Published on *The National Law Review* https://natlawreview.com

Overcoming Challenges for Founder-Owned Law Firm Longevity

Article By:

Brian Kennel

In our experience, most first-generation (founder-owned) law firms do not become second-generation firms. Those that do survive beyond their founders share some key characteristics: they are consistently high-growth firms that regularly admit new partners and generate sufficient business beyond the founders' originations. This approach reduces the impact of eventual retirement. First-generation firms with a true institutional mindset begin planning for founder succession from day one.

Short-Term vs. Long-Term Growth: A Balancing Act

For many small and medium-sized first-generation firms, the initial focus is often on survival and maximizing income or profit. Growth efforts are typically short-term and centered on profitability. Even when growth is planned, the emphasis is more on acquiring new business and increasing profits rather than enhancing skill sets and client management capabilities. Firms that successfully transition across generations adopt a long-term perspective, thinking in terms of decades and taking a more balanced approach to growth.

Structural Limitations to Law Firm Longevity

The inherent structure of law firms limits their longevity. They do not sell products, rarely accumulate equity, and often find it challenging to innovate. What takes decades to build can disintegrate in a matter of months. Additionally, their approach to capital management is also problematic, as many firms choose tax structures that limit cash reserve accumulation, passing earnings and tax liabilities directly to partners each year. Partners are generally reluctant to retain taxable income within the firm, and while debt is available, it’s rarely a sustainable solution. Consequently, most firms rely on cash flow to finance operations, limiting their ability to make strategic investments.

Preparing for Smooth Generational Transitions

Despite the challenges faced by founder-owned law firms in transitioning to the next generation, some firms are prepared to make this leap. However, ensuring that senior partners feel valued and appreciated is crucial. To achieve this, firms must address several key questions that are essential for a smooth and successful transition:

The Key Questions

-
    - **What compensation should a retiring partner expect?**
    - **Can the firm ensure client transitions smoothly?**
    - **Is practice valuation fair?**
    - **Does the firm have funds to pay retirees?**

Securing a Lasting Legacy

Frequently, firms struggle to address these questions, prompting senior partners to leave for better opportunities. By answering these critical questions in advance, firms can create an environment where senior partners feel valued and committed to fostering a lasting legacy. Law firms that are deliberate and proactive position themselves for enduring success. v

National Law Review, Volume XIV, Number 304

Source URL:https://natlawreview.com/article/overcoming-challenges-founder-owned-law-firm-longevity