Preparing Your Firm for Succession Challenges

By Timothy I. Michel

Having navigated through some rather difficult waters in recent years, CPA firms have been addressing internal issues to position themselves for long-term growth and profitability. Whether engaging in strategic planning, governance modeling, partner compensation, and accountability planning, or moving toward segmentation of service lines and industry niche specialties, firm succession issues continue to surface, often complicating the process.

As for the CPA profession overall, the average age of firm leadership continues to rise as Baby Boomers near retirement. Many firms lack established leadership programs and have not developed their next group of leaders. Further complicating the issue, firms often see future partner candidates leave the profession. And of those that stay, many show little interest in becoming a partner. All of this leaves partners wondering who will provide the firm's leadership, management, and business development down the road.

Perhaps surprisingly, many firms have not addressed their succession issues. Why? I liken it to how many of their clients view estate planning. Succession planning requires making difficult decisions and often there doesn't seem to be acceptable solutions. Also, it is easy to put off to the future. But whether a firm plans for it or not, eventually it will need to deal with the reality that key leaders of the firm will no longer be there to take the firm forward.

Much is at risk

Firms depend on their leadership and management for continual growth and profitability. In addition to the partner group, this may include other key individuals, such as the firm administrator/COO and the directors of human resources, information technology, and marketing. Each of these individuals can play an important role in the ongoing operations of the firm, as well as the determination and execution of the firm's strategic direction.

Partners spend their entire careers developing client relationships, building specialized knowledge and expertise, and developing relationships with referral sources and other important contacts. As a result, they contribute to the firm's ongoing growth and profitability. These intangibles have value, as they contribute to the continual viability of the firm. However, without proper transition, the firm stands to lose this value when a partner retires.

Firms recognize this value through annual partner compensation. Further, firms often base a retiring partner's buy-out on a formula that includes his or her average compensation over some period of time. In essence, the firm is purchasing the intangible value created by the partner. As the firm has accepted the buy-out obligation, it also needs to complete the transition process to retain the value being purchased.

Emotional and practical considerations

When dealing with succession issues, it is important to recognize some emotional and practical issues that are often present.

Emotional issues include:

- *First-generation partners*. This group has built the firm from scratch and takes great pride in its success. They remember what it was like to worry about meeting payroll. As difficult as it was to build the firm, it is often equally difficult to let go. They have a great desire to pass on something of value.
- *A security blanket.* For many partners, the book of business they have established has become their security blanket. In many firms, it determines a significant portion of the partner's compensation. Therefore, the partner may be hesitant to transfer clients.
- *Trusted advisor relationships*. CPAs have the opportunity to establish trusted advisor relationships with their clients. It is a somewhat unique relationship that results in sharing some very good times and some equally difficult times. It is difficult to pass a personal relationship on to others and can be further complicated by clients who are often apprehensive of accepting a new advisor.
- *Status and worth*. For many partners, the firm and the work define the person. Retiring from the firm equates to a loss of status, position, value, and worth.

Practical issues include:

- *Succession can be difficult*. It is easier to ignore than deal with.

- *Busy people*. Both the retiring partner and those who are taking over his or her responsibilities are busy. It can be difficult to carve out time for transitions.
- *Who to turn to*. The firm may not have provided the training and development needed to cultivate future leaders. This leads to partners wondering who they can trust with their clients and relationships, as they view staff as either unprepared or unwilling to step up to the challenge.

Assuring the firm's success

Successful succession planning requires firms to identify and quantify the impact of upcoming retirements. A practical and actionable five-step process in resolving succession issues can be implemented to assist with this process (see sidebar).

Identifying successors

When determining a successor for important leadership roles in the firm, especially that of the CEO/managing partner, it is important to follow a thorough, well-planned program, such as the following:

- define the role based on the needs of the firm, rather than trying to fit it to a specific person;
- based on the role to be filled, create a profile of desired traits for the position;
- determine the candidates, and perform personality profiling to determine how well they match the desired profile, and consider engaging an industrial psychologist to assist;
- interview the candidates and make a selection; and
- for certain roles, such as the CEO role, it is important that the candidate has the support of the partner group.

