The Leadership Succe

Every firm eventually finds itself in need of a new leader. The Executive Committee or Board must seek to replace the current incumbent as that individual comes to the end of their term of office, announces a return to their practice or perhaps is contemplating retirement. Every year we also see firm leaders step down because of a loss of partner confidence, an unexpected disability, a tempting career offer from a prestigious corporate client, or even, on occasion, being laterally recruited by a competing firm! And in many of these instances, a firm's knee-jerk reaction to rapidly find some replacement has them anointing some partner with little to no management experience to become the leader of a multi-million dollar business.

My colleague Brian Burke (Chair Emeritus from Baker & Daniels) reminded me recently of how some firms tend to react to some leader retiring by over correcting. For example, the firm may choose to replace a single long-serving and highly regarded managing partner with a committee of three, perhaps out of some concern that no one partner could possibly do what this last firm leader was able to accomplish. So the firm heads in a completely different direction with their succession process – what Brian calls a "curb to curb orientation" often without really understanding why the course change is being made.

How should suitable candidates for firm leadership positions be identified, developed, selected or elected?

The Different Approaches

There are fundamentally, three different approaches to choosing your next firm leader. Leadership transition in firms usually takes the form of heir succession, partner selection, or the contested election. Each of these three approaches has very distinctive advantages and disadvantages, and each may be used at different times in a firm's evolution depending upon that 'curb to curb orientation' that a firm may succumb to.

1. The Heir Succession Approach

Heir succession is a planned succession in which some partner (an heir) is appointed as a successor months or years before the incumbent firm leader steps down. Following this approach you allow your Executive Committee / Board to defer to your current firm leader in the belief that he or she is best equipped to make the decision about who should replace them.

ADVANTAGES:

One firm well known for employing this approach is Jones Day, and as they describe it:

> *Frank Ginn developed the Managing Partner concept that still is used at Jones Day. It was Ginn's view that lawyers function best when able to focus on practicing law, rather than engaging in debates on such matters as Firm administration or allocation of income. He saw no benefit and significant costs in a system that tried to mechanically assign credit for client origination or other responsibilities of partners, so no such system ever developed at Jones Day. Universal recognition of Ginn's dedication to the welfare of the Firm as a whole, and to the welfare of each*

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partner, allowed the institutionalization of the Managing Partner system, through which the Managing Partner has authority to make all management decisions, including designating a successor. Since then, this governance system has never been the subject of any disagreement within the Firm. It is one of the critical components of an institutional management approach that has been an important element of the Firm's success over the last century.

> ***"The incumbent may have good intentions and truly believe that they have a insider's insight into who is the best candidate, but their judgement may also be clouded by a desire to preserve their legacy."***

DISADVANTAGES:

There is some evidence to show that allowing a firm leader, even and perhaps especially a very successful one, to choose their successor can bias the selection dynamic.

When the incumbent has accomplished great things for a firm or been in the position for an extended period of time (over 10 years) Executive Committees / Boards can often be tempted to anoint a clone. The incumbent will not admit that the firm needs someone with different ideas and competencies, and the Board can't imagine insulting their highly accomplished partner by not accepting his or her choice.

In these instances, powerful incumbents may assume that they know best and may even exclude elected Board members from any succession discussions and decisions. I've witnessed this happen subtly, where over a period of a few years the incumbent nurtures one particular partner by continually giving that individual increasing responsibility such that everyone just normally assumes that this individual will eventually take over. The incumbent may have good intentions and truly believe that they have a insider's insight into who is the best candidate, but their judgement may also be clouded by a desire to preserve their legacy. There have also been those occasions where the incumbent may have selected someone who they knew they could manipulate. Meanwhile, many of these candidates naively assume that they are prepared because they have observed the Firm Leader in action; sometimes for a few years. From my years of working with new firm leaders and as these anointed candidates soon discover, observation is a poor substitute for doing.

Often times these firm leaders (perhaps unconsciously) are most attracted to that replacement that is a mirror image of themselves. Typically their choice of a successor is some partner who's leadership style, business philosophy and even personality are similar to the mentor. While in certain instances it may make sense to select a candidate who leads much as his or her predecessor did, many times it is a mistake. In our rapidly changing marketplace firms need new leaders who can evolve their firm's competitive strategies and cultures, not replicate them. They need to identify the candidate with the specific skills, knowledge and 'must-have' criteria that the firm may need going forward. The delusional incumbent believes that if he can find a partner just like himself, this new leader will help the firm enjoy the same success that he helped it achieve.

