MANAGING FOR SUCCESSION

Succession is high on the agenda for many firms facing the retirement of partners who have been driving forces in the business. Proper planning well in advance is key to developing strategies for managing the process, so that those approaching retirement are prepared for the change and can bow out leaving their firms in a healthy state, capable of facing the future with confidence. Peter Scott has some points to consider

The need for succession planning has been brought into sharp focus by factors such as the following.

• The need in difficult economic times to maintain profits per partner, which can lead to forced retirements, driven by the notion that unless partner profits can be maintained or enhanced, firms may be unable to recruit and retain talent.

• Pressures coming from below from 'young Turks' who want bigger slices of the cake at ever younger ages, driving down retirement ages from the traditional 65, to 60 and below.

• Problems of the pensions industry, combined with lower annuity rates and falling stock markets meaning that many partners cannot afford to retire.

• De-skilling of partners as work becomes more and more 'commoditised'.

• The opportunities opened up by the prospect of outside investment in firms.

WHY DO FIRMS NEED TO PLAN?

Succession planning should in an ideal world aim to make optimum use of a firm's productive resources to ensure the well-being of everyone, by reconciling competing interests of groups including:

- older partners;
- younger partners;
- managing Partners; and
- clients.

OLDER PARTNERS

The higher the age profile of a partnership, the greater the urgency to develop a plan to deal with succession.

'Now that you are 50, tell me why you should continue to enjoy a full profit share?' is a question that is being posed more and more often.

To develop a sensible succession plan fair to all, as opposed to an age-related partner cull, it is necessary to differentiate between partners who have the energy and hunger to fully contribute to the firm in a broad sense, and those who have 'taken their foot off the accelerator'.

For those older partners who still have the will and the ability to pull their weight, firms should seek ways to:

• make them feel valued as opposed to being made to feel that they are beyond their shelf lives;

• harness their skills and experience within the firm, because experience and judgment are often qualities in short supply; and

• match their reward to their contribution so that both the partner and the firm feel they are getting a fair deal. Specifically, agree on financial arrangements that enable a partner to plan retirement over a given period of time, which at the same time helps the firm manage the cash flow and working capital implications of several retirements happening in rapid succession.

YOUNGER PARTNERS

Firms need to provide long-term career paths for people in order to be recruit and retain the best and to groom them to one day take over the reins.

How many firms offer their partners career paths spanning potentially their whole working lives? Look at the loss of talent to the profession because firms cannot or do not wish to find ways of using the skills of married women who have had children and wish to return to work on something less than a full time basis.

Mapping out career paths should be a priority part of any plan for the future of a firm. And as part of a plan, younger partners need to be helped to develop skills they will need if they are to one day take over the reins. At the same time, older partners need to ease younger partners into client relationships so come the day of retirement, the firm's position with clients is secure.

On the other hand, if there are no younger partners coming through, firms will need to ask themselves whether they will have the people resources to continue on their own. Succession planning often leads to merger thoughts. However, even if succession is a catalyst for merger, firms should only merge for the right reasons. Merger is not a strategy – it is merely a means to building a more competitive firm.

MANAGING PARTNERS

The lack of career paths in firms becomes particularly evident in relation to management. What does the 45-year-old who has just become managing partner have to look forward to at the end of a five-year stint in management? The choices seem stark:

• returning to fee earning after management is likely to be difficult, particularly as clients will have been passed to others and legal knowledge may be rusty; or

• join another firm as a manager (but there is not yet much of a 'market' for managing partners); or

• become a consultant using the skills acquired, to advise others.

Given the importance of good management to firms today, are these sensible choices? Why throw away such a resource if it can be profitably used? If firms are to attract high quality people to lead them, then they need to address succession plans for those who take on the burdensome task of leadership.

CLIENTS

The reason to plan for succession is to secure the future of the firm – and that means making sure that the firm not only keeps the clients it has but develops strategies to build even stronger client relationships.

Some firms assume (usually incorrectly) that clients have no interest in what happens internally within a firm. A firm will have close working relationships with its larger clients and changes within the firm will impact upon the clients. They have a right to know who is to look after their matters and, because they pay the bills, to have a say in such matters. So when a client asks a managing partner about 'Partner X's retirement plans', alarm bells should ring. Succession will be smoother if major clients are consulted about impending changes and client-friendly succession plans agreed both with them and with the partner concerned.

THE FUTURE TODAY

Finally, it should go without saying that firms ought to make it mandatory that partners make adequate provision for retirement, because many succession issues would be eased if partners could afford to retire. But how many firms do?

The pace of change in the legal profession has never been faster and is likely to gain even more momentum in the coming years. Whether firms are facing challenges brought about by the impending retirement of valued senior partners or are thinking of trying to cash in their chips by turning themselves into businesses which may one day appeal to outside investors, the planning for such change needs to begin now.

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