

# Don't Forget Tomorrow: Start Your Succession Planning Today

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# Succession Planning:

## Part one

As baby boomers begin to retire, succession planning has become a hot topic in the accountant world. How do you go about leaving the firm you've spent so many years building in the right hands?

The good news is that the idea of succession planning is increasingly important to CPA firms. **Creating this forward looking strategy is important to 94 percent of CPA firms. However, only 31 percent reported actually having a plan in place.** This is according to a study from WealthStar Alliance.

Also according to the study, the top obstacle to succession planning was finding the time for the process. CPAs now nearing retirement have perhaps worked almost too hard, forgetting what will happen when they're not there to do the work.

### Make up your mind

The first step in developing a succession plan is to decide what future you want for your firm. If you want it to continue and stay independent, prepare younger partners to become future leaders and train them in rainmaking skills, teach them how to manage the firm and build future leaders. If merging with or selling to another firm seems the best course of action, start identifying potential acquirers.

### Prepare for change

If you decide on the internal successor option, start developing those future leaders. Also specify the roles and responsibilities of the firm's governing partners, and clearly define a succession plan that outlines how to transfer a book of business, the mandatory retirement age, a game plan of giving notice and so forth. Without a clear governance structure, chaos can ensue when key partners leave, and the retirement payout of senior partners can be at risk.

At a certain age (such as age 65), require partners to relinquish equity ownership and bow out of key decision-making — it should be up to the firm to determine the relationship going forward.

In addition, your plan should cover:

- Mandatory retirement age
- Partner retirement agreements
- Retirement plan funding
- Compensation structure
- Accountability for adhering to policies and procedures

### Act now

Succession planning is a process, not an event. It can take months, if not years, to develop a plan, and even if your firm already has one, it will need to be periodically adjusted for changes in your firm or the environment. **Don't delay: You never know when an unexpected event may make you glad your firm has a succession plan in place.**



# Succession Planning: Part two

## How to avoid losing clients when a partner leaves the firm

When retiring partners leave your firm, you don't want their clients to leave, too. But without a plan for transferring partners' books of business to their successors, your firm may lose many of the clients they managed and take an unnecessary hit to its bottom line.

**According to a study by the American Institute of CPAs, only 46 percent of multi-owner firms and 6 percent of sole practitioners have a written succession plan.**

## Start early

Don't wait until partners give notice or reach mandatory retirement age to develop a transition plan. It can take a year or more for the succeeding partner to develop sufficient trust with a client to have the relationship continue when the servicing partner leaves. Start the transition well before retirement time by having senior partners introduce their successors and involve them in managing the client relationships they'll eventually take over. You'll also need to determine the best successor in your firm for each client. "Chemistry" plays a big role in relationships, so make sure there's a good fit between the client and the succeeding partner. Although you may need to split up work among several partners based on expertise, there should be only one partner responsible for managing each client relationship.



The National Society of Accountants goes as far as to suggest succession planning should begin with the firm's first year of business, allowing personnel to join and leave the firm without any major disruptions.

## Think beyond clients

Client relationships aren't the only ones your firm can lose when partners retire. Ties with bankers, attorneys, civic leaders, the media and other important contacts can also be broken. To minimize the resulting loss of referrals and resources, ask senior partners to identify their key referral and business relationships, as well as their involvement in professional, trade or civic organizations. Then, determine who in your firm might be best to take over those relationships or involvements, and have senior partners facilitate their transition to appropriate members of your firm.

## Review compensation policies

Make sure your firm's compensation policies are working for, not against, your client transition plan. Retiring partners will be less willing to give up their books of business if they're paid according to a formula based on fees received from the clients they manage, or if their deferred compensation is based on their compensation for the last few years before they retire. Instead, base their compensation more on:

- The amount of business they transfer to other partners.
- The time they spend training and developing staff.
- The extent to which they introduce other partners to key contacts.

