

# Succession Planning

## Both Sides Now



By Mark H. Fowler

**T**he need for succession and transition planning for tax and accounting practitioners and their firms has been growing each year for the last ten years or so. Part of this drive is, of course, the result of an aging practitioner base. Another influence is the changing dynamics of clients—particularly their need for more sophisticated assistance in business and tax planning, and issues related to their own succession. Finally, as heads of firms start to examine their succession, they're realizing that the demographics and interests of the talent coming up the career ladder will determine what the landscape of the firm will be once they're no longer on the scene.

For every tax professional seeking to retire or transition his or her business, there are other professionals in the firm looking to build a business. While each group is charting a different course—one to move out of the business and the other to build one—the ultimate goal is for both to have a financially sound and operationally healthy business. To make this goal a reality, both groups need to participate in developing scenarios or alternatives for the firm's benefit, their mutual benefit, and their individual success.

There are many options to consider. The retiring or exiting professional can decide to start another business, stay on as a technical resource, work for a client, and so on. The up-and-coming professionals, too, have options: going into industry, starting their own firms, creating a whole new kind of business, exploring government work, or taking on the leadership of the firm. With everyone's choices expanding, determining the right direction is becoming more complex. And in today's competitive business climate, there is not much margin for error.

Knowing that transitions are inevitable and choices abound, the one essential ingredient to the future well-being of the firm is empowering younger team members to assume new responsibilities. Arming them with the resources, skills, and abilities to help take the firm to its next level of development and success helps everyone, regardless of the options they choose, because a strong business is key for exiting professionals as well as for the new leaders.

### FIRM FIRST: THE NEW FAMILY

Because of the individualized nature of professional services, it's easy to see clients as our friends. And why shouldn't we? For us as transitioning professionals, it can seem as if our clients have been with us forever. We've seen them through many cycles of their lives, up and down; through chaos and abundance. Saying good-bye to them can be a trauma all its own.

In many ways, our clients become our family, so transitioning them can be bittersweet and confusing. This family-like view of the client relationship creates a "practice"-driven firm in which partners have "their" clients. This view diminishes the ability to see the firm as a culture in its own right, populated by a team of fellow professionals supporting and servicing a complex and broad base of clients. It's often called the "silo approach" to working with clients. It can work well, and actually has worked for decades. But in today's more dynamic world, the "silo approach" has its limitations, especially when it comes to succession and transition.

This team vs. silo perspective is at the heart of the challenges a firm faces during leadership transition. Discussions about integrating clients into the firm as a practitioner transitions out can be the catalyst for changing from a silo to a team. These discussions can create a whole new landscape for the firm. The clients, the firm, and all of its team members can become the new family—the family from within. With a strong service team for clients, the retention rate will increase, helping to give the new leaders a revenue stream that they can rely on and helping them feel more comfortable in their investment. And wouldn't exiting professionals want to know that clients they helped bring into the firm and worked with for years will be in good and capable hands?

With the "firm as family" mindset, all team members have a better chance of being engaged, bonded to the firm, and supportive of the client and firm's well-being. This model moves away from the insulating and isolating focus of "my clients" to an "our clients" philosophy. More to the point, succession, exit, or transition planning become an integral part of the firm's planning process not an isolated phenomenon that kicks in only when someone decides to retire or exit.

## SUCCESSION PLANNING: A NEW DEFINITION

What professionals today often refer to as succession planning is really simply exit planning or exit strategy: the process of ensuring that they have the wherewithal to survive and thrive in their new life after exiting the business. But succession planning is really about the firm's well-being and success. Exit planning, which is about the retiring person's well-being, is one part of that.

Succession planning can be challenging because it entails addressing multiple issues simultaneously. As mentioned, it's about an individual gradually stepping back from involvement into retirement and having adequate funds to do so. But it's also about the business having the right talent to step in. It's about cultivating team members coming up through the ranks who know how to manage and who know that their career investment in the firm is going to be worthwhile.

True succession planning is about developing a business that has the ability to continue to grow and thrive despite ups and downs, and developing team members whose lives are supported in facilitating that process.

