MILLBOURN ROSS

RE-IMAGINING SUCCESSION PLANNING

WHAT ARE THE CONSIDERATIONS?

Succession planning is an underlying challenge for law firms regardless of size, and something we hear on a regular basis at Millbourn Ross as it forces that prospect of selling a firm or being acquired. All our participating firms had been approached to acquire or buy a firm because of succession planning issues. ALM Legal Intelligence published a statistic that revealed that one third of legal practices did not have a succession plan. Is there a way that law firm Managing Partners can start to re-imagine succession planning even though it is an emotive topic and is often met with resistance?

Millbourn Ross interviewed 30 UK law firms, 14 regional firms and 16 London firms ranging in t/o from £4m-£100m in 2023.

Our starting point was this question...

If I died tomorrow, what would happen to people, knowledge, and clients?

Do firms understand what they are succession planning for and what legacy do you want to leave behind? How do you ensure there is continuity in leadership, retain intellectual and knowledge capital for the future and develop new leaders? Succession planning should be a critical component of the firm's overall strategy because of the impact it has on revenue, client satisfaction and retention and the potential for retaining associates. How can you ensure that partners hand on their knowledge to the next generation of lawyers

SUCCESSION PLANNING – WHAT WORKS?

1	Plan ahead, you do not know when someone might decide to leave.
2	Do not leave leadership selection to a few partners. Ensure there is as little bias as possible, present papers and potentially vote electronically.
3	Do not concentrate leadership in a single generation, include future junior stars and support them.
4	Train junior lawyers helping them to develop more than financial skills, but how to develop business and strong leadership skills.
5	Think about how clients will be treated, develop client teams for all key clients.
6	Devise compensation plans that encourage delegation, cross selling and handing clients to a successor.
7	Offer support to retiring partners, they have given decades to the firm.
8	Beware the never-ending consultancy model, define the term and be aware of back seat drivers.
9	Alumni could be great mentors and refer business if included in events.
10	Remember succession plans should not be static, review them as part of your planning process for all staff not just lawyers.

Does your firm have a formal succession plan in place?

