# Case Study Number 7: An evaluation of an 8-partner firm's internal succession plan

## The Firm

This firm, (referred to as "GRC" to protect their confidentiality) generates $7,850,000 in annual fees out of one office in a large East Coast metro area. GRC has 6 equity partners and 2 income partners. GRC contacted Transition Advisors (TA) because they were concerned they may not be able to deal with pending partner retirements. GRC indicated they want to remain independent and, therefore, desired to strengthen their ability to carry on without an upstream merger.

## The Consultative Process

Our engagement was designed in three parts: 1) an investigative phase, 2) a partner retreat, and 3) a final report of our findings and recommendations. The following data was obtained from GRC to begin the project:

- Historical financial and operating results
- Partnership agreement
- Data specific to each partner including duties, managed business, compensation, ownership, and timetable for eventual transition out of GRC
- Data specific to key non-partners that might be considered candidates for partnership status in the future
- History of GRC's prior experience promoting to partner status from within and recent mergers

## Additional information gathered

During the investigative phase, we determined the following additional relevant information:

- One partner intends to work two more years; this had not been previously disclosed to the group
- One partner, in charge of the tax department, wants to work full time for 5 more years, and then would welcome the chance to work part-time
- The managing partner is seven years away from retiring; the other three equity partners are seeking to remain working full time for many years being ages 45, 47, and 52
- The two income partners were brought in through mergers and both are three to four years out from retirement.
- GRC had not promoted a new partner from within for nine years
- There are three managers in GRC that appeared to be very strong based on proven practice development results, expertise, and client following; none were slated for a specific timeframe for promotion to partner status
- GRC's partnership agreement called for reasonable buyout/retirement terms (30% of compensation paid over 10 years) although we found the requirement to pay out capital accounts within 30 days of retirement would likely cause cash flow problems; however, we found several important terms such as required notice to be a problem; also, GRC had no idea of how to address admitting new partners under the agreement
- GRC had stagnated over the past three years and was experiencing no growth since the two income partners were merged in

## Firm Retreat

Based on our initial findings and discussions with the managing partner we built an agenda for a one-day retreat that would include all seven partners. The retreat agenda included a discussion of our preliminary findings and potential solutions as follows:

- GRC had to make something happen very shortly if it was to have a chance to survive independently-four key persons were slated to leave in the next five years
- Fortunately, GRC had the clay to work with to create a stronger succession team via the three super star managers; a decision and plan for what is needed to promote them to partner status needed to be made as soon as possible
- A buy-in plan needed to be developed in order to bring the three managers in as partners; this would include making modifications to the partnership agreement (including a vesting provision) and developing a partner compensation system that would be appropriate not only for senior partners, but also newly admitted partners; we proposed several specific approaches to these issues and a preliminary agreement was reached on how to deal with them
- Additional changes needed to be made to the partnership agreement to make the buyout/retirement of partners more affordable without reducing the value of the partner interests; the changes included lengthening the notice period coupled with a reasonable penalty for failure to provide adequate notice
- In addition it was felt that if the firm embraced the concept of post-retirement employment by partners in a part-time role, they would be motivated to provide more notice and the basic terms of how that would work were agreed to