## THE SIX IMPERATIVES OF SUCCESSION PLANNING

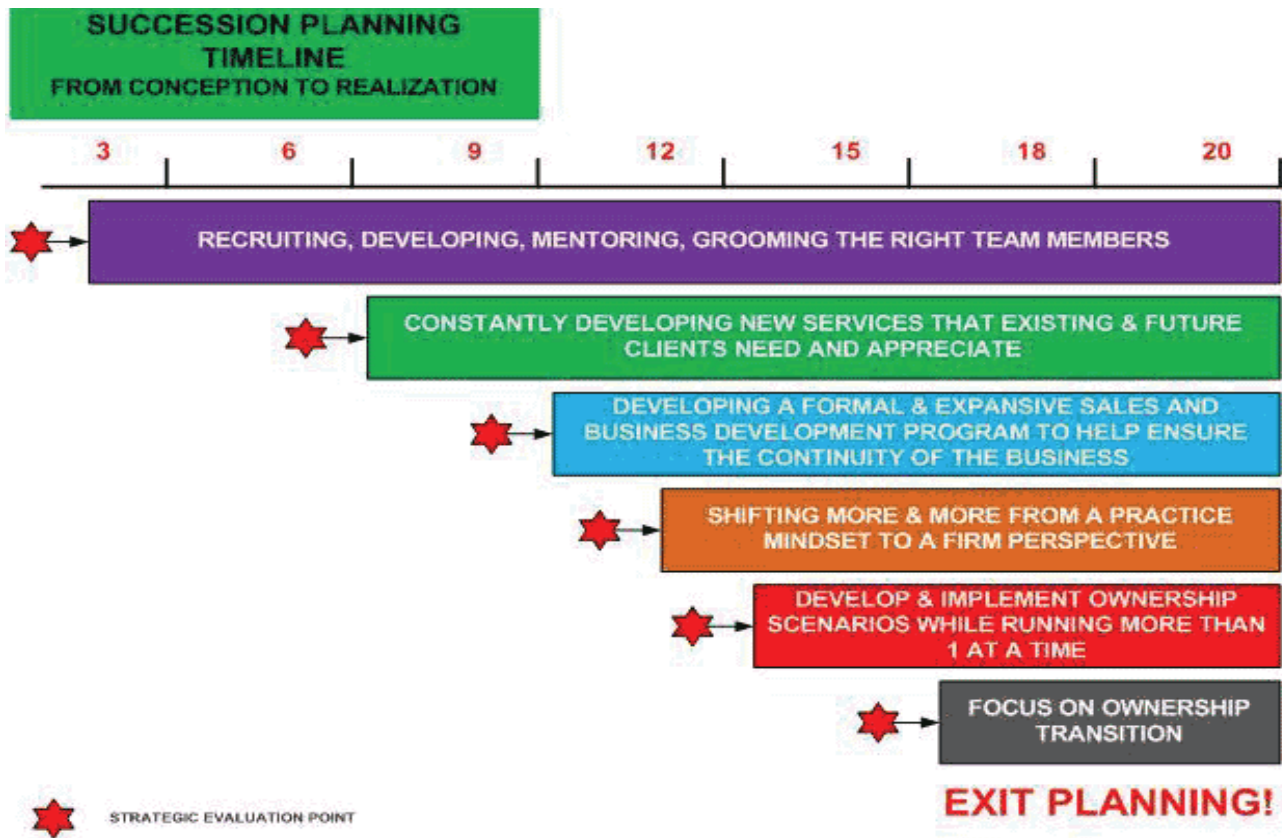
Let's look at what a succession planning process might look like over a hypothetical 20-year span, starting with year one as the firm's first year of business. The graphic below shows the six major imperatives needed to create a solid business platform, enabling personnel to come and go without major trauma to the firm. Systematic focus on these six critical activities makes succession and exit planning most achievable. [see chart below]

As you can see, succession planning is an ongoing process that allows firms to grow and their team members to transition successfully—and that's what helps make exit planning a reality.

## MAJOR ACTIVITIES OF THE SUCCESSION PLANNING PROCESS

Let's take a closer look at the important action points that add up to successful succession planning:

Additional training of individual talent and other team members in all areas of client history and general information, unique client characteristics and needs, and skills and technical information that will be required.





Development of a working relationship between clients and team members—not just those with direct responsibilities to clients, but support personnel as well.

Timely, orderly transfer of any administrative duties the exiting professional, partner, manager, principal, or other key team members, may have.

Development of a much more robust administrative platform to begin to handle more duties that were previously handled by partners or other revenue generating professionals. For example, it's not unusual to shift personnel from office manager position to firm administrator or from firm administrator to COO in order to more effectively handle the needs of the whole firm.

Enhancement of the sales and marketing skills of all team members, including the creation of a business development process within the firm to help assure continued growth, new clients, and expanded revenue bases for existing clients.

Increased communications and interactions within the firm as well as outside it. In this way, the firm will be reaching out more to its team members as well as to its clients and referral sources.

These action points will help to grow the firm, increase the firm's viability, and enhance the team environment, while also establishing a sound platform for the exit or retirement of key professionals.

## OWNERSHIP TRANSFER

Whether a partner/owner is retiring, the firm is downsizing, or the business is being sold, merged, or allied with another firm, ownership transfer is going to occur. There are a number of buyers to consider:

1. The firm itself: The company can purchase the shares of the exiting owner.
2. The other partners and partners-to-be: These individuals can purchase ownership shares.
3. The external strategic buyer: This buyer is looking for locations, talent, niches, and technology to enhance their business.
4. The external revenue-oriented buyer: The singular focus of this buyer may be on adding revenue. This type of sale often means rapid cost-cutting and very short transition periods.

No matter who the buyer is, new owners have their own goals and objectives, which can include:

- enhanced profitability
- expanded client base
- additional services
- appreciative clients
- quality team members.

