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Succession planning is vital to building a sustainable future for your law firm

As the legal industry finds itself once more on an expansion track, one consequence of a long period of recession and low growth is that the partnership age profile now appears somewhat imbalanced. Few firms have been able to offer partnership promotion to those who, in the past, would have been credible candidates. In some cases, only truly stand-out performers have been offered the keys to the partners' dining room while, in others, the door has remained firmly bolted for a number of years.

Some would argue that it is a good thing that the recession has finally sorted the wheat from the chaff and that now only those with real ability (rather than all of those fortunate enough to be working in a bull market) will become owners of the business. Regardless of whether or not this is a laudable situation, it creates a number of pragmatic, strategic, demographic and emotional issues which firms seeking to grow organically must address.

Challenges to address

At the pragmatic end of the spectrum, the strain of capital requirements are clear and will be exacerbated as partners move to retirement and seek repayment of their investment. Strategically, without a regular conveyor belt of ambitious and able candidates, no firm will be able to build for the future, provide stability or sustain growth.

Demographic shifts, coupled with the increased uncertainty of holding a lifelong position as partner, make the allure of equity less appealing. As a result, many able candidates no longer wish to be considered for such a position. Emotionally, many in the senior tiers below equity are bruised, regarding themselves as part of the collateral damage of the recession. Yet, they are now being called upon to 'pay out' the older generations, who may be regarded as architects of their own undoing, which they now seek to pass on to others.

Succession planning is a very significant issue and needs to be thought of in terms of the whole career profile and development of the firm's lawyers, rather than conceived as an issue which is time-bound by the projected retirement dates of current equity partners. Implicit in the historic model is an understanding that senior partners will remain in the equity until they choose to retire or reach a mandatory age; the effect is to create a glass ceiling against which a talent pool of candidates is jammed, frustratingly, for years.

"Plan early, plan well and act decisively"

Of course, adding to the equity creates a dilution of profit share. On the other hand, disaffecting the future generations of business owners would simply be signing the death warrant of the firm. Increasingly, the best candidates are mobile, changing firms to realise their ambitions or creating niche practices of their own. What remains may be simply those unable to move or unwilling to take the risk, neither of which are traits one would aspire for in future leaders of the business.

A clear trend to address this is a move by progressive firms and an acceptance by their partners that a changed relationship is needed as retirement looms. The emphasis for senior equity partners should be on transition, creating a legacy and ensuring that clients are left in capable hands.

Typically, concomitant with this career stage for older partners is a switch from equity to a consultancy arrangement, perhaps on a part-time basis, which provides a financial glide-path to full retirement, while ensuring that the firm manages the change effectively and ensures that client relationships (and the value inherent in them) are preserved.

Internal assessment

But, how serious is the problem and how can you quickly assess its prognosis within your own firm? When conducting reviews, I ask firms to age profile their people (perhaps bracketing them into five-year bands). I often find it useful to present this in the form of a simple bar chart. By tracking back from the anticipated equity partner retirement age, such an exercise quickly illustrates where the key pinch-points are.

Now, using the same profile graph, wind the clock forward five years and, separately, ten years. Assuming that the retirement age stays the same, this is the reality of how the firm will look at the senior level in the absence of lateral hires.

Next, consider your current talent pool below equity partner level. Who are the rising stars in each cohort (from newly-qualified lawyers all the way through to senior associates)? Where are the gaps and how will you plug them?

Conversely, do you have the 'nice problem to have' of a golden generation? If so, how do you manage the expectations of this group and, as would be likely, when you lose a number of these talented people, how will you ensure that they depart as 'good leavers', spreading positive messages about their experience at the firm, rather than brand-assassins, vitriolic about the way in which they feel they were treated? These are key issues which must be managed over a long timescale.

Plan early, plan well and be prepared to act decisively and implement incrementally to avoid a succession log-jam or vacuum. Either scenario could dramatically compromise the future of your firm; both are difficult to fix in the short term without destabilising effects. mp

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