CoachingConcepts | The newsletter of ConvergenceCoaching

Ensuring Firm Sustainability With Succession

Issue 34 | Spring 2015

Season's Change and So Must We!

I love this time of year as spring gives way into summer – growth season! For me, this is peak season for outdoor running (I'm training for my first marathon, September 20!), gardening, homemade salsa, family time and also time driving change as we "tour" the country catching up with our many clients and friends. Awesome!

The change of seasons reminds me of the inevitable changes occurring within firms today. **As you manage the move toward retirement for your Baby Boomer leaders and the rise in power of the very different Millennials, you'll have to shift your approach to managing almost every aspect of work.** The needs and wants of these two market giants dramatically impact the way firms manage both clients and the firms themselves.

That's why **we've focused this issue of Coaching Concepts on the changes needed to address succession and ensure that your firm remains independent long range**. In **Leadership Lessons**, we'll explore seven stewardship strategies to ensure your firm's sustainability over time. In **Practice Perspectives**, we'll explore four key elements in which to plan transition for any key resource leaving the firm. And, in **New News**, we'll update you on the latest from our firm, clients and the market, too.

Change isn't easy – but if you want something bad enough, you'll dig in and make it happen. *Is the sustainability of your firm important enough?* If so, drive change to better engage your Millennials, empower your Generation Xers and plan for a future without your firm's most experienced leaders. The time to act is now!

Hopefully,

Jen

P.S. Please take 15 minutes to participate in our **2015 Anytime, Anywhere Work Survey** on the adoption of anytime, anywhere work practices by public accounting firms. One response per firm is allowed and you can access the survey here: **https://www.surveymonkey.com/s/ATAWW15**.

Seven Stewardship Strategies for Ensuring Firm Sustainability

The market has moved – and fast – and firms that are slow to respond risk being forced to merge in order to monetize. The funny thing is, the main thing that keeps firm leaders from taking the strategic steps needed to remain independent – an unwillingness to change and to submit to authority – are the very things your partners will experience if you sell your firm. We like to say: **"you can change now in small ways that you choose and prioritize, or you can change ALL AT ONCE in ways that your acquirer will dictate." Which is your choice?**

If your leadership team has committed to pass your firm on to the next generation – to leave a legacy and remain independent – then you'll need to actively implement a series of change initiatives to drive long-term sustainability. In this article, **we'll identify what we believe are the most important stewardship strategies to prioritize and make happen.** Then, in **Practice Perspectives**, we'll explore the various elements of practice transition to plan for as you prepare for partners to leave your practice in the coming years.

To ensure that your firm is sustainable long-term:

- **Develop and communicate a compelling mission and vision.** Your team members, but most especially your Millennials (those born from 1982-2000), want to know that the work they do makes a difference. They want to understand the context of their work in relation to the greater whole. In addition, most want to know where their organization is headed and what objectives their leadership are striving toward.
    - **Be sure you have developed and communicated a compelling mission – or reason for being –and that you have a five-year vision for where you're headed with the firm.** If you have not developed, updated or communicated these strategic planning elements for a while, it is definitely time to update them. And, when you do, please include members of the next generation – seniors and managers – in the planning process to garner their input and give them a sense of ownership and engagement in the future of the firm. For more information on developing your firm's vision, see "**Does Your Firm Have a Vision for Its Future?**".
- **Involve your closest up-and-comers in leadership NOW.** Look hard at the composition of your firm's governance structures and be sure future leaders are leading now, not later. Add them to your firm's Executive Committee, Compensation Committee and/or as Service Line and Industry Leaders, now, while there are mature partners around to provide coaching and counsel. **Engage the next generation by giving them the reigns and allowing them to guide the firm to the**

place they most want to be – because the more mature leaders in the firm won't necessarily be there to reap the benefits from, or pay the consequences of, the decisions made today. When there are disputes about strategic direction or major changes you should make, defer to the younger leaders whenever possible. ***For many mature leaders, it's simply time to begin letting go.***

