Succession – Cover These Bases for Every Retiring Partner

By Gary Adamson, CPA

Every firm is working through the succession maze and dealing with the exit of key partners in the firm. It is the Baby Boomer Bubble up close and personal, which I have written about and which every firm that I work with is dealing with. Unfortunately some firms are in the “march to the cliff” having no plan and in many cases having waited too long to do anything about it.

This article is directed at those of you, and I hope the majority, who do have enough time to deal with it and the determination and focus to do so. Every partner leaves holes in the firm that we have to fill. We need to recognize that our plans to fill them will be different depending on the role that the individual partner plays in the in the firm. With that said, there are four areas that you must cover for every partner. And each one deserves a plan of its own. They are:

<u>Technical Skills and Expertise</u>

The most senior partners in the firm have a skill set that has been built over the years and often they are the firm’s expert in one or more areas. It may be a service specialty such as state and local tax or valuations or the go-to person for questions surrounding LIFO. They may also be the firm’s lead expert in an industry niche such as auto dealers or contractors. My experience is that is it is generally easier to replace the industry expertise in larger firms because you have an industry team working together on the niche. The exception may be a partner who has built a significant reputation outside of the firm such as the “national auto dealer expert”. Remember to focus on shoring up both service and industry knowledge for the firm.

<u>Leadership</u>

Leadership transition is one of the most difficult succession issues facing firms. We see it and know that we have to deal with it when the partner is the managing partner or a partner in charge of an office or the leader of our auto dealer niche, etc. But don’t ignore the leadership roles that don’t necessarily carry a title with them. Maybe it is the partner who plays the mentor role better than anyone else in the firm. Maybe it is the partner who is the firm’s best business generator who we all learn from and aspire to emulate.

The managing partner role is obviously key and we just don’t have enough of those candidates in most firms. I won’t get into all of the issues within this writing in planning for the managing partner hand-off, but it is the number one most difficult spot to transition and we need to do it right. Take a look at an article on my website for some ideas on duties and qualifications: Managing Partner 101 - Just What Exactly is the Job?

Hours

You should do a detailed review of the hours that you will have to back fill. Don't ignore the non chargeable codes. There will tasks there that you will need to cover and you don't want to be surprised later with "I didn't know she was doing that" or "I didn't realize it takes that much time".

On the chargeable side I suggest that you work with the partner to break it down into the following categories:

- Client relationship time
- Technical review or consulting time
- Preparation time

Make it a focus to separate and move the preparation time. If you have a partner doing work that they should not be doing (I have not seen a partner's book yet that doesn't have some of it) that can be pushed down, do it now. It will help take some of the pressure off of the transition. The technical and consulting time should also be reviewed for opportunities to move it or leverage it. The summary point here is that because we need to move a particular client relationship, that doesn't mean that we also have to replicate and move all of the partner hours intact to one individual.

Client Relationships

Now to the big one. This is it. This is the one that pays the bills. Seriously, the annuity revenue stream that we enjoy from our clients is critical and it is the currency that most firms use to pay the unfunded retirement benefits to the exiting partner. We really do have to get this right.

The client transition plan needs to be orchestrated over at least two years, it needs to be written and it needs to be supervised and managed by the firm's managing partner. More and more firms are requiring a minimum notice period for early exits, mandatory retirement ages and that the retiring partner work through a specific client transition process with the firm. There is also a trend toward penalties (reduction in retirement benefits) for the retiring partner if clients are lost because of inadequate notice and/or the client transition process is not completed.

Beyond the above broad parameters, what should the process look like? First separate the clients into groups based on their ease of transition. This really comes down to two or three factors: the closeness of the retiring partner's relationship with the client decision maker, the degree of involvement of other people in the firm with that decision maker and the size of the client. The 1040's and small business clients may be as easy as a phone call or a letter introducing the new person. Perhaps personal introductions are all that you will need for others. The larger business clients are more likely to have other staff and partners involved and sometimes may actually be easier than accounts where the partner has been the primary contact. For the close personal relationships which are always the toughest to transition, you should plan on shadowing for at least two year-end cycles.

Other tips:

- Make sure that there are quarterly progress meetings with the managing partner.
- Remember that the new partner on the account needs to establish a new relationship with that client. We all know how we jump through hoops and do whatever it takes to make sure a brand new client of the firm loves us. The new partner on a transitioned client should look at it exactly the same way!
- Put the right person on the account. The problem is that the right person may already be full. I know that it may seem crazy to create even more transition issues within the firm. But for the large important clients, we may need to move some other clients to make room for the right partner or person in the firm to be able to take them on.
- Many times the level of difficulty of a transition is magnified in the eyes of the retiring partner. The personal relationships built up over the years are significant and the friendships cause many partners to believe that the client just won't accept anyone else. The reality is that they will and the friendship with the retiring partner does not end when someone new begins to serve the client. Don't make it more difficult than it really is. In fact, most clients will stick it out to see how well they will like the "new guy".

The retirements that we are just beginning to focus on are key to the future of our firms. Covering these bases will give you a better shot at a successful outcome.

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