Passing the Baton

Introduction

Time marches on! We all have to consider passing on our business to another at some point in time, it is the natural professional life cycle. David Rowe outlines some of the challenges of this cycle and suggests the steps firms can take to ease the process.

Changing landscape of Irish legal market

There have been a number of structural changes in the Irish Legal Market in recent years that are having a significant effect on firm's succession plans. The major factors here are:

- Firm Size – outside the top 25 practices firm size has actually decreased in terms of number of solicitors. Many traditional two solicitor firms, one partner and one employed solicitor, have been reduced to single solicitor firms as a result of the recession. In some geographical parts of the country there is a dearth of assistant solicitors, with many practices being owned by sole practitioners (mostly men!) in their 50's and early 60's.
- Work Concentration – the change in firm size has also been accelerated by the trend of Institutional and larger client work going to medium and larger firms. It is increasingly difficult for smaller practices to convince an Institution, public sector or private, that they have the breadth of services, the support, and the flexibility to cope with the demands of a larger client.
- Geography –We have also seen geographical changes with emigration from Ireland by many younger solicitors who have qualified in the past three years, coupled with their migration to Dublin and other urban centres. Recent statistics say that 60% of the profession is now based in Dublin.
- Changing demographics – in addition to the increased Dublin orientation, the balance between men and women has reached parity. This ratio does not tell the whole story as there are significantly more men in the 40 plus age bracket and significantly more women of 40 and under, in the profession.

Where are all the Partners gone?

Working with law firms throughout the country, we constantly hear Partners bemoaning the lack of potential Equity Partners. The general view is that younger solicitors don't have the same ambition as their older peers. While this sentiment is neither a new phenomenon or confined to the legal profession, there are a number of factors that have led to a lack of new partners / business owners in legal firms in recent years.

For sole practitioners and smaller firms the issues are mainly a fall in the size of the practice, increased price competition, and lack of loyalty amongst the client base. In addition, many of the would-be buyers are their mirror images and may be within five years of selling themselves. The result is that in some areas of the country, irrespective of the strength of the practice, a buyer is not available locally and persuading a younger solicitor to relocate to that locality may be a challenge.

We have seen a number of practices simply fold up and distribute their files, and then have to bear the considerable cost and effort in closing down.

Some of these issues are also echoed in larger practices; however, there are also a number of other factors at play in these firms. The most common issues include:

- Lack of Opportunity – In the 5 years since the beginning of the recession most firms have seen major reductions in profitability and fee income which has led to job losses and an embargo on promotions. In many cases where previously a retiring partner would be replaced by a new young equity partner, new appointments were put on hold and the retiring partner's profit share was used to bolster the falling profit share of existing partners.
- Legacy Issues – Many firms have a number of legacy issues that are part of the hangover from the Celtic Tiger era including high overheads, personal indebtedness of partners, inappropriate profit share models, etc. Potential new partners are often loathe to take on these legacy issues.
- Changing Priorities – There has been a change of attitude among professionals in recent years with many practitioners prioritising a good work/personal life balance over higher pay and the increased commitment that comes with partnership/practice ownership. With more practitioners having working spouses and partners, this change in priorities is set to continue.
- Funding – Potential partners in larger practices are generally based in Dublin or one of the other urban centres in the country and usually have significant personal financial commitments by the time they reach partner age (high mortgages, crèche fees, education costs, etc.). Sourcing additional funding to invest in a practice can be a real challenge particularly as banks now see practice ownership as a higher risk.
- Risk / Reward – It is arguable that salaries for senior solicitors in many larger firms are now too 'comfortable' and that in many cases there is no guarantee that an Equity Partner's profit share would be sufficiently high to compensate for the increased risk.
- Training – The skillset required for a partner in a larger modern law firm is quite broad, and while solicitors receive excellent legal training throughout their career, they undergo very little training in the other skills required of an equity partner such as financial management, HR, business development, etc.

Passing on the mantle – the key steps a firm can take to deal with succession

While many of the issues highlighted above are outside the control of the firm, there are a number of steps that practices can take that will help to successfully pass the firm on to the next generation:

- Simplify the practice – Regardless of size, it is always easier to find successors for well-structured, well-managed practices. Firms with good systems and processes, a clean PII record, and a clear separation of personal and practice matters are more attractive to new partners – whether internal or external. We recently sold a small practice in a matter of weeks because the buyer was happy that they were taking on a clean business with minimal risks.

- Planning – Finding a successor or bedding in a new partner takes time. Partners should not wait until they are nearing retirement or a practice is on the wane before looking for a successor.
- Identify, Communicate and Educate – Firms need to engage with potential new partners at an early stage, discuss the pros and cons of partnership, establish whether the candidate has an appetite for equity partnership, and work with appropriate candidates to develop the skills they will need to be a future partner. When it comes to engaging new partners, 'growing your own' can be the most economic and effective method and therefore devising training programs to deliver management skills to practitioners from the early stage of their career will be beneficial.
- Review staff structures – Practices need to ensure they don't sleepwalk into a top-heavy structure and that they have the right resources at different levels to service the work they attract. This may result in the departure of one or two long-standing senior employees but ultimately will improve the overall profitability of the practice and make equity partnership more attractive to new entrants.
- Re-structure reward systems – Firms need to adapt their reward structures so that they distinguish between good and bad performers and ensure pay rises and promotions don't become automatic. This will signal to solicitors that partnership is achievable and is not dependent on length of service.
- Be realistic – Sometimes unrealistic expectations prevent firms from passing to the next generation. For smaller firms this can mean accepting that the market value of your practice to an outside buyer may be lower than expected. For larger firms, you may need to accept that new partners will not be 'fully formed' on entry to partnership and will need to grow into the role.

Conclusion

Succession planning is something that needs to be considered in advance. The profession has become more Dublin orientated and the gender balance has changed which has created new challenges. I believe we will see full employment in 18 to 24 months' time followed by a shortage of qualified solicitors, this will be an additional dynamic.

The opportunities for younger solicitors are becoming plentiful; persuading them to buy an older practice or join in partnership will depend on their own priorities, the opportunity, the consideration sought and the reward gained. Looking into the future and planning are key to the successful migration of ownership.

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David Rowe is founder of Outsource, Business Advisors to Irish Law firms. *See page X for details of the Outsource Practice Management and Profitability Seminar*

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