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WORKING WITH LAWYERS

Succession Planning: Turning the dream of retirement into an action plan

Many of us daydream of how we'll spend our retirement years; it's the dream we've chased all of our careers.

However, when faced with the reality of this life-changing phase of life, retirement suddenly switches from a dream to a touchy subject—and it's a subject every law office administrator must address and properly plan for, because at some point in the life of your firm, a partner is going to retire and you need to ensure that their departure doesn't adversely affect your clients, your employees, and your bank account.

Not concerned? Well, consider this: How many of your firm's partners would you guess are nearing the age of retirement or are contemplating retirement? Now roughly estimate their total client revenues. Are you prepared for the upheaval?

Why think about it now?

According to valuation expert Ronald L. Seigneur, MBA CPA of Seigneur Gustafson LLP, based in Lakewood, CO, the topic of retirement dropped off noticeably during the great recession. Now that the economy is recovering, more people are starting to reconsider how they're going to pull it off. What's interesting is that while people are thinking about retirement, very few are actually talking about it. "Many professional service firms have been doing a slow dance with the topic of retirement," says Seigneur, "and nobody wants to deal with it. For those contemplating retirement, it's a huge life change issue. One phase of your life is ending and it's tough to deal with it. At the same time, the younger people in these firms are watching closely for what it all means to them."

But it must be dealt with. You need to take steps now to ensure that, when the topic of retirement does come up, the retiring partner doesn't just leave when it's right for him/her and on his/her terms only."

Given the massive transfer of management and leadership that will occur when senior lawyers begin to retire, together with the shortage of workers many are predicting in the years ahead," says Seigneur, "law firms should consider it a call to action to be proactive in addressing the succession planning needs within your enterprise. A properly articulated and implemented succession plan can serve to strengthen your firm's core values and increase the value of the practice itself."

To properly prepare for the exit of a partner, a firm needs to consider:

- Transition of client responsibilities
- Transition of client relationships
- Replacement of intellectual capital, skills and expertise
- Replacement of leadership

How to start the conversation

Many people don't want to have the discussion; many haven't even articulated what they want from retirement. But if you have a small practice of, say, 5 to 15 owners, you need to talk about who is going first and what will follow after that.

If you have an aging law firm and there's been no discussion yet about retirement or exiting the firm, Seigneur recommends this quick way to get everyone to visualize what's going to happen and how it will affect the firm: Create a grid, placing each lawyer's name for those that are 50 and older down the left side, then create and

	Years to retirement									
	1	2	3	4	5	6	7	8	9	10
Lawyer A										
Lawyer B										
Lawyer C										

number columns across the top from 1 to 10. Next, complete the grid by asking each lawyer how many more years they expect to practice before retiring and mark that column opposite their name accordingly. As the grid is filled, a picture will emerge of what the firm will be facing over the next 10 years. And now you're ready to start discussing what resources you'll need to ensure continuity of the firm.

You'll also want to review your buy-sell agreements. "The firm's ownership agreement that contains the operative buy-sell language provides the initial roadmap necessary to optimize the continuation of the practice upon a triggering event, such as death, disability, retirement, departure for competitive practice, and involuntary termination," says Seigneur. "And align this assessment with the expectations of those who will be impacted by the terms of it to identify any divergent views early on. Just pulling this agreement out, dusting it off and reviewing what will happen with a triggering event can be quite instructive in many firms that have not had to deal recently with retirement or other ownership departures."

Identifying the big gaps in expectations is essential. For example, what is the current generation willing to pay for the benefit of acquiring a practice? It might be completely different from what you expect. It's important to reconcile the expectations between those who are retiring and those who are succeeding.

"The key," says Seigneur, "is to pick a pathway that is best suited for your firm's specific situation."

When picking your pathway, be mindful that the participants in this conversation may have vast differences in perspectives and objectives.

The retirees' perspective

The first thing to clarify is what type of retirement those who are exiting are looking for (if they even know themselves). Many people at retirement age are finding that they are either not willing or not able to simply stop working.

