

Moving from the Success to Continuation Mode of Operation

By Bill Reeb, CPA

Here is a summary of issues they raised as to why the case study firm of Cingoranelli and Reeb (CR) is not set up to move from the *Success* to the *Continuation* mode of operations:

- Governance – CR has established power in people, not in positions.
- People Development – CR doesn't develop successors; they don't develop people to close skills gaps; they operate on the principle of the cream rising to the top with the rest of the staff being deemed marginal. CR has more emphasis in owners making themselves better, faster and stronger than in rewarding people for the development of those who report to them.
- Interchangeability – CR doesn't develop jobs/roles so that it is easy for new people to fill vacancies. The organization is built to leverage the specific skills and talents of the existing key people (with the firm constantly being optimized for near-term efficiency rather than long term effectiveness).
- Accountability – CR doesn't establish many rules or hold people accountable because systems and processes are developed to reward the hunters for their versatility and are therefore made to be flexible and bend so the hunters are not restricted in any way.
- Compensation – The plan is not developed to change with strategy, but rather to reward the hunters for current and past personal achievement, with a heavy emphasis on continual payment for past efforts.

We then discussed a few additional general points about crossing the chasm between the two modes with the workshop participants. These points included the following thoughts:

- It is common for retiring founding fathers to leave a cadre of partners at various stages of capability with voting rights misappropriated – that is, placed in the wrong hands to assure a successful future.
- Similarly, the remaining partners often have a variety of talent gaps too large to overcome easily -- if at all -- to successfully assume full leadership of the firm.
- The failure in successful transition to the next generation isn't nearly as much about the inability of the incoming leaders as much as it is about the processes, systems, and governance to which this leadership group accedes.
- Organizations customized to leverage the specific individual talents and control of the departing founding fathers are not positioned to continue, but rather to sell.

At this point, the discussion at the workshop shifted to the question, "Given everything CR needs to do, what are the first steps you would take to try to address their situation?" This normally involves dealing with governance issues and the way equity interests are distributed among, and held by, the owners.

Governance

First, we would recommend working on governance. In this step, you are identifying roles, responsibilities, limitations and powers of key roles and decision making groups within the firm (this should come as no surprise to those who have been reading my columns for a while). The objective of the governance system and related infrastructure is to allow people to function effectively as a business by working within their roles which

hopefully supports a greater likelihood of making more good decisions than poor ones pertaining to the firm's long-term success.

Owners' Equity Interests

The next step would be to look at ownership to make sure that the firm is not sloppily leaving too much voting power in the hands of the wrong people remaining at the firm. In other words, a firm should be controlled by those who truly are the most skilled to lead. To ensure that this doesn't happen, we often have to go through a process to thoughtfully reallocate future ownership interests. This is often required any time a large block of ownership is about to transition to the remaining partners (5 percent rarely triggers this, but 30 percent or more usually does, from our perspective). With this much stock or ownership interest about to change hands, it is common that a few people will inherit a powerful voting situation, either with enough votes to drive the firm, or more commonly, creating a negative voting block to constantly put the firm in a stalemate position where nobody can make a move. This is far more tolerable if that voting block is held by your best leaders. But often, without some thoughtful reallocation process, those partners that are not considered the "future of the firm" will end up with these large blocks of ownership.

This reallocation of ownership is not about creating a new generation of leaders operating in the "Success" mode, even though it might end up that way in some cases. It is more about making sure the firm doesn't take a huge step backward. At a minimum, you want the remaining partner group to have their voting rights distributed in a way that allows the stronger partners a chance to **lead** rather than be in a situation dominated by the weaker partners.

This reallocation process will be sensitive, create hurt feelings and stimulate conflict. But the question you have to ask yourself is whether irritating some of the weaker partners and potentially running them off by bringing this issue to a head now is a fair trade-off for irritating your strongest partners later and running them off when they realize that the new governance model -- after the current senior partners leave -- will be too dysfunctional to operate within. Or another way to put it is ... if you don't adjust voting rights to give your best future leaders a chance to lead, then the departing senior partners, in an effort to protect their retirement benefit, will most likely do whatever they can to sell or merge the firm out from under the remaining partners.

So in reality, implementing this adjustment process can actually be more fair to all of the remaining partners, from the strongest to the weakest, because the firm has a better chance of being transitioned to the next generation rather than being split up, sold or merged.

