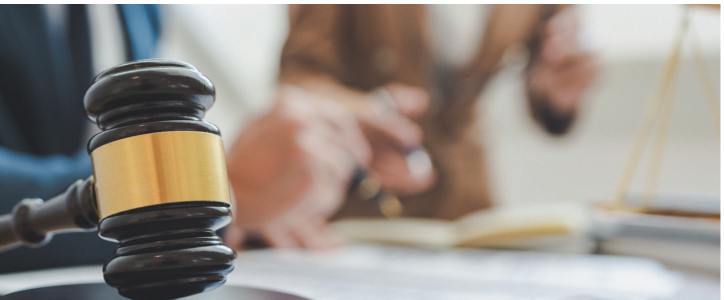
Building a Lasting Legacy

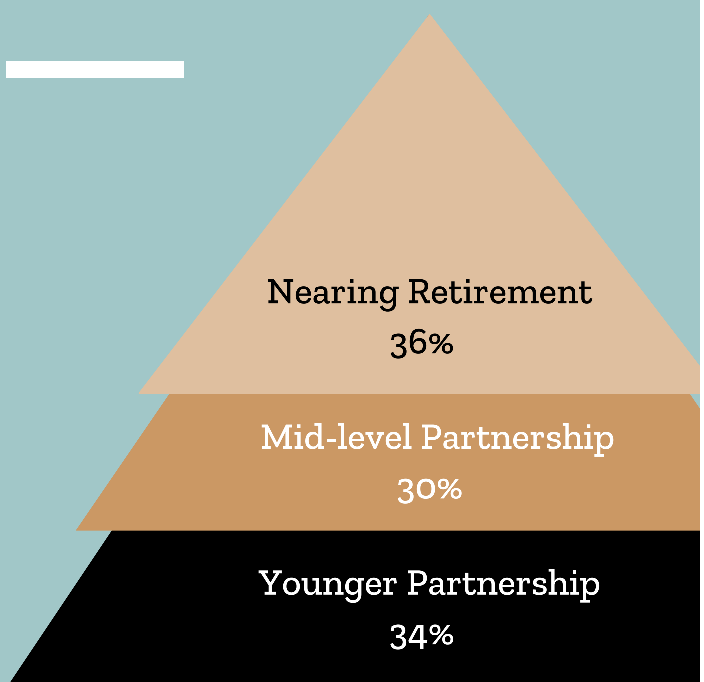
Empowering Organizations Through Strategic Succession Planning

Laura Leopard

LEOPARD SOLUTIONS



Partner by JD Top 200 Year 2022



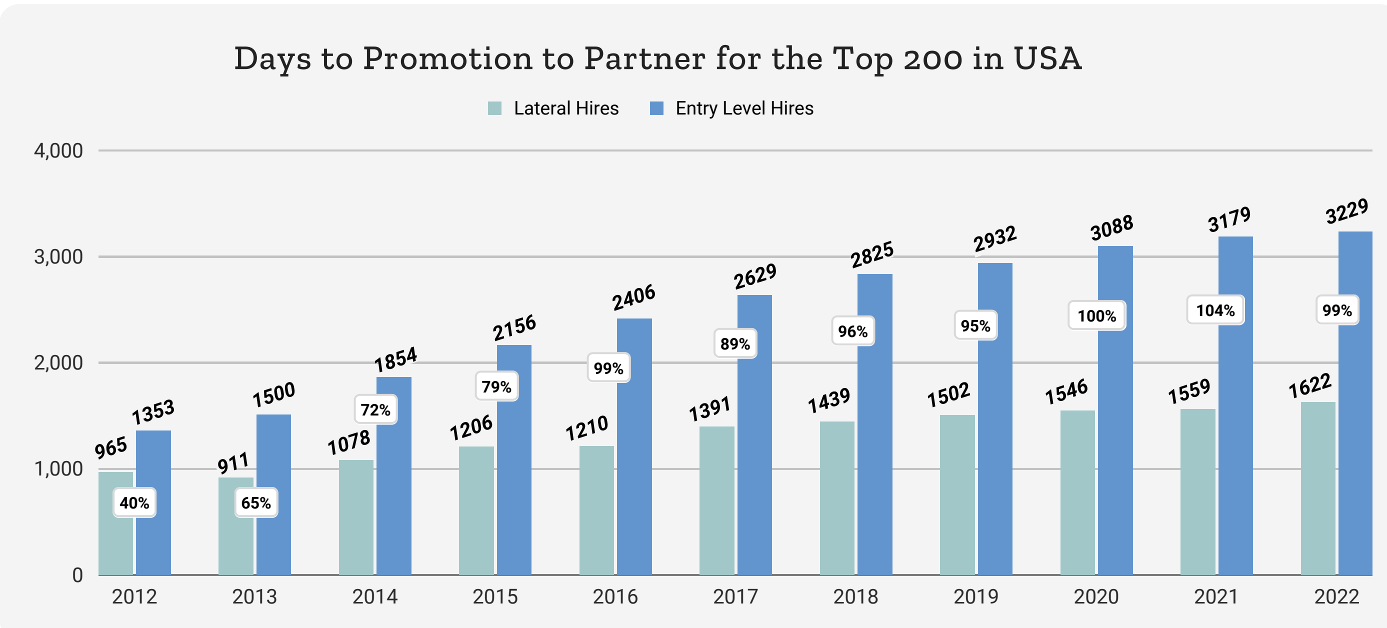
The mid-level partner layer is too lean, as they are typically big billers and a rock of a firm's financial outlook. Younger partners are more inexperienced and consistently have smaller books of business.

