

Law Firms Pivot Points: Anticipating Make-or-Break Transitions

By Alan R. Olson

In decades of consulting with hundreds of law firms, I have seen that every law firm goes through periods of transition and change. Many of these changes are gradual and manageable, but sometimes the change is more far-reaching with a magnitude and intensity that can have make-or-break consequences. These are **law firm pivot points**.

Although any firm may experience pivotal change, mid-size and smaller law firms are more vulnerable during these periods. Firms with fewer than 100 lawyers have more limited resources and therefore are more likely to be stretched thin in times of turmoil, reducing their resiliency and capacity to explore alternative solutions.

There are certain categories of change that are intrinsically pivotal for all law firms. These transitions constitute crises of 'organizational identity' involving a cascade of complex issues with high-risk / high-reward consequences. Intrinsic pivot points include:

- Transition from a law firm's founding group
- Transition of a large demographic group within a law firm
- Serious consideration of an offer to merge or to be acquired

There are other important transitions law firms may face – including changes in the ownership structure, the owner compensation system, the management/leadership structure, or due to an unplanned loss of key partners – any one of which may become pivot points depending on when and how effectively they are anticipated, recognized and addressed by firm leadership.

Law firm leaders who have ultimate responsibility to protect their firms and lead them through difficult times must be able to recognize and understand both intrinsic pivot points and other potentially critical turning points.

TRANSITIONING FROM A FIRM'S FOUNDING GROUP

Transitioning a law firm from its founding group or founding generation, involves factors that can inherently compel a pivot point magnitude of change. By definition, a law firm with its founding generation still present has never before transitioned from one generation to the next. There is no institutional memory, precedent, shared experience, or *modus operandi*.

This lack of precedent, along with founding leaders' drive, vision and energy often means founding members try to lead and manage until they retire. This adds 'short-fuse' pressures to the transition, and results in more problematic transition scenarios.

Real and perceived differences between founders and other partners in the same law firm also lead to complexity, differences in opinion, potential hierarchical tensions and conflicts, even in firms that regard themselves as team-oriented. These differences are intensified by several factors:

1. When the founders joined together to form a law firm, they took on and shared risk. Individually and/or collectively, they exhibited entrepreneurial drive.
2. The founders were usually motivated, at least in part, by the desire to set up and run a firm *their* way.
3. Many founding groups possess significant rainmaking abilities and client followings. The next lawyers hired were often hired as, or told to be, 'worker bees,' resulting in a next generation that is, or is *perceived* to be, less entrepreneurial, dynamic and powerful.
4. A founding group constitutes an additional formal or informal hierarchy within a law firm's partnership. This hierarchy may confer additional privileges or benefits in a firm's ownership structure, leadership, decision-making structure and process, compensation system and value systems. At a minimum, this adds complexity. Real or perceived distinctions in firm systems can lead to disagreements, resentment, conflicts—and ultimately to a pivotal period in a firm's history.

TRANSITIONING OF LARGE DEMOGRAPHIC GROUPS

Transitioning a large demographic group in a law firm is always a substantial challenge, and will become a pivot point *unless* there has been significant planning, and the firm is ready to accommodate the multiple aspects of major generational transition.

For example, having one-fourth of a firm's partners at age 65-plus and poised to retire in the near future is likely to stretch or exceed the firm's ability to transition and retain business, result in gaps in expertise and experience, extend to problematic leadership transitions, and the like.

If the 65-plus group is responsible for bringing in and managing large portions of the firm's clients and legal work, major transitions become pivotal. If the transition is not planned well, or is put off, risks increase, impacting the firm's strength and even the potential for survival.

Although it happens less frequently, if a firm has one-fourth of its lawyers approaching the appointed time for consideration of advancement to partner status, this too can result in pressures on firm structure and systems, intensified economic pressures, work-related bottlenecks and potentially serious fall-out

MERGER / ACQUISITION INQUIRY

A serious merger or acquisition inquiry from another firm, or a series of inquiries in a short time span, are highly likely to result in a period of intense introspection within the firm being approached. The questions surrounding a prospective merger, by their nature, frame pivot point-level decision-making:

- Should we remain an independent firm, controlling our own destiny?
- Will we be able to remain independent and continue to be successful?
- Do we need to merge or be acquired in order to compete now or in the future?

Law firms that have not considered these fundamental questions strategically are likely to be pushed into a period of serious reflection by the added stressors of a finite timetable and the high stakes risks and rewards involved. Even firms that engage in regular strategic planning will feel significant additional stress when one or more potential suitors has materialized in the mists of what had been more abstract discussion.

In the likely event that there is not universal consensus for or against a combination, the decision process and its underlying issues can create a cascade of challenges for the firm. For example, one or more practice areas will likely be substantially helped by a potential merger, while others will not. Some individuals will have had amicable communication or commerce with the potential suitor, while others will view the suitors as 'the enemy.'

