

Transitioning Managing Partners

By Tim Bartz, Director, Upstream Academy

Firm growth over the past 20 years has been amazing, creating a number of substantial, closely-held businesses requiring strong leadership and direction. As firms have grown, the role of managing partner has become increasingly important to the success and continuity of the firm. With many more managing partners reaching retirement age over the next decade, we'll certainly see a commensurate increase in firm leadership transitions.

What Challenges Do Firms Face?

The challenge facing every firm is whether the next generation of leaders is prepared to lead the firm through the maze of issues that confronts all businesses. Leadership transitions in professional services firms bring special challenges, since partners have spent the



majority of their careers focused on client service and technical development rather than on gaining leadership and management skills.

Managing a CPA firm brings with it the unique challenge of dealing with a number of Type A personality partners who likely have at least as much or more seniority in the firm than the individual currently serving as managing partner. In addition, most business leaders don't have to deal with the challenge of watching the organization's most valuable assets—those who possess the keys to the firm's continued success—walk out the door each night.

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Leadership of CPA firms has become more sophisticated over the years due to an improved understanding of firm profitability metrics, strong associations, and the development of technology that can capture key data. These factors, along with the writings of such great thinkers as Peter Drucker, Jim Collins, Patrick Lencioni and David Maister, all point to the need for more knowledgeable and talented leaders.

Process or Event?

In the midst of all these positive changes, smaller and medium size firms are finding themselves at a unique crossroads. Strong leaders are beginning to retire and firms are faced with replacing these almost iconic individuals. But in many firms, there's no process in place to deal with this inevitable change. Many partners are treating this change as an event, with the hope they will only have to go through it once in their career and then someone else can deal with the challenges.

If firms are going to deal effectively with these changes in leadership, executive committees and boards must put processes in place that will take the emotion out of transitions and create a strong model for leadership succession. Here are my recommendations.

Do You Have Good Governance Documents?

First, firms need to have well-written governance documents that describe the responsibilities and authority of their key leadership positions. These documents help all partners understand who can and should be making operational decisions. The roles of the

board/executive committee, managing partner/CEO, and other positions such as technical directors/department heads and partners in charge of offices must be clearly explained. The position descriptions should acknowledge the time required to fulfill these roles and recognize partners almost always perform dual roles, providing both client service and leadership for the firm.



Do You Have a Good MP Review Process?

Secondly, there should be a clearly defined managing partner review process that occurs annually, along with one or two interim check-ups during the course of the year to ensure the individual is on track and meeting expectations. Upstream Academy has developed a review process that provides a system for evaluating managing partners in the following six key areas of performance:

- Financial Performance
- Client Management
- Business Development
- Leadership Development

- Personal Effectiveness
- Leadership

The managing partner is responsible for the overall performance of the firm and should be evaluated according to how s/he has helped the firm perform, not based on personal client service statistics. For example, while it's great to have a managing partner who is also an outstanding rain-maker, s/he is not doing the job if the firm doesn't have a strong business development culture in place or under development.



What About the Partner Evaluation Process?

Third, the firm must implement a meaningful partner review process that ensures each partner is challenged and held accountable to a defined set of objectives each year. The criteria for measuring partner performance are very similar to those used for managing partners, but the focus is on the individual's role in her/his area of practice. Here are the key areas:

- Financial Performance
- Client Management
- Business Development
- Team Development
- Personal Effectiveness
- Leadership

How Does Compensation Play a Role?

Fourth, the firm must have a well-documented partner compensation process. In small and medium sized firms, the managing partner is often held to the same compensation criteria as everyone else. I find that amazing; how can we possibly believe that a managing partner can focus on leading the firm if we're paying her/him based on individual client and performance statistics?

The compensation system for production partners should be different from that of the managing partner. I'm not a proponent of largely objective compensation systems because partners can manipulate the numbers to their benefit. I'm also not strong on the idea of large portions of the compensation pool being dispensed based on ownership percentage or longevity; too many partners have retired in place under these systems. Compensation systems should be largely discretionary and based upon individual partner performance objectives. The system must be clearly documented and ultimately be perceived as fair by the ownership group.

What About Leadership Training?

Finally, a leadership training program needs to be developed that helps partners get beyond their client service roles and hone their



leadership skills. There are a number of outside programs that can help partners better understand the business of public accounting and human resource management. All partners should be required to participate in these programs. Those who have a passion for these disciplines will surface and should become the leaders in firm operations.

How Do You Know the Transition Is Successful?

Once all of these processes are in place, firm leaders need to evaluate their current reality. Certainly there are a number of possible scenarios. If a firm has already made a leadership transition, determine how it's going by examining reality through the lens of each of the processes I described above. For example, is the managing partner performing her/his duties in concert with the position description for the managing partner? Is the executive committee or board performing its role appropriately? What are the strengths and weaknesses that show up in the managing partner's review process? Is this person performing in an acceptable fashion? Does he or she need some special coaching/training to develop or hone key skills?

If it isn't going well, do something about it. It's your business as an owner to protect the firm and help it thrive. Ask yourself and your partners what didn't work in the first transition, use the new processes to select the next leader, and move on.

If your firm is facing an imminent transition, ensure the processes outlined above are in place before you select the next leader. It will be easier for the outgoing managing partner to enable the transition by dealing with organizational shortfalls before s/he leaves than it will be for the new person to create change at the start of her/his tenure. Make it a requirement for the existing managing partner to focus attention on the transition before leaving the role and institute penalties for lack of attention to this matter.

If the transition is years out, don't settle in for a nap. You've got time to prepare; use the time wisely. If you do, you'll be much further ahead when the time for change comes.

Transitions in leadership are inevitable. If firms have properly prepared for these transitions by implementing effective processes, leadership changes will largely be non-events. Non-event transitions occur when the organization is larger than the individual in charge. Jim Collins calls it Level 5 leadership and it happens when an individual "builds enduring greatness through a paradoxical blend of personal humility and professional will." Make it happen in your firm.

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