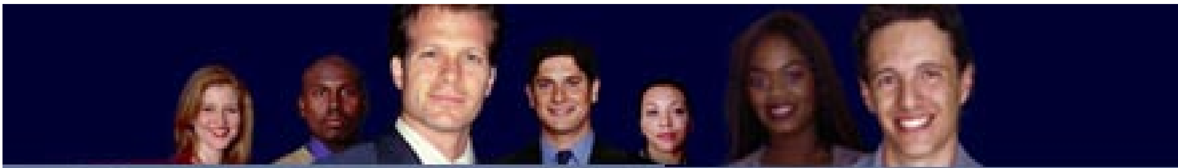

PCPS BRIEF

Succession Planning for Firms Large and Small

Welcome to the PCPS Brief — the monthly newsletter that synthesizes information, news and resources around a particular issue or concern and offers actionable ideas for your practice.

Have you thought about what will happen to your firm once you pass away or if you become disabled? Have you fantasized about your lifestyle in retirement? According to a recent PCPS survey, such thoughts and fantasies are cause for concern when it comes to many practitioners – nearly three-quarters (73%) have not fully funded their retirement, while 81% of firms have not documented their succession plans in writing. The good news is that it’s not too late to start planning for succession. In fact, if you think of succession less as a discrete, one-page “plan” and more as a process to grow your business, your practice can thrive long after you leave, whether due to death, disability or retirement. Read on for tips to develop a robust succession strategy, specific to your firm size.

Succession Planning for Sole Practitioners and Sole Proprietors

If you are a sole practitioner or a sole proprietor, one of the most efficient and effective ways to plan for your succession is to draft a practice continuation agreement. Not only will this document serve to protect your family’s financial well-being, as well as your estate and retirement, but the process of developing a plan will likely give you a better and more realistic idea of what your firm is worth. Even though these agreements can be fairly straightforward and easy to administer, only 8% of sole practitioners have them, according to the 2004 PCPS survey on succession planning. As you look through your “to do” list for today and prioritize your projects, put “Draft Practice Continuation Agreement” at the top of your “must do” list, suggests Allan Koltin, CPA, president and CEO of PDI Global, Inc.

Getting started. When it comes to implementation, practice continuation agreements can be as simple or as complicated as you want them to be. For example, Adele Brady Bolson, owner of a three-person firm in Bellevue, Washington, has a reasonably simple arrangement with another local CPA – let's call her "Suzanne." If Bolson should die, Suzanne has first right of refusal to buy Bolson's practice. If Suzanne chooses not to buy, she will coordinate the sale of Bolson's firm and receive 10% of the purchase value for her efforts.

However, when drafting your agreement, it is prudent to be as detailed as possible – by making sure that all your T's are crossed and I's dotted. According to Bill Reeb, CPA at Winters and Reeb, PLLC, and author of *Securing the Future: Building a Succession Plan for Your Firm*, a good agreement will address all the details of the purchase, and must answer these questions at the most fundamental level:

- Who will buy my practice?
- What will they buy?
- What will they pay?
- How will the transition work?

Click here to access "Have a Fallback Plan," a *Journal of Accountancy* article that discusses the three types of practice continuation agreements; the elements of a good agreement; and considerations when valuing your practice.

Don't underestimate the human element. When you develop a practice continuation agreement, think about your clients. If the acquiring firm is worlds apart from your firm in values, ethics and culture, you may just find that your once loyal clients jump ship, which in turn will impact your estate or your retirement nest egg. From the client perspective, consider where they will fit in the pecking order of the new firm. If, for example, 90% of your clients are "small" by the new firm's standards, will they receive the same level of service to which they were accustomed at your practice? Remember – your family's finances, your estate and your retirement fund are at stake!

- Click here to access "Consolidation and the Small Firm," an article that provides actionable tips to small firms on how they can make themselves attractive for consolidation.

In addition to analyzing the "hard numbers"– that is, the valuation and purchase price for the firm – try to incorporate "softer" factors into any agreement. At the very least, when shopping around for a potential buyer look for firms that are similar in culture to your own. Some overarching considerations include:

- What is the firm's philosophy when it comes to servicing clients? Are their clients like your clients?
- What are the firm's long-term plans? (For example, are they themselves an attractive buy for a larger firm?)
- How long have they been in business?
- How do they treat their employees?
- What is their reputation in the community?
- Are they involved in philanthropic endeavors?