- an expanded career and ownership
- increased value

One of the best ways to transmit one's legacy after retiring is to sell to the team members, partners, and partners-to-be. In this scenario, understanding how addressing the needs of both sides of the firm—the “family” inside and the family member who is exiting—is crucial in making the future of the firm more successful. Successful succession means creating a more attractive and profitable environment for everyone, not just the retiring or exiting professionals. With “firm as family” in mind, everyone has a better chance of finding ways to bridge the needs and wants of both sides, improving the chances of a win for all—including the clients.

## WARMING UP IN THE BULL PEN\*

In baseball, the bull pen is the area where relief pitchers warm up before entering a game. Well, in a firm, the partners-to-be—managers, senior managers, and rising managers—are warming up to move to their next level of responsibility.

As partners-to-be, the talent in a firm has a unique view and interest in what is happening to the firm. They want to succeed, they want to know what success is going to look like, and they want to know what they need to do to make their success and the success of their team a reality. In professional sports, the team concept is essential. The best players know that in order to truly succeed as a player, the team has to win, not just the player. They know that collaboration and the well-being of the team comes first.

The concerns of owners and players alike should always be:

- Do we have the right players?
- Do we have the best composition of skills and talents?
- What have we put in place to make this team win for everyone?

The players in the bull pen may have their own questions that can make or break their participation and the team's success. Here are just a few of questions team members reflect on while they're warming up, wondering how they'll get from bull pen to pitcher's mound and what it will be like to have skin in the game:

- What do I have to do to become a partner?
- Where am I going to get the skills to be able to be a partner?
- What does being a partner mean?
- How much can I make as a partner?
- What criteria must I pass to be a partner?
- What is it going to cost?



- What will be my return on investment?
- How will the partners help me to become a partner?
- Will they warm up with me, or will I get thrown into the game unprepared?
- What will happen if one or more of the partners is hurt or dies?
- What does a Partnership Agreement mean to me?
- What does a succession plan mean to me, and what are my responsibilities as part of that?

Existing partners' questions actually dovetail with those of the players and may include:

How well are we doing at warming up our players for today and for the future?

How do we help our new players become the stars they need to be in order for everyone to win?

There are two avenues for getting partners' and players' questions answered. The first is to reach out to professionals who have the experience make these changes work. The second is to get into the bull pen and begin warming up with your players. Engage them, come alongside them, and be the mentors they need you to be. Help them so that everyone is on the same page and they know how to take the field when their time comes.

#### CONVERSATION AND DIALOGUE AS CHANGE AGENTS\*\*

You might be wondering just what you'll say and do in that bull pen, and how to answer the many questions we've been talking about. It's clear that this process requires teamwork, continuing interaction and integrity—this is not a unilateral process and not a time when maverick action is effective. Everyone's needs, desires, goals, and abilities must be addressed so that everything can work and everyone can win.

It sounds daunting, but two critical abilities you already have—conversation and dialogue—are the glue that will make this process work. As Larry Bossidy, Chairman of Honeywell International, writes in his book *Execution*:

“You cannot have an execution culture without robust dialogue—one that brings reality to the surface through openness, candor and informality.

Robust dialogue makes an organization effective in gathering information, understanding the information and reshaping it to produce decisions.”

Few projects are more execution-oriented than a succession/transition/exit program. Procedures need to unfold smoothly (or problems need to be promptly identified and handled), people need to be on board, and things need to get done according to plan. Starting your dialogues early and often with clients, team members, referral sources, and outside professionals will make the difference.

In addition, the *quality* of these interactions is essential. Taking the time—even though you might not think you have it—for productive dialogue that gets everyone on the same page is the basis for high-quality results. Our associate, Barbara Gaughen-Muller, President of the Tri-Counties chapter of the United Nations Association (UNA) and the widow of Robert Muller, former Assistant Secretary of the UN, tells how, in her UN work, she learned this saying from her African colleagues: “Palabras first.” It means that before starting formal discussions or even circulating agendas about an issue, there would first be talking—simply conversation. So before starting heavy negotiations or difficult conversations, it might be wise to first build and maintain a bridge of understanding, trust, and collaboration through honest conversation. It's important to lay a foundation of openness so that everyone can then put their issues on the table and understand what they're committing to, what they're responsible for, and what their reward will be.

Whether you're a sole practitioner, a partner, or a long-term senior manager/principal in a larger firm, succession planning and exit strategy are integral activities that deserve the same level of support and focus you would give your most important projects. Your future and the future of what you and your colleagues have built depend on it.

(\*)—Excerpted and adapted from “A View From the Bull Pen” by Mark H. Fowler, *The Business Gazette*®, the monthly electronic newsletter of Stowe Management Corporation, August 27, 2012.

(\*\*)—Excerpted and adapted from “Succession Planning: Laying the Foundation for the Future” by Mark H. Fowler, *CA CPA Buzz*, and publication of the CA CPA Society, December 4, 2012.

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