

# **Succession Planning**

**An Altman Weil Commentary**

**By James D. Cotterman**

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# What Should Law Firms Do About Succession Planning?

*An Altman Weil Commentary on results from the 2013 Law Firms in Transition Survey*

## Law Firms in Transition

The 2013 Altman Weil *Law Firms in Transition Survey* found that law firm leaders are acutely aware of the changes that the legal profession is facing. The survey also showed the evolution of thinking among firm leaders over the last five years, including some dramatic shifts in opinion since the first time the survey was conducted in 2009. *However, there was a lot less evidence of tangible changes in how law firms operate.*

## What Should Law Firms Do?

Rethinking the law firm business model presents law firm leaders with many complex challenges, made more complex by the need to address them among partners with a variety of perspectives and with clients who have a range of differing needs. Law firm leaders often ask us, 'Where should we begin?'

This new series of *Altman Weil Commentaries* is designed to answer that question by providing practical first steps for law firms in a variety of key areas. The following report looks at succession planning.

## About the Author of this Commentary

James D. Cotterman is a principal with Altman Weil, Inc. He advises law firms on compensation, capital structure and other economic issues, management and governance. Mr. Cotterman is the author of *Cotterman on Compensation*, a blog on lawyer compensation and law firm finance. He is the lead author of the ABA book *Compensation Plans for Law Firms*, and is a member of the Board of Editors of *Accounting and Financial Planning for Law Firms*.

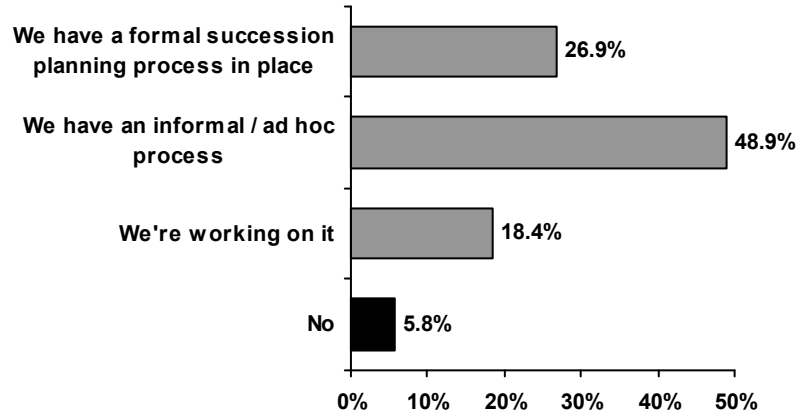
## About the Survey

Conducted in March and April 2013, the *Law Firms in Transition Survey* polled Managing Partners and Chairs at 791 US law firms with 50 or more lawyers. Completed surveys were received from 238 firms (30%), including 37% of the 250 largest US law firms. The survey has been conducted annually since 2009.

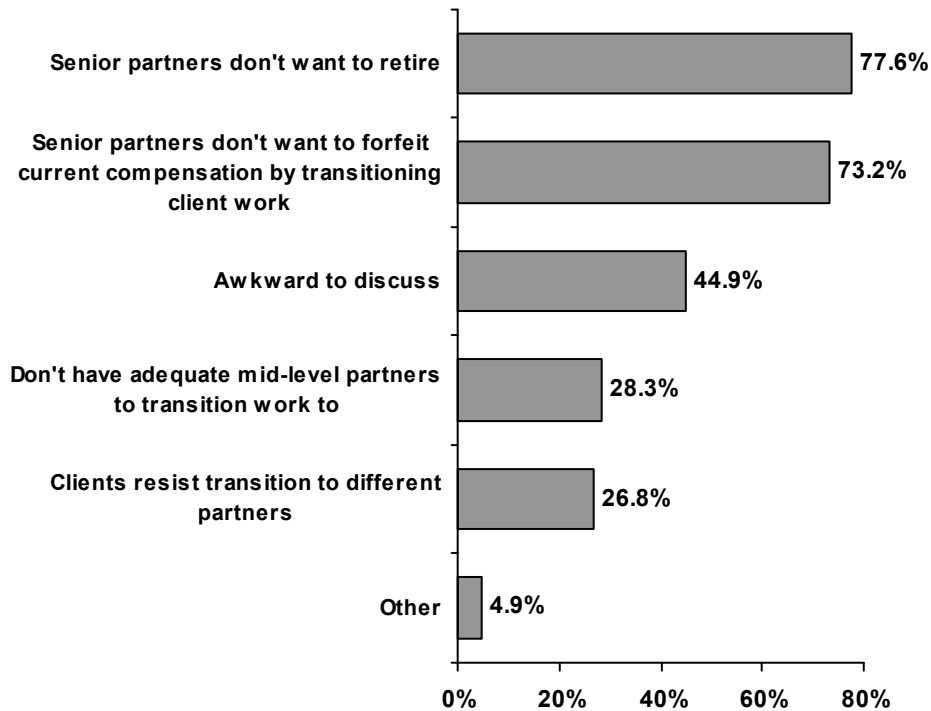
The full survey is available online to download at: [www.altmanweil.com/LFit2013](http://www.altmanweil.com/LFit2013).

