Success in Succession

Practical Steps for Transitioning Clients

No accounting firm can exist without clients. And no partner can serve clients forever. So the rules of logic would dictate that someone else must take over serving those clients. The only question is whether that someone will be in your firm or a competitor's.

If client transition is such a logical part of accounting firm life – and accountants pride themselves on their rationality – then why do so many firms do such a poor job of it?

> For more information on accounting firm succession:
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> "The 2008 PCPS Succession Survey." Publisher: AICPA. http://www.aicpa.org/pcps
>
> "Securing the Future:_Volume 1, Succession Planning Basics" and"Securing the Future: Volume 2, Taking Succession to the Next Level." Publisher: AICPA. Authors: Bill Reeb, CPA, CITP, Dom Cingoranelli, CPA, CMC, Michaelle Cameron, Ph.D., MBA. www.CPA2Biz.com.

According to a 2008 AICPA Private Companies Practice Section (PCPS) survey, while about 49 percent of respondents require owners to begin transitioning clients two to three years out, about 25 percent of firms only require about one year's notice. And only 7 percent of firms change the compensation structure for a retiring partner to allow him or her to focus on transition activities.

So why is client transition given such short shrift? Perhaps because it's not a purely logical exercise – it's actually a very emotional one.

"So many accountants like to make this mechanical, but this is an emotional event," says **Steve Erickson**, consultant and former accounting firm managing partner.

The retiring partner's emotions range from indignation ("I'm still healthy – why do I need to retire?") to protectiveness ("This is my client and only I know how to take care of them!") to a sense of loss ("Who am I without my work?").

Transitioning to a new advisor can be nerve-wracking for the client, too. "Clients never like to feel like they are being cast off," Erickson says.

And the remaining partners may be frustrated with a partner who refuses to retire even though he's no longer producing at the same level as the other partners. Or they might feel jealous of (or abandoned by) a partner who has decided to retire early so she can pursue other interests.

Why Do I Have to Retire?

Mandatory retirement is an issue that has been debated in accounting firms for years and promises to remain hotly contested for years to come. Firms seem to be almost evenly split on the issue: 48 percent of respondents to the PCPS survey said their firms have mandatory retirement. Many firms that require retirement do so in the mid-60s. And yet, with people living well into their 90s, a healthy, vibrant 65-year-old will justifiably point out that she has many years of productivity left.

Keep in mind that retirement means that the partner is required to sell his or her ownership interests to the remaining partners. But the retired partner can and often does continue to stay involved with the firm as a consultant or employee. “It is a very emotional situation for many partners to retire when they feel that they still have much to offer,” says consultant **Robert Gallagher** of R.J. Gallagher & Associates, who is also a former managing partner.“ Continuing as a consultant after retirement for a few years allows the situation to be a win-win for the firm and the retired partner.”

There are a few arguments in favor of a mandatory retirement age:

It’s necessary for the growth of the firm. Future leaders want to know when their time is coming, and they won’t be interested in joining or becoming a partner if they think they will never have a chance to run the firm. “Being part of a legacy firm means giving opportunity to others,” Gallagher says.

Accounting firms also must take into consideration their exposure to malpractice from a partner who isn’t putting in the same time or attention to client matters that they used to. Is it fair to the other partners and staff to have to constantly be “cleaning up” after a partner who is losing some of his or her edge?

Mandatory retirement allows a partner to go out at the top of her game instead of being asked to step down because she’s starting to slip. Law firm consultant **Patrick McKenna** recounts an experience when he was a young employee of a large department store. McKenna recalls being indignant that the store’s tailor was being required to retire, when he was still the best tailor in the city. McKenna’s supervisor patiently explained that, while the tailor was still strong at that time, what if the store agreed to let him work until 70, only to find that his eyesight began to fail at 67? How would the tailor feel about being told that he was no longer useful to the company? “Better to have him retire at 65 and negotiate something that eases him out over a year or two than to hurt his self worth,” McKenna says.

Older partners are less inclined to take risks and make investments in the long-term interests of the firm. As stated in the new AICPA book “Securing the Future: Volume 2, Taking Succession to the Next Level”: “This perspective can easily cause a firm to stagnate and hamper its ability to invest in the necessary infrastructure to ensure a successful future.”

Overcoming Roadblocks to a Smooth Client Transition

Failing to properly transition clients can have dire consequences. In the short term, the retiring partners’ clients are at risk to be picked off by competitors. In the long term, this trend can spell doom for an independent firm.

“You can imagine if a firm is paying a retirement and loses a good percentage of the revenue stream applicable to the retired partners, then this is a bad omen for all existing partners,” Gallagher says. “You need to protect the revenue stream as best as possible to be able to make payments in the future to retired partners. This is a major risk for unfunded plans.”

