

Passing the Baton: Building a Logical Professional Practice Transition Strategy

As many professional service firms emerge from the turbulent economic environment of the past few years, they find themselves with an ownership group that continues to age and mounting concerns on how the enterprise will find the continuity to survive and prosper into the future. Succession planning in many law firms has given way to what is now referred to as exit planning, whereby practitioners are concerned more with how they can make an acceptable exit from an established and relatively vibrant professional practice, as opposed to building and executing a blue print for an efficient succession of ownership and leadership.

While some practitioners have essentially decided to effectively continue working until they make a reasonable exit and then “turn out the lights”, others I work with are actively looking at ways to build a viable brand within those they have embraced as tomorrow’s leaders as a means to enhance the continuity of the practice. There are many financial implications of moving in this direction and this article will explore the lessons learned from an initiative we have undertaken to enhance our firm’s ability to build a logical and acceptable pathway both for those we refer to as the First in Line (FILs) individuals and those we view as the Next Generation (Next Gens).

A bit of background is in order. I am almost 58 years old and have been practicing as Certified Public Accountant for over 30 years. I have one other equity partner who is 54. The two of us are the founders and FILs of our firm. We recently promoted a CPA who has been with the firm for over 14 years and is 44 to be what we call an income partner, similar to the two tier model many law firms have utilized for some time where an income partner has the status of a partner to the outside world and in many internal aspects, but does not enjoy certain rights, privileges and burdens of an equity partner, including entitlements to equity upon departure or retirement. It is these entitlements that are at issue in the context of this article, in that in order for an equity partner to realize value for their equity upon an exit event, they must find ways to create value for those that will follow behind and the next generation of practice leaders.

Our firm has 12 professionals focusing on traditional CPA services, including tax planning and compliance and financial reporting. We have also built a very vibrant litigation support practice emphasizing business valuation, economic damages and financial forensics, where I am regularly engaged to testify as an expert witness in business and intellectual appraisal, economic damages and financial forensics. The FILs also do a fair amount of management consulting for professional service firms, leveraging off of our collective experience, including my service as a legal administrator for a 50 attorney Denver based law firm in the 1980s prior to establishing our practice. For purposes of what I will outline below, I would compare the traditional side of our practice to a procedural oriented law practice, such as an estate planning practice versus the expert witness and consulting side of our house being more like a litigation practice in a law firm. Another way to distinguish between the two sides of our practice is that the former tends to be more focused on clientele that can be “institutionalized” with a flow of recurring work opportunities, generally speaking, as compared to the litigation and consulting work which is very dependent on the professional goodwill and reputation we have individually established over many years of dedicated service, positioning and marketing savvy.

A few years ago, I personally began to evaluate alternatives for how I might eventually retire or at least begin to “phase down” over a period of time once I reached roughly 60 years of age. It became obvious that the traditional side of my practice would be much easier to transition either internally to my current partners or to others internally that had not yet been identified, or by way of a sale of those clients externally to another established practitioner or firm. At the same time, it was painfully obvious that the more lucrative and frankly, more rewarding, expert witness and consulting work would be very difficult to transition in terms of continuity of work opportunities for others and an economic return to me for positioning such recurring work. I was told by some that it was next to impossible to achieve any significant traction with respect to transitioning clients that were primarily motivated to hire me and my firm because of my individual reputation and professional goodwill.

I have devoted the last 2 years to a number of tactics that I believe are showing immense promise toward achieving my overall goals of winding down a bit in the next couple years, while continuing to realize a robust and

growing flow of work opportunities from both sides of my practice. A large part of the equation has been focused on what I call professional branding tactics. After all, it is the personal and professional brand that people associate with in terms of the reliability and proven results they have experienced in using me and my firm to serve their needs in the past. The key element of our success is in the branding we have done with both the firm as an institution and with the New Gens within it.

Our income partner is my primary Next Gen and someone that has all the technical skills and capabilities to sit in my chair and provide the same results to our clients in most every corner I have had success in over the past 3 decades. The primary gap is in her building her own brand by being more visible within the niches we serve and in her experience as a testifying expert. In fact, due to a conscious and continuing effort between her and me, most of my best clients know they can always count on her to get them rolling on whatever their needs are when I am out or unavailable. We have invested significant time in meeting with key clients and referral sources together, when only one of us could easily handle the specific need at hand.

Just like most private practice law firms, if someone is not continually selling the work and bringing it in, the rest of the fine talent and capabilities of the enterprise become moot. Rainmaking is king in our profession, no different than in law firms. Maintaining relationships is also very important, especially in today's ever challenging and competitive environment where no one should take their long standing client relationships for granted. Our focus now is on the rainmaking side, as the client maintenance aspects appear to be hitting on all cylinders.