- **Honestly assess your deferred compensation (or buy/sell).** Many firms in this country have a buy/sell or payout strategy for retirees that is too rich for the next generation to sustain. Your future leaders have to believe that when they buy into your firm as partners, they will see a meaningful return on their buy-in investment. For many firms, several partners will be leaving within a similar "band" of time, say 7-10 years, and the cost of their buy-outs or deferred compensation payments, together with accelerating space and salary costs, may cause future owners to take a big step backward in net income per partner as compared to current partner earnings. **Be sure you have honestly modeled your firm's buy-in and buy-out dollars over the next 15 years and make sure your estimated growth percentages for top line revenue growth remain conservative (no double-digit growth estimates over ten years, which isn't accounting for inevitable economic fluctuation nor projected staffing shortages).** Invite younger leaders to review the model, ask questions and give honest feedback about any changes they would like to see to address the objections and needs of these important buyers.

- **Update your partnership agreement.** Many firms are operating under an outdated partnership agreement. As you bring new "buyers" (partners) into the firm, **the more-literal, ROI-focused next generation expect the firm's governance and buy-sell agreements to reflect actual practice (and they're going to want to be certain that those practices are leading-edge, not "old school").** This means updating your operating documents which can take one to two years to research, draft, come to agreement around and then finally get signed. **Start today and be sure you've considered these frequently outdated sustainability elements:**

    - **Buy/sell or deferred compensation methods** – see our prior discussion of this to determine whether your current methods for calculating buyouts will work or not. And, because so many firms tie their buyout or deferred compensation payouts to a multiple of compensation (the **2014 Rosenberg Benchmark Survey** says that this method is the industry standard for all size firms), be sure that your buyout method does not cause retirees to delay transition! If compensation is calculated based on collections, book of business or other production-based methods, and your deferred compensation or buyout is based on a multiple of the average of the last 3 or last 5 year's compensation, you can bet that partners will not begin transition in earnest until they have clinched their needed retirement income. Instead, consider "freezing" the buyout calculation two to three years from the expected or mandatory retirement age (whichever is applicable) and then begin compensating the retiree on transition-related measures <u>not production related measures thereafter</u>.

    - **Mandatory retirement** – be sure you have a mandatory retirement age in place for retirees, so that you can open up seats at the partner table for the next generation and help those for whom it is time to go plan an orderly transition. Consider adding a clause that allows for the <u>potential</u> for the retiree to sell services back to the firm at the Executive Committee's discretion (annually reviewed and renewed). Ensure that the retiree's capital transition is complete at the agreed upon retirement age (the current "gold standard" for mandatory retirement per the **2014 Inside Public Accounting National Benchmark Report** is age 65).

    - **Put boundaries around early retirement**. Most firms find it important to have a ***minimum*** retirement age, too, to avoid key partners going too soon or all at once. These firms put a financial penalty in place in their deferred compensation or buy-sell for those that retire before a certain age (and perhaps years of service).

  - **Notice periods** – some firms have no formal notice period for partners and this can leave the firm in a lurch if a partner suddenly chooses to retire or terminate their employment without enough notice to assure successful transition. Be sure you have at least one-year's notice, ideally two so you have two seasons to transition, for partners and that there are financial penalties for those who do not supply the proper notice.
  - **Client retention clawback** – many firms do not have a provision to incent a retiree to cause client transition and retention, so partners hold on to their clients far too long and they don't position their successor as "better than they are" in the minds of clients. Avoid this by tying the buyout or deferred compensation payout to client retention and instituting a penalty for more than a certain percentage of clients lost.

- **Prune the tree.** Maximize the health of your firm as you transition it and commit to resolve long-time partner performance and personnel matters. **Most firm leaders have put off handling thorny people issues but this simply isn't fair to the next generation and it may be THE reason your best future leaders don't want to take over the firm.** Insist on changed behavior and performance or help those people leave the firm. In addition, **review low-realization service lines and clients** and begin moving them to better financial performance (or out of the business altogether). While these decisions are always tough, they will put the firm and its future leaders in a better position for long-term health and enable your next generation to meet the forthcoming buyout obligations.

- **Develop your future leaders.** Develop leadership and management skills at all levels of your firm – so that your future partners have a strong base of leaders from which to leverage. Teach practice economics early and often to be sure that your people understand the levers that will cause success. Take your people along on shadowing opportunities so they can see you and other experienced partners in action. Identify future technical and industry leaders and begin active knowledge transfer today. **Invest in "compressed" development programs like our Transformational Leadership Program to drive growth quickly and prepare your people to lead the firm to its future success.** For more people development ideas, see our newsletters, "**Focus On Your Rising Stars**" and "**Experiential Learning in the Succession and Development Process**."

