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For Whom Succession Tolls: Prep Your Firm To Survive

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(Editor's Note: This is the first installment of a series. Look for Part 2 of this column in the next issue of PAR.)

Much has been written and discussed over the last five years regarding succession planning at public accounting firms across the country, driven by the vast numbers of "Baby Boomer" generation partners who will be retiring in droves over the next decade.

According to C-Span, Baby Boomers have been turning 65 every eight seconds since 2011. These statistics support the number of upward mergers that have taken hold of the accounting profession and the growth of consolidators that make up many of the top 100 firms in the country. In fact, you can conclude that consolidation of Baby Boomer partner firms has created many of the top 100 firms in the country, rather than organic growth. At this pace, taking into account the aging of the founders, leaders, and rainmakers within the profession, at least half of the approximate 14,000 multi-partners firms (approximately 90% of which are under $10 million in revenue)- may be forced to merge upward in the next 10 years.

According to the 2012 PCPS Succession Planning Survey. 44% of multi-owner firms either are discussing a merger, acquisition, or sale or are planning to do so in the next two years. The survey went on to say that 42% of senior partners were not confident in the leadership talents of younger partners and felt it was a significant issue in succession planning.

In summary, the accounting profession is comprised of primarily small businesses that are quickly running out of time for succession planning, and it's now time to shift gears into "crisis planning" and a corresponding expedited action plan, and a farewell to traditional internal succession planning. It's now time for a call to action for whom succession tolls.

The call to action should start with reshaping the culture that was responsible for positioning many firms in their succession crisis mode, such as:

- Denial concerning the aging of the equity partners who are the rainmakers and control a majority of the client base and a lack of quality professionals for succession planning purposes. A culture of denial has been rampant in the CPA profession, especially at firms with 20 or fewer partners. Denial is more endemic in firms with old-Boomer partners because it often results from a stubborn adherence to a once accurate perception of reality that has become obsolete in a changing and dynamic marketplace. It's difficult to overcome a culture of denial because it normally means avoiding change.
- "Comfort Zoners" in the partner and senior manager ranks who have failed to add value to client services, neglected to enhance their technical and advisory skills over their careers, have not contributed to firm growth over the years, and have resisted change within the firm and its culture. Once the up-or-out philosophy became less prevalent, the "Comfort Zone Culture" became more pervasive, and top-heavy and inverted pyramid-structured firms resulted.
- Inability to retain women in the profession and promote them to the partner ranks. Women have represented close to 50% or more of the entry-level staff entering public accounting over the last two decades, and they now only represent 20% of the partner ranks. This is by far the most underrated obstacle and void leading to succession planning issues

- Procrastination by the partners in making the tough business and strategy decisions to take the firm to the next level of success, such as adding high-value niches, investing in marketing and practice development initiatives, establishing formal career development programs for staff, terminating underachieving partners and managers, restructuring partner compensation programs and aligning partner accountability to motivate partners to achieve the firm's strategic plan, and pursuing lateral mergers to upgrade talent and service offerings.
- A scarcity of innovation and creativity regarding services in addressing the needs of clients and the marketplace. In other words, engaging a factory-like environment of driving profitability with a volume-oriented approach offering traditional commodity services versus the value approach of higher billing and contemporary types of services.

Today's CPA firms face an array of challenges (including those mentioned above), from heightened competition for quality professionals and clients to economic uncertainty facing their clients, resulting in unrelenting fee pressures.

Guiding rapid change at accounting firms is no easy task, and it takes the efforts of exceptional leadership. Fundamental change in a firm is often resisted most by the persons it affects most—in this case, the partners, shareholders, principals, owners. Thus, leading and implementing change in a crisis planning mode is critical if a firm is seeking a succession solution other than upward merger.

The first place to implement change when a firm is in a crisis succession mode is at the top.

Most managing partners understand that the firm's success and internal succession relies heavily on the comprehensive talents of the partners. However, few managing partners and management committee members are willing to take a realistic, aggressive approach to making the changes necessary to position the partner level for future succession.

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Only an aggressive approach can make a significant difference quickly enough to avoid an upward merger. Leaders must be willing to make the tough decisions and replace under-achieving partners with talented professionals as part of the firm's succession plan, either through an inbound merger or attracting partners from other firms who will be instrumental in the firm's future success.

The tendency at many firms is to avoid confrontation regarding partner performance issues for an extended period of time, which allows for complacency and enhancing the "comfort zoner" culture. Unfortunately, as the need for more capable and innovative partners has heightened, the talent pool is shrinking, which exerts more pressure on the urgency to act quickly. Managing partners need to manage at warp speed when implementing their short-term goals and objectives while securing a successful strategy for the longer term.

Although partner accountability is one of the most discussed topics in the public accounting profession, it is severely under-applied in terms of the managing partner. Accountability for managing partners is less about doing and more about the firm achieving short- and medium-term results.

Accountability for managing partners should be driven by firm results compared to annual budgets that are properly structured and aligned to a compensation and bonus structure geared toward a customized set of performance objectives for the firm and the partners. As the old saying goes, "A leader doesn't build a business; a leader builds an organization that builds a business."

Joseph A. Tarasco is founder of Accountants Advisory Group (*www.accountantsadvisory.com*), a consulting firm that incorporates state-of-the-art practice management, marketing and human-capital strategies to assist CPA firms in achieving long-term success and profitability. Con-tact him at J*oe@Accountants-Advisory.com* or (845) 265-9046.

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