In January 2011, four other CPA firms from around the country, with a makeup similar to ours, (an obvious FIL and Next Gen from each of the five total firms including ours), came together for a one day facilitated retreat to pull together our respective game plans to build a practice transition framework that has been embraced by each team of two attending. We did some serious advance preparation and soul searching and it has paid dividends already for each of the participating firms. In the final analysis, it was agreed by all 10 participants that the core element that will make each teams commitment successful was a pathway to allow the Next Gen in each firm to build their own brand. This obviously requires the full support from

their respective FIL which, in turn, will allow them the best opportunity to make rain by bringing in the recurring work opportunities of their own. It is this element that is at the core of the overall strategy and must occur for the firm to prosper and grow into the future after the FIL begins to taper off on rainmaking endeavors.

An important point that everyone attending this summit had reinforced is that many of the client and referral relationships we have relied on over our careers are associated with an aging population and that reason alone is sufficient to inspire the younger talent in any professional service firm to seek out key client decision makers in their age strata. We are finding many of our clients also have a generation of Next Gens who are gaining a bigger voice in who their firms choose to work with and in many instances these individuals desire to associate with capable professionals within the firms they call upon for support that are closer to their age. Another way to say this is to accept the reality that many of the business owners, bankers and professional advisors I have relied on for work over my career are also beginning to make their exits, some planned and some not, but regardless, they can no longer be relied on to provide the same flow of work opportunities into the future that I have benefited from over the past many years!

Specific tactics that we are employing include seeking appropriate opportunities to author articles and make presentations as a means to build stature as a thought leader, create visibility and to refine speaking skills. One particular tactic is to have the Next Gen actively contact clients whenever I would have otherwise needed to contact them for a valid reason indicating they are filling in for me and want to address the issue so between us we can give the client prompt, responsive service. It is always noted that I am available for follow up as necessary, but this tactic alone offers a great way to position the client to know and trust the Next Gen as someone who is trusted by me sufficiently for them to have confidence in prospectively.

As an example of one tactic that we believe is a significant step, some of the Next Gens from our January 2011 summit attended a nationally recognized expert witness skills workshop produced by the American Institute of Certified Public Accountants to further enhance their growing ability to act as testifying experts. With this step in place, we are always on the look out

for suitable situations for them to take on smaller or less complex litigation issues on their pathway to building a continuing brand that has one or more individuals who are competent and comfortable serving as an expert witness. At the same time, we are finding that many of the younger litigators in our marketplace who appear to be emerging as practice leaders are folks that can originate work opportunities that require the types of support we can provide and a growing number of these individuals are more comfortable working directly with my Next Gen, primarily due to her growing confidence and abilities, but also due to the process we have employed to build confidence and trust within those relationships. In my instance the Next Gen offers a less expensive alternative than my involvement and that can resonate in selected instances in this marketplace as well, as a means to sell capabilities of your Next Gen as an alternative provider.

Within our own firm, we still have much work to do, but we are now firmly convinced we have a workable plan that both of us have committed to and are willing to invest some of our own skin into to make happen. It is a process that will continue to evolve as we go forward and has a long time line to play itself out, but with a dedicated effort by both parties it appears to be a solid win-win arrangement both economically and from a professional fulfillment standpoint.

For law firms with an aging ownership, I would encourage you to do what is necessary to get your elephants up on the table and deal with the realities of your particular situation. If you have promising associates, who have a desire to carry on with the practice whenever you are no longer bringing the work in the door at the same pace as you have, consider the use of a qualified facilitator to have the difficult conversations that I find can often be the key constraint to moving this process along to the needed next steps or in determining that other alternatives are appropriate for your particular exit strategy. Ask yourself honestly, “what is my exit plan?” and then take action while you have time to do so!

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Passing the Baton: Brand Building and the Need for a Shared Sacrifice

In part one of this article, I discussed the tactics necessary to pass the baton to the next generation as a means to build continuity within a professional practice. A large number of professional service firms, and closely held business generally for that matter, are continuing to sort out the impact of the Great Recession, as it has now been labeled, on their ability to implement a strategy which will allow for a successful exit of an aging ownership group. In many instances, the current ownership group are the entrepreneurial founders of the enterprise and the primary individuals responsible for bringing a continuing flow of appropriate work opportunities in the door. As these firms emerge from today's evolving and turbulent economic environment of the past few years, they find themselves with an ownership group that continues to age and with mounting concerns on how the enterprise will find a workable pathway to survive and prosper into the future. Succession planning in many professional service firms has given way to what is now referred to as exit planning, whereby practitioners are concerned more with how they can make an acceptable exit from their practice, as opposed to building and executing a blue print for an efficient succession of ownership and leadership.