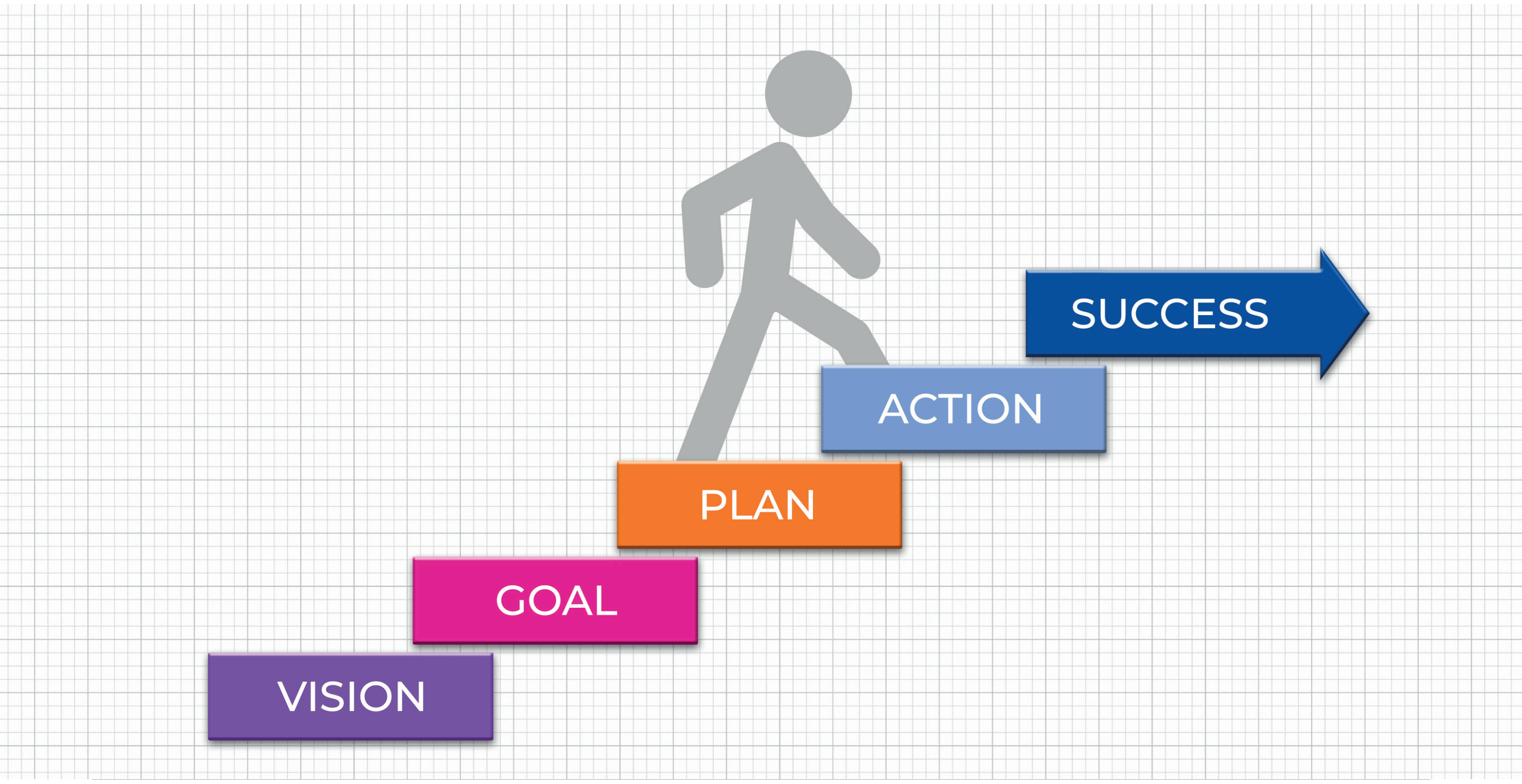
30% **Have formal plan**

70% **Had no plan**

*Of that **70%**, **53%** had an informal plan which in many cases was still evolving.*

It is a strange assumption that plans can be worked out nearer the time or will sort themselves out or that it will happen naturally. It is a greater risk to smaller firms when their leadership talent, legal expertise and client relationships are concentrated on a smaller group of people. Retirement needs to be discussed in an open manner because this is what mature businesses do.

Succession planning is not a static process, plans should be reviewed and evolve to become part of a firms regular strategic planning process. Partners do not necessarily stay with one firm for life, so firms need to plan not just for retirement but for protection of the business.



FORMAL PLAN

In our research the **30%** of firms had a formal plan and had strong and clear documentation to support that plan.	Culture and required behaviours were instilled across the firm with a competency framework.
Retirement outlined in the partnership deed or LLP agreement.	Firms believed that there needs to be an acceptance that work comes to an end at some point. It is not personal, it is life. The more you normalise the discussion the easier it becomes.

What holds back planning?

Fear played a part in having open discussions, many wanted to discuss the potential of retirement 5 years out, they felt that partners believed that they will be held to it, when all firms want to do is start to plan. Some firms stated a reluctance amongst partners to bring people into equity as it weakens their position. Feelings of their own mortality makes that reluctance acute.

When do you start planning for retirement?

Firms in the study had varying timescales for those conversations starting. These range from 2-10 years prior to retirement. Even if the retirement age is 65, typically they retire between 65-70 10 years before retirement we should be thinking about specific individuals because it aids conversation and planning. In an age when partners are mobile and are prepared to be mobile, we need to protect the business. The reality is that people leave, and they could go to another firm or a consultancy model firm.

How do you identify successor talent and what are the benefits?

