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## Succession Planning Grows Increasingly Crucial As Aging Baby Boomer Partners Contemplate Retirement

(March 2005) — As Baby Boomer leadership at the nation's accounting firms ages and prepares for retirement over the next decade, succession issues loom over many accounting firms like an intimidating tidal wave. Almost 32% of firms responding to *IPA*'s 2004 benchmarking survey report that the average age of their partners is over 50, yet most of those firms don't have written succession plans.

How will your firm protect itself, or at least navigate the direction it's pulled to? Firms must plan not only to transition their top executives: they also must plan to transition other firm leaders with crucial responsibilities, such as client relationships, niche leadership and department leadership.

As firms face these transition issues, they have three choices, says consultant Bob Gallagher of Pittsburgh: develop the next generation to ensure continuity of the existing firm; merge with another firm and benefit from the resulting critical mass; or sell the firm and retire.

As your firm wrestles with its own transition issues, identify the mission of each partner, Gallagher advised attendees at Management Summit 2005 in Las Vegas. Understanding where each partner wants to go will point you in a direction for your firm's succession strategy, he said.

One key question for partners to address: Do you want to continue as an independent accounting firm? Firms increasingly are opting to merge upstream, Gallagher noted.

Other questions to ask:

- *Are your partners operating as a team or as independent silos earning essentially what they produce?*
- *What is the average age of your partners?* Ideally, your partnership should have an average age of 45 to 50. It may take too long to transition new and complex duties to a 55-year-old successor.
- *How good is your second team?* It's tough to find experienced staff who can serve as potential successors, Gallagher noted.
- *What's the firm's annual staff turnover over the past four years?* If it's higher than 12% or 13%, find out why such a large number of employees don't want to work at your firm.
- *How many partners have left the firm during the past five years for reasons other than retirement?* Partner unity is one of the most crucial ingredients for a firm's continuity.
- *What value will a partner receive when he or she sells their interest?*
- *How will one be compensated during the succession term, for example, during the last two years?*
- *What is the expected retirement date for each partner?*
- *Who will be the next managing partner?*
- *What is the firm's partner admission/selection criteria policy?*
- *Who will be the new partners during the next five years?*
- *What is our retirement policy?*

Step-By-Step Plan  
Helps To Ensure  
Smooth Transition

Gallagher recommends that firms wishing to remain independent require partners to give at least three years written notice before retiring to ensure the firm has time to transition the retiring partner's responsibilities effectively. Impose a significant penalty on partners for leaving early without giving the firm time to transition duties effectively.

A successful practice succession plan should address a process for choosing a successor, a personal development plan for the successor, the successor's leadership development plan, a plan for succession within the organization, and evolving leadership roles within the firm. Consider everybody who will be affected by the retiring partner's departure: clients, the successor, the firm and its staff, the remaining partners, and the retiring partner.

During the first year after giving three-year notice, the retiring partner should complete a plan for how the firm will retain his or her clients. The firm should also choose the retiring partner's successor and begin introducing the successor to clients.

The following year, the retiring partner should provide a complete briefing to the successor of each client's background and needs. The successor should handle day-to-day communications with the client from that point. The firm and the retiring partner should solicit regular client feedback on the successor's performance. They also should review client feedback and other performance measures with the successor.

During the last year of the retiring partner's work life, the successor should handle all aspects of the client relationship, while the retiring partner takes a supervisory role. Be sure a client appreciation and retirement party is held for the retiring partner. The retiring partner and the successor should also write a joint letter to clients explaining the transition of duties. ■

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