While some CPA practitioners I collaborate with within the FVS space have essentially decided to effectively continue working until they can no longer handle the demands of their professional practice and then simply find a way to "turn out the lights", assuming they do not die or suffer a significant disabling event without time to plan, others I work with are actively looking at ways to build a viable brand within those they have embraced as tomorrow's leaders as a means to enhance the continuity of the practice. There are many financial implications of moving in this direction and this article will build on the points outlined in part one of this two part article. Part one, *Passing the Baton: Building a Logical Professional Practice Transition Strategy*, explored the lessons learned from an initiative we have undertaken to enhance our firm's ability to build a logical and acceptable pathway both for those we refer to as the First in Line (FILs) individuals and those we view as the Next Generation (Next Gens).

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partner who is 54. The two of us are the founders and FILs of our firm. We recently promoted a CPA who has been with the firm for over 14 years and is 44 to be what we call an income partner, similar to the two tier model many law firms have utilized for some time where an income partner has the status of a partner to the outside world and in many internal aspects, but does not enjoy certain rights, privileges and burdens of an equity partner, including entitlements to equity upon departure or retirement. It is these entitlements that are at issue in the context of this two part article, in that in order for an equity partner to realize any significant value for their equity upon an exit event, they must find ways to create value for those that will follow behind and the next generation of practice leaders.

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Let's focus on specific brand building tactics that can be employed to keep sufficient and acceptable work opportunities coming through the door, long after the FILs are no longer driving the bus. A key attribute for us is that I have been fortunate to develop a solid reputation as a testifying expert witness which itself is a key element of my ability to bring the types of work opportunities in the door that I enjoy being challenged by. My reputation in this side of our FVS practice has resulted in a certain awareness of my success and capabilities to defend our work and our opinions in litigation related settings and this, in turn, has resulted in recurring opportunities from a group of litigators and even judges in some instances, where the expert witness skill set is as or more important than the technical skills required to construct the opinions themselves, or at least that is part of the perception. My Next Gen excels at the technical side of our work, but to date, it has been all me in defending our work in litigation settings.

We both fully realize the constraints this causes as we continue to market and grow our practice in corners that can or may require expert witness representation. In response, we have focused a portion of our current efforts on building both competence and confidence in the ability of the Next Gen to be positioned to take on matters where she will likely be the one to defend the work as the testifying expert. Obviously, most attorneys would rather have the experienced known commodity as their testifying expert, all else being equal, but when cost becomes an issue, there are instances where a less experienced, but talented professional, can serve the need in a fashion that is acceptable to all involved. For those reading this, that do a fair amount of expert witness work, you know how boxed in we can get when a number of pending matters compete for our attention and we have to pass on attractive projects due to calendar constraints. Our firm is very focused on this issue, with the expert witness training outlined in part one as a key element of our brand building in this particular aspect of our diverse practice.

We also have focused growing attention on building the curriculum vitae (CV) of our Next Gen, but encouraging and supporting the types of things that do not necessarily have a direct impact on the economic success of our practice, but are more associated with building the brand for the continuum. Seeking out appropriate opportunities to enhance ones reputation through speaking and writing engagements, together with volunteer service at state and national levels within the FVS community has been a key element in our strategy to round out a CV that is attractive to consumers of our expertise.

My Next Gen has the technical ability to do most everything I am capable of doing and in some instances, is better equipped due to more current training and awareness of empirical evidence or issues that we, as a team, are continually challenged to keep pace with.

Within our own small multi dimensional practice, we still have a lot of work to do to make our plan successful, but we are now ever more convinced we have a workable plan that both the FILS and Next Gens have embraced and we each are fully committed to and are willing to invest some of our own skin into the game to make happen. Our particular plan is indeed a process that we all recognize will continue to evolve as we go forward and has a long time line to play itself out, but with a dedicated effort by all involved, it appears to be a solid win-win arrangement both economically and from a professional fulfillment standpoint. A critical issue in making this all work in a fashion that is truly win-win is to recognize the shared sacrifice that is needed between the FILs and the Next Gens in terms of the time commitment necessary to undertake appropriate volunteer service opportunities, to research and prepare presentations and articles, such as this one here, as a prime example. Dealing head on with the need for this shared sacrifice is often a key constraint in whether or not there can be a meeting of the minds between generations to get it done.

For FVS practice units with an aging ownership, I would encourage you to do what is necessary to get your elephants up on the table and deal with the realities of your particular situation. If you have promising associates and junior partners, who have a desire to carry on with the practice whenever you are no longer bringing the work in the door at the same pace as you have, consider the use of a qualified facilitator to have the difficult conversations that I find can often be the key constraint to moving this process along to the needed action steps, or in determining that other alternatives beyond an organically based internal succession plan are appropriate for your particular exit pathway. Ask yourself honestly, what is my exit plan and then take action while you have time to do so!

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