One of the most common reasons partners give for not transitioning their clients is that there simply isn't anyone who is ready to take over the clients. According to the 2008 PCPS survey, at 38% of the firms, the senior partners don't feel that the younger partners are ready to step up to leadership positions.

While the natural question is why the senior partners haven't done a better job of training and mentoring the younger partners, placing blame won't solve the current problem of who is going to take over the retiring partner's clients.

Most consultants recommend firms start transitioning clients at least two, and preferably three years before the retirement date. This period of time should provide the opportunity to evaluate whether the new relationship partner is compatible with the client, and either develop the younger partner's relationship skills or, if the situation is unsalvageable, introduce a new partner.

Younger partners and managers often lack the relationship management skills of their more senior partners. "In many cases the younger person taking over is more technically competent, but many younger accountants don't have the empathy, or the emotional IQ," Erickson says. "I equate it to going from a general practitioner to a specialized surgeon. That surgeon is very technically competent but often doesn't have a good bedside manner."

These relationship skills can be learned. One of the retiring partners' most important responsibilities during the 2- to 3-year transition period is to show the new client servers how to take care of those clients. The goal is not for the new client server to do everything exactly like the outgoing one did; the goal is to make the transition as seamless and painless for the client as possible so that the client will stay with the firm.

Of course, this process is considerably easier if the firm's culture encourages team serving of clients, which allows the relationship partner to introduce other experts into the client's matters over time in the name of better client service. If a client works with a tax partner and an audit partner and a business valuation partner, then the retirement of one of those partners isn't as traumatic for the client as it would be if the retiring partner handled all of these functions and no one else in the firm was familiar with the client's idiosyncrasies.

This team approach is even more important with regard to consultative or industry-specific services. First, these specialties require specific knowledge beyond technical audit and tax skills, which usually can't be learned within a two-year window. Second, these services tend to be project-based rather than annuities, and since project-based revenue stream is unpredictable anyway, introducing a new relationship partner can cause that stream to stop altogether.

Another best practice that makes client transition much more straightforward is incorporating succession planning into the annual evaluation process. Since any partner could be disabled tomorrow, it only makes sense to always have a backup for each client. Gallagher recommends that at the annual firm retreat, every partner lists his or her top 10 to 15 clients and who would be the logical replacement as engagement partner and relationship partner (the difference is explained below)."Why do we have to wait until the

partner is retiring to talk about transition? The better practice is to have that as part of your succession plan, which is built into your performance plan," Gallagher says.

Some firms have a written policy that states that, at a certain age, every partner must draw up a personal business plan that states their intentions regarding retirement, including how they plan to hand off their clients." Having a policy helps to get the thought process started for people entering that period in their careers," McKenna says. "They have an opportunity to negotiate a glide path."

Client Transition Steps

Clearly, when it comes to transitioning clients, time is your firm's best ally. "As human beings, we normally change gradually," Erickson says." A longer transition period allows for the gradual acceptance of the reality that someone is retiring and a greater likelihood of retaining the clients."

Over a period of two to three years, the retiring partner and managing partner should take the following steps.

1. Create a grid that lists the partner's clients and identifies the new engagement partner and relationship partner for each.

In some cases, the engagement partner (the one who will be doing the work) is the same as the relationship partner (the one who will be the "face of the firm" for the client). But in other cases, the one who is most qualified to do the work doesn't have the right chemistry with the client.

While the retiring partner is most qualified to take a first stab at identifying who would be best suited for each of these roles, the managing partner has the final say and should consider strategic issues, such as who in the firm will most benefit from these growth opportunities.

2. Establish an action plan and timeline for each client.

" You cannot transfer relationships," Erickson says." You can only help people develop additional relationships." Each action plan should include steps the retiring partner is going to take over time to encourage the development of a relationship between the client and the new relationship partner.(For a sample transition plan, see "Securing the Future: Volume 2.")These action steps – such as introducing the new partner to the client in a face-to-face meeting and handing off client management responsibilities – should allow the retiring partner to gradually back away from the client. For example:

In the first year of transition, the retiring partner includes the new partner in any conversations with the client.

In the second year, the new partner becomes the lead partner in presentations and meetings and handles day-to-day communications.

In the third year the new partner handles all client issues on her own, with the retiring partner acting as a sounding board.

Larger, more complex clients require more time to transition, so those clients should be among the first transitions initiated, giving the new client server time to build a strong relationship before the retiring partner leaves.

3. Spell out relationship management protocols.

Every client has his quirks – from how quickly he wants a response to the level of detail he wants in a report. "While all of that is known by the professional who served this client for 20 years, unless he had a checklist to walk through, he wouldn't be able to tell you about it," McKenna says." He doesn't think about it, because it comes naturally to him." McKenna recommends that retiring partners walk incoming partners through all the dimensions of the client relationship, such as:

Frequency of communication – Do they want to hear from you once a week or once a quarter?