On Sunday, June 5th, Chuck Todd made an unusual statement on Meet the Press. He announced that he would be stepping down as the host and moderator of the acclaimed television show. He said he would rather “leave a little bit too early than stay a tad bit too long”. It is an unusual statement because so few people in positions of power and influence make that choice. He felt it would be for the betterment of the show and its continued popularity with viewers. It was succession planning in the most public way and perhaps a lesson for us all.

We reported on the status of partners in the Top 200 firms in January 2023. The graph shown here provides the distribution of partners by the year in which they received their JD degree. It shows that there are fewer mid-level partners (30%) than top level partners (36%) and that those in the top level are either past or nearing retirement age. There are a number of issues at play here and current strategies employed by these firms put their future growth and success at risk.

Reluctance to move on by senior members of a firm can result in inhibiting recruitment and retention.If mid-level partners and associates see no path to the top, other opportunities become more attractive, and their departure can cut another slice from the already small mid-level tier.

Adam Smith Esq. reported in May of this year on the rise of the non-Equity tier within the Top 200 firms and the effect of that change on 'law land.' The path to equity partnership is no longer based on proficiency but on income generation alone. According to their white paper, "Alternative Partnership Structures: The Rise of the Non-Equity Tier," this has "permanently moved back the goalposts for equity partnership." To the non-equity tier, these firms have become "hotels for lawyers" in which they reside indefinitely. That strategy is obvious to many, and they report that "longer-term, promising up-and-comers at those firms will depart, and more desirable recruits/laterals may be dissuaded from joining, resulting in an inevitable, if albeit slow, decline."



Another goalpost that has been pushed back is the time it takes to become a partner in a law firm, regardless of equity status. We reported in January that the time to make partner has increased for both lateral and entry-level hires; however, there is a disparity between the two. The road to entry level now takes 99% more days to make a partner than a lateral hire, but that difference was just 40% in 2012. The road for laterals has increased 68% over time.

That increased road to partnership and lack of equity partnership opportunities may cause problems within multiple generations. The recent Gen Z study by Major, Lindsey, and Africa shows that their view of success is slightly different. Work/life balance is at the top of their wish list. They said they would trade extra compensation for a more flexible schedule. They also believed that working nights and weekends would be a motivator for leaving a law firm. When asked what would make them stay, they cited opportunities for advancement and the highest market salary. This generation is heading for a standoff with leaders that remain inflexible and can't see a different path or new model for their firm.

