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PCPS Spotlight Recognition Ceremony: Best Practices at Work

The first PCPS Firm Spotlight Recognition Ceremony, held at the AICPA Practitioners Symposium in Las Vegas in May, recognized 10 firms for best practices in various areas of practice management. They included:

- For their human capital initiatives: Gary R. Brown, CPA LLC; Wilkins Miller, PC; Elliott Robinson & Company LLP; Aronson & Company; and Johnson Lambert & Co.
- For work/life balance initiatives: Heinfeld, Meech & Co., PC; KAWG&F, PA; and WithumSmith+Brown.
- For firm succession efforts: HLB Tautges Redpath Ltd. and Cohen & Company, Ltd.

How did these firms earn their recognition? In the last two months, the PCPS Brief reviewed some of the best practices used by firms recognized in the human capital initiatives category and in the work/life balance category. In this month's Brief, we'll look at the firms recognized for their firm succession initiatives. In addition, the [PCPS Firm Practice Center](#) each month will add a new story focusing on each of the firms and how they put their great ideas to work. You can find the postings [here](#).

Breaking News from PCPS:

PCPS Technical Issues Committee (TIC) Working Hard for Members

In addition to the Brief this month, here's some breaking news on two recent accomplishments of the PCPS Technical Issues Committee, which speaks out to standard setters on behalf of small firm interests.

- FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*: TIC successfully lobbied FASB for deferral of FIN 48 for pass-through entities and the development of related implementation guidance. TIC also supported the Private Company Financial Reporting Committee in seeking disclosure relief for private entities. To accomplish its objectives, FASB has decided to defer FIN 48 for an additional year for all nonpublic entities. Proposed FASB Staff Positions will be issued to seek public comment on these decisions.
- FASB Not-For-Profit Organizations (NPOs): Mergers and Acquisitions: After many years of TIC lobbying efforts to FASB, the board decided that when an NPO acquires another entity that is predominantly supported by contributions and investment returns and is in a net liability position, the excess should be charged to the statement of activities rather than goodwill. In all other cases, the excess is recognized as goodwill.

Looking to the Future

According to the 2008 TSCPA/PCPS National MAP Survey, only 22% of the responding firms had a succession plan. And yet, as the massive Baby Boom generation retires, firms are scrambling in a tight labor to find promising young talent to lead them into the future. Practitioners who are uncertain about how to initiate their own succession efforts can follow these best practices from the Spotlight Recognition Ceremony firms.

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Start an ESOP

Sometimes, the best solution to a problem is to do something dramatically different. HLB Tautges Redpath, Ltd., of White Bear Lake, Minnesota, is a 100% employee-owned company by virtue of an employee stock ownership plan. The ESOP originally came about due to the firm's desire to remain independent in the midst of a spate of mergers and acquisitions in the 1990s. Another consideration was the fact that the seven partners at that time were between the ages of 39 and 48, meaning they would all be retiring at roughly the same time. The firm engaged in research to see what avenue would ensure continued growth, opportunity for employees and exceptional service for clients, and settled on the ESOP. As the firm's Spotlight Recognition Ceremony application notes, "With the introduction of the ESOP, the partners were able to sell out their shares to make way for the employee owners of the future."

The effort included not only educating employees about the workings of the ESOP itself but also about how their own individual contributions would affect company value. The firm instituted internal ESOP education meetings and best practice forums, shared monthly financial statements in the company newsletter and created an ESOP Communications Group to increase communication. Steps taken to change the firm culture have included a leadership development program; an officer sabbatical program to provide opportunities for emerging leaders; and the fact that no service team leaders are officers. Benefits for the firm have included:

- An alternative to the "move up or move out" culture that offers an uncertain future to talented professionals who don't want to become firm leaders.
- Facilitating ownership succession for current and future shareholders.
- A greater focus on quality client service and growth among all staff.
- Increased commitment and enthusiasm.
- A way to distinguish the firm from its peers and attract and retain the brightest staff members.
- S corporation/ESOP tax-free status, which helps to retain more money to fund growth.

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Consolidate Leadership

Cohen & Company, Ltd., in Cleveland, offers a different but equally successful succession planning story. Founded in 1977, the firm had experienced significant growth by the late 1990s and expanded to six offices. Most management decisions were handled by each individual office, and profitability was tracked by office as well. The compensation system was weighted heavily toward seniority. The firm was led by an executive committee and key decisions, such as approving or terminating partners, acquisitions, or starting new lines of business, were based on a vote of the ownership, with one owner/one vote.

Despite their success, firm leadership believed it was time to create a succession structure that would allow for greater flexibility and decisiveness. The firm set about making significant changes in three critical areas:

- ***Operational and strategic governance.*** Although the partners agreed on common values, the collegial nature of the firm often made it difficult or impossible to make decisions efficiently. Staff evaluation and compensation were often inconsistent, as well. To solve the problem, the firm disbanded the executive committee and office managing partners; created a board with no direct operating authority; gave the CEO authority to appoint service area leaders who would be in charge of day-to-day operations; and limited partner voting authority.
- ***Owner compensation.*** The firm eliminated its existing system, one based on years of service, new business developed, hours worked and equity owned, among other things. It was replaced with a more flexible plan based on base pay, return on owner capital and CEO discretion.
- ***Equity standards and distribution.*** The firm's existing point system made it difficult to offer a meaningful equity stake to new, high-performing owners. It was replaced with a system in which the number of outstanding units is fixed, a discounted value (favorable to buyers) is determined and the CEO has the power to ensure the availability of units.

According to the firm, "Finding the right combination of techniques, executing them with conviction and keeping succession top of mind seem to be the real keys to success."

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A Good Start

Cohen & Company noted in its application that the “right” succession solution for any firm may change over time based on new developments in the current environment. However, both of these firms offer proven answers that should inspire practitioners either to adapt them to their own needs or create their own solutions.

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