When courting firms, don't forget to market your practice in much the same way as you do to potential clients. One great way to show off your capabilities and meet like-minded firms to work with is to join a PCPS Network Group. Segmented by firm size (small, medium, large), Network Group meetings provide a forum for in-depth practice management discussions and an exchange of information on firm operations and professional issues. All current attendees agree that the No. 1 reason they attend the meetings is to network, share and learn from each other.

- Click here for more information on PCPS Network Groups and to register.

Succession Planning for Firms with Multiple Partners

If you are a partner/owner at a large or mid-sized firm, your succession goal should be to develop the next generation of leaders at your firm. Sound complicated? It doesn't have to be. All it means is giving your most talented and committed staff the opportunity – and the authority – to think like owners. It also means beginning to give up control. But the more you do it now, the more your firm will be worth when it is time to hand over the reins.

Identify your next generation of leaders. The first step when looking for ways to identify the next generation of leaders in your firm is to split them into one of three camps, advises consultant Koltin. "Grinders" are those with high chargeable hours but not a lot of client contact. "Minders," on the other hand, serve as the primary handler of the day-to-day client relationship. "Finders" develop new business opportunities for your firm and display a natural ability to lead. Finders are key to your succession plan because they ensure that the pipeline is full, and consequently that the firm survives, long after your departure. They are able to see the "big picture" and will often come up with ideas to guide the strategy of the firm because they know the marketplace implicitly. Staff with leadership qualities and business development skills (Finders) are the individuals that you want to spend time mentoring to become future partners of the firm. Chances are the Finders in your group will stand out. However, if you are a little removed from the day-to-day management of the firm, don't hesitate to consult trusted partners and managers.

- To help you in the process, click here to access "Characteristics of Leaders," an article from the book *Seven Principles for Effective Firm Management*, issued by the AICPA MAP Committee (now merged into the PCPS Executive Committee).

In addition to displaying leadership qualities, candidates being considered for future ownership should be on track to fulfill the following requirements (adapted from the *Journal of Accountancy* article "Pass the Baton Without Missing a Beat" – click here for the full article):

- Completing a minimum of eight years of public accounting experience.
- Earning a CPA certificate (as well as other appropriate professional certifications).
- Completing a series of professional development courses, from basic levels to executive management.
- Participating in practice development activities such as joining professional, civic or social organizations.
- Regularly attending professional meetings.
- Holding office or directorship in civic, professional or alumni organizations.
- Engaging in speaking or other professional appearances.

Strategies to give up control. Once you have identified your most promising candidates, the next step is to take them under your wing. Too often, partners fail to treat staff members like future owners and don't give them the authority and tools to develop their leadership skills. One strategy that Jennifer Wilson, co-founder of ConvergenceCoaching, LLC, recommends to her owner-clients to help them forgo control is to develop a role description of their own day-to-day responsibilities. Chances are you have never had to do this as a partner or owner, but by making an exhaustive list of your activities, you can farm out each activity to the team member who has the most skill and experience or raw potential for that particular task. In Wilson's experience, what often happens is that partners/

owners will delegate all their work to a counterpart as they near retirement, who then in turn must find someone to take on their current responsibilities. All too often, there isn't another person identified to take on that second tier of activities, and this is where the breakdown occurs. To start you thinking about what activities to include in your job description, click here and here to access two "Partner Goal Setting Memos."

One firm in California requests that all partners draft a succession plan as part of their annual review, no matter what their age.

Click here to access "Who Will Take Over Your Firm," an article from *The Practicing CPA* that provides a useful "how to" on nurturing high-potential employees so that the transition to partner is seamless.

Additional PCPS/AICPA Resources

Consult the "Resources" section of the PCPS Firm Practice Center for more information on succession planning. Here you will find *Preparing for Transition: The State of Succession Planning and How to Handle the Process in Your Firm*, a white paper developed by PCPS based on the findings of its recent survey on the topic. In addition, you can access a host of other resources and checklists related to succession planning through mergers and acquisitions.

Access PCPS's line of succession products by clicking here. Rolled out in 2005, these resources include Reeb's book *Securing the Future: Building a Succession Plan for Your Firm*, Webcasts archived for your convenience and a new CPE course on succession planning.

Part of Leslie Murphy's mandate as AICPA Board Chair this year is to focus attention on the issue of attracting and retaining qualified and talented people in the profession. With help from PCPS , Murphy plans to establish a "Young Partner Network," which will give young partners from CPA firms nationwide the opportunity to network and learn best practices from their counterparts. Watch out for updates on this initiative at the PCPS Firm Practice Center or at the AICPA Web site.