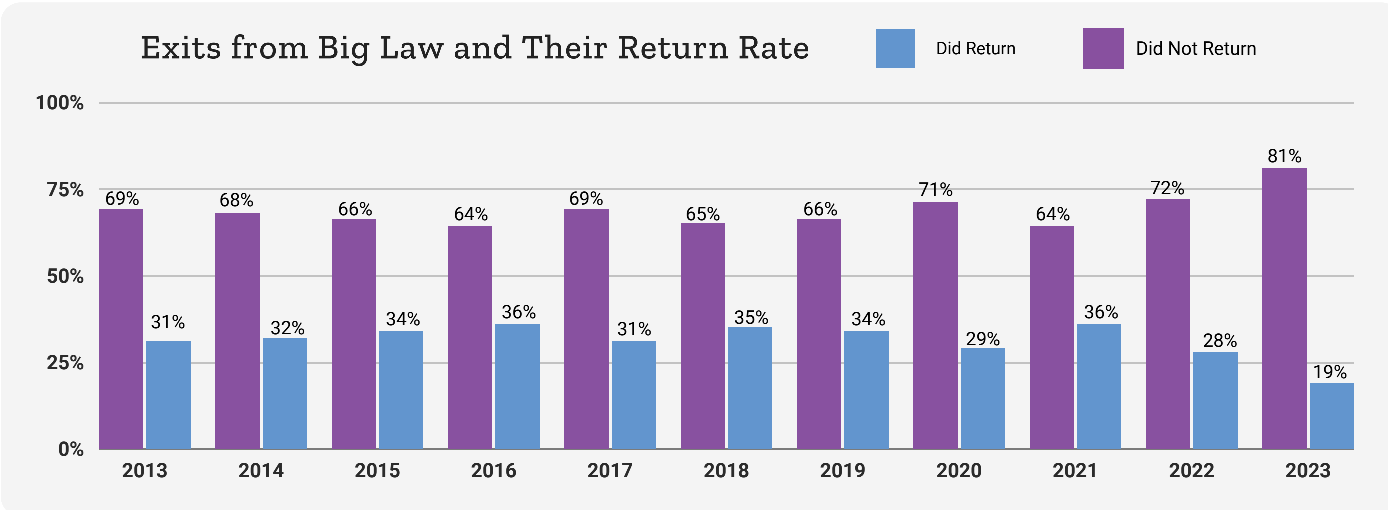
I recently spoke with a law firm leader who confided that his biggest worry was that he wouldn't have enough partners to run his law firm in a few years. Between the changes brought on by the pandemic and the new classes entering law firms today, his fears are justified. The current ruling class in law firms has made the road to partnership less transparent, more arduous and far lengthier. It poses a problem of longevity and succession that firms must begin to grapple with.

These concerns are not new; many of these same issues were also attached to millennials who are now in the critical mid-career phase. A 2016 article in the American Lawyer 'Here Come the Big Law Millennials' by MP McQueen, showcased many of these same issues."They may not want your corner office. Perhaps most worrisome for Big Law, there appear to be more millennials who don't aspire to become a partner, either because they don't like the Big Law lifestyle of round-the-clock labor and availability or—in the case of many women and minorities—they don't think they have much of a chance of promotion anyway. Associates reported working an average of 2,208 hours in 2010 at the largest firms in the National Association for Law Placement's most recent report, published in 2012."

Please note that in 2012, the road to partnership was shorter, was more balanced between lateral and entry hires, and the number of non-equity partners was 6% less than in 2022. The hours expected of attorneys in Big Law has also risen, and is now closer to 2,800 hours a year. For young and mid-level attorneys who wish to stay in Big Law, the situation has gotten much worse.