Determining How Ownership Should be Allocated

So, you ask, where do we go from here? We think one of the best steps forward, but a difficult one to take, is to assess the skills and capabilities of your current partners -- not just the owners who will be left standing after the next round of retirement, but all of them. By the way, the exercise of assessing current partners/owners isn't meant to be a witch hunt for the weakest link, but rather an effort to make all the leaders of the firm better, faster and stronger. It is also one of the techniques we use to verify who the future leaders in the firm currently are and establish a personal roadmap for each partner as to what he or she needs to do to step up and improve. And the reason we like getting this feedback on all of the partners is because often, and we mean very often,

the existing senior partners have an exaggerated perspective of their leadership ability. So by involving everyone in the leadership evaluation process, we can start from a level playing field as to where we all stand and build from there.

There are any number of approaches or instruments you can use for assessing owners. Some, such as the instrument we use, are based on primary and secondary research regarding the behaviors of effective leaders. If you would rather go with a very basic approach, you can use a simple, informal questionnaire where you ask for anonymous upward and horizontal evaluations from staff and peers. We also use other techniques to determine who the firm values. For example, we commonly review compensation history and analyze related trends to provide some perspective on who the firm values. Asking all of the partners to anonymously rate the other partners as to who is delivering value to the firm is often insightful (their ratings are anonymous to the other partners, not to us). These are just a few of the things we do to try to determine a fair reallocation of ownership. Ultimately we review the information we've obtained through each of the techniques we've used to put together a composite view of who the firm values and sees as its leaders.

Regardless of the option or options you choose for evaluation of owners, any feedback process is better than nothing and, at a minimum, the feedback obtained through the process should improve the performance of each owner. Unfortunately, "nothing" describes the most common level of feedback embraced by many CPA firm owners. Their theory seemingly is either, "We don't want to know how we are perceived," or "We don't care how we are perceived."

360° Assessments

One of the tools we use is our proprietary SIMLASM survey instrument customized for CPA firms. It's based on primary and secondary research of what makes leaders effective. Our anonymous 360° assessment encompasses both leadership competencies and leadership character traits, covering them in the context of leadership skills needed for the future. This is a 72-question survey instrument that looks at 12 broad categories of managerial leadership competencies for CPAs in public accounting.

Quite frankly though, unless you really want to get better faster and stronger as an owner group, we would advise *against* implementing the 360° feedback process, regardless of the instrument you choose. The reason is simple. You most likely will NOT like some of the feedback you receive. This process is very humbling because no one really gets the feedback they expect, including yours truly. Our firm just went through this process again recently and it is hard to take criticism, even what you know is constructive criticism. What we really want to hear or read is that everything we do is great and that if pressed only a few minor flaws exist in the way we interact with people and conduct ourselves. For the record, there has not been a case that we are aware of where this kind of flawless picture was painted.

We also do not recommend using the assessment process merely as a one-time effort. 360° degree leadership evaluations should be used as part of the annual partner compensation system (setting and assessing personal improvement in important areas of performance). And in the case of this column, leadership assessments can provide objective insight into who the firm (both partners and staff) believes are its future

leaders, as well as perspective as to who is currently pulling more than their share of the weight.

Unholy Alliances – A Word of Caution

One other note – any time we ask for input from other partners as we have described above, we also look for dysfunctional alliances. All too often, as firms grow larger, partners form coalitions to support each other. Coalitions will likely show up in a service niche or when weaker partners align to protect themselves. These alliances are less about what is good for the firm and more about gaining power as a group. They band together to further their interests at the expense of the firm's future. Anytime we see these types of voting groups or empire building behavior, we are reminded of the importance of addressing this dysfunction quickly and reallocating ownership in a way to stop this very damaging leadership behavior. In some extreme cases, one or more owners end up being forced to leave because they can't stop their self-interested damaging behavior.

In Conclusion

If you are interested in moving toward a continuation mode of operations at your firm, use these tips to help you establish governance infrastructure and a distribution of voting rights among the remaining owners that makes sense for the future of your firm. It is a painful, sensitive, conflict-riddled process, but an effort we believe you owe to your existing partners to leave them in a position to thrive beyond your retirement. Don't just ignore this issue and thereby force your firm to sell or merge as its only hope of survival once you leave.

Reeb is a keynote speaker, author, trainer, coach, facilitator, and management consultant with more than 20 years of business consulting experience. He has founded seven small businesses in the retail, software development and services sectors, including the CPA firm Winters & Reeb, PLLC in Austin, Texas. Reeb has also been internationally published with around 200 columns and articles to his credit.