

Designing and Maintaining a Profitable Law Firm that
will have a Future

The Look Beyond: Succession Planning

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We do not get younger...

- USA

- Median Age of Lawyers¹:

1980	1991	2000	2005
39 years	41 years	45 years	49 years

- Japan

- Average Age of Patent Attorneys (2012)²: 49.04 years

- Germany

- Tax lawyers and tax consultants (2011)³ :

- average age 50.8 years
 - 19,000 bar members older than 60 years

- France

- Average Age of Lawyers (2011)⁴: 43.1 ys

Sources: ¹ American Bar Association, 2012, Lawyer Demographics

² http://www.benrishi.com/en/patentattorney/pat_introduction1.html

³ KANZLEIFÜHRUNG PROFESSIONELL 2-2013, p. 25-28; 3-2013, p. 43-46

⁴ Conseil National des Barreaux, Les Chiffres-cles de l'Observatoire - Avril 2011

Hypotheses– Where Small and Large Firms Meet in the Market for Law Firms

- Patent-related services take place in an increasingly saturated and commoditized displacement market

aka “gee-whiz, increasing revenues has never been so difficult!”

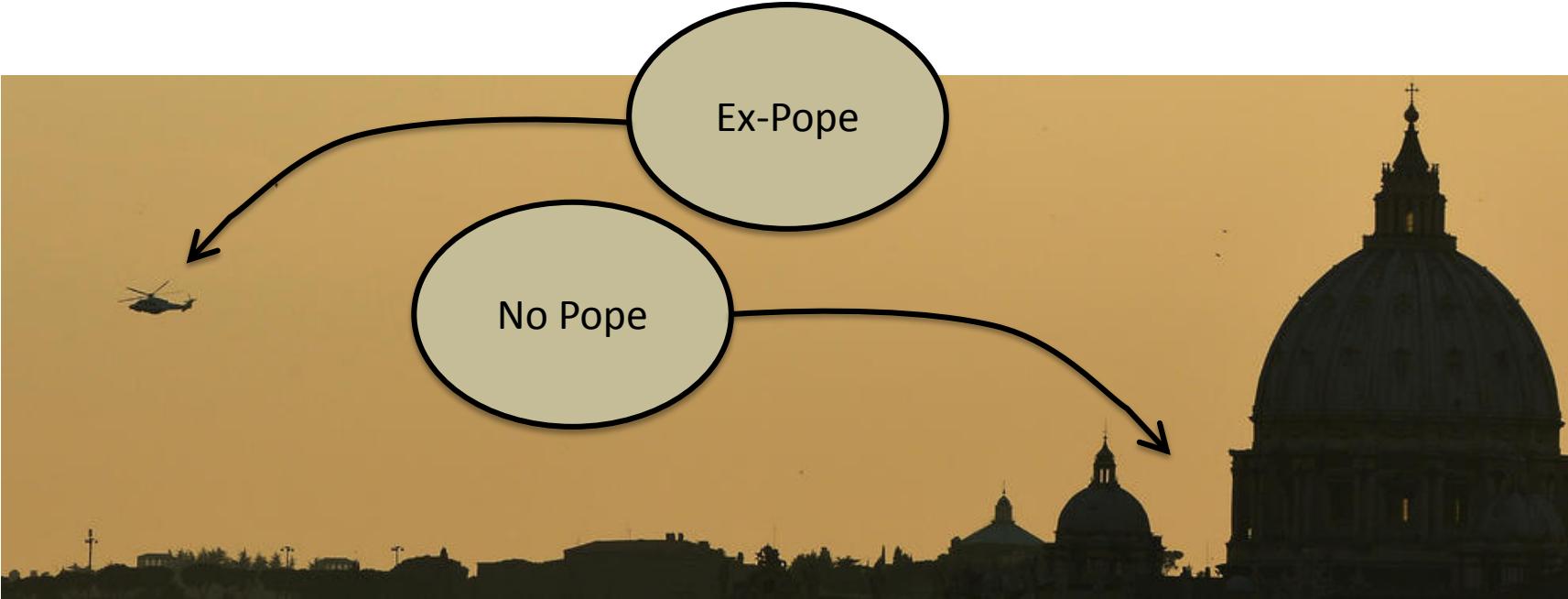
- Buy-in into or merger with a firm with retiring owner may be a business opportunity for growth
- Succession planning in smaller firms differs from succession planning in larger firms

... beware of the pitfalls of succession planning!