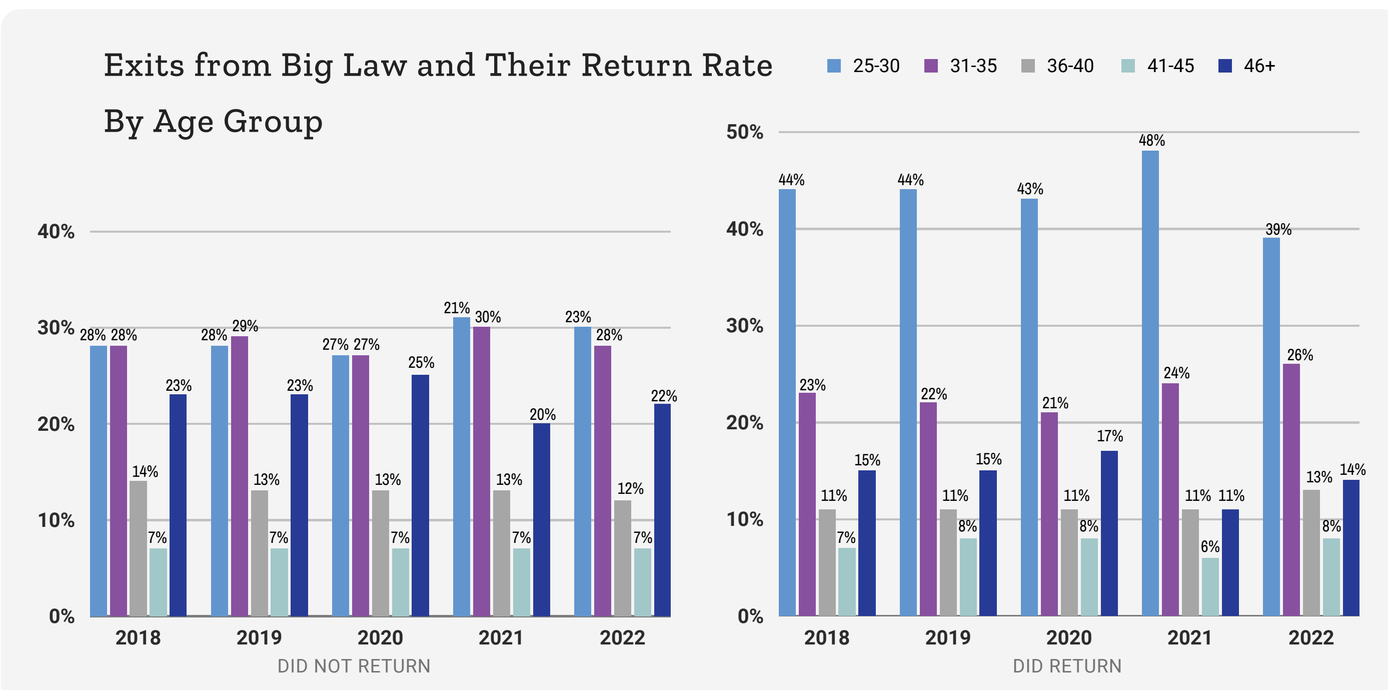
Intergenerational issues were also cited in this same article and they exist today with both Millennials and Gen Z. "The fact that large law firms have as many as four generations working together may be viewed as a testament to a profession where experience and wisdom still account for something but may also highlight the reluctance of some of its most accomplished practitioners to retire. Just over 3 percent of AmLaw 200 partners were 71 to 88 years old." **Please note that the percentage of older partners is 6% today.**

Different generations have different ideas of what life should be like. The pandemic offered many a window into what life 'could be like' if they could continue to work remotely. A viral LinkedIn post by Eli Albrecht, who turned down the offer of partnership in Big Law, just underscores the difference. "I worked so hard to get the offers of law firm partnership, and now that I am here, it is not what I want. Today I'm turning down the pursuit of the Big Law corner office. I'm turning down the offers for partnership at other Big Law firms. Today, I am stepping off the hamster wheel." What prompted his change of heart? Recognizing that he had lost touch with his family and had missed so many important milestones in their lives. This is not something you would have seen posted ten years ago, but ten years ago, the world was different. Leaders of Big Law either recognize that the world has changed or risk alienating a large portion of those who work for them. The very day this was posted, another Big Law firm changed their remote requirements and added more days to "required office time," despite their partnership voting against it. (Mr. Albrecht went on to become a partner at a virtual law firm promoting the importance of family and remote work.)



This chart shows the exits from the Top 200 year over year and if they returned to another firm in that group or not. The non-return rate has been high for several years, but note that in the last two years, 72% of those who exited Big Law in 2022 did not return to it. That percentage was 81% in 2023. Dissatisfaction has been brewing for a long time. While the percentage in 2023 can be somewhat explained by the drop in lateral hiring, the percentages tell a story.