"We're receiving a lot of calls from partners inquiring on how to monetize their ownership interest, but with a desire to continue to work, even if at a reduced schedule and with less of the trappings that come with being an equity owner of the enterprise," says Seigneur. "Instead of 'I'm retiring; I'm outta here,' many lawyers now either want or need to continue to work. But many small and mid-sized firms don't have sufficient funded plans to exit on terms that retiring lawyer's desire." Retiring or exiting lawyers are also finding that it's a buyers' market.

"Those looking to exit are learning the hard way that members of the up-and-coming generation are often not willing to pay the price, in terms of both dollars and commitment, which prior partners had received

upon their exit from productive practice,” warns Seigneur. “And legacy firms are now coming to the next cycle, getting ready to transfer to a third generation. The lawyers who bought out previous generations had to pay a substantial compensation for the practice, and they’re expecting a similar buy-out. But things have changed dramatically. Now it’s ‘easy in, easy out.’ In most instances, lawyers are not being charged as much to buy into a firm and are likewise not being paid out more than their hard capital when they leave. Often it is just a matter of having a little skin in the game, getting paid fairly while fully engaged and productive, coupled with a lower expectation upon exit.”

The successors’ perspective

The younger lawyers will want to understand how the financial obligations brought on by the retiring partners will affect them and how responsibility will transfer to these younger lawyers.

“These younger practitioners view the economic side of succession planning as something where they are only willing to pay for the incremental opportunity to do more appealing work, work for better or more prestigious clients, and to bill at higher rates, all in relation to their current standing within the firm, or as compared to their next best alternative in the marketplace that can be realized by simply moving to another firm,” says Seigneur.

Don’t assume, though, that they even want that responsibility.

“The baby boomer generation now exiting the workplace was generally a group who lived to work,” says Seigneur. “However, those now entering the labor market tend to often hold the converse view in that they work to live. They want to be paid a decent wage and go home at the end of the average day leaving their work behind. In other words, the younger generations, generally speaking, are more inclined to disengage from their work, as compared to the baby boomer generation.”

Take, for example, founding partner “Joe” who, after 30 years in a firm, had been counting on his two younger associates to take over when he retired. One associate was his son, Kevin; the other, Sue, a lawyer he’d been mentoring. When Joe approached Seigneur for help planning his exit from the business, Seigneur had to be the bearer of the bad—and surprising—news: Sue and Kevin didn’t want to buy the business.

The clients’ perspective

“Rainmaking is king in our profession, too, as it is in law firms,” says Seigneur. “Maintaining relationships is very important, especially in today’s ever challenging and competitive environment where no one should take their long-standing client relationships for granted.”

Larger law firms are more institutionalized. They have robust succession plans, and most of their clientele are institutional clients. While there are rainmakers in BigLaw, the clients themselves hire firms, not individual lawyers. But in smaller firms, there are different considerations. It’s important to consider your clients’ concerns. Do they have a preference as to who succeeds their lawyer? Are they themselves going through a transition process?

How to improve the value of your practice

“Value Drivers are factors that affect the actual and perceived value of a practice,” says Seigneur. “Potential investors, whether internal or external, look for performance in the two areas—universal value drivers and industry-specific value drivers.”

Universal value drivers include increased cash flow, enhanced operating systems that improve sustainability of cash flows, improved technology platforms and facilities, reduced or restricted debt, documented sustainability of earnings, implementation of strategies to grow and sustain the inflow of clients and client service opportunities, and insuring for a competent administrative/management team.

Industry-specific value drivers include stability and outlook for growth in the areas emphasized within the practice, technical expertise, diversity of clients and services provided, and employee performance and morale. Focusing on tactics to improve and enhance the value drivers for your firm, can pay

Remember that it is not only your partners who are considering retirement; many of your clients might also be planning their own exits from the workforce.

Assessing the value of your practice

Whether the retiring lawyer can expect to get value for the practice depends on the practice.

