

# PETER SCOTT CONSULTING

## Briefing Note August 2016

### Is succession a problem?

Succession planning **should** be regarded as one of the most critical issues for law firms as the future well - being of a firm and its people is likely to depend on it, involving issues over a firm's future leadership, the prevention of loss of talent and client relationships, and the reconciling of the interests of older partners, younger partners, key staff, managing partners and clients. For sole practitioners the succession problems are even more acute.

Succession planning is however too often not high on some law firms' agendas, despite some of the pressures on them which are likely to include:

- Pressure coming from below from the 'young turks' who want a bigger slice of the cake sooner but see their career paths blocked by older partners.
- Economic pressures to reduce the size of the equity and a trend to lower retirement ages in many firms, with older partners often seen as 'easy targets' but in circumstances where they cannot afford to retire, causing tensions
- Firms facing the prospect of the retirement of partners, some of whom may have been the driving forces behind their firms in the past, creating the dilemma of how to replace them (and their capital) to secure the future of their firms

Unfortunately in some firms I have noticed that those running the firms have put their heads in the sand and hope the problems relating to succession will just go away. Sometimes this may be because within a firm there is not the experience or the skills to effectively deal with the problems. However, whatever the reason for failure to deal with succession issues, such problems do need to be resolved because they do not go away but tend to fester and become more acute as time passes.

The key word is "**planning**" because forward planning is vital if effective succession strategies are to be successfully put in place.

### What should a succession plan aim to do?

Succession planning should in an ideal world aim to make optimum use of all the productive human resources within a firm with a view to ensuring the current and future well-being of the firm and everyone in the firm, by reconciling conflicting and competing interests and the future well-being of various groups, including:

- **Partners approaching retirement**

- to provide a planned retirement to benefit both partner and the firm
- to secure client relationships by planning a phased handover of clients
- to harness their skills and experience
- to make them feel valued
- to agree financial arrangements which fairly match reward to contribution while in the firm
- Who to put in their place?

- **Younger partners**

- to provide clear career paths and to manage career expectations
- to put in place New Partner Programmes designed to bring people through to partnership and which continue throughout partnership
- to put in place transparent admission / progression processes
- to ease them into client relationships
- to build competitive profitability to recruit and retain the best

- **Sole practitioners**

- what to do with their practice when they want to retire?
- can they persuade another firm to take it over?
- has the practice any value?
- will an acquirer firm be prepared to become the successor practice or will the sole practitioner have to buy run off cover?
- Will they have to keep working if unable to find a successor or if unable to pay for run off cover?

- **Managing Partners**

- What to do with the 'redundant' managing partner?
- Will a return to fee earning be possible? And if so will a 'parachute' be provided to him or her?
- How can we use that person's accumulated skills and knowledge for the benefit of the firm?
- Should we develop managerial career paths for our people?

- **Clients**

- How can we secure the client base of the retiring partner?
- Should we involve clients in our thinking as to who will look after them in the future?
- How can we embed client relationships into the whole firm instead of *'being*

*owned*' by one partner?

Seeking solutions for older partners may in particular bring into focus the longer term issue of who or what a firm puts in their place, if indeed there is anyone or anything to fill the void? This can be the moment a firm realises it may be at a crossroads.

### **Preparing for tomorrow**

If a firm has an ageing partner pool and several partner retirements due in coming years, it is prudent to ask whether the firm will realistically have the people and other resources to continue on its own or whether it should begin to plan an alternative strategy.

Planning for succession often leads to thoughts of merger as firms realise that with no strong young partners coming through, the only sensible option may be to throw in their lot with others. However, even though succession issues can be a catalyst for merger, firms should still only merge for the right reasons. Merger is not a strategy in itself – it is merely a means to achieving an end, namely the building of a more competitive law firm. However, if an earlier lack of succession planning now means that a firm will struggle to compete in the future, then that is likely to be a reason why it may need to consider some form of merger with others.

If firms are to avoid the problem caused by lack of good talent waiting in the wings to take over and are to grow, then they will need to help their younger people to develop the necessary skills and knowledge and provide them with **long term career paths** if they are to both recruit and retain the best talent.

It is also unrealistic to think that nowadays lawyers will throughout their careers do the same work and have the same roles. Instead firms will need to offer their lawyers more flexible career paths. Not every lawyer for example wishes to become a partner and so firms will need to devise ways to ensure that such people can have worthwhile long term careers in a firm. And how much talent is wasted by those firms who cannot or do not wish to find ways of using the skills of women who have had children and wish to return to work on something less than a full time basis?

Longer term, forward planning is the real key to successfully managing the process of succession if a firm is to be able to face the future in good shape and with confidence.

What plans has your firm made for its future?