I have also seen those instances where an existing leader would appear to have anointed a "below-average" candidate. As much as the incumbent wants to select a mirror-image replacement, he comes to the conclusion that there is no suitable clone and no one who can begin to accomplish what he has achieved and so he decides (perhaps unconsciously) to anoint a successor he instinctively knows, is ***not*** up to the job. Such a selection will eventually cause everyone to recognize what a great job he did as Firm Leader. It may also result in your Executive Committee / Board asking the incumbent to continue in some form as the new leader just seems to lack enough experience to go it alone. Meanwhile, our retiring leader can justify his actions to himself in all sorts of ways: after all, Jennifer will grow into the job, she's still young and eager to learn. To hope that some politically anointed but moderately acceptable candidate will eventually grow into the job can be a perilous gamble.

Finally, there are those occasions wherein the argument is put forward by the current incumbent that some partner has now earned or deserves the position and that rewarding them by making them the next firm leader would be the honorable thing to do. In one sense the notion of earning it is an admirable tradition. If some partner works hard and selflessly contributes time to firm activities, rewarding her seems the proper thing to do. Unfortunately it is not always in the best interests of your firm. Many have come to realize that rewarding performance or seniority by appointing that individual into a senior leadership position can backfire. You are assuming that if someone can produce results in one position, she can produce equal or better results in another – when the reality is that the new responsibilities may require entirely different skills.

In the corporate world, a recent study of companies where the CEO handpicked their successors found that almost 80% underperformed the stock market during their tenure. Stanford University Professor David Larcker warns 'CEOs are preoccupied with personal legacy and might pick someone just like themselves.'

2. The Partner Selection Approach

At some firms, a nominating committee will seek input from all partners regarding leadership needs and suggested candidates. The committee then talks indepth with the prospective candidates regarding their interest, qualifications and willingness to serve. This partner selection approach is an effort to determine the one, single "consensus" candidate that the vast majority of the firm's partners feel would be the best person to take on the responsibility of leading the entire firm and by doing so, obviate any need for controversy or divisiveness within the firm.

Once a recommendation is made, the committee then puts the matter to the partners for approval. If the nominating process has resulted in only one candidate (as is usually the case), many firms require that in order to be elected, a candidate must receive a majority vote of the partners. This allows partners to either dispute the committee's recommendation by withholding votes or assures the successful candidate the support of a large majority of the partners.

ADVANTAGES:

Morrison & Foerster described how this process unfolded during their last succession process:

> According to San Diego Partner Don Rushing, who led the Chair Selection Committee, *"We had the privilege of speaking with every partner about who the next Chair should be. We are in an outstanding position for a transition to a new generation of leadership. Our practices are strong, with headline-grabbing matters across the globe, and financially we are having our best years ever. While a number of candidates could have served the Firm well as the Chair, we felt that Larren's many personal attributes, combined with his singular success in building a world-class Bankruptcy and Restructuring practice from scratch in one of the world's most competitive legal markets, made him an especially attractive choice to continue MoFo's growth in today's hyper-competitive environment."*

DISADVANTAGES:

At one firm, two candidates emerged, each of which had the strong backing of different sections within the firm. Pressure was exerted by the members of the Executive Committee for only one name, a "consensus candidate," to be put forward as a contested election was deemed not to be in the firm's best interests. The pressure escalated and eventually resulted in one of the finalists withdrawing their name.

At another firm, a powerful rainmaker quietly made it clear to the Board that he would leave if not selected as the new managing partner. Although there was general agreement that he would not be a very good choice, the Board members felt obligated to vote in favor. A compromise was negotiated whereby the scope of the new firm leader's job would be reduced.

Finally, there are firms in which the Executive Committee / Board control the selection process and select a leader from among their own membership on the theory that the Board members were elected by the partners already. This procedure can lack independence and be subject to undue influence, since any new firm leader is neither ratified nor confirmed by the partners.

> *"It could be argued that one of the benefits of a contested election is that it provides a development opportunity for those partners by battle-testing their thinking and giving each the gift of indepth feedback."*

3. The Contested Election Approach

The contested election is an explicit succession process that takes place over a predetermined time frame in which two or more partners are put through a series of assessments / activities in order to decide who will be chosen / elected as the firm's next leader. While this democratic approach has a philosophical appeal it can become slightly challenging as happened recently in one firm where the contested election resulted in the firm's new leader being elected by a single vote.

ADVANTAGES:

It could be argued that one of the benefits of a contested election is that it provides a development opportunity for those partners by battle-testing their thinking and giving each the gift of indepth feedback (increasingly rare as you become more and more senior). The contested election becomes somewhat like a presidential campaign during which the candidates become accustomed to the glare of peer scrutiny, which will obviously prepare them for the real job of being the firm leader. The contested election process can be enormously effective in helping determine the best leader for the firm.

