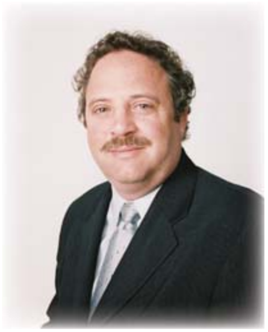
MAKING THE TRANSITION

Has Your Firm Got What It Takes for a Successful Succession?

With the aging of the baby boomers, succession is on the radar screen for most accounting firms. According to the PCPS 2008 Succession Survey, 63% of multipartner firms expected at least one partner to retire within five years, with over half saying more than one partner will retire. A total of 65% of the sole owners were more than 55 years old. The majority of these firms hope to transition their clients and ownership internally to other partners or experienced staff members. But how do you know whether that transition will work or whether it will be necessary to take on new outside partners or turn to another firm for a merger or similar arrangement?



By Joel Sinkin

Who Will Do the Work?

The first litmus test we use is that of capacity. Recently I met with the leaders of a five-partner firm that has two partners seeking to reduce their time commitment over the next two to three years, another who wants to begin cutting back in five to six years and two remaining partners who are very young. Their plan was to transition most of the client relationships to other partners and potentially promote two staff. The first problem we discussed was capacity. The three partners nearing retirement (who plan to remain on part time for additional years) each devote approximately 2,200 total hours annually. They estimated that approximately 70% was chargeable. Given those numbers, I suggested they needed to consider whether their current structure was prepared to replace 6,600 total partner level hours and over 4,600 partner level chargeable hours. Weren't the other two younger partners already working full time, as were other staff members? If so, who would take on this significant amount of work? Firms need to realistically assess their ability to push down enough work to absorb the responsibilities of the partners retiring from full time.

Making the Right Fit

Another consideration is the roles performed by the partners or even critical staff who are nearing retirement. Many firms want to promote the rainmaker, but we need to remember that a good succession plan replaces the role, not the body! If the partner slowing down is the quality control or administrative partner, does it make sense to take the rainmaker away from what they do best and install them in this role? When planning on succession, it's critical to understand the time commitment and function of the partners being replaced. We're not simply filling a slot, but replacing talents, niches, licenses and years of experience.

Retiring partners also have relationships with clients. Clients that are brand loyal take less time to transition than those who are partner loyal. This is especially true as the frequency we personally see our clients has decreased. Clients who have gotten to know a retiring partner well may now only see the new partner annually. That means that the transition from partner loyal clients to the ultimate successor takes several years to perform well. In this situation, starting succession steps in advance is critical!

When entertaining succession plans, it's important to be realistic about what you can do internally based on the current make up of your firm. If based on capacity, timing and roles you feel you can handle an internal succession plan, you are in the fortunate minority. Make your plans early; make sure the buyout pays the retiring partners well for their years of sweat equity and simultaneously offers the remaining partners a financial incentive to take over the firm. However, if, like most firms, you review your status and realize you cannot fully execute an internal succession plan, you need to act sooner than later.

Top Two Options

You have many options if you are in this situation, but here are the most popular two: You can add talent and build a bigger internal succession team or merge into a firm that has the capacity, specialties and "like-mindedness" to match your needs. Like-mindedness refers to similarities in culture, fees, service philosophies, niches and all the tangibles and intangibles that make up your practice. Clients and staff are with you because they like the way your ship is sailing. If a merger requires significant changes that impact the clients and or staff, retention is likely to become an issue.

One of the most challenging situations occurs in a multi-partner firm when partners are at different stages of their career. A four-partner firm we are working with is a classic example. One partner would like to slow down over the next year; another in three years;

the last two in 20 or more years. Their capacity issues prevent them from executing an internal succession plan. The challenge is finding a firm that can provide the younger partners back up, support and growth while also accommodating the near-term retirement of the senior partners. Finding one merger partner that can satisfy all partners' goals can be tricky, but it is necessary to execute a winning game plan.

Get Started Now

Two factors complicate the situation even further. First, a large number of firms are going through this exercise right now. Second, each year sees a greater number of baby boomers retiring, increasing demand for promising younger professionals or merger partners. These successor firms and high-end talent will have more choices and the market will continue its shift from a seller's to a buyer's marketplace. Planning early is a key to ensure the highest values, the largest audience and the best matches.

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FYI **The PCPS Succession Planning Resource Center Provides step-by-step advice on the best ways to address a wide variety of succession concerns. In addition, the PCPS Succession Readiness Assessment Tool helps firms identify the systems, policies and processes that need to be addressed to ensure a smooth transition.**