CHANGING OWNERSHIP, COMPENSATION, OR DECISION-MAKING STRUCTURES

Depending on circumstances, a law firm may be able to make significant structural changes successfully over time. For example, a firm might decide to establish a non-equity partner tier to give additional compensation, participation in decision-making and other rights or duties to advancing lawyers, while still reserving higher-level participation and compensation to an equity owner group. Similarly changes to an owner compensation system may be accomplished over time with relatively wide support and little controversy.

A firm's ownership structure can change in a number of ways. These changes might involve decision-making control (by a relatively small vs. broader partnership group), lawyer advancement and de-equitization decisions, compensation decision-making, hiring of laterals and the fundamental question of what it means, or should mean, to be an owner of the firm.

Changes to a law firm's owner compensation system can provoke significant differences of opinion, intensely-held views and other pivot point-level factors, particularly if the changes are deemed as significant, regarding resultant compensation or the compensation decision-making process.

Changes to a decision-making structure often come with a law firm's growth and evolution. The point arrives when it no longer makes sense to have all partners participate in all decisions (including what Altman Weil has termed "administrivia"). Eventually most firms seek to provide greater decision-making responsibility and authority to a small management/leadership group. This may become pivotal depending on the scope of the underlying substantive issues, the magnitude of changes to decision-making groups, and the depth of a firm's cultural ties to democratic 'town meeting' traditions.

Moreover the *failure to address* proposed changes to ownership structure, compensation systems or decision-making structures is likely to push a firm into an increasingly critical realm. For example, if a portion of owners are much more productive, much bigger rainmakers, etc., than other technically equal partners, a firm's inability to make equitable adjustments to reflect that difference may lead to a crisis that could break up the firm.

REPETITIVE UNPLANNED TURNOVER

In a recent Altman Weil survey, 94% of law firm respondents identified lateral hiring as one of their cornerstone strategies for growth. In this highly competitive legal market, a dramatically increasing number of lawyers move laterally between law firms each year. The old model of 'one law firm per career' (unless the lawyer went in-house or became a judge), has reversed so that only a minority of law firm lawyers devote their careers to a single firm.

It follows that most law firms lose some lawyers laterally, including some they would have liked to retain. However, when a law firm begins to lose lawyers with *real or perceived* regularity, tensions within the firm are likely to mount. Concerns can be tamped down—albeit, not dismissed—when lawyers leave to go in-house, to the bench, or follow their spouse's move, and other non-competitive departures.

When lawyers depart to competitors and departures begin to be perceived as a pattern, it is a signal that turnover is in danger of becoming a primary concern, both as a symptom and as its own pivot point. A firm's confidence can erode, escalating the internal anxiety, actual turnover, or both. Externally, in this crucible of a legal market, the firm can become a target for executive recruiters and other law firms with aggressive lateral recruiting programs.

In these circumstances, it is critical for the firm to determine first if the amount of turnover is really unusual. Even if the turnover is judged to be within normal band-widths, doing nothing at this point will almost certainly lead to a worsening position. Firm leaders must also try to understand the real reasons for the turnover and seek to correct underlying causes.

In practice, I have seen law firms adopt what could be termed a 'Stalinist' view of lawyers who have left, taking the position that "*They were bad lawyers anyway,*" or even "*They are dead to me.*" This is not constructive, even if it is temporarily a salve to the firm's ego.

CONCLUSION

Recognizing, understanding and responding to pivot points will make a decisive difference in a law firm's success or

failure. This heightened awareness will be a critical tool for law firm leaders—especially in small and mid-sized law firms.

Any pivot point, or combination of pivot points, are by their nature complex, and require firm-specific solutions. However, there are meaningful, over-arching responses to keep in mind.

Anticipate the pivot points your firm will face:

- Develop a strategic plan for your law firm;
- Employ a thorough planning process that solicits broad input;
- Consider the strengths of your law firm as a stand-alone entity;
- Analyze your firm's demographics to plan for major demographic shifts;

- Prepare for the transition from a founding generation;
- Strengthen your firm's foundation, shared values and institutional 'glue.'

Firm leaders must routinely assess the magnitude of different kinds of change, and respond with solutions of commensurate magnitude and intensity. Pivot points warrant full management attention at the firm and practice group levels. They are significant enough to initiate firm-wide planning and management initiatives, calling for broad input and participation from partners and emphasizing an ongoing dialogue within the firm.

Build your law firm's cumulative strength and commitment one strong and committed person at a time. *There are no short-cuts.*

Alan Olson is a principal with Altman Weil, Inc., serving clients throughout the United States and Canada from the firm's Midwest office in Milwaukee, Wisconsin. For over twenty-five years, he has advised law firms on strategic planning, practice management and compensation systems. He is a thought-leader in the emerging discipline of succession planning for law firms. Contact him at arolson@altmanweil.com.

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