Define a structured career path, to join equity for senior associates is aspirational. The inability to explain basic successor information hampers firms. Communication is vital and you need to know the aspirations of associates and senior associates and have honest conversations. Most firms agreed that partners usually believe that they are only there to bill and that they should lead the way. New, younger partners must be taught that there are wider aspects to being a partner and that an investment in business services benefit the firm and as a partner they cannot expect to be an expert in every aspect of the business.

30% of firms surveyed that have a formal plan recognised the following benefits

- Firms acknowledged that by having a recognised talent pool in place it helps retain staff because they can see a career path even if their end goal is not a step to equity. Regular check-ins on a quarterly basis helped that career path.
- One firm offered a leadership course in two parts, one academic and the second part residential and practical to step up to a senior associate role. Staff must apply; it is not a right but a privilege to be accepted to the course.
- All participating firms had leadership programmes in place because they believe it encourages their talent to see the future and stay with the firm.
- Ops Board, COLP and COFA all have a deputy shadow, not a formal system but makes the firm aware of any gaps and what they may have to cover.
- We also interviewed firms where senior associates did not have to wait for an equity partner to retire to find a place, if clients are being brought in a place is made for them.
- Successor talent identify themselves and it is well publicised on the intranet, which defines the criteria and when to apply. It also forms part of the appraisal process. They need backing from the Head of Department to progress.
- Senior Associates are even more likely to leave because they do not want a career for life with one firm, but it helps retain them if they see a career path to EP. It might not be the holy grail, but they have the aspiration but more and more they question how can I have the career and remuneration I want.
- We map all roles across the firm, we check every specialism so we can see if there are potential gaps for key roles and any risk that may cause.
- Most required a business plan to move to EP and from senior associate to salaried partner level.

70% surveyed with informal or no succession plan

- Some of the firms surveyed have a talent pipeline from an early stage because they were losing staff who were unsure about their career development and because of that they in turn had a lack of commitment to the firm. That led the firm to be transparent at each stage.
- Many still do find it aspirational to reach equity as the rewards are considerable.
- Have a formal strategic talent pool review. Partners sponsor individuals to ensure that they are exposed to the right work and situations.
- No business plan, we invite people into equity rather than make them formally apply.
- Many have a framework in place in document form when lawyers join that show the stages, they will go through. All firms' successors put in a business case as they move into partnership, be that from solicitor to salaried partner, salaried to fixed share and fixed share to full equity Most firms had a formal process with forms setting out what is expected of a partner. Many have a pool of talent rather than a successor marked to succeed a particular partner.
- People don't progress in a linear way. They might wait 20 years to reach partner, but they might not have what it takes to make an EP. People want to trade on being in the firm a long time but that is culturally wrong.

Can you stop unconscious bias when voting for partners and equity partners?

Identifying future talent stepping up to partnership is usually accompanied by some kind of voting system.

Those within the 30% who had a succession plan

- Firms accepted that often favouritism does play a part in identifying future leaders but also identified that unconscious bias needs to be balanced. To stop that bias some firms ensure that after the business case was presented, the interview panel is made up of partners who are not associated with the individual applying.
- We also interviewed a firm that presented the business case, gave the partners papers to read and then introduced electronic voting. Partners have papers 14 days before the vote. It ensures a true vote, not people voting strategically or being influenced by others in the room. It stops the politics. This is applied not just in partnership votes but across the business.

70% with no formal succession plan

- Some firms were however unsure how to balance identifying talent and picking a favourite or showing unconscious bias, and agreed it was as dangerous as not identifying talent. They stated that people mature at different rates, so it is hard to identify people at an early stage of their career. The reality is that great lawyers do not always make the best EP's, but their commercial acumen is not always tested well. Some EPs only worry about how the business fit affects their drawings.
- We have elected committees looking at those wishing to step into equity to try and stop bias as always partners lobbying and using tactical voting when looking at potential EP's.
- We would never have an electronic vote because with voting by a show of hands we feel we are all in it together.