- **Plan for transitions NOW.** Transitioning clients, referral sources, and internal mentoring, operations and leadership responsibilities takes time and thoughtful strategy, too. **It takes time to identify the right people to transition to and to consider the "ripple" effect that transition will have on all levels within your firm.** For more information on transition best practices, read the **Practice Perspectives** article in this newsletter.

The market will drive you to make these changes – whether you lead them, or you comply with them when they are thrust upon you in an upward merger. Choose one area and begin working on it first. While the list may feel a bit overwhelming, remember: you don't have to address all of these things at once when it is still your firm.

Choose your priorities. Involve your future leaders. And, in the end, **be a faithful steward of your firm's future sustainability.**

For additional information on preparing your firm for future transition, contact Jennifer Wilson at jen@convergencecoaching.com or (402) 933-2900.

Succession Planning Is All About Transitioning

In our **Leadership Lessons** article, we explored the various elements your firm leaders need to contemplate to ensure your firm's future. In this Practice Perspectives article, we will discuss the elements of your practice that require transition – and it's more than clients!

When planning a partner's retirement, your future leaders want to understand the impact to the firm, the plan to address the gaps caused by the retirement in areas such as specialty expertise, business development capability or other key roles, and how clients will be transitioned successfully. **Identifying the gaps that will be left by a retiring partner, or other key leaders, will help you plan for the inevitable succession domino effect that can impact team members at every level.** As new leaders take on new responsibilities, they need to delegate some of their current responsibilities to others. Planning for this transition is critical, including developing your future leaders and ensuring that they are prepared to fill the gaps and take on new responsibilities. For ideas on developing your leaders, read ***You Need Capable Successors for a Seamless Transition*****.**

Proactively Plan Transition

When succession planning, most firm leaders focus primarily on transitioning clients. Partner roles are much more than managing your client relationships and engagements. **A successful transition plan evaluates the entire role and all of the responsibilities, relationships, and knowledge a partner needs to hand off to someone else in the firm to minimize the gap left when that partner exits the firm.**

To begin, two years prior to the planned retirement date, the retiring partner or key leader should document all critical areas that they are responsible for, in addition to the necessary delegation that will be required to create capacity to take on client relationships, new responsibilities or specialty knowledge or skills. A partner (often the Managing Partner) should be assigned to partner with the retiring partner or key leader to review and facilitate the transition over the two-year timeline. Our **Succession Checklist** can help you get started and facilitate the discussions necessary to ensure you've identified all areas to transition and have a plan and timeline on which each item should transition.

When planning to transition responsibilities, consider the following elements:

1. **Clients** – while client transition is typically the obvious area where most firms focus, it isn't easy to do. Client transition is one area that seems to cause a lot of angst and generate a fair number of

questions, so it requires a thoughtful approach to ensure that at least one other team member has a relationship with each of your clients, is learning about their business and/or personal needs, and is available to answer their questions. And the earlier you introduce an up-and-comer into each of your clients, the better!

When a partner is two years out from retirement, their clients should be downloaded into an Excel spreadsheet and then organized in descending revenue order. You should plan to spend most of your transition time and energy on the top 20% of those clients, ensuring that a successor is identified and brought to meetings where they listen first and begin to build the relationship and then by the third meeting the successor should be leading the meeting and the retiring partner attending in a supporting capacity (or perhaps not present at all and only checking in via email after the meeting to ensure the client's needs are being met).

At the same time, a retiring partner's succession is a perfect time to evaluate which clients may no longer be a fit for the firm or where you have limited capacity to serve the clients. Take this opportunity to transition those clients out of the firm and make a referral to another firm where appropriate. For additional ideas, read ***Answering the Four Most Common Questions About Client Transition***.

2. **Referral sources, alliances, and prospect relationships** – Referral sources and other strategic alliances or business development relationships should be transitioned in a similar manner as clients. **The retiring partner should make a list of ALL relationships and identify the top 20% on which to focus. Often, referral relationships are a similar age to the retiring partner, so the transition may not necessarily be with the individual, but with the organization**. This requires that you identify the successor in the organization and schedule a series of "double dates" where both retiring individuals and their successors attend to begin forging a new relationship that perpetuates the benefits each organization has realized over time.

