CPA
Practice Advisor

The short answer is that CPA firms stink at succession planning. Firms' entire operations are geared to maximizing short-term profits, focusing on today at the expense of tomorrow. Evidence of this is the following: A 60 year-old sole practitioner wants to sell her firm and work eight more years. She has revenue of $1M and takes home $600,000. She meets with several buyers, all of whom are interested in her practice. But none are willing to continue her compensation at $600,000 because the profitability of her practice can't be sustained in the buyers' operating model. Why?

Because the solo doesn't invest in the future of her firm the way buyers do. She hires low level people. Little training. Below-grade offices. Technology that is behind the times. No marketing. Short-cuts on quality control. All of these cut corners enable

Affluence. A good place to start because money explains a lot of things in life. Partners in local, multi-partner Chicago firms earn, on average, $460,000. That's higher than what 99% of all people in the country earn. Proper succession planning requires partners to (a) shift a substantial amount of their time from client work to mentoring staff, thus helping them grow and (b) invest a substantial amount of money to ensure the firm's tomorrow. Many firms aren't willing to make this kind of investment. They reason: "I work hard, enjoy my work and my clients love me. Add to that mix the $460,000 of annual income I earn. Our firm may not be perfect, but we're doing a lot of things right." And who can blame them? Affluence is a corrupting influence on succession planning.

Buyer's merger market. We all know about the frenetic pace of CPA firm mergers in the past 5-10 years. Until the past couple of years, countless numbers of firms rested easy when it came to an exit strategy. They reasoned that if they failed at succession planning, they could always execute a reliable fallback plan: sell to a larger firm. Well, things have changed dramatically in the past two years. A huge volume of sellers has flooded buyers with options, enabling them to cherry-pick the best and the brightest. More firms than ever before are being turned away by buyers. Exuberant confidence in being able to sell your firm as an exit strategy is today, often misguided.

Mentoring staff. There are several key components to a properly conceived succession plan, but clearly the chief component is staff development: mentoring, training and leadership development. Mentoring works! But only if you do it right, which consists of:

- Having the skills to be an effective mentor. Contrary to what many think, many people are not natural-born mentors. The better firms have "train the mentor" programs.

- Devoting the proper amount of *time* to mentoring. CPA firm partners are extremely

important as our clients." But they don't walk the talk. If staff are just as important as clients, we should expect to see a meaningful amount of weight assigned to staff mentoring compared to production metrics in the firms' partner comp systems. But of course, we don't. In fact, if the partner comp systems of firms under $15M were audited, one may not find *any* weight given to staff mentoring in many of these systems.

***CPA Firm Succession Planning: A Perfect Storm** is a must-read for firms that want to focus on keeping the firm independent instead of merging out of existence. due to a lack of successors. There's more to it than simple leadership development; we also address ►how to assess your existing staff, ►MP transition, ►governance structure needed to remain independent, ►client transition, ►partner buyout plan, ►partner buy-in plans*

Partners want to work forever. If you want to successfully preserve your firm for future generations, you need to understand that there is only one reason why your brighter, more ambitious staff stay with your firm – to take over your firm, its client and your $460,000 salary! Stagnant firms with partners who never retire and refuse to delegate clients and billable hours to staff will virtually guarantee the eventual exodus of the best staff. That's why mandatory retirement plays a crucial role in a succession plan. In the words of AICPA Chairman Barry Melancon, in his letter to the EEOC on mandatory retirement, "it allows for the predictable progression of lesser tenured, and often more diverse individuals into the firm, thus facilitating the orderly transition of clients from senior partners to those who will succeed them."

Win-win partner retirement plans:

- Be sure to bring in new partners on a regular basis (this means you need regular revenue growth), thus avoiding clusters of partners retiring at the same time.

- Don't cripple your firm's cash flow with onerous buyout obligations. If your plan

away from the unfathomably steep $400,000 to $1M buy-ins (computed by multiplying ownership percentage times the firm's value). Buy-ins are now more reasonable and affordable statutory amounts, usually in the $75,000 to $150,000 range. Large buy-ins scare away partner-potentials.

A classic line from the cartoon Pogo is: "We've seen the enemy and the enemy is us." Partners, if you are disappointed in the future of your firm, you have only to look in the mirror. You can't develop future leaders by willing it or talking about it. You need to start walking the talk about staff being just as important as clients and pursue the mentoring and development of your staff with the same passion and survival instinct that you have for providing great service to your clients and bringing in business.

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