If we look at who is leaving and returning by JD year, we can approximate age groups.



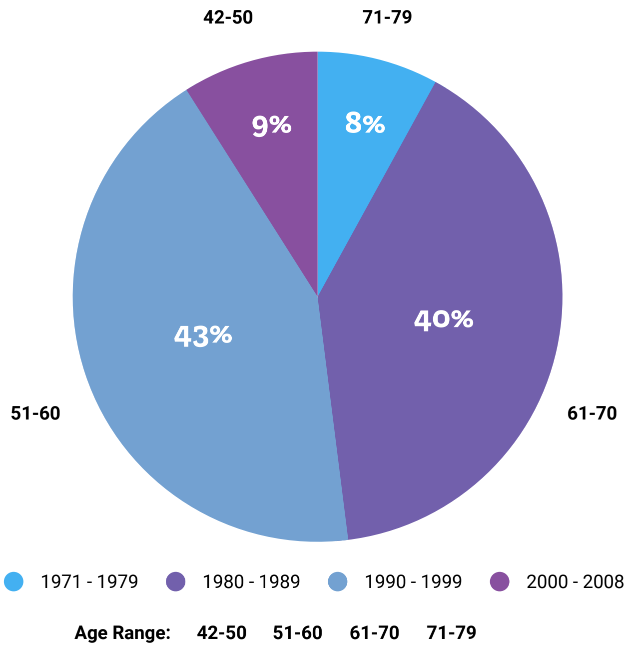
The youngest age group, associates who are between 25 and 30, returned to another Big Law firm in the greatest numbers. Attorneys who are in mid-career returned in far lower percentages. This could help explain the mid-career gap in the partner chart shown on the first page.

If we look at that same chart but by the raw numbers, we see in stark numbers the biggest threat to the old partnership model and to Big Law itself. Attorneys who were approximately 46 years old or more left the Top 200 in droves in the last year. 882 returned to another Big Law firm, but 3486 exited. In the 31-to-35-year group, 1597 returned, but 4379 had left. Big Law is losing tenured lawyers in the mid-career group at an alarming rate, and their own business decisions may be driving these exits.

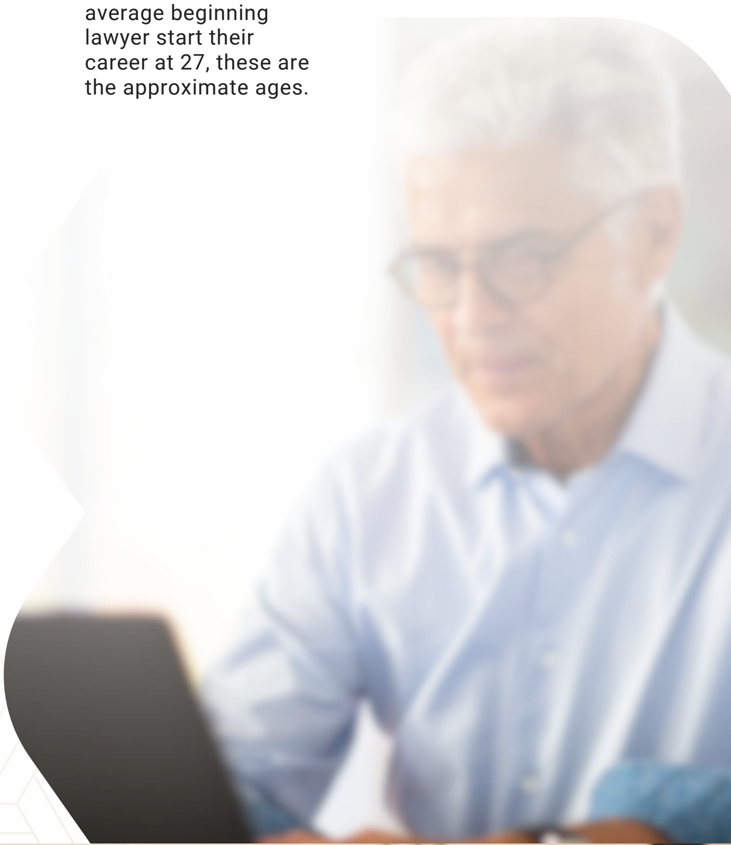
Slicing the data further gives another insight into possible reasons for attorney dissatisfaction: leadership that is not in tune with their own attorneys at the firm. The chart below looks at the varying ages of Managing Partners by using their JD year as a guide. Here we will assume that the average beginning age of these attorneys was 27. We see that the 71-79 age group-those well past retirement age- represents 8% of managing partners. The 61-70 age group (40%) has a blend of partners approaching retirement age and slightly past. The next group, at 43%, are managing partners between 51 and 60. The youngest group (42-50) is small at 9%.

