2015 CPA Firm Succession Planning

CPAMERICA INTERNATIONAL
Member Crowe Horwath International

www.cpamerica.org

The Challenges Ahead

The overall outlook by CPAs of the national economy continues to improve, according to recent AICPA studies, and CPA firms are anxious to help their clients continue with their economic recoveries. CPAs are highly respected by the business community for their integrity, exceptional competence and value to their organizations.

CPAs are positive, but slightly less optimistic, about prospects for their own organization as they see many potential changes ahead.

Top concerns for the future of CPA firms nationwide according to recent research are:

- Attracting and developing new business
- Finding and keeping good people
- Managing leadership and internal change issues
- Handling technology issues
- Dealing with client demands and expectations

Increased visibility is a central concern, particularly with a need seen for generating more referrals, increasing the visibility of experts and making existing clients more aware of other services.

Seven Keys for a Successful CPA Firm

1. Give exceptional client service, and always deliver on your promises.
2. Hire the best people with strong characters, and train them well.
3. Develop a strategic plan and a well-defined vision for your firm.
4. Create an evaluation and compensation system that rewards performance.
5. Communicate from the heart: Communication is the key to a well-run firm.
6. Listen to your clients, to your employees, to the visionaries in your profession.
7. Share best practices with other firms in your association so you can stay current and learn from each other.

Keeping the Best Talent

Career opportunities may be the most important element to retaining superior talent at CPA firms. But many firms lose young professionals because they don't clarify future career paths and opportunities, a recent Global Accounting Alliance study found.

More than half of the young professionals surveyed said they would be more likely to stay with their current firms if they knew they would be offered ownership in the future. But only 30 percent said firm ownership had been discussed with them.

Firms may have an edge in recruitment and retention of top graduates if they discuss future career opportunities more clearly, the survey found.

A Time of Transition

As Baby Boomers retire at a rate of 10,000 every day, half of all U.S. accounting firms will lose at least one partner – some the majority of their partner group – during the next five years.

Those figures from the Global study show the challenges that lie ahead for U.S. accounting firms in transitioning and implementing leadership changes.

The Global survey asked the managers or owners of multi-partner firms what their exit strategies were. The results were illuminating:

• 82 percent plan to sell their share of the business to other partners.
• 77 percent won't fully retire but will remain as a consultant after transferring ownership.
• 49 percent will merge with another practice before retirement.
• 38 percent will sell the entire firm.
• 35 percent will sell their share of the business to someone in the firm who is not a partner.
• 30 percent will sell their share of the business to an external partner.

While CPAs know how important succession planning is, the Global study and an earlier one by the AICPA found that many CPA firms are not taking steps to institute a formal succession plan. Only 37 percent of multi-partner firms have a formal succession plan.

Sole practitioners, in particular, lacked sufficient planning for the transition of their firm's leadership. Only 3 percent of sole practitioners have a succession plan. Three-fourths of sole practitioners said they may sell their business, 69 percent said they may merge, and 57 percent said they might end the business and sell their client list. Less than half foresaw having a successor, the study found.

The Early Steps of Succession Planning

There are four major phases to executing internal succession:

• Obtain the necessary talent to develop internal successors.
• Develop the talent so it is ready to step into the role.
• Have a proper financial arrangement for admitting new partners and buying out retiring partners.
• Develop and execute a transition plan for a retiring partner's duties.

A successful internal succession plan is usually determined by the firm's ability to at least maintain its level of business following the transition of an owner.

It is important to focus on three key elements – timing, client loyalty and replacement of retiring partners.

How do firms replace a retiring partner's role? There are two ways:

Role reallocation. If you have the capacity to do this, a new partner does not need to be added to the team to replace the retiring partner.
Role succession. In contrast, firms may lack the necessary capacity in their partner group, or the retiring partner may have special technical skills or firm management responsibilities that are significant. This means the firm needs to create a succession plan for this partner's role.

For Many, the Path to Retirement Is Beginning

Partners plotting a path to retirement should compare the frequency that they meet in person with their clients to how many more years they want to work full-time before slowing down.

Most owners don't go from full-time to retirement in one step. Instead, they gradually reduce their time commitment to the firm. Thus, the focus when determining the timing of a succession plan should not be on when the partner plans to retire but on when the partner plans to slow down. This is a crucial point when combined with the need to understand how often partners meet in person with their clients.

Face-to-face meetings used to take place multiple times per year, but not anymore. More than 85 percent of accounting firm clients meet in person only once a year with the owner or partner. Communication still occurs on a regular basis, but it's in the form of phone calls, email and, in the case of some firms, videoconferences, including Skype.