As a general observation, all the firms that participated in the survey recognised that additional training is needed when lawyers step up to equity and help is provided to identify and train future leaders.

The step up to Equity Partner

- We produce an annual list of salaried partners who want to move to full equity. That way we recognise future stars. We fast track those that stand out, they see that they are ahead of their peer group, so they are likely to remain.
- We give potential equity partners questions in advance of career discussions. We ask their personal vision and how they intend to get there over the next 3 years. Literally what do you need from us to succeed.
- We provide training on values, culture and how their role will change, it is not just about fee earning.
- We have MBA style programmes for all partners and lateral hires. Whilst it is not mandated it is strongly encouraged.
- We hold insight awareness sessions so anyone can self-identify as a future leader and can understand what support is available and how partners will sponsor them.
- Provide training for lawyers as they progress to equity, it includes leadership and learning the economies of running a business. Partners are more successful if they know more about engagement, pricing etc it's fundamental to running a successful business.
- Formal programme in place for inclusive leadership and managing a peer group.
- Department Heads succession. Serve a 3-year term and need to indicate 6 months ahead of financial year end if they are standing again. They must produce a three-year plan, looking back at what they have achieved in the last three years and what they want to achieve in the next three years. If the role for Department Heads is contested the Managing Partner has confidential talks with EPs to see who will be supported and then will speak to anyone who will not be. They have had joint Heads before but anyone leaving will have discussions about how clients will be handed over. If they come out of equity, they are still available for long-standing clients if required.

Do you have an official retirement age?

47% had a retirement age in their governance or LLP agreement, but only 7% enforced it

53% had no retirement age citing people knew when to leave

For many it is a contentious issue, but culture builds trust when retirement is discussed. Some formally ensure compulsory retirement from equity is in their LLP agreement or governance documentation, which in many cases was case law tested and therefore compliant, which ensures they make way for junior talent with a cohort of younger partners. Many firms have no issue with partners staying beyond their retirement age and think it is prestigious rather than a barrier. Partners must feel that they are leaving on their own terms, and it must be in a dignified and well managed way. Many saw equity partners retire from equity but not the firm, with mechanisms in place to help them continue in the firm. Most moved to a consultant role.

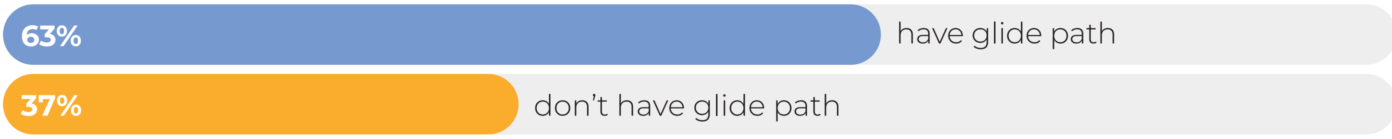
30% with a succession plan

- Firms that did have a plan that included potential retirement date, planned who successors might be that could step into the roles as they become available. It encourages partners to think about it when they see it written down and shows where there could be a risk to the business. Partners are encouraged to plan their own eventual departure.
- Several firms get partners to "coach but not play" but those firms ensured their partners were renumerated so it had no impact on their revenue, their worth would still be recognised all be it in a different way, but they do not suffer financially. Culture needs to grow to accommodate the change in fee earning so trust is instilled even if there are no formal KPI's they are rewarded, for the way clients are handed across to a successor, and how those successors are trained.
- If you're not careful partners will say I'm not leaving for 10 years so I don't need a successor, which is nonsense. I ensure that each partner has 2 shadows and if they can't name who it should be I tell them we will shut their team down. It makes them take accountability, it's a blunt transaction but you must say it as it is and take responsibility for decisions.
- One firm openly discussed retirement and had provision in their deed for partners who prefer to retire between 60-62 rather than waiting for 65 and pay a bonus if they leave early. By having open conversations, it sometimes triggers that option.
- At 65 they are sent a prompt from HR so their plans can be discussed, and coaching planned if requested.
- Ideally succession planning needs 2 years end to end, it needs a devoted lead in time. You have to think 2 levels down from the person retiring so they can move up in the cycle.
- We have a retirement age but look at it on merit, we have one partner in their 70's who has adjusted brilliantly and adds so much value.
- It makes business sense that you don't have aging partners, by their late 50's they are often not as adept at bridging the gap for staff in their 20's. In a multi-generational law firm, the natural people leaders as usually in their 30's-40's because they can handle the full spectrum of age in a business literally from the youngest to the oldest. Older partners are often out of kilter with youngsters, partners in the middle of their career want responsibility and are more involved than many at the top of equity.

