Succession Part 1: Holding onto Clients When Senior Rainmakers Retire

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As if law firms don't have enough to worry about in this era of more discerning and demanding clients, pressures on rates and profitability and more stringent competition, it is estimated that over the next ten years sixty-five percent of baby boomer equity partners will retire. While some firms are using early retirement and de-equitization as ways to reduce high compensation to underperforming senior partners, other firms are nervous since many of their most productive rainmakers also fit into the category of those nearing retirement age. Given how tentative many relationships are today between law firms and their clients, the threat of losing clients, i.e., revenue, when partners retire is significant.

Very few law firms have put sound client succession policies into place. There are a number of contributing factors:

- Many firms have no mandatory retirement age; firms believe this allows them the flexibility to make decisions on an individual-by-individual basis but having a lack of a framework also makes it difficult to establish uniform approaches to succession planning.
- As better health habits and improved medical care has resulted in longer life expectancy, firms and vibrant partners are reluctant to establish a date for retirement and are reluctant to raise the issue.
- The focus on short-term profits results in compensation systems that reward both origination and working hours, both of which act as disincentives to senior partners who otherwise might start cutting back but who aren't ready to reduce their compensation.
- Those same compensation systems that reward individual originations and matter credits make partners develop and hold on to "my" client relationships, resulting in client relationships as belonging to a single partner rather than to the firm.

Having a good client transition plan in place will be critical for firms as this large number of baby-boomers retire. Firms easily can be de-stabilized if they lose client revenue so the goal is to ensure that both clients and the firm are well served during and at the conclusion of a transition period. The following are components of an effective way to approach this aspect of succession planning (our next blog post will address the practice and leadership aspects of succession planning.)

Step 1: Develop a uniform policy for retirement and succession.

Set a required retirement age. You can still build flexibility into this by including metrics and other factors by which the management committee will review each partner. For example, the firm could extend a partner's mandatory retirement for up to three years if several specific criteria are met each year. If the firm doesn't already require an annual business plan from each partner, ask every partner to establish goals for his/her practice that include a transition strategy.

Step 2: Devise a client transition plan.

Three years prior to partner retirement, the partner, together with the managing partner, should conduct an analysis of all of the partner's clients, with an initial focus on those top ten or twenty that produce substantial recent and ongoing income to the firm. For each client, the following steps should be taken:

Develop a profile of each client. Produce a summary on each client to include:

- Three to five year history of fee receipts from client, broken down by practice area.
- A relationship matrix of the all known individuals in the client organization: their titles, who else in the firm knows these individuals, the nature/depth of each relationship and the current/future role each plays in the decision-making process.
- An assessment of the client's future legal needs, growth strategy and industry trends.
- An assessment of the client's succession picture – soon to retire leaders, next generation stars that are being groomed, etc.

Conduct a client satisfaction assessment. As detailed in two prior posts Client Feedback: 10 Steps to Determine Where Your Firm Fits on the Satisfaction and Loyalty Curve and Are Your Clients Loyalists or Defectors?, client feedback is critical to gauging where your relationship stands now. If the firm has not already done so, send someone other than the relationship partner to meet with the client to solicit feedback on how well the firm is serving and meeting the needs of the client. There is little point in developing a detailed plan to transition the client relationship until the firm is certain that it is fully meeting client needs now and exceeding expectations.

Develop a client team. As reviewed in our prior post Strategic Account Management Must be About Clients First, Sales Second, centralized client management is something that clients themselves want from their outside law firms. Client teams not only ensure better and coordinated service to -- and more consistent and ongoing communication with -- clients, it formalizes an approach to institutionalizing clients to ensure that there are multiple relationship touch-points and opportunities for binding loyalty between numerous lawyers in the firm and numerous contacts at the client. Once a successor relationship partner has been identified (see below,) that partner will assume responsibility for leading the client team, perhaps with the help of another partner or counsel with deep ties and history with the client.

Identify a "successor" to become the relationship partner. Often, successful rainmakers already have put into place "deputy" partners to help manage the client's work. While the client may call this deputy frequently and directly, this partner may or may not be the right partner to succeed as the relationship partner so it is essential that the senior partner review the selection of this partner with the managing partner, and over time, with the client himself/herself. Ultimately, clients themselves determine whether they feel comfortable with whomever you choose and they should be included in your decision. Each client may require a "relationship partner" and a subject matter partner if the same person cannot fill both roles. An important part of the annual client team plan will be action steps being taken to transition relationships.

Make sure the transition process is working. To effectively transition relationships, retiring partners will have to take an active role in introducing and promoting successors into the relationship. In the first year, the successor should be taken to meetings, asked to join calls and regularly cc'd on all correspondence, most likely at no extra charge to the client. By the second year, the successor should be playing a more central role in initiating calls and meetings with clients and even take on the billing responsibility. By the third year, the retiring partner may be included as an adviser and sounding board but not as substantively essential to matters. Members of the client team should also be making better and deeper personal and professional connections with members of the client's team. The managing partner should take an active role in having quarterly reviews with partners during a transition phase, especially since many partners naturally and understandably are reluctant to wind down and to give up control of relationships.

Include the client in the transition process. Clients often fear the retirement of a senior partner but are reluctant to voice their concerns to the individual or the firm. This is especially true if a senior partner has had a long-standing relationship with a company over multiple in-house leadership changes and has developed a deep institutional knowledge and loyalty. Make clients aware of your efforts to continue to meet their needs and the firm's desire to keep serving them in coming years. By implementing a plan several years in advance, the managing partner will have the opportunity to check in with clients a few times a year to evaluate how well the transition plan is working and to make adjustments as needed.

Step 3: Don't Penalize Partners in Compensation

If senior rainmakers are still contributing substantially to firm revenues, they likely are being well-compensated for their originations, for supervising hours and for working hours. In order to incentivize them to begin handing off and sharing credit for clients and matters, the firm should not penalize partners by decreasing their compensation or perks during a well-planned transition phase. As long as goals and specific milestones in the transition plan are being met, the transitioning partner should continue to be as well compensated during that time.

Our next blog post will focus on ***Succession Part 2: Planning Smooth Leadership and Practice Transitions.***

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