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Why Your Law Firm Needs a Succession Plan and How Legal Tech Can Help

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Attorneys often view succession planning as solely applicable to retirement, but disruptive events can occur at any time, forcing a law firm transition. While some of these occurrences can be forecasted, others come with no warning at all. A sudden illness or disability can leave a firm leader unable to manage the regular legal operations of the practice, which makes succession planning a priority within a law firm's business strategy. Without it, firms and clients can suffer significant setbacks as they deal with the uncertainty of the firm's future.

These risks are particularly heavy for solo and small law firms. Many of these practices operate without succession plans and have no continuity plan should a disruption occur. These situations leave firm members struggling to handle disgruntled clients or aggressive creditors in the midst of disorganized transition.

While many states do not require law firm succession planning and offer no specific guidance, there are useful considerations and tips law firms can use to craft a comprehensive succession plan.

Types of Transitions

Depending on the goals of the practice leader or leaders, law firm transitions can take a variety of forms. Whether considering retirement or preparing for an unforeseen disruption, attorneys need a clear understanding of what they hope to achieve, so they know the best direction to take. They should ask themselves whether they want to remain somewhat active in the firm or completely move away from all firm operations. Attorneys must also decide whether they want the firm to continue after the transition or if dissolution is more appealing.

The answers to these types of questions help firm leaders make effective decisions about which of the following transitions they hope to achieve:

Firm Dissolution - For attorneys who do not want to invest additional money or make an effort to transfer their firm to another attorney, closure can be an attractive option. But closing a firm is no easy feat. Attorneys must create a plan that addresses their ethical obligation to leave all clients in the best position to secure alternate legal representation. This includes providing access to all necessary files, documents, and relevant data. Attorneys who prefer to sell their firms also need to obtain professional valuations to maximize profits while following all ABA rules related to the sale.

Partnering with Another Firm – This transitional option is often used by attorneys who prefer a slower movement away from the firm. Instead of walking away, the attorney chooses to form a partnership with another attorney or firm. As part of the merger, the attorney helps navigate a more gradual and smooth transition. This type of transition theoretically allows the attorney to lessen the inconvenience felt by firm clients. The time frame for these partner agreements can vary greatly depending on the terms of the agreement.

Choosing a Successor – Attorneys that hope to maintain the basic structure of their firm with a new leader at the helm may decide to choose their own successor. This option may allow the attorney a significant amount of time to groom the attorney who will lead the firm in the future.

Succession Plan Components

Every law firm succession plan differs depending on the desires of the attorney and the specific details of the law firm. But the following are some components typically included within succession plans:

1. Client Services

Clients are the backbone of any law firm, so a comprehensive succession plan must include strategies to maintain excellent client service to address client needs during and after transition. This includes providing written instructions on how and where client data is stored, along with the necessary credentials for access.

Client notification should also be part of the plan. For firms remaining intact after transition, giving clients plenty of notice makes it less likely that they will seek representation from another firm out of frustration. For firms that are dissolving, attorneys should give clients as much time as possible to make alternative arrangements at a different firm if necessary.

2. Compensation Structure

A succession plan should include a compensation structure addressing how the transitioning attorney (or the attorney's estate) will be compensated going forward. For instance, if the practice is being sold, the attorney should have the firm valued to ensure a fair purchase price. If the plan is to transition clients to a new partner, the attorney may need to maintain some client files and data. When this is the case, attorneys should be compensated appropriately for their time and effort.

3. Business Records

When the need for transition arises, those involved will need access to all relevant business records, including:

- Firm member names and contact information
- List of staff authorizations for highly confidential and encrypted files
- Office space leases or mortgage information
- Third-party vendor contracts and payment information, including utilities, software providers, and office equipment
- All law firm insurance information
- Banking account information and signature cards

4. Estate Planning Documents

Documents like a will and power of attorney should also be included within the succession plan, along with detailed instructions for your family or estate executor. Family members are often named as estate executors, so it is important that at least one trusted family member has access to any estate planning documents related to the firm's transition.

5. Safeguard your Succession Plan

Once a succession plan has been created, attorneys should make sure to store it in a highly secure manner. The sensitive nature of the included data can be detrimental in the possession of the wrong person. Be extremely careful about your chosen method of storage, as well as anyone you choose to provide with access in case a disruption occurs.

Law Firms Need a Succession Plan in Place

Crafting a succession plan can feel like an overwhelming task, but attorneys should do it to protect their law firms and clients. No one knows when a crisis will occur, so it is important to be as prepared as possible. For law firms with a large number of retirement-age attorneys, it is even more critical to maintain a comprehensive succession plan.

Legal technology can play a major part in crafting a succession plan. It can be a time-consuming process, but legal technology can help attorneys save time by quickly providing necessary data. Legal practice management software keeps the firm's various business components in one centralized location, which can make a transition easier and efficient to navigate. With a few clicks of the mouse, transitioning law firm members can access reporting pertaining to matter progress, invoice status, revenue, accounts receivable, and more.

Quick Succession Checklist

Taking the time to solidify your firm's succession plan is a daunting task, but is one that is critical to both your firm's future and the happiness of your clients. If you're not sure where to begin, start by compiling the below information in a secure location. A legal document management system can help keep this sensitive information from getting into the wrong hands, while also serving as the source of truth as future generations of lawyers need to access client data to keep the firm running smoothly.

- Client and matter details related to the type of case, matter status, fee agreement, and invoicing status
- Passwords, logins, and multi-factor authentication for devices, software, and online accounts
- All firm financial data, including business accounts, client trust accounts, and firm credit cards
- Information related to the firm's malpractice insurance
- External vendor information, including account numbers, payment data, and contact person
- Physical office information, such as mortgage company or leasing information

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