

## Succession Planning: Is Your Firm Prepared?

**W**ith the partner-client relationship at the core of every engagement, client retention in light of a partner retirement is paramount to the sustainability and financial security of the business. Yet multi-owner firms need to have a plan in effect as part of the firm's operations, versus reacting to a specific event or departing partner.

Certainly, the need for accommodating special situations will arise, however, a succession plan helps protect a firm's equity partners and the firm at-large. Establishing a formal succession plan also communicates to partners, professionals, and support personnel that the firm will continue post-retirement of its Baby Boomers. Even firms that have succession plans in place can benefit from updating or formalizing those plans, given current market conditions.

### Getting Started

Firms should consider establishing an internal committee dedicated to developing the succession plan, possibly with the help of a third-party facilitator. Some firms may also choose to have a partner retreat to address the issue.

To determine a target retirement age, a good starting point may be talking to senior partners about their "game plans" when it comes to retirement. While this will help gather a consensus on what the firm's partners have in mind for a retirement age, on average the set retirement age used by many firms is between age 65 and 70. With



that being said, the American Bar Association recommends, "flexibility and consideration to the needs of the firm and the individual partner."

For firms with partners that operate as individual practitioners, essentially silos under one roof, the firm needs to change its vision *before* being capable of realizing any progress with succession planning. The culture needs to be one in which everyone, from the top down, embraces the "one firm" concept and shares in the goal of success and financial stability for the firm, and thus its partners and professionals.

### Managing the Transition

Successful transition planning requires the buy-in of the retiring partner. In some cases, this may initially be a challenge, as vanity and egos come into play and partners may refuse to acknowledge that they are getting

older or that a successor will succeed as they have in maintaining positive client relationships. Giving the retiring partners a say in their successors and an equitable compensation plan can help dissuade concerns and assist in smoothing out the process.

Just as it took time to build the relationship with the client, the transition will also happen over the course of three to five years through the implementation of a "phased retirement model." The exact timeline is dependent on the needs of the firm, but each firm should follow these core steps in a phased retirement model:

- **Identify the transition partner who will handle client responsibilities.** In deciding who the transition partner might be, assemble a list of possible partners, who the firm, together with the retiring partner, decides

---

might be best suited to take over the attorney-client relationship. Expertise and practice area knowledge are critical, but personal factors, such as personality, temperament, and even hobbies and interests, play a major role in the success of an attorney-client relationship. If the partner with the right technical expertise isn't a good fit for the client in terms of personality and interest, consider having two partners team up to take over the client—one to manage the relationship and one to perform the legal work.

The goal is to select a transition partner or partners who both the firm and the retiring partner feel will have the best chance of success in keeping the client with the firm. Clients remain clients of the firms for the delivery of an expected high level of service.

- **Create a compensation agreement.** Both the firm and the retiring partner have a vested interest in this process and creating a financial formula that fairly compensates the departing partner for his or her efforts is one of the key components of a winning succession plan. Part of the transition process is also transferring billing responsibilities to the new servicing partner. Since many firms determine compensation packages through billing and collections, it is critically important not to penalize the departing partner in this factor of the compensation model. Consider a sliding scale with decreases in compensation as the workflow decreases. Most importantly, clearly define a compensation agreement for the transition period at the beginning of the transition.

The firm's accountants or a firm that has experience in law firm

compensation models can provide valuable input in overcoming this potential hurdle.

- **Encourage a process that best serves the needs of the client.** From the outset, both the firm and the retiring partner need to tailor their succession plan to preserve the attorney-client relationship, which is fundamental to the financial security of the firm. Upon selection

---

**To help ensure that all partners involved in the transition process work together for the good of the firm, the management or executive committee needs to control the process.**

---

of a transition partner to serve an existing client, it is in the best interest of the firm to encourage working together to preserve the client's confidence that the succession or transition partner will devote their attention and expertise to their needs. During this "passing of the baton," the retiring partner should dedicate his or her efforts to mentoring the succession partner in the finer nuances of the attorney-client relationship. This is critical in developing good chemistry with the client so as to encourage the client to remain with the firm.

- **Control the process at the firm level.** To help ensure that all partners involved in the transition process work together for the good of the firm, the management or executive committee needs to control the process. If the retiring partner begins the transition process knowing that there is a clear roadmap for the process and the firm will compensate him or her fairly, the process is smoother for everyone. In addition, with professionals trending toward working longer in their careers, firms need to understand the timeline of retirement for these rainmakers.

