

## Successful Succession

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As has been predicted for a while now, the legal profession is undergoing a significant transfer of ownership and clients from one generation to the next. This is happening whilst the pressures arising from the oft discussed 'new law' models make their presence felt.

Many ageing lawyers look blankly when asked about their succession plan. Given the demographics, it's fairly obvious that small firm lawyers who fail to plan for their succession are likely to find themselves confronting a very crowded marketplace when eventually they are ready to test the market.

Equally, it's highly likely that younger lawyers may be apprehensive about parting with good money to buy an interest in a firm. Many younger lawyers are already saddled with university debt, and have young families to support and substantial mortgages to service.

Successful succession requires careful and unhurried planning for the transition of clients from one generation to the next and the transition of firm management to a new generation, coupled with the associated transition of equity and the financial machinations that come with it.

### Options for Small Firms

Anecdotally, discussion about succession issues in small firms is more difficult than in larger ones, as succession has a much more personal focus. As a result, discussions about principal intentions are often delayed or avoided, resulting in a less than satisfactory transition for all parties. If succession within the firm is not realistic, there may be other options worth considering.

#### Sell the Practice

Well managed, profitable, organised law firms with repeat clients are worth real money. With organic growth proving to be difficult, many firms are looking to grow by merging with or acquiring complementary practices.

Practices considering selling their equity externally would benefit from conducting an “operational due diligence” to identify what needs to be done to maximise the sale price. Small practices seeking an eventual sale would do well to focus on:

- developing a track record of annually increasing profitability;
- ensuring that as much legal work as possible is systemized and process driven, and where possible delegated to employed fee earners;
- having robust management accounts as well as an up-to-date and accurate client data base;
- repeat clients who can be readily transferred to a nominated successor or new owner of the practice.

## **Devolving Equity**

Instead of waiting until retirement is imminent, another course of action is to implement a staged sale of equity over a number of years. A price is struck and the sale takes place as equity is transferred. This approach benefits both the vendor and purchaser as it enables, among other things, a smooth transition of roles and responsibilities, certainty for clients, and easier payment terms for the purchaser. The options are many and various and limited only by the creativity of the participating practitioners.

## **Options for Larger Firms**

For larger practices with a number of partners that haven't yet established a formal succession model, a sensible starting point is to identify when senior practitioners and managers are likely to retire. This will at least set a timetable for discussions and identify when and in which practice areas the firm may be exposed. These gaps can then be translated into a plan that addresses the firm and individual approach, and hopefully leads to a well-managed transition.

### **Set an age to begin discussions**

The first step is to set an age – say 58 years – when the firm will begin work with a partner to develop a plan for the eventual succession. By developing a firm-wide succession plan, an individual principal need not feel threatened – after all, it is firm policy and everyone is subject to it.

Equally, there is no reason for the plan to spell the end of a principal's working life. The plan is in place should they decide to depart; if they decide to stay, then the net result will be better trained and more productive junior lawyers.

The best outcomes are achieved if there is a minimum of several years, and sometimes as long as five years, of preparation.

## **Developing Successors from Within**

At its most basic level, an effective succession plan should address six key areas:

- Technical expertise and range of specialties offered
- Client retention
- New business development
- Firm and departmental management
- Profitability and cash flow
- Options for the departing partner

The transition of clients from one generation to the next is not an individual responsibility but a firm responsibility, as clients should be thought of as clients of the firm, not clients of the individual lawyer.

Many practices are complacent regarding the relationship between the responsible lawyer and the client. As such, it is common that the only person with information regarding the client is the responsible lawyer. This makes transition difficult and a ‘my client’ culture can develop.

## **Conclusion**

Successful succession will involve the firm's ability to develop a plan for retiring partners and develop the skill sets of the existing personnel. For those lawyers who don't consider a structured internal succession plan as feasible, there are a number of external succession options such as selling the firm, the chambers practice model, or the outsourcing of management. Any of these options may make the transition to retirement easier.

As is said so often, failing to plan is planning for failure, and this applies particularly in the succession of law firms.