Don't take too long!



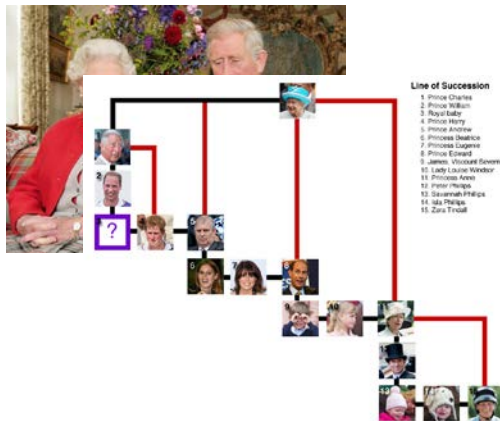
Don't be too fast!



...but behold:

In both cases there exist well-established succession routines!

(in contrast to many organizations in private practice)



Phases in Transition Planning

- Preparation phase
 - Prepare a timeline – allow for >5 years (average)
 - Get the firm and yourself ready
 - Main problem: You may have to start when you still want to continue
- Matching phase
 - Identify suitable and solvent successor
 - Negotiate terms
- Transition phase
 - Allow for 2-3 years for the transition (average)
 - Main problems
 - Quality uncertainty for both parties
 - Not letting go, pricing
- Post-transition phase
 - Main problem: Involvement of former attorney

Preparation Phase – Am I ready?

- Is the firm ready?
 - Externally: Are the clients ready?
 - Information about succession
 - Age structure of clients' key persons
 - Billing morale
 - Market placement: Is the firm visible and attractive?
 - Internally:
 - Are the employees and partners ready?
 - Is the cost structure up to date?
- Are there any successors in view?
- Am I financially safe for a worst-case scenario?
- What do I do afterwards?

Matching Phase

- Information asymmetry and quality uncertainty problems need to be solved
 - Screening
 - Propose different paths for transitioning (partial/total handover, melt-down clauses)
 - Use feedback to identify potential problems
 - Signalling
 - Rankings, ISO certification
 - Independent evaluation report
 - Case histories of parties
 - Guarantees

Transition Phase

- Fair and reasonable compensation
- Smooth and consequent transitions
 - Transition of ownership
 - Creating an adequate legal construct
 - Transition of management
 - Becoming the functional head
 - Transition of leadership
 - Becoming the “spiritual“ head
 - Transition of business developments
 - Transition of clients
 - Both: trust-building
 - Transition of firm’s know-how

Five mortal sins

- Excessive focus of firm on outgoing owner
 - “nobody knows as much as me“
 - workflow tailored to owner
- Lone wolf mentality
 - instinct to bite away competitors
- Creeping depreciation before succession
 - “I am too old for this new service/technology/law“
 - “It worked fine up to now“
 - “This is something my successor should do“
- Unwillingness to let go
- Hybris of the young

Obstacles to Transitions in Larger Firms

- Complacency of partnership towards exclusive attorney-client relationships
- Compensation system does not reward client sharing and/or work sharing
- Inconsequential retirement clauses
- Lack of career development schemes
- Unawareness of leadership transition within client business
- Successor is not identified early to clients
- Partner volatility

Succession within Firm

Involve young talents early in management by

- sharing firm budgets (except e.g. partner compensation)
- assigning specific tasks within committees
- involvement in recruiting and evaluation
- allowing management of paralegals and assistants
- allowing for client contact

to identify outstanding attorneys that also will be outstanding business owners

The last entrepreneurial decision in your business life





Thank you.