**To facilitate transition, free up retiring partners from billable hour requirements. This will enable them to spend more time training their successors and helping them develop relationships with the clients they'll soon be managing, as well as with other important contacts.**

## Prepare the successors

If retiring partners feel that others in the firm aren't capable of taking over the relationships they've worked hard to build, they may be reluctant to hand them over. Therefore, your transition plan should include programs to help potential successors develop the ability to manage client relationships, generate new business, think strategically and lead the firm into a new era of success. If this doesn't seem possible, then adding lateral hires or merging with another firm may be the best solution.

# Succession Planning: Part three

## Mentoring the new leaders

If your firm plans to continue as an independent entity when current leaders retire, it must groom younger partners to take over. Mentoring is a proven way to develop future leaders. Basically, it entails senior partners helping junior partners and managers learn how to manage both the firm and its clients.

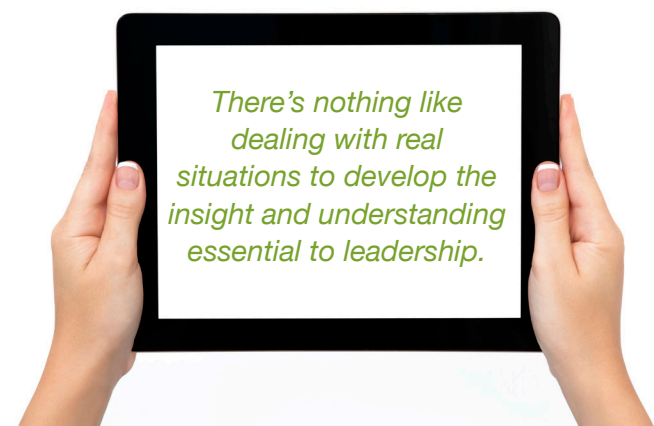
The first step is to get partners to take mentoring seriously.

**To this end, tie partners' compensation to their mentoring efforts. If they understand that the firm's future—as well as their compensation—depends on their ability to nurture future leaders, they'll be more inclined to invest the time and effort.**

While there's no precise formula for determining how mentoring should affect partner compensation, firms often evaluate a partner's mentoring activities as part of a general "people development and training" goal. The criteria for measuring success might include the number of mentoring sessions conducted and the extent to which mentoring plan goals were achieved, as well as mentee feedback and, in larger firms, upward evaluations.

## Having a plan

Once you have buy-in, develop a mentoring plan and give mentors the training and support they'll need to implement it. Although you may think — given senior partners' years of experience — they would automatically be qualified to be a mentor that might not be the case. The ability to process years of experience and client knowledge into something that can be absorbed by others may come naturally to you, but not necessarily to your peers. So teach them how to listen, to coach and to offer constructive feedback.



Additionally, make sure your mentoring plan:

- Defines the mentor's role and a process for matching mentors and mentees.
- Establishes a timeline for formal mentoring meetings.
- Provides a framework for setting goals and measuring progress.
- Offers guidelines for how to conduct mentoring sessions and what to discuss at them.
- Includes a way for participants to give feedback on the mentoring program.

When assigning mentors, try to match "stars" with "stars." Partners with the best abilities and mentoring skills should mentor those young firm members who have the most potential and willingness to learn. And supplement what mentees learn from their mentors with classroom training, webinars and other opportunities to build their knowledge and leadership skills.

## Hands-on experience

A good mentoring program will also give younger firm members hands-on experience in handling clients and running the firm. **There's nothing like dealing with real situations to develop the insight and understanding essential to leadership.**

So provide opportunities for them to participate in your firm's decision-making process and strategy discussions. Also give them responsibility for certain aspects of an engagement, so they can learn how to deal with clients and work through thorny issues on their own, or with minimal supervision.

## Make it a priority

For some partners, mentoring may seem like a bothersome chore that keeps them from serving clients or developing business. But it's as important to the future of your firm as those other activities. So, develop and implement a plan for nurturing future leaders that makes it a reality.

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