



## Précis Paper

### Succession Planning for Lawyers

Rob Knowsley, many believe, is the best independent consultant on practice management. He is never boring and always worth listening to. His sessions on BenchTV will be of great value to all legal practices.

#### **Discussion Includes**

- How and when to start planning for transition out of legal practice? Who should be succession planning?
- How to plan and create a range or sale options?
- Is succession planning just in relation to retirement or should we be thinking about death and disablement too?
- What is the role of technology in terms of succession planning?
- What are the pathways to partnership?
- How should the transition to the position of partner be managed?
- What arrangements should be in place when considering succession planning?

## Précis Paper

### Succession Planning for Lawyers

1. In this edition of BenchTV, Rob Knowsley, principal legal practice management consultant at Knowsley Management Services (KMS), is interviewed by Louise Blase on the topic of succession planning in law firms.
2. Mr Knowsley explains that in his experience many lawyers fail to consider how to appropriately transition out of a management position at a firm and that succession planning is necessary to smooth any initial complications for the firm and to maximise benefits to the lawyer moving on.
3. Succession planning is often important when a partner is considering retirement but will also be essential in the unfortunate circumstances of death or disablement. Moreover, lawyers may simply decide to take a less vigorous role in their firm or possibly transition to another occupation or even another country.

#### Implications for Firms

4. For firms, it is crucially important that there are guiding documents and agreements transparently prepared in the event of a partner leaving the firm. This is even more important in smaller firms with limited numbers of partners. Without clear procedures in place, the possibility of important documents governing insurance, rental agreements, wills, trusts and superannuation being misplaced is very high. It may also be necessary that firms insure against the damage caused by a partner's death or disablement.
5. Mr Knowsley notes that with the increased flexibility of employment structures with secondment, part time or remote positions, employers need to ensure that employees are meeting their relevant key performance indicators ('KPIs') to maintain profitability and appropriate cash flows. It should be understood that firms often have a small profit margin on their employees, and any flexibly hired employees should be made to keenly appreciate their responsibility to meet KPIs, perhaps more than traditional, full time workers. That said, firms need to ensure that they are very individual in the way they approach KPIs for different lawyers, bearing in mind their personal situations and not just directly comparing billable hours.
6. Along the same theme, loyalty in terms of lawyers staying with one or two firms their entire career is fast disappearing in the modern legal industry. Firms need to bear this high turnover rate in mind when deciding on the amount of training and education they invest in young lawyers when it is very likely they will transition to another firm, who will ultimately

experience the benefits of this investment. It is a particularly difficult compromise for smaller firms where the costs of training and investment are substantial relative to their operating cash flow. On the other hand, where lawyers or other staff are simply not working out, particularly where they are not meeting productivity KPIs, they should not be kept in their positions for long.

7. It may be that firms use partnership as a carrot for 'gung ho' young lawyers. Mr Knowsley cautions care in the use of the 'partnership carrot' because if the feeling develops that a firm is simply dangling it to boost productivity without an intention to follow through in the short to near term, a lawyer will likely leave and search out progression elsewhere. Instead, Mr Knowsley recommends firms clearly identify paths to partnership for candidates who management considers to have the necessary skills for the role. This will help to ensure that high potential lawyers are satisfied with their progression and remain with the firm. For this purpose, high potential, young lawyers should be involved in people and financial management at an early stage.

#### Implications for Lawyers

8. For lawyers, their key consideration should be to develop and maintain 'good will' in their practice, which means nurturing a group of loyal clients who would be amenable to the advice of the lawyer in choosing new counsel when they leave their position. Obviously the degree to which a lawyer has grown 'good will' in their practice will be reflected in the price another firm as a purchaser would offer as part of an acquisition or merger. In order to be more attractive to potential purchasers, partners should keep detailed financial records for their firm and Mr Knowsley highly encourages appointing women to higher management positions because it would be a waste to be missing out on talented practitioners for some subconscious or more overt bias. Mr Knowsley also advocates the use of technology to boost profitability and appeal to potential buyers, particularly if it can be used as a time-saving mechanism or where it reduces human error.
9. It may also be the case that an employee within the firm will seek to 'buy out' the senior management. Mr Knowsley suggests that this sort of situation is more and more common as well-funded young lawyers seek to expand their business without grinding to create their own client base. This situation may be to the senior partner's benefit since it might mean leaving the firm in safe hands. If this is a partner's intention then they should encourage employed lawyers to be looking towards partnership and investment in the business. Nevertheless, Mr Knowsley recommends partners keep an open mind to a number of options rather than 'putting all their eggs in one basket'.

## Conclusion

10. As a take-away message, Mr Knowsley emphasises that in advising over 1200 firms he has found succession planning to be crucially important for all variety of firms, large and small, and explains that it can prevent much hardship and confusion for firms, whilst presenting a valuable asset to lawyers who may wish to transition out of their practice and want to cash in on their 'good will'.

## **BIOGRAPHY**

Rob Knowsley LLB MIMC

Legal Practice Management Consultant – Australia

Rob Knowsley has provided legal practice management advice and solutions to over 1,300 legal firms in Australasia over 42 years. He provides practical advice to address fundamental problems, and to develop successful legal firms.

Louise Blase

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