> In one 150-lawyer firm, where they had 3 candidates for the position of Firm Chair, one admitted to me: *"Had I been the only candidate, it would have been a no-brainer and I would not have given preparing to assume office another thought. But because there were 3 of us, I invested a lot of time thinking about the firm, the issues and what needed to be addressed going forward. The very notion of having to compete for the position energized me beyond belief."*

Firms that are most successful with this approach promote a healthy culture in which partners embrace competition for the top job and the notion that the best firm leader will emerge from the process.

Alan George "A.G." Lafley, author of *The Game-Changer* and CEO of Procter & Gamble counseled in the Harvard Business Review the same sentiments that I've heard from a number of managing partners that I highly respect:

> *More horses are better. More candidates means you have more choices, more breadth and depth of leadership, more leaders performing at their peak and delivering better business results, and more leaders to take on more business opportunities. But you don't have to make it a horse race that becomes public. It doesn't have to divide the organization and it doesn't have to distract from the business.*

DISADVANTAGES:

While that may sound good, the disadvantage is that a contested election (sometimes called: a horse race) creates an acknowledged winner – and losers. Here is some excerpted commentary, as reported in the legal media, from one contested election. To most readers this would appear to be extracted from a political campaign of some sort, rather than from the activities within a respectable professional services firm.

> *Heavyweights prepare to do battle . . . One partner goes so far as to say it would be "almost impossible" for him to win the vote . . . His reputation as a strong public speaker and presenter should stand him in good stead as the three candidates tour the firm's offices ahead of polling . . . Sources point to this candidate's toughness as an "effective task master" and a hard worker, even if he may need to work on staying personable to be successful in the leadership campaign . . . "At the end of the day, real estate is not a very exciting background for a managing partner to come from" . . . It seems that no candidate can yet be called the favorite.*

In these kinds of situations a highly valued partner who looses may ultimately take it very personally and decide to leave your firm. A contested election can also become quite distracting to everyone as it is politicized through continuous hallway speculation and various camps develop. As the competition intensifies, it is not uncommon for partners to take sides for or against particular candidates. This can result in overt behavior that deters teamwork and knowledge sharing.

In a number of surveys I have conducted over the past 10 years, when asking firms "how often are contested elections the process used to determine who the next firm leader will be" the typical results that I get back may seem surprising but they clearly show that:

12% respond "Always"
3% respond "Usually"
43% respond "Sometimes"
34% respond "Rarely"
10% respond "Never"

These results would lead me to conclude that the majority (58%) of firms find themselves at some point having to contend with effectively managing a contested election. At our most recent First 100 Days masterclass for new firm leaders (held in January 2015), all but one of the participants confirmed that there was at least one other contender for the position.

Some of the Challenges Involved

Whichever methodology you favor, you may expect that the election/selection of a new firm leader will **always** be disruptive and be an emotionally charged endeavor. It is rarely a polite ceremonial undertaking. Some of the more common shortcomings that I've observed (and had to work around) in the firm leadership selection process include the following:

• The selection/election process becomes such a complicated endeavor that it causes your firm to loose valuable momentum as individual partners and practice leaders shift to a 'stand-by' mode, waiting to see what changes await their firm's future directions. As any effective leadership transition process can take about four to six months in determining the best choice and then another three months in the proper orientation of the new incumbent, your firm's momentum has the potential to be stalled for close to a year.

• The issues that most firm face have grown ever more complex over the past few years and as a result often need a new leader with competencies and experience very different from those evidenced in your last firm leader. A new firm leader often faces a number of unique and paradoxical challenges – to honor the past while creating the future; to orchestrate both an institutional and symbolic role as head of the firm; and to deal with the issues inherent in leading highly intelligent, autonomous professionals would never, ever consider themselves as followers.

Unfortunately rather than doing their homework and pinning down the specific traits and skills necessary, Board members may look for celebrities amongst their ranks – those professionals who are leading luminaries or exalted rainmakers in some misguided belief that the attributes required to be a extraordinary rainmaker are the same as those required to be an effective firm leader. In other words, too many Executive Committees / Boards begin to discuss ***who*** might be the next firm leader without even knowing ***what*** they should be looking for. In too many instances the default position is that someone who *feeds* the firm most likely also has the capabilities to be someone who *leads* the firm.

This is an excerpt from the Introduction of my newest Book: ***The Changing Of The Guard: Selecting Your Next Firm Leader,*** *due to be released by Ark Publishing in early May of this year.*