   Use the **Client-Prospect-Referral Source Transition Tool** to strategically guide a transitioning partner through identifying the clients, prospects and referral sources that need to be reassigned and new relationships forged.

3. **Advisees or mentees in your firm** – Identify the people development responsibilities of the retiring individual. Any direct reports should be reassigned to another Career Manager, ideally at least one year in advance of the pending retirement. This will allow for smooth transition and the opportunity for "informal" coaching or development on specific areas of development while a new Career Manager takes on the more formal processes of goal-setting, performance reviews, and check-in meetings.

   The retiring partner or key leader may have informal mentor relations, too, that should be identified. You may choose not to reassign those relationships, but the leadership team should be aware that they existed and ensure that the employee who was benefiting from the mentor relationship is able to receive support or form another relationship if it makes sense to do so.

4. **Internal firm roles** – The retiring partner or key leader likely has other key roles he or she played in the firm, such as being a member of the Executive Committee, managing the budgeting process, directing the marketing efforts for the firm or acting as a group leader. These responsibilities need to be identified, documented and transitioned to another individual.

5. **Specialty knowledge or experience** – Any specialty knowledge should be identified and planned for. For example, if the retiring partner has been the QC partner or has specialty expertise in an

industry niche (i.e. real estate or financial institutions) or a specialty service (i.e. estate and trust or not-for-profit audits), the retiring partner needs to identify an individual who is being trained in those areas and obtaining any specialty certifications where needed. The leadership team may decide not to continue a specialty area, such as business valuation, if you don't have the resources or that particular service is no longer an area of focus. If that is the case, the client transition plan should include a referral to a new firm that can serve those clients (which may also affect the buyout you negotiate with the retiring partner).

6. **Other areas of responsibility** – Be sure to identify any other miscellaneous responsibilities or activities the retiring partner or key leader may have. **The individual should make a list ALL responsibilities or activities, no matter how trivial, like making the coffee in the morning as the early bird or walking around at 5 o'clock to say good night to employees before they leave, to identify an appropriate successor**.

For other tools and articles that will help you understand the key concepts around succession planning and transition of your managing partner, other partners, or other key leaders within your firm, check out our **Succession and Transition Planning Toolset**. These tools and articles will walk you through the steps that we feel are crucial to successful transition of key personnel within your firm.

If you would like to discuss how ConvergenceCoaching can help you create succession strategies for your firm, contact Tamera Loerzel at 952.226.1780 or **tamera@convergencecoaching.com**.

Best of luck as you apply these ideas to ensure the transition of all important elements for your retirees!

Our Latest News

ConvergenceCoaching, LLC Celebrates 15 Years!

**April 1, 2015 marked the 15th year anniversary since the inception of ConvergenceCoaching, LLC.** We are so grateful for the wonderful client relationships and professional friendships that we've forged and the opportunities we have to help facilitate positive change and true transformation in our daily work. Learn a little more about the members of the ConvergenceCoaching team as they each share their unique perspective in this **honorary blog post** marking the milestone. In it, Partner and Co-Founder Jennifer Wilson shares her vision for the future:

"For the next 15 years and beyond, I pray that we continue to identify opportunities for making a difference by developing leadership and transforming teams. I am so encouraged by the exciting changes taking place in the CPA profession and believe that there are abundant possibilities for firms within it to grow and thrive." 

Partner Tamera Loerzel recalls when "Jen said to me a few months after starting ConvergenceCoaching, *"Jim and I started this business and we have three clients and no health insurance, but you can work from home in your yoga pants – and we're going to build something!" And, we have, and I couldn't be more proud of what we've built while navigating the changes in our market, economy, team and clients. It just keeps getting better and stronger! We get to make a difference every single day to help leaders be the very best they can be."*

Here's to the next 15 years and beyond!

