Out With the Old, In With the New

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OUT WITH THE OLD, IN WITH THE NEW

A generational shift in the business of law is occurring. Over 75% of equity partners in Canadian Law firms are between the ages of 50 to 75. Succession planning is needed to ensure law firms can continue as these individuals retire, or die.

The senior key lawyers typically generate the majority of all law firm revenues. These partners typically comprise the management committee and key decision making roles within the business. These senior lawyers have managed the strategic planning of the law firm, capitalized its financing, and directed the kind of work the firm would pursue. They are the trust officers, the facilities and equipment managers, handle all law society reporting, deal with staffing and recruiting. They run the "business" of law.

Law firms face the daunting task of how to deal with the potential retirement, or at minimum, the significant reduction of contributions of its most key professionals.

No one ever thinks about slowing down or exiting. Lawyers are too busy dealing with the urgent files on their desk. The reality of death, possible disability and potential retirement rarely reach the agenda of business management planning. The demands of the law practice and a chronic focus on the "out box" do not provide any time for such less immediate topics as retirement. Succession Planning is typically not a priority for management… and thus the problem arises. There is an old saying "failing to plan is planning to fail"…

SUCCESSION OBJECTIVES

The objective of a succession plan for the firm is to:

- minimize the financial stress of the change
- minimize the uncertainty for the remaining partners, associates, staff members and clients regarding the business of the firm
- maintain the firm's competencies and client service level
- preserve the existing client's relationships and connections with business associates and work referral sources

ROADBLOCKS

Law firms face numerous impediments to effectively deal with succession planning. Roadblocks include:

- client relationships – files and clients are perceived to be the property of individual lawyers, rather than the goodwill of the law firm
- the lawyer is too busy to allocate time to this issue of succession planning
- too much power is concentrated in the hands of the partners with a limited or short-term perspective
- untrained junior partners, who are unable to value add to transition
- contradictory compensation – many partnership agreements link payouts to the last few years of billing. There are no incentives to pass good billable work or assign key clients to others.
- personality – lawyer perceive their individual role as ultimately important. They have difficulties accepting decisions of others, when they have been in the centre management and direct control. Older partners commonly perceive their mandate to continue status quo of the firm, even though their retirement package will be paid for by the business of others.
- No Partnership Agreement Guidelines – The inclusion of a "mandatory retirement age" clause in partnership agreements is not common. In the absence of a specified exit date, lawyers tend to not address the issue. A common observation and comment I have heard "…some people will stick around forever unless there is a plan in place."
- reluctance of senior partners to consider retirement or reduction of their roles within the firm. Retirement presents many personal concerns to that individual:
    - loss of income
    - loss of health benefits
    - change in profile in the community
    - uncertain payout of capital from the firm

WHAT CAN YOU DO NOW?

Assess Risk

Loss of a senior partner can have dramatic consequences to firm cash flow and key client relationships. Law firms need to critically analyze the financial impacts of a retiring Partner. Can those billings/revenues be retained? Who will assume the files? Who will maintain and preserve