Transition Assets:
A Foundation for Succession Planning and Lawyer Development

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Many U.S. law firms have a significant proportion of baby-boomer aged partners that are responsible for an <u>even more significant</u> proportion of their law firm's clients and revenues. Time and time again, in small, mid-sized and large law firms, we see a concentration of lawyers 55 to 68 (and older) who control an even more pronounced concentration of clients and revenues.

This demographic dominance is a tribute to the size and magnitude of the baby boomer generation as major economic contributors, builders, and "drivers" in their respective firms. However, for many law firms, their future success—and even survival—may depend on recognizing and acting on this demographic phenomenon. In other words: *This has been great—but now what are we going to do about it?*

Stumbling Blocks to Succession Planning

According to the 2013 *Altman Weil Law Firms in Transition Survey*, the two most prevalent "stumbling blocks" to effective succession planning in law firms are:

- Senior partners do not want to retire (cited by 77.6% of survey respondents); and
- Senior partners don't want to forfeit current compensation by transitioning client work (cited by 73.2% of respondents).

Additionally, the same survey found that only 27% of, U.S. law firms with 50 or more lawyers have formal succession plans, while 49% have an "informal/*ad hoc*" succession planning process. In our experience, informal/*ad hoc* plans often resemble little or no plan at all.

Another significant stumbling block to succession planning is that it is simply "awkward to discuss." Forty-five percent of survey respondents indicated that they have this problem in their law firms.

These difficult discussions with senior lawyers frequently delay and heighten sensitivities surrounding succession planning. However, law firms need to broach the subject and plan effectively for the successful succession of lawyers and transition of their clients, *as well as a broad spectrum of other assets*.

Transition Assets

In our work with law firms, we have identified an array of critical 'Transition Assets' to address in order to successfully retain maximum value for the firm as a senior partner phases down his or her practice.

Those Transition Assets include:

- Substantive legal expertise
- Range/blend of specialties; sub-specialties; industry knowledge
- Client relationships
- New business development skills and experience
- Firm management and leadership skills and experience
- Practice management and leadership skills and experience
- Profitability and cash flow

In specific law firms and practice areas, this list of Transition Assets should be used to identify the elements—*the assets*—of each individual transition. These assets can be assessed and prioritized for each senior partner:

- *What are the primary assets that this senior partner has built in his/her practice?*
- *Which of these assets can we seek to transition?*
- *Alternatively, which of these assets can we seek to replicate?*

For a senior partner who is highly productive, is the point person for several key clients, and is a Practice Group Leader, the primary assets being considered for transition and/or replication might be a lengthy list. Nevertheless, it is essential to follow the threads asset by asset.

Specific priorities will depend on the firm, the clients, the practice, the lawyers, the economics and the timing. However, many of the assets are likely to have multiple combinations of primary and secondary importance in a transition. Often profitability and cash flow is a primary focus driving transition planning.

Developing Successors

Next, these assets can provide a foundation, and an approach, for examining which transition areas are well-covered within the firm, and which areas must become priorities if transition or replication of an asset is to be successful. In other words, these assets provide guiding criteria for lawyer development.

The usual starting place for transition planning, and for lawyer development, will be the legal expertise and range/blend of specialties and sub-specialties offered by the retiring partner. In addition, the successor, or “next lawyer-up” might need to develop or enhance practice management skills (client relationship skills; supervisory skills) and business development skills. Other factors and intangibles will undoubtedly be significant, such as responsiveness, communication skills, and the ability to work with the retiring partner.

Internal and External Resources

In advising firms on succession planning, we believe it is important to look internally first for viable successors to retiring lawyers. Firm management and senior partners should begin where they have the most knowledge of and experience with possible successors. Moreover, looking outside first is likely to send a negative message and undermine current lawyers’ morale.

In recent years, many law firms have been focusing on lateral hiring to achieve growth. And many firms, and practices, have benefited from well-planned, strategic lateral hiring. Nevertheless, from a succession planning perspective, the starting point for identifying the next generation for transition and succession purposes should begin with a firm’s current lawyers and be planned “inside-out.”

This applies on a programmatic level to a firm’s overall talent pool, in terms of identifying any significant demographic “gaps” in the next generation(s). It also applies to individual senior transitions, in which an individual or a team must strive to replicate and cover the retiring senior’s Transition Assets.

If it is clear that the firm does not have viable successors for a particular practice or client, or if there are gaps in needed coverage, the first channel of planning should be internal – training or re-tooling individuals at a high level, or combining the talents and skills of next generation lawyers currently in the firm.

If an internal transition does not appear viable, then the firm might need to look outside for particular laterals who can fill the gaps and make a future transition more likely to succeed.

Advance Planning—and Getting Started—Are Critical

This discussion underscores the absolute need to approach lawyer development early and often in lawyers' careers, independently and well in advance of possible future transitions. Altman Weil stresses the need to begin succession planning at least five years in advance of beginning a phase-down.

From the perspective of successfully transitioning clients, five years can be used to begin introducing new lawyer(s) into increasingly important roles, accomplish high level training and convey what is necessary to help both the successor lawyer(s) and the clients feel comfortable, and develop trusted working relationships, collective memories and wisdom. Five years can also allow a firm and senior lawyer to "re-boot" if a planned transition is not working.

Lawyer development should, of course, pre-date any five year transition "window"—and be undertaken throughout lawyers' careers, as they advance from associate to ownership status, take on increasingly complex matters, and develop and grow a book of business. With an ongoing commitment to development, the firm can begin conversations early regarding long range transitions of expertise and other less tangible assets.

Conclusion

Successfully transitioning senior lawyers who have built major assets during their careers will be a key step in moving most law firms into the next generation. Firms that identify, assess and prioritize critical Transition Assets will make an important first step toward an effective succession planning program.

Along with engaging senior lawyers in constructive strategic planning and succession planning discussions, it is equally important to develop the next generations of lawyers who will work together with their more senior partners to transfer important assets and maintain the scope and quality of practices and services the previous generation has built.

In this era of slow or no-growth, it is axiomatic that client retention and expansion are even more important to the success, if not the survival, of U.S. law firms. An effective succession planning program should lock in this most valuable transition asset – *your clients*.

About the Author

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