Jennifer Wilson Named 2015 CPA Practice Advisor Thought Leader

In February, Jennifer Wilson attended the fifth annual *CPA Practice Advisor* Thought Leader Symposium where she was recognized as one of the publication's 2015 Thought Leaders. The symposium focused on emerging trends in the profession with insights from various professionals named on the 2015 list. Read a summary of the event and recognition ceremony here: **http://www.cpapracticeadvisor.com/news/12045971/accounting-thought-leaders-look-at-issues-facing-professionals**.

Help Us Welcome Renee Moelders!

**Renee** joins ConvergenceCoaching as a consultant, bringing with her 17+ years of experience having held the position of firm administrator for four different accounting firms around the country. Her exposure to a variety of challenges in day-to-day operations as well as having been instrumental in devising and executing long-term strategy makes her perfectly suited to her consulting role working closely with firm leaders within the ConvergenceCoaching client community. Renee brings us a wonderful background in HR strategy and programs, which will be of great value to our clients and their HR professionals. We are excited to have her on our team for the insight she brings. Read her perspective on leadership in her Convergence Spotlight: **http://www.convergencecoaching.com/convergence-spotlight-renee-moelders/**.

Service Spotlight: ConvergenceCoaching Toolsets

Many of you follow our blog and read our newsletters, where we share practical ideas and best practices you can immediately implement in your firms. You'll be excited to learn that we also offer topical toolsets filled with a wide range of templates, tools and articles related to a particular topic, including:

- **Succession and Transition Planning (NEW)**
- **Marketing and Business Development**
- **Human Resources (NEW)**, including:
  - **Recruiting**
  - **Employee Engagement and Retention**
  - **Performance Management and Learning**
- **Leadership and Communication**

These toolsets are designed to help you identify areas of potential improvement in your firm's practices while offering concrete ideas for the right kind of change.

Client Company Name	Client Contact	Revenue YTD (in descending order)	Priority for Transition (A, B or C)	New Client Owner	Date Told of Transition Plans	Date Transition Completed

For instance, ***Client-Prospect-Referral Source Transition Tool*** found in our new **Succession and Transition Planning** is designed to strategically guide a transitioning partner in identifying the clients, prospects and referrals to be reassigned and new relationships forged as part of transition.

Our toolset guidance suggest that you use this tool and sort your client list in descending revenue order, with the largest clients appearing at the top. Pay attention to whether Pareto's 80/20 rule applies. **Does 80% of your client revenue come from 20% of the clients? If so, plan to spend 80% of your energy ensuring the successful transition of that top 20% of the clients.** More specific guidance on using this tool to support transition can be found in the toolset.

The ***Client-Prospect-Referral Source Transition Tool*** also includes sections for prospects and referral sources for an organized approach to ensuring their transition as well.

To access the **Succession and Transition Planning Toolset**, or any other ConvergenceCoaching toolset, visit **www.convergencelearning.com**.

Participate in These MAP Surveys and Use the Findings to Benchmark Your Firm

INSIDE Public Accounting's Annual Benchmarking Survey and **The Rosenberg MAP Survey** are excellent ways to benchmark your firm's key metrics against your peers and compare management policies, financial results, and other key practice measures.

By participating in the surveys, you will receive a number of benefits and useful information that will allow you to evaluate how your firm compares to others in your geography and with other firms your size.

The INSIDE Public Accounting (IPA) Survey is now available. If your firm did not receive an invitation, contact IPA by visiting their website here.

The Rosenberg Survey is available for input until June 30 by clicking here.

Client Corner

Accounting Today Top 100 Firms
Congratulations to our clients who were named to the ***Accounting Today*** **Top 100 Firms list: BDO USA, Moss Adams LLP, BKD, Eide Bailly LLP, Lattimore, Black, Morgan & Cain, P.C., Horne CPAs and Business Advisors, Burr Pilger Mayer, Inc., Schenck SC, Habif, Arogeti &**

Wynne, LLP, Katz, Sapper & Miller, Berkowitz Pollack Brant, The Bonadio Group, AKT CPAs and Business Consultants, Miller Kaplan Arase, Montgomery Coscia Greilich and Clark Nuber PS.