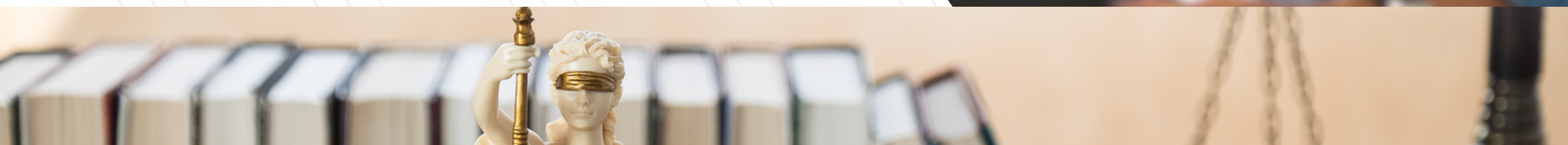
This chart demonstrates the reluctance to pass the baton to another generation, and that is causing friction and retention issues at many firms. According to Law360 Pulse, the high-profile exit of over one hundred attorneys at a Big Law firm was prompted by differences with the firm's Chair over its future (“Looming Retirement Wave Puts Succession on Front Burner” by Xiumei Dong). Different generations may have a much different vision for the future and may desire changes that older leadership resists. Of course, differences like that can occur for many reasons, but this Big Law firm responded to those defections by replacing the chair and the management committee with a younger group.

Managing Partner JD Year Range Top 200 Firms



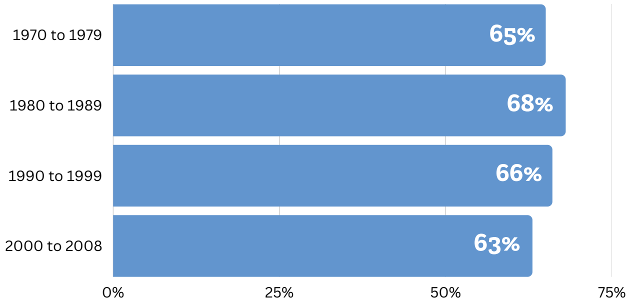
If we assume the average beginning lawyer start their career at 27, these are the approximate ages.





We thought we would see how well each group of managing partners is holding on to their partnership and look at the ROI on lateral partner hiring. The results were rather surprising. We calculate that partners should stay at a firm for five years before they achieve full ROI.

Lateral Partner Success Score – Top 200

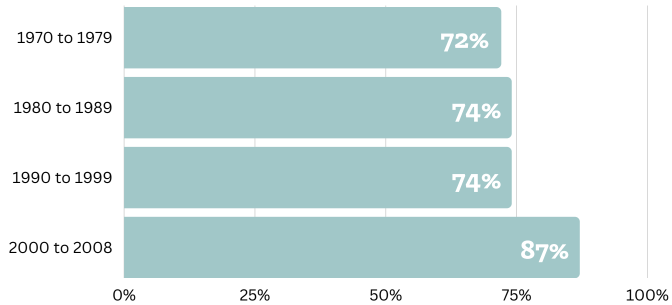


First, we looked at each group by an overall ROI score for lateral hiring. We examined years where true ROI could be achieved; if a firm did not hire laterals in 2018 or 2019, it was excluded from this analysis. We see that the group with the oldest managing partners has a score of 65%.

