The why, the when, and the how of law firm succession planning

The potential loss of a leader or key rainmaker is a concerning but inevitable challenge for **law firms**. Without adequate measures to embed a succession strategy into the firm's culture, client experience and loyalty suffer when a gap in leadership is created by the departure of a partner.

A successful succession plan will enable future leaders to continue their predecessor's legacy and support the future growth of the firm.

According to a survey of US mid-size law firms, just 40% of firms surveyed felt prepared to deal with the retirement and succession of partners and only 37% had a formal succession plan in place or were in the process of creating one at the time of the survey.[1] About a third of equity partners are at retirement age[1] and addressing the issue of succession is imperative.

The *when* for succession planning is straightforward. Early preparation is critical. The time to act is now.

The *why* – despite the nuances of individual firms – remains consistent. Building and maintaining long-term financial and operational stability for clients and colleagues is an imperative for law firms of all sizes.

The *how* is more complicated. For a sustainable succession model that will withstand the test of time many challenges must be navigated, major obstacles overcome, and key elements addressed, including:

- Support and engagement of current leaders
- Commitment to change
- Identification of potential future leaders
- Delegation of management/leadership responsibilities
- Recognition of client relationships and commitment to transitioning them
- Diversity - does your current leadership mirror that of your clients?
- Communication and firm socialization
- Transparency
- Firmwide follow-ship begets leadership
- Future financial security of current leaders

On the last point, some law firms continue to operate with the remnants of an unfunded partner retirement plan. For large law firms with hundreds of partners, a long-term institutional client base and annual partner earnings in the millions, an unfunded plan may not be an immediate concern.

1 https://legal.thomsonreuters.com/blog/thinking-about-a-succession-plan-for-your-law-firm/

For small and mid-sized law firms – in which vastly unequal divisions of responsibility among senior and junior partners can remain unnoticed – the financial aspect of succession planning should be addressed with greater urgency.

The prudent and financially-sound approach is to fund a partner retirement plan. Funding plans offer many benefits to partners, their successors, and importantly, clients. The partners benefiting initially will fund their own plans while they remain with the firm, while transitioning their client relationships and work to younger partners. The future of law firms is wholly dependent on younger lawyers; a funded plan ensures that they will not be burdened with the obligation of funding the financial wellbeing of retiring partners. For retiring partners, perhaps the most impactful benefit of a funded plan is the assurance that the plans are funded independently of future firm revenues and client relationships.

A multitude of financial products are available for funded law firm partner plans. Before investing in one, it is essential to thoroughly evaluate the product's alignment with the firm's needs and objectives. Often, partnering with a client-centric, vendor-agnostic **advisor** adds valuable insights and support throughout the negotiation and integration processes.

For firms without any plan in place, it is critical to discuss the future plans and intentions of partners reaching **retirement**. Since the age of retirement is determined by the individual, beginning succession conversations at an early stage (upon reaching 60 years of age, for example) can make a substantial difference to the process.

Clients are increasingly autonomous and may not remain loyal to a firm. If partners have not transitioned their clients to their successors, the firm risks losing both clients and capital. Firms need a strategic focus on building existing client relationships and identifying budding or potential ones. They then need to act upon them to best serve both clients and the firm. This mindset will create long-term stability, to the benefit of the firm, the client and its leadership.

Key takeaways

For successful succession and long-term stability, firms should:

- Forget about competition and focus on the success of the firm
- Understand client needs and continue to respond as they change over time
- Remember that relationships are key and focus on people, including both clients and partners
- Make a long-term commitment to diversity in leadership
- Define what 'success' means and do not allow the loss of focus

If you would like to discuss any of the topics raised in this article, please contact **George Wolf Jr**.