Five-Step Process for Resolution of Succession Issues

Step 1: To determine the firm's succession issues, poll all of the partners and key department heads. Request information that includes:

- current retirement plan and whether it would include working a reduced schedule for a period of time before full retirement;
- current role within the firm, related responsibilities and relationships, required skills and knowledge, and identified successors, along with their state of readiness;
- significant client responsibilities, detailing important relationships and specialized knowledge required, and whether a successor has been identified;
- specialized knowledge and expertise and any certifications held;
- key relationships with referral sources, distribution channels, and other professional relationships; and
- the impact on the firm if the partner or key person were to face a sudden illness or disability.

Step 2: Create a firm succession timetable. Using an Excel spreadsheet, plot the retirements of each partner. This gives a quick visual of the extent of the firm's succession issues. It raises awareness among the partner group and places succession as a firm priority.

Step 3: Require individual transition plans from those who will be retiring within a five-year period. The transition plan should detail the goals and strategies related to the transition of:

- roles and responsibilities;
- client responsibilities;
- specialized knowledge, expertise, and certifications; and
- other important relationships.

Step 4: Prepare an overall firm succession plan for the managing partner and executive committee. This would be a working document reviewed and updated quarterly. It would include:

- the key person retirement schedule;
- a firm impact report;
- plans to mitigate risks associated with certain retirements; and
- a means of accountability.

Step 5: Provide for accountability. Retiring partners should incorporate their transition plans into their partner accountability plans. The managing partner should hold them accountable and link their compensation to the success in achieving transition goals.
(*Note:* The author has developed a set of documents to be used in this process that can be obtained by request via email to *tim@michelconsultinggroup.com*.)

Positioning the firm for long-term succession

When partners tell me that they do not see the firm's future leaders, client service partners, and business developers among the staff, I ask them whose fault it is. Firms can solve long-term succession issues by implementing a culture of people development. The programs that will accomplish it also help the firm with other practice management issues and assist in its ongoing growth and profitability. Here are a few to consider:

- *Create a partner development program by*:
  - determining the attributes and core competencies desirable in a partner and incorporating them into the staff development and feedback programs early in a person's career; and
  - identifying the firm's superstars and providing them with special training and development.
- *Create a "contract partner" program to retain retired partners as an employee on a reduced schedule*. This should be at the firm's discretion and clearly define the duties, the hours, and the determination of pay.
- *Utilize an income partner program as a partner-in-training program to develop future equity owners*. Include the income partner in important firm discussions to educate them that the firm is a business with real issues.
- *Promote the right partner behavior that results in staff development, such as*:
  - increasing leverage through effective delegation;
  - assigning challenging work to staff;
  - training and coaching staff daily; and
  - sharing relationships with clients and business referrals.
- *Spend more time retaining good people by*:
  - sharing the best parts of public accounting, such as client and business relationships, client development and decision making, and reward and recognition;
  - having open discussions about their opportunities;
  - involving them in firm programs and matters;
  - providing leadership, soft skill, and business development training;
  - offering an array of career choices; and
  - encouraging a work-life balance that includes your interest in their family as well as their success.
- *Make the partner role more appealing*. Too often staff view the long hours and stress that partners endure and want no part of it. Ensure your partners act as leaders and serve as role models. Talk to the staff about the rewards of being a partner, including the personal achievement and growth, financial rewards, and making a difference in the lives of clients, staff, and those in the community. Inform them that the industry has its own set of demands. Make their career in the firm fun, interesting, challenging, and rewarding.
- *Develop talented staff by*:
  - hiring the "right" people;
  - communicating the firm vision;
  - providing challenging work at all levels;
  - inserting accountability at all levels;
  - involving staff in decision making;
  - providing timely performance feedback;
  - providing advancement opportunities;
  - giving them training, coaching, and mentoring; and
  - making it fun, recognizing achievements, and providing adequate reward.

Having to deal with firm succession is inevitable. Realizing its importance, successful firms are more aggressively addressing succession issues and, therefore, will be in a much better position for ongoing growth and profitability. In addition, clients will be better served, partner retirement pay-outs will be more secure, and future leaders will have increased opportunity.

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