"It's the transferability of attractive, recurring work opportunities that drives the potential for value to the exiting practitioner," says Seigneur. "For example, a law practice focusing on wills, probate, and estate planning will have a much better chance in transitioning a client base to one or more successors, versus a complex litigator that is hired routinely for his or her reputation in trying complex litigation matters."

In the latter circumstance, you want to consider branding tactics. "Often it becomes an issue of identifying what the brand is that clients and referral sources look to in making their purchase decisions and then developing a strategy to transfer that brand identity to either one or more other successor practitioners or to a firm itself as the surviving institution," Seigneur says.

To assess the value of your practice, Seigneur recommends that you look at:

- the scope and nature of services offered,
- the quality of the clientele and the likelihood of being able to align them with new service providers,
- the quality of the personnel and facilities, if any, to be transferred, and
- the overall profitability of the practice.

Pay attention to branding

"The concept of branding is critical to focus

on early in the succession planning process. Many professional practitioners believe the only significant value associated with their practice resides in their professional goodwill and that this is not readily transferable," says Seigneur.

"However, a long-term commitment to putting the proper people in place and in transitioning the required client and related work relationships, most any type of law practice can benefit from this with the payoff being more recurring work opportunities for the practitioners interested in succeeding to the practice of an exiting individual."

Implementing the plan

Now you need to build a practice transition framework, the core element of which will be a commitment to create a pathway to leadership positions for the next generation of lawyers in your firm.

"You need to treat succession planning as an activity that can be incorporated into the firm's everyday activities," says Seigneur.

For example, ongoing activities would include:

- Coordinating and implementing training and mentoring
- Evaluating compensation practices
- Identifying and elevating new leaders and rainmakers
- Developing a structured client transition processes

This is particularly important if a key element of your firm's success is in the branding you have done as an institution. It becomes even more critical if the key brand clients look to is embedded in certain individuals who are reaching retirement age.

Seigneur points to his own succession planning as an example. "Our income partner is my primary NextGen and someone who has all the technical skills and capabilities to sit in my chair," he says. "The primary gap

is in her building her own brand by being more visible within the niches we serve and in her experience as a testifying expert."

To address this, Seigneur has consciously made it a continuing practice of his to develop her brand, as well as help her establish relationships with the clients.

"Most of my best clients know they can always count on her to get them rolling on whatever their needs are when I am out or unavailable. We have invested significant time in meeting with key clients and referral sources together, when only one of us could easily handle the specific need at hand."

One particular tactic that Seigneur recommends is to have the NextGen actively contact clients whenever a senior lawyer would have otherwise needed to contact them for a valid reason, indicating that they are filling in for the senior lawyer and wanting to address the issue right away so the firm can continue to give the client prompt, responsive service. Seigneur adds, "This tactic alone offers a great way to position the client to know and trust the NextGen as someone who is trusted by the senior lawyer sufficiently for them to have confidence in prospectively."

Look for suitable ways to help the succeeding lawyers build their brand, confidence, and abilities, such as authoring articles and making presentations to build their reputations as thought leaders.

Conclusion

However you choose to approach the topic, do it now.

"For law firms with an aging ownership," says Seigneur, "I would encourage you to do what is necessary to get your elephants up on the table and deal with the realities of your particular situation. Consider using a qualified facilitator to have the difficult conversations that are often the key obstacle to moving this process along."



Ron Seigneur is a recognized leader, educator and innovator in the valuation field. He lectures frequently on valuation, litigation, and financial analysis issues to other valuation professionals and attorneys. Ron is also nationally recognized for his consulting expertise with law

firms and attorneys, subsequent to a 7 year stint as a legal administrator and Chief Financial Officer for a 50-attorney Denver law firm. He can be reached at ron.seigneur@cpavalue.com or 877-775-2676.

Retirement by the Numbers

- 700 retirees = 27,000 years of experience
- 55 or older = 1/3 of the practicing partners in the Am Law 200
- Early retirement for lawyers occurs between 55 and 62
- 65 = age of normal retirement
- By 2018 youngest baby boomers will be in their mid-50s
- By 2018 oldest baby boomers will be in their early 70s

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