The increasing popularity of portals and Internet-based accounting systems allows firms to access clients around the world, tearing down geographical barriers but making it harder to work through the transition of clients to the successor partner.

Consider what that means for partners who want to reduce their time commitment to the firm in the next five years. Half a decade might seem like an eternity, but for most partners, it's only five visits with each client. A two-year window allows for only two visits.

How to Select a Successor

These are the four C's of selecting the right successor:

Chemistry. A good rule of thumb when choosing a successor is not to pick anyone the partners would not want to eat lunch with regularly.

Capacity. How many chargeable and nonchargeable hours does the retiring partner/owner devote to the firm? Is all the time they invest required to be replaced by partner-level professionals, or can some of that time be delegated to lower-level staff?

Culture. This term is used a lot but remains a vague concept for many. Think of culture in three ways:

(1) What's it like to work here?
(2) What's it like to be a client here?
(3) What's it like to be a partner here?

The partners must consider whether this successor or merger candidate can cut the mustard in all three areas.

Continuity. Most accounting firms have their client base because their clients are comfortable with their people and approach to service. Clients tend to focus on fees, how services are provided, the level of hand-holding and specialties, to name a few.

In a merger, the successor firm must avoid the clients' viewing this as a loss of the old firm and instead promote the gain of the new firm. If the successor firm intends to make wholesale changes upfront that will directly impact client experience, this can be a red flag for potential client retention issues.

A Growing Trend: Mergers & Acquisitions

If firms don't have the time to develop talent internally and can't find the right person with near-partner talent to hire, they should consider a merger or acquisition.

M&A has emerged as a dominant trend among U.S. accounting firms. Dozens of major mergers have been announced over the past three years, and scores more have taken place under the radar.

How prevalent is the merger mania? Nearly half of all U.S. accounting firms either are in merger talks or are expected to be soon, according to recent studies. Demographics and other succession issues are the main factors fueling the consolidation craze.

Due diligence – the assessment of the legal, financial and business risks of a merger or acquisition – is totally appropriate and recommended for both parties to a transaction. Perform due diligence on each other, regardless of the deal's nature and whether you are buying, selling or merging.

Many firms don't pay enough attention to the business risks. Every participant in a merger has a business plan in mind. The other side might bring sterling credentials, be financially strong, have no undisclosed liabilities, use a top-notch quality-control system and be squeaky clean legally but still be incapable of meeting the objectives you have for the deal.

Consider what assumptions you have made about the other side's ability to deliver on the plan, and then try to confirm if those assumptions are reliable.

Create Your Plan

To grow in the future and ultimately to protect your firm, developing a strong strategic plan and succession plan is essential. If you haven't started, now is the time to begin. If you haven't finished, now is the time to continue. In other words, take the time now. It's important.

Make a commitment to your future and include all of your firm's thought leaders in the development process. Then set short-term and long-term goals and include your entire staff in the vision.

Much of the information in this brochure is reprinted with the permission of the Journal of Accountancy from a series of 12 articles written by Joel Sinkin and Terry Putney on CPA firm succession.

About the Authors:

Joel Sinkin has been named one of the Top 100 Most Influential People in Accounting by Accounting Today magazine in 2012, 2013 and 2014. He has consulted on more than 900 transaction closings of accounting firms since 1990 and worked with thousands of firms, including startups, sole proprietors and local, regional and national firms. Sinkin teaches CPE courses, lectures, writes articles, conducts workshops and webcasts, and coaches CPAs on behalf of the American Institute of Certified Public Accountants, national associations and state societies. He and partner Terry Putney recently co-authored CPA Firm Mergers & Acquisitions: How to Buy a Firm, Sell a Firm and How to Make the Best Deal.

Joel Sinkin, President, Transition Advisors, LLC
www.transitionadvisors.com

Terry Putney has more than 25 years' experience in the CPA profession. He served as managing director – mergers & acquisitions for RSM McGladrey for six years and held several executive positions with its corporate parent. He structured and negotiated many transactions resulting in the acquisition of accounting and consulting firms ranging in size from sole proprietors to firms with hundreds of professionals and multi-state operations. Prior to joining McGladrey, Putney was the managing partner of Donnelly Meiners Jordan Kline, a 60-associate CPA firm in Kansas City, Mo.

Terrence E. Putney CPA, CEO of Transition Advisors, LLC
www.transitionadvisors.com

CPAMERICA INTERNATIONAL

Member Crowe Horwath International™

www.cpamerica.org

041415 Ver. A

104 N. Main Street, 5th Floor | Gainesville, Florida 32601 | phone: 352.377.4070 | info@cpamerica.org