Type of communication – Do they prefer e-mail, phone or face-to-face? If in-person, do you come to their office or do they come to yours?

Level of detail in reports – Do they want a four-page, detailed memo covering every possible option, or a couple of sentences on your top recommendation?

Responsiveness – Do they want to hear from you within 15 minutes or within 24 hours?

4. Tell the client what's going on.

Unless a partner is retiring early – or looks particularly good for his or her age – no client is going to be surprised by an announcement that the partner is retiring. In fact, firms that don't address the issue are at risk of losing clients who are nervous about what will happen to them if the partner suddenly decides to retire – or worse.

Communication with the client should be handled "as openly and transparently as possible," says consultant **Sam Allred** of Upstream Academy. "Most clients understand and want to help. They get frustrated if the process is clouded in mystery." Make the conversation a dialogue. Explain that the client now has an opportunity to work with another member of the team – someone who will bring different strengths to the table – and ask the client how they feel about working with the new partner. This is also an opportunity to be honest with the client about any weaknesses in the client's staff for which the retiring partner has been compensating, and to encourage the client to turn over a new leaf with the incoming partner.

With larger clients, in particular, the retiring partner should take the new partner out to the client's site early on to introduce him or her to all of the important client contacts. Regardless of the size of the client, the first communication about the transition should be in person – whether by phone or face-to-face. But once all clients are aware of what's going on, the firm should also formally announce the partner's retirement in a letter so everyone gets the same message. This communication is an essential step in demonstrating that the firm values the retired partners' contributions, but the formal announcement should be only one step in the ongoing client transition process. "By the time the partner retires, someone else should have the relationship," Reeb points out. "If not, then the client is at risk."

5. Hold the retiring partner accountable for the successful transition of clients.

In the years leading up to retirement, the partner should be compensated for working toward successful transition. And those who fail to successfully transition clients should suffer consequences. Reeb recommends that the managing partner sign off on each step in the action plan. If the retiring partner satisfactorily completes each step, and the client ultimately leaves the firm, then the partner isn't penalized. But if the partner doesn't complete any of the steps to the MP's satisfaction and a client leaves within two years, then the firm should discount his or her monthly retirement payments by the amount of lost revenue, Reeb says.

Gallagher offers an example of the type of clause that would address a partner's responsibility to groom a successor:

> Reduction. Except in the case of a Disability Retirement pursuant to Section __, any Member who fails to provide such two (2) year written notice, shall receive between fifty (50%) percent and seventy (70%) percent of the retirement benefit to which he or she would otherwise be entitled. As the underlying purpose for the two (2) year notice is to allow the Company to plan for and secure a successor for the retiring Member, the amount of the reduction, if any, will depend on the negotiations with the Member, circumstances and client transition plans as determined by a Supermajority vote of the Equity Members (other than the retiring Member). Among considerations affecting the potential reduction is when a satisfactory successor for the retiring Member be put in place by the Firm. Each retiring Member is expected to cooperate with the Firm in order that his or her client base will remain with the Firm.

Life After Partner

By following the advice in this paper, your firm should be on the path to successfully transitioning your retiring partners' clients. But what about the retired partner? How will he or she adjust to retired life?

As mentioned above, many firms enter into a contract with retired partners to stay on with the firm on a year-to-year basis with a variety of responsibilities. For example, the firm can tap into the wealth of knowledge the retired partner has by having him or her lead training sessions. The retired partner also likely has some community and trade group positions. While some of these will need to be transitioned to another partner in the firm, some might make sense for the retired partner to retain. As a valued alumni of the firm and a respected member of the community, the retired partner is in a good position to introduce the firm to potential clients and referral sources.

The retired partner also likely will retain friendships with some of his former clients, and the firm needs to be sensitive to his desire to stay informed about what's going on with the client. "If the older partner is still playing golf with the client's owner, he needs to be aware of what's going on with that client so he can have an informed conversation," Erickson says.

In “Securing the Future: Volume 2,” Reeb et al take a different tack. By the final year before retirement, they say, “the retiring owner’s conversations should be solely personal, and he or she should avoid business issues altogether. If trapped by a client who insists on seeking advice or information from the retiring owner, the retiring owner should sell the skills of the client service partner or manager while admitting that he or she doesn’t want to answer because he or she has not been staying current.”

Of course, it will be much easier for retired partners to “avoid business issues” if they’ve moved on to other interests. While some people embrace retirement with excitement about the possibilities, others find the uncertainty of it unsettling. (What will I do with all my time? How is this increased togetherness time going to affect my relationship with my spouse?) A qualified psychologist who specializes in career transitions can help partners address these concerns and move forward into the next phase of their lives.