

## The Twelve Most Important Things for a New Partner to Do

By James D. Cotterman

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The late Supreme Court Justice Harry Blackmun once said, “A wedding is an event; a marriage is an achievement.” Much the same could be said about the attainment of ownership in your professional practice. Your ascension is an event; partnership is an achievement. And as the analogy goes, a law firm partnership is much like a marriage and a breakup much like a divorce. Life repeats itself in business. But as newly minted partners settle into their new roles, we offer guidance (some serious, some lighthearted) to begin what we hope will be a long and satisfying achievement – a partnership. Congratulations!

### **The twelve (actually a baker’s dozen!) most important things for a new partner to do:**

- Ascertain objective standards for partners regarding billable and total hours, collections, billings, origination, training, marketing, management, and the like. Performance management has become an integral part of law firm culture. The standards evolve, just as law firm business models evolve, in response to dynamic market forces. Your tenure as a partner will depend on consistently meeting those performance standards.
- Figure out how partner compensation works – ask a decision-maker to sit down and take you through the process and conduct an assessment of your current performance. It is the best means to understand how the compensation decision process works and how you are positioned coming out of the gate. If this is not possible, then ask to see memos, descriptions, information provided to decision makers, whether there is right of appeal and to whom. In smaller firms you may find yourself part of the compensation decision makers. In larger firms, others will be charged with this task. Whether you are part of the decision-making or not, educate yourself as to how your firm does this and just how difficult an assignment it really is.
- Ask to see the partnership tax return, financial statements, partnership agreement and all contingent liabilities (i.e., those not recorded in the financial statements). Show yourself to be a good steward and thoughtful owner. Study the documents. Ask questions. Read management

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and other appropriate literature to improve your business and financial analysis skills. Read all the books authored by David Maister, a former Harvard Business School professor, professional service firm advisor, author and lecturer, they will serve you well.

- Set aside that final associate bonus for capital contribution. Yes, they really do want you to buy in to the firm. And no, those profits you earned for the firm were not sweat equity. Many firms will assist you with an extended payment schedule or assist with financing at the firm's bank. Having some sum of money ready to put into the firm will ease the financial stress of buying in. Also, if you can curb the urge to expand your lifestyle you will feel much better about the vagaries of partnership income. Did they tell you that some years are better than others? Those are code words for it is not a given that every year is more profitable than the last.
- Being a partner, particularly in a multi-state partnership puts you in a far more complex tax situation than you are accustomed to. Have a conversation with the firm's chief financial professional or even better, get a CPA to help you navigate and plan for the financial/tax aspects of partnership. To get you started some highlights follow.
- Figure out how self-employment tax works (this does not apply to shareholders in a professional corporation). You may remember the social security and Medicare taxes withheld from your pay when you were an associate. Double what was withheld (the firm picked up the other half when you were an associate) and that is what you will be responsible to pay. Thankfully, or not, you only need to make four payments each year (see the next item).
- Budget from each draw for quarterly tax payments. As an associate the firm withheld income taxes and deposited them in your name with the various taxing authorities. Now you get to do this on your own. There are four quarterly federal estimated payments: one each in April, June, September and January. They each generally fall on the fifteenth of the month. Note that some state and local jurisdictions use a slightly different schedule. Any payments to state and local jurisdictions made in January are deductible on the return for the year in which the payments were made, not the return for the year just concluded. Also (for partners only), remember that taxable income and cash flow are not always the same thing. Make sure that you are asking for projections of taxable earnings when planning for tax obligations. But don't forget about cash flow, because it is cash that you need to pay your bills.
- When you looked at the draw schedule you probably got excited. Hold the enthusiasm. Although some firms make these payments in addition to draw, most do not. You must pay for the various insurance programs (health, life, disability and the like) that you got courtesy of the firm (well maybe some of the cost was paid by the firm) while an associate. A few firms will also pay a tax draw quarterly to help with your estimated tax payment requirements. Most firms expect you to save some of each draw for that purpose. Any payments made, even if by the firm, will be charged against your draw account and eventually your capital account. Get used to thinking that now it all comes out of your money, no matter who writes the check.

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- You have just begun an important new chapter in your life. It's not a destination to become partner, but the first step in a far more challenging role. Listen and learn from more experienced, accomplished partners. Find a partner mentor/coach – even if your firm does not do this formally. Continue to learn – it is a life-long pursuit – dedicate yourself to it.
  - Adjust to a new relationship with associates, staff and paralegals. Maintain close ties and an openness to them even as you adjust to being the new person at the partnership table. Now as the new partner you probably are not quite comfortable in either circle. The associates and staff view you differently and partners are not quite ready to fully consider you one of their own. It takes time – be thoughtful, listen well and ask questions.
  - Market as though your life depended on it (it does – as do the lives and livelihoods of the staff, associates and paralegals). This is the most important lesson to learn. You most likely have already demonstrated some affinity for marketing and business generation, but now it is imperative that you dedicate yourself to this. Your career in private practice depends on it. Keep in mind that the market is quite different from the one that the firm's senior partners confronted when they were in your position – it is much less forgiving and far more competitive.
  - Be sure announcements are sent to everyone you knew in college and law school, all friends and acquaintances, any other potential clients or referrers, plus alumni publications, local papers, business journals, and the like. You have accomplished something important; a milestone has been reached. Allow others to celebrate with you. The accomplishment also will assist you in marketing.
  - Have fun! Don't lose sight of what you have accomplished getting to this point and the fun and challenges waiting before you. This is a good time. The career ahead is long. Enjoy the law, the profession and the service that goes with it.

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**James D. Cotterman** is a principal with management consultancy Altman Weil, Inc. He advises law firms on compensation, capital structure and other economic issues, governance, management and law firm merger assessments. Contact Mr. Cotterman at [jdcotterman@altmanweil.com](mailto:jdcotterman@altmanweil.com).

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