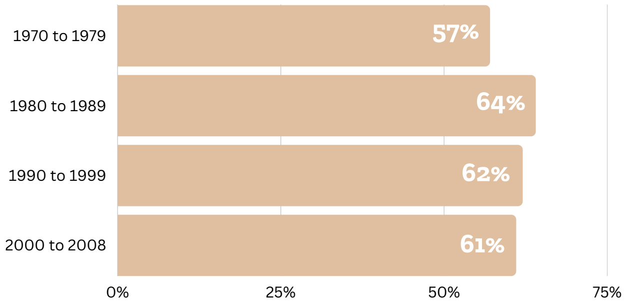
Of this group, we know that there is a wide disparity of success, and the firms at the top of the Top 200 list are very different from the firms in lower ranking slots. We took the Top 50 firms and mapped out their success in lateral partner hiring by the age of their managing partners.

Lateral Partner Success Score – Top 50

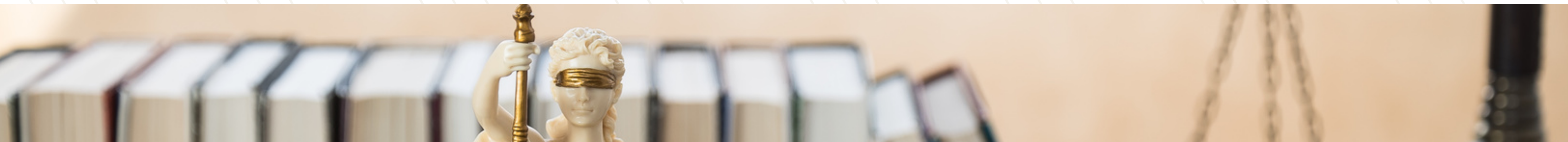
What we found were much better numbers within this group, and the YOUNGEST band of managing partners showed the best ROI of the group by a good margin. The oldest group had the least retention of lateral partners before they hit their 5-year ROI.



Lateral Partner Success Score – Bottom 150 to the Top 200



This group are the firms within the Top 200 group but under the Top 50. Here we see very different numbers and the oldest band has a very low ROI score but they are all lower than the firms in the Top 50 grouping.



All of these factors combine to show that many of the ruling class of partners today have been chipping away at their own law firm model. They have made partnership less desirable and less attainable, yet they depend on the continuing partnership model to survive. Their desire for short-term gains has weakened long-term survival goals for their firms.

01 The rise in non-equity partnership increases their PPP but creates long-term dissatisfaction.

02 Prizing laterals over entry level hires threatens the pool of talent in the future.

03 Reluctance to retire (pass the baton) intentionally weakens succession plans.

04 Reluctance to share credit and address work-life balance creates a generational rift.

05 Lack of opportunity for advancement deters retention and recruitment.

"The challenge for many long-term leaders is that unlike before the Great Financial Crisis, the law firm segment of the legal industry has experienced low-to no-growth for over a decade. The implications of this are that law firm leaders have to manage their firms more actively and intentionally."

Janet Stanton, Partner, Adam Smith, Esq.

Power is addictive. Many of these law firm leaders have worked tremendous hours throughout their careers, as those before them, but their success came at a cost. We know many leaders expect their attorneys to make the same sacrifices they made, but in many cases, that plea falls on deaf ears. The world has changed, and trying to ignore that fact is perilous for their future.
Data tells the story, it demonstrates the risks, will they listen?

Holland and Knight's managing partner Steven Sonberg, JD year 1972, just announced that he would be stepping down after 16 years of leading the firm. Three new attorneys will take his place, one ten years his junior and two 27 years his junior. He passed the baton to a new multigenerational management team after working on a succession plan for quite some time. He told the Daily BusinessReview that changing the management group was "important in terms of the health and vitality of any organization."

The question for many of these leaders is simple.

Do you want to be like Chuck Todd, who chooses to leave "a little too soon, rather than a tad too long?"

or

Do you want to be remembered as someone whose choice to remain in power endangered the future success of the firm?

Thoughtful and timely succession planning shows the best in corporate stewardship and by leaving at the top of his game, Todd elected to safeguard the long-term sustainability and success of the show. Todd said that he didn't own his place, that he was just 'house sitting' and that he wanted to 'leave it in better shape for the next person'. That strategy could keep Meet The Press around for many more years and one that could also serve many law firms well.

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