## Succession Planning

Does your law firm have a succession planning process for lawyers approaching retirement?



What are the stumbling blocks your firm has encountered in working through the issue of succession planning? (Check all that apply)



## What should law firms do about succession planning?

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**THE SURVEY SAID:** *Only 27% of law firms have a formal succession planning process. An additional 49% have an informal or ad hoc process.*

Almost all law firms are aware of the issue of succession planning for senior partners. And there are many firms that deal with it effectively.

But too many firms have rigid, inflexible plans, or no consistent process at all to address succession planning. They may be reluctant to deal with the subject because it is often awkward and difficult.

**THE SURVEY SAID:** *78% of senior partners don't want to retire.*

Law firms need formal succession planning policies or they run the risk that senior lawyers will stay too long, potentially lose some of the acuity needed to practice at a high level, and open the firm up to liability.

However, mandatory retirement is not the right answer and can cause late-career partner defections to firms without similar requirements. Good succession policies should consist of guiding principles, not rigid rules, that manage the retirement process over time.

If the firm doesn't have a policy in place, the first step is to meet with all partners to discuss and reach consensus on what your firm's approach will be. You should designate partners in leadership who will work one-on-one with senior partners to structure their succession plans. The designated partners might include your Managing Partner, Executive Committee members, Office MPs, or Practice Group Leaders. You must give them discretion to make judgment calls on individual succession plans without reference to the full partnership.

Assume each succession plan will be unique to the individual retiring partner within the general guidelines you have agreed upon. Set a consistent timeframe for when retirement conversations should begin and how long a phase down period should be. Typical timing might include conversations beginning with all partners at age 60, with phase downs beginning five to ten years after that, and extending for a period of three to seven years before full retirement.

Transition plans for each retiring partner should reflect three perspectives: 1) the interests of the retiring partner; 2) the interests of the partner/team to which work will be transitioned; and, 3) the interests of clients who will be transitioned to new partners/teams

**THE SURVEY SAID:** *73% of senior partners don't want to forfeit current compensation by transitioning client work.*

Compensation is an important part of the retirement equation. The worst thing you can do is to try to use compensation reductions to force a partner to retire.

You can and should use comp to align competing interests (between firm and retiring partner) and to recognize and reward successful client transitions. Fund any deferred retirement payments with profits realized from successfully transitioned clients. Do not incur unfunded obligations.

**THE SURVEY SAID:** *28% of firms don't have adequate mid-level partners to transition work to.*

In firms that don't have adequate mid-level partners, most likely this is not a lack of skilled practitioners, but a shortage of partners with appropriate client relationship skills. This is a long-term issue that firms can avoid through appropriate hiring and training.

Finally, use each retirement as an opportunity to think strategically about the retiring partner's client portfolio. Find new homes for any clients that no longer fit the firm's practice or profitability profile.

## **Succession Planning Checklist**

- Reach consensus with your partners on general guidelines for succession planning in your law firm.
- Designate partners in leadership who will work personally with retiring partners.
- Develop individualized plans for each retiring partner that reflect partner, firm and client perspectives.
- Use compensation to align competing interests and to recognize and reward successful client transition.
- Start early grooming young lawyers who show a facility for relationship management so they are ready to manage and retain transitioned clients
- Use each retirement as an opportunity to think strategically about the retiring partner's client portfolio.