Perkins & Co., Gelman Rosenberg & Freedman CPAs, Brady, Martz & Associates, P.C., Peterson Sullivan LLP, Green Hasson & Janks LLP, Johnson Lambert LLP, Yount, Hyde & Barbour, PC and **PKF Texas** made ***Accounting Today's*** Beyond the Top 100: Firms to Watch *list. Congratulations!*

Welcome New Clients!
The ConvergenceCoaching team welcomes our new clients to the ConvergenceCoaching circle of friends! Warmest welcome to:

Bauman Associates, Ltd. in Eau Claire, WI
Brady, Martz & Associates, P.C. in Grand Forks, ND
Burr Pilger Mayer, Inc. in San Francisco, CA
Cover & Rossiter, PA in Wilmington, DE
Farkouh, Furman & Faccio, LLP in New York, NY
Gelman Rosenberg & Freedman CPAs in Bethesda, MD
Gift & Associates, LLC CPAs in Lancaster, PA
H.J. Umbaugh & Associates in Mishawaka, IN
Johnson, Stone & Pagano, P.S. in Fircrest, WA
Lavine, Lofgren, Morris & Engelberg, LLP in La Jolla, CA
Lumix CPAs and Advisors in Chevy Chase, MD

We are grateful that you have taken the ConvergenceCoaching leap of faith and look forward to making a difference for your organization!

Upcoming Speaking Events!

The ConvergenceCoaching team will attend and speak at a number of events this summer, including:

June 16-17 – Laramie, WY
Wyoming Society of CPAs Member Retreat
https://www.wyocpa.org/
Presentations:
> Reframe Common Generational Complaints to Breed Success
> Put Your Sphere of Influence to Work For You to Grow Your Organization

June 17-19 – St. Louis, MO
INPACT Americas Partners Forum Spring
http://inpactconference.com/
Presentations:
> Economic Data Survey
> Five Surefire Ways to Grow Your Top Line

June 18-19 – New York, NY
AICPA Emerging Partner Training Forum
http://bit.ly/1AJYtN7

Presentations:
> Making the Transition from Manager to Partner
> Managing Difficult Conversations Successfully

September 24-25 – Overland Park, MO
Kansas Society of CPAs "20 Up to 40" and Emerging Leaders Workshops
http://www.kscpa.org/members/20_up_to_40
Presentations:
> Effective Communication and Meeting Skills
> Reframing Common Generational Complaints
> Four Winning Strategies Every CPA Should Know
> Embracing Social Media to Build Your Sphere of Influence
> Delivering Transformative Feedback to Your Team
> Anytime, Anywhere Work: Moving Away From the Time and Place Paradigm
> Effectively Transitioning Responsibility from One Generation to Another

October 5 – Vancouver, BC
PKF North America 2015 Canadian Partners' Conference
http://www.pkfna.com/

December 7-9 – Las Vegas, NV
2015 Digital CPA Conference
http://bit.ly/1Iba1xg

Take a look at the content and register today! We'd love to see you so let us know if you will be attending any of these events.

To access our catalog with a complete listing of topics for speaking, teaching, and custom in-firm programs, visit **www.convergencecoaching.com/what-we-do/training-development**, and to keep track of updates to our speaking calendar, please visit **www.convergencecoaching.com/events**.

Upcoming Web Seminars

The ConvergenceCoaching team offers web seminars designed to help you develop "soft" skills in a variety of areas while earning continuing professional education (CPE) credit for only $39 per person including CPE credit.

Join us for our upcoming 75-minute web seminars, which will be held at 11:00 a.m. Eastern Time on the following dates:

- **July 20 – Firm Leaders: Reframe Common Generational Complaints to Breed Success**
- **August 11 – Up-and-Coming CPAs: Reframe Common Generational Complaints to Breed Success**

Go to **www.convergencelearning.com** to review the agendas and to register. You can also purchase the recording for any web seminar you've missed for just $39 at

www.convergencecoaching.com/news-and-events/recorded-webinars.

Connect With ConvergenceCoaching in Social Media

If you haven't connected with us on social media platforms, click on any of the following icons to be directed to our sites!

Facebook

LinkedIn

Jennifer Wilson's Twitter

Tamera Loerzel's Twitter

Google Plus

Inspired Ideas Blog

Spread the Word!

If you know someone who would benefit from receiving their own copy of our Coaching Concepts e-newsletters along with invitations to our web seminars and other events, e-mail their information to us at **info@convergencecoaching.com**.