

Law Firm Succession Planning



What best practices in the accounting profession can teach small law firms about “passing the torch”

A recent article in the *Journal of Accountancy* offers timely succession planning insights for certified public accountants, which are equally relevant for attorneys who own their own practices. In “A 2009 Tuneup for Your Firm’s Succession Planning”, Dominic Cingoranelli writes: “The pending retirement of the baby boomer generation and the unrelenting challenge of finding and keeping talented staff can have grave consequences for firms that fail to develop a succession strategy.” According to this article, the “American Institute of Certified Public Accountant’s 2008 PCPA (Private Companies Practice Solution) Succession Survey” showed that only 35% of multi-owner firms had a written succession plan.

In law firms, as well as in accounting firms, waiting until the senior owner leaves to decide on a succession strategy, on firm control, and on governance is a bad idea. As a best practice, your law firm should be proactive about the retirement process, so when the right time comes, you can leave and your clients will stay.

Planning a long term strategy

Strategic planning is critical to every firm’s future success, and succession planning is a key component of any strategic plan. Cingoranelli suggests that partners meet, perhaps at an offsite retreat, to choose a course of action that everyone can support.

An effective long term strategy should consider these issues:

- Partner roles and responsibilities
- Leadership development
- Compensation and retirement

Partner roles and responsibilities

By clearly defining each partner’s role and responsibilities, you will have a road map for continued success. Your partners will understand and be accountable for what’s expected of them, and your developing leaders will learn to function in an operating culture where everyone knows what is outside their authority and what is within their span of control.

Developing new leaders

The future health of your firm depends on how well you develop the next generation to protect and maintain your valuable client relationships when partners retire. For a smooth transition, start grooming these new leaders while the current partners are still working. It can take up to five years to qualify for and grow into a leadership role. Rather than competing for candidates with six to ten years of experience, hire law clerks and interns today and start developing them on an accelerated schedule so they end up with more experience in less time.

Using the business intelligence reporting capabilities built into your practice management system, you can easily see how effectively a partner leverages other billable staff on matters or cases. The extent to which you leverage your staff will keep them challenged, and build their legal and leadership skills. It will also increase your firm's profitability by getting more of the same work done by employees who bill at a much lower hourly rate than the partners.

How to recognize your future stars

Additionally, running regular reports through your practice management software will help you evaluate staff performance. You should be able to measure partner activities such as how much they've billed versus how much they've actually received, how many new clients they've brought in, and the number of cases they've worked on in the last year.

Client satisfaction surveys will indicate areas in which your partners and working lawyers are particularly effective. If a lawyer has strong client skills, it can translate into good people skills, which would make them an ideal candidate to mentor your next generation of leaders.

Compensation and retirement

An effective compensation plan can help firms accomplish their strategic goals and meet succession planning objectives. Such a plan should be designed to reward partners for functioning as client relationship managers and successfully delegating work to their staff. For retiring partners, the compensation system needs to get them to focus on the transitioning aspects of their roles as well.

The key elements of a partner retirement agreement will vary by firm. Dominic Cingoranelli offers a checklist of components to consider, such as mandatory retirement age, allowable activity with clients after retirement to ensure retention, and acceptable arrangements/situations allowing retiring owners to continue working for the firm. For a complete list of elements that multi-owner firms include in their retirement agreements and how they rate factors in terms of importance, see the "2008 PCPS Succession Survey": <http://www.journalofaccountancy.com/Issues/2009/Mar/TuneupYourFirmsSuccessionPlanning.htm>

Your retirement agreement should be updated whenever there is a significant change in the firm, such as the admission of new partners or a merger or an acquisition. Absent significant change, agreements should be reviewed annually to ensure they are up to date and reflect the firm's changing demographics.

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For valuable insights into the state of succession planning among accounting firms today, visit <http://www.journalofaccountancy.com/Issues/2009/Mar/TuneupYourFirmsSuccessionPlanning.htm>

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