

## **8. Symposium “German Desk Lateinamerika”**

### **Shaping the future of family owned law firms**

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# What is a family owned law firm, what are its characteristics?

- Founded by family members or one or more founding partners with other family members joining the firm subsequently retaining control of the firm
- Significant growth of business as a result of success as personal advisers to clients
- Equity succession coming up or being a current issue
- Transition of management responsibilities and client relationships often are a significant risk to the continued financial performance of the firm.

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# What are the challenges for the future?

- Non-family lawyers have joined and contributed successfully to developing the firm
- The founding partner(s) remain the top fee producers through the clients they have brought to the firm
- Should the firm stay family-owned or grow with young non-family related lawyers having the opportunity to become partners?
- How to manage equity succession to secure future of the firm
  - either very early on when the younger lawyers mature or
  - at a later stage when the founding partner(s) plan/should plan to retire/step back and young non-family partners continue the firm successfully

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## What steps could be taken when non-family related lawyers are ready for partnership?

- Short term: Disassociate compensation from equity holding, i.e. use a kind of performance driven lock-step to incentivize next generation of partners, while the founding partner(s) retain control
- Create veto rights/need for prior consent of the founding partner(s) for matters affecting important decisions regarding the firm (merger, admission/removal of partners etc.), thus basically creating two or more classes of equity partners in the firm
- Equity succession: Have the founding partners already been paid for their contributions to the firm by their compensation in the past - Is there a value of the firm which they transfer to the next generation of partners or is it the next generation which preserves- by their ability to retain the clients and continue the business - the continuing value of the firm for which – in principle – they should be compensated? – Should law firms be ‘sold’ to the next generation of partners?

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# What steps could be taken when non-family related lawyers are ready for partnership?

- Valuation vs. compensation or cost oriented models:
  - Valuation of the firm at each point in time of next equity partners buying partnership interests and agreeing on payment periods vs.
  - Not necessarily strictly valuation-based payments to the founding partner(s), e.g. percentage of fees paid by clients brought by him/them to the firm, continued payments after retiring/stepping back which may be instalments of an agreed buy-out price or
  - New partner contributes capital equal to his or her fully-loaded cost for the first year of equity partnership – does not work as well in very small firms with low operating costs.

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## What steps could be taken when non-family related lawyers are ready for partnership?

- Governance-oriented models: Often, the founding partner(s) – at least for a transitory period - are more interested in retaining control of the strategic direction of the firm than payments in connection with stepping back – in that case younger partners with a lower equity stake need to be comparatively better paid (performance-based lock step) and there needs to be an equity succession plan, but anticipate issue of back-loaded buy-out obligations for succeeding partners

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# Conclusions

- Plan succession early
- Discuss with next-generation partners allowing them to plan on the basis of the model chosen
- An experienced advisor could be of value in facilitating the process and recommending the model most suited to the interests of the parties involved
- Make a resolution to which everyone will stick – modifications in details may become necessary, e.g. in case of adverse market developments.

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## Your contacts



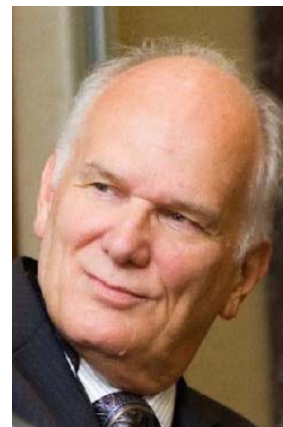
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