly and firmly. You want to establish an understanding that client decisions are going to be made in the best interests of the firm, that lawyers will be fairly compensated for their cooperation in transitioning clients, and that these discussions are going to take place.

Like any other proclamation that is made in a law firm, then there must be real, meaningful follow-up or the effort will fizzle and disappear. Too many firms set expectations or make decisions on how succession planning will be handled, but they don't have the will to really enforce the expectations or carry out the decisions, and it soon becomes apparent that the program has no teeth and can be safely ignored.

Remember win-win-win. Everybody wants a good outcome, but individuals may define "good outcome" differently because each individual is equipped with his or her own complex navigational device. Therefore, you cannot shortcut the personal conversations that are an essential part of successful succession planning.

By following this basic advice and making succession planning a routine part of firm planning and partner discussions, your firm will be well positioned to keep the work you would most hate to lose.

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A Basic Client Succession Plan

A Supplement to *Initiating Client Succession in Your Law Firm*
By Eric A. Seeger

A client succession plan would typically have the following elements. Successful implementation requires significant collaboration with the relationship partners as well as with each key client.

1. **Relationship Partner Agreement**

   Whoever heads the succession planning initiative in the firm should meet with the retiring relationship partner to discuss each key client to ensure they are fully on board with the transition initiative. Candidly discuss the objective, which is to achieve a rational succession plan over a 36-month period. If unsure about the relationship partner's agreement, do not continue until agreement can be achieved.

2. **Opportunity Assessment and Plan**

   With the relationship partner, identify specific matters where assignments to other lawyers can be made currently or in the future. The relationship partner must feel very comfortable with the level of competency of the people who will take on the client matters. Training or skill building may be required. At first, people may need to do work for free as an investment in keeping the client. Set measurable benchmarks regarding new assignments and plan to assess progress at regular intervals.

3. **Client Meetings**

   Meet with each client to discuss your intentions and set forth the benefits to the client. Make sure the client understands and cares about the benefits. Candidly discuss any reservations that the client might have and their suggestions for improving the plan. Tell the client that the transition process will not result in any extra cost to them. Schedule site visits to acquaint newly assigned lawyers with the client's business and personnel.

4. **Implement the Plan**

   Revise the plan, timing, and measurements as needed based on client input. Document and share the plan. Firm management should meet with relationship lawyers monthly to monitor progress. Modify the plan as necessary over time. Hold people accountable for achieving the successful transition. Continue to talk with the client. Integrate elements of the plan into individual lawyer plans.