70% with no succession plan

- The Managing Partner has role review meetings and hour and a half for each partner. People tend to only look at the year they are in, they don't set objectives on how to move forward. As a leader you must do it. Shareholders always want involvement in every decision in the firm so you must lead and have that touch point. I ask what works for you and the firm, if people feel safe, they will talk openly. We don't have a retirement age in the LLP agreement because that is not a safe space. Partners that step down from equity often make the best fee earners and younger staff trust them because they know they are gold plated, safe pair of hands.
- We would like to have a mechanism when they are within 2 years of retirement, but we don't. Profits are at a decent level, so partners hang on. Lawyers have complex psychology, we're all fragile but the biggest single part of our identity is practising law.
- We rely on partners coming to us and telling us when they would like to retire.
- We have honest conversations. Many state they don't want to work beyond a certain age, or they want to move down lockstep and into consultancy.
- Encourage partners to think about retirement and who could step up to their role, but its loose which is a risk to the business. Use a table to map who is considering retirement and when.
- Look at retirement as and when brought up by the partner but ensure open communication allows the conversation to take place. Work with the partner to find their successor. They work together for a year before partner steps back to a consultancy role. 4 days a week for 1 year, 3 days a week for the following final year.
- No retirement age as worried about legal implications.
- Informal conversations about retirement, some older partners add value, others have had their day. We don't want to lose good people because they are 60. We've had people leave for a year and return and it works.

Glide path to consultant?



Of the firms surveyed **63%** had a glide path to a consultant role prior to retiring, a role that lasted for two years. whilst **37%** did not. For many it was anticipated that partners would not leave until they were 70. The norm for most firms is that individuals retire from equity but not the firm. All firms in the survey reduced the number of days worked per week once partners became consultants.

How to protect clients when partners retire?

One of the first questions we asked in the survey is what would happen to my clients if I were to die tomorrow? One of the crucial aspects of succession planning is the smooth transition of a partners practice and preservation of their legacy.

- 1-year preceding retirement clients handed across and relationships gradually migrated during that time. Clients must agree that the successor is competent and agreeable. For some firms, EPs were involved across a spread of clients because of the variety of work so there is no issue in taking over relationships.
- Moving partners both up and down the equity keeps them in the firm. If they are entering their sunset phase and goals and help them handover clients. we make arrangements and re-gear their objectives, that in turn opens opportunities for others. Our EP's voluntarily move down the equity levels, their humility and empathy has led some to take that path.
- Next generation clients need next generation lawyers. As partners age, so do their clients and it needs to be addressed.
- Partners never want to hand over clients because it is their power base. There a two types of partners service and status. We are actively trying to remove status to what is right for the firm.

It was recognised that there needs to great bench strength across the firm to ensure a smooth client transition.

Do you have support or coaching for retiring partners.

80% have nothing in place in terms of coaching but acknowledged that this would be desirable.

There is a complex psychology with lawyers it's fragile, but the single biggest part of their identity is practising law so it stands to reason that older partners may have a fear and trepidation of leaving their firm. Their network is often work related and they do not know how to build a new network outside work. Often work has provided a mobile phone and laptop so they have been cossetted and looked after to such a degree they cannot countenance retirement. Is there a case for outplacement providers or coaches to help. Do you ask if your role ended tomorrow what will you do in the discussions that take place about eventual retirement?