## **Completing the Transition**

As the retiring partner begins to transition out of the client relationship, he or she needs to honestly evaluate how the new relationship is working. Are the new partner(s) and the client getting along? Is there mutual respect? Are the legal matters progressing as they should be? For the first several months, the retiring partner should periodically check in with both the partner and the client, separately, to see how things are

going. If things are going well, the transitioning partner should slowly phase out the calls to fully transition the relationship management to the new partner(s).

If things are not going well, the firm needs to assess whether the relationship can be improved or if it would be better to transition the client to a different partner. It's important to keep in mind that it takes time to build up a client's comfort level, so one shouldn't give up on the new partner just because of a few small glitches. On the other hand, if there are issues that will likely be difficult to resolve—such as a personality conflict—then it is better to be proactive and change the partner assignment than to let the relationship languish, ultimately costing the firm the client.

Firms can also consider maintaining a working relationship, such as a consulting arrangement, with the partner post-retirement. The firm benefits from the partner's expertise while the partner may enjoy staying engaged in the profession.

## **In Summary**

The best succession plans are integrated in the firm's business plan and overall

strategy. The plan should be formalized by the firm and clearly outlined and communicated to the partners and professionals, who will hopefully someday be the future of the firm. Younger professionals who invest their developmental years with a firm should know that such policies are in place and realize that the firm has taken

steps to keep it financially sound in the years to come.

Perhaps, the first step may be a call to your accounting firm to help build a roadmap for succession planning. Like law firms, they are in the professional services business and face similar succession issues, and your accounting firm understands your firm's culture and financial position. ■

*Eric S. Weiss, CPA, is a J.H. Cohn partner and a member of the Firm's Law Firm Industry Practice. He can be reached at [eweiss@jhcohn.com](mailto:eweiss@jhcohn.com) or 973-403-6919.*

For more information on J.H. Cohn's Law Firm Industry Practice, go to <http://www.jhcohn.com/industry>

## CALIFORNIA

**Los Angeles**  
11755 Wilshire Boulevard  
17th Floor  
Los Angeles, CA 90025  
310-477-3722

**San Diego**  
9255 Towne Centre Drive  
Suite 250  
San Diego, CA 92121-3060  
858-535-2000

**Warner Center**  
21700 Oxnard Street  
7th Floor  
Woodland Hills, CA 91367  
818-205-2600

## CAYMAN ISLANDS

P.O. Box 1748 GT  
27 Hospital Road  
George Town, Grand Cayman  
877-704-3500 x7839

## CONNECTICUT

**Farmington**  
76 Batterson Park Road  
Farmington, CT 06032  
860-678-6000

**Glastonbury**  
180 Glastonbury Blvd.  
Glastonbury, CT 06033  
860-633-3000

**New London**  
125 Eugene O'Neill Drive  
Suite 120  
New London, CT 06320  
860-442-4373

**Stamford**  
1177 Summer Street  
Stamford, CT 06905  
203-399-1900

## MASSACHUSETTS

**Springfield**  
One Monarch Place  
Suite 2020  
Springfield, MA 01144  
413-233-2300

## NEW JERSEY

**Roseland**  
4 Becker Farm Road  
Roseland, NJ 07068  
973-228-3500

**Eatontown**  
27 Christopher Way  
Eatontown, NJ 07724  
732-578-0700

**Metro Park**  
333 Thornall Street  
Edison, NJ 08837  
732-549-0700

**Princeton**  
103 Carnegie Center, Suite 311  
Princeton, NJ 08540  
609-896-1221

## NEW YORK

**Manhattan**  
1212 Avenue of the Americas  
New York, NY 10036  
212-297-0400

**Long Island**  
100 Jericho Quadrangle  
Suite 223  
Jericho, NY 11753  
516-482-4200

**White Plains**  
1311 Mamaroneck Avenue  
White Plains, NY 10605  
914-684-2700



877-704-3500  
[www.jhcohn.com](http://www.jhcohn.com)

This has been prepared for information purposes and general guidance only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is made as to the accuracy or completeness of the information contained in this publication, and J.H. Cohn LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

Copyright © 2012 J.H. Cohn LLP All Rights Reserved