It may be difficult for some partners to imagine life post-work when work is their purpose and critical to who they are. Many lawyers have worked for decades in one firm, their friends are partners and clients quite possibly similar in age profile. They are often admired by associates as who they aspire to be. Retiring partners face a loss of purpose and a loss of community that has been integral to who they are.

How can you help them transition to post-work life and a loss of things that have been such a part of them? Partners are often defined by what they do not by who they are. In preparation for retirement, they may need coaching to help them recognise transferable skills. There is an assumption that people will make their own retirement plans because they have a level of independence means that they can manage, but many will need help in understanding their potential after they leave the firm. One firm offer retirement seminars three times a year but have had no uptake from retiring partners.

- We have retirement counselling, but we should make more of it as most don't realise it exists.
- We have 3-4 coaches who have a deep understanding of the business, so we match personalities. We even see them as marriage guidance so any frustrations of working closely with people are discussed and sorted out. The sessions work miracles.
- We use an external coach, and they challenge them because it is hard to step away from legal work and it needs support, but we don't give coaching pre-retirement.
- Coaching helps validate that partners are ready to retire and always ask, "What will you do on Monday?"
- Partners need to feel that they are leaving on their own terms, and they should be able to leave in a dignified and well managed way, coaching is a step towards that, but we have nothing in place.

Managing Partner succession

Succession to Managing Partner raised a variety of issues. Firms recognise that it is not for everyone and vote if there is more than one candidate. Others are bringing in non-lawyers, often with a commercial business background to help run the firm. They have no bias to any individuals but do what is right for the firm. They add a new perspective that firms may not have considered, just because we have always done it that way, it doesn't mean it Is right.

- One firm asked for 9 months' notice. 6 months prior to financial year-end and then 3 months after that. For 6 months the successor shadows the managing partner. The successor then takes over, but the managing partner exiting is there to help, and they can call them at any time.
- The firm has an informal pool of talent and emerging talent and work towards allocating deputy heads in key roles. With our Heads of Department, we have a great training ground for Managing Partners.

Succession Planning for Business Service Directors

None of the firms in the survey had any succession planning in place for Business Service Directors. Many thought it might work but thought it better to bring in new blood and new ideas. Of the firms from £60m-£100m their Head of Talent Development is looking at senior roles and having enhanced conversations. The spectrum of roles including CFO and COO which are vital to the business may in turn benefit from succession planning.

Alumni

Only 3% of those surveyed had an alumni programme.

Alumni can be huge brand promoters especially in recruiting talent and the culture of a firm. Firms that have alumni programmes include partners, associates, and business service staff. Recognised by those surveyed as a valuable tool that had not been considered.

Some recognised that experienced partners could be brought in to debate with younger lawyers' issues that arise over a range of topics, which as mentors recognised for their past contribution to the firm would really useful. Retired lawyers might be expert in given areas such as pricing who could easily train young lawyers. Alumni generally keep in touch with their clients and will still promote the firm for business. To engage in this type of programme however it must be given careful consideration as they can also be detractors if they feel they have not been recognised or slighted in some way.

In conclusion

Succession planning needs a clear understanding. Have you completed a gap analysis to assess what your retiring partner does to determine whether business requirements or objectives will be met when they leave and, if not, what steps should be taken to meet them. Do you have resource in place to replace what it is retiring partners do brilliantly?

Several firms surveyed used the DARCI framework or a variation of it to establish a clear path of accountability. Some said they conferred with outside consultants and confirmed that those consultants had a thorough understanding of the firm. There was a long process of consultation with partners to ensure buy-in to move forward with the formal process.

DARCI

Decision making **A**ccountability **R**esponsibilities **C**onsulted **I**informed

Do not approach conversations with retiring partners in dread, focus on the results you want that provide the best outcome for the partner and the firm and allow strategic imperatives to be achieved.