

# **CPA Firm Succession Management**

Multi-Owner Survey Report





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# **ACKNOWLEDGEMENTS**

The Private Companies Practice Section (PCPS) is a voluntary add-on firm membership section of the AICPA that brings together CPAs interested in the business of practice management. PCPS partners with more than 6,400 CPA firms of all sizes nationwide and provides targeted and customizable practice management tools in the areas of technical resources, business development, human resources, benchmarking and succession planning. The PCPS Executive Committee, made up of CPA volunteer practitioners, oversees this section and steers programs to help improve the quality of services and operating success of PCPS member firms. The PCPS Executive Committee promotes the importance of succession planning by endorsing this periodic survey.

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We are grateful for the remarkable work of our partner, Succession Institute LLC, that once again provided the survey execution and analysis. Special thanks go to Bill Reeb, CPA/CITP, CGMA, and Dom Cingoranelli, CPA, CGMA, CMC.

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# **EXECUTIVE SUMMARY**

The need to provide quality services to fuel client relationships and strive for future relationships may divert the attention of firms from important practice management activities — such as succession planning. While striving to create a client base, its imperative firms consider how these clients will continue to be serviced as the owners of the firm turnover. Recognizing the importance of succession planning gives firms the power to set the tone and direction with which they wish to send the firm into the future.

This report summarizes multi-partner firm results of the 2016 PCPS Succession Survey, a joint project between PCPS and Succession Institute, LLC. This survey is developed to update the profession's understanding of the challenges succession planning poses for CPA firms, together with the actions CPA firms are taking to address those challenges. Over 800 firms participated in the survey and more than 400 of them were multi-owner firms. With the insights provided by the large number of participants, we hope to provide a clear picture of the state of succession planning for our profession.

Comparable to the last survey, less than half of all firms have succession plans in place, although over 80% of the firms expect succession planning challenges in the next five years. Among many of the firms that do have agreements in place, critical issues are not being addressed in the agreements.

Developing the next tier of leaders is incredibly important, especially considering the number of senior partners who will be retiring soon and the amount of ownership that will be in transition as a result. Firms should begin now to support staff development through training and cultural changes to develop a pipeline of future firm leaders. Suggested changes include adding or enhancing accountability, instituting or improving performance pay, and rethinking performance metrics under new pay structures.

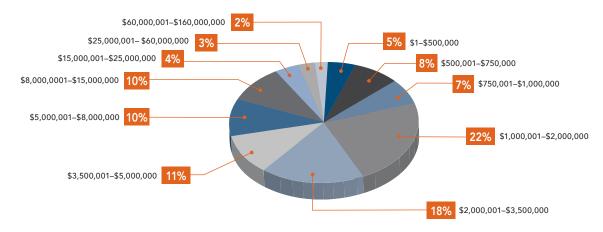
Nearly half of the participants indicate that their first choice of exit strategy is to merge into another firm. Also, a total of 40% plan on retiring in the next five years. Considering that our profession has roughly 44,000 firms, with about 600 having 21 professionals or more, we believe that the merger market for small firms is about to heat up in the short term, and the marketplace is likely to get very soft towards the end of that five-year period because of the increase in the number of firms in play.

Overall, the survey shows positive trends in firms taking action regarding critical succession planning tactics since the previous survey in 2012. Based on the questions and narrative shared, firms can easily identify the steps to consider in order to put together a quality succession plan and implementation approach.

# WHO RESPONDED?

# This report shows the results of 434 multi-owner firms:

Respondents by Net Annual Revenue (NAR)



# Respondents by Net Annual Revenues by Full-Time Equivalents (FTE):

	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
Average Net Annual Revenues	729,397	1,664,933	3,035,957	5,313,661	11,684,594	19,266,999	85,201,261
	19%	27%	18%	17%	10%	5%	4%

# Firm staffing and owner compensation were as follows:

	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
Equity owners	2	3	4	5	8	13	43
Non-equity owners or income partners	0	1	1	2	3	7	35
Accounting staff, excluding owners	2	6	11	22	49	89	324
Administrative and paraprofessional employees	1	3	5	8	14	24	83
Total average personnel <sup>1</sup>	6	12	21	37	75	133	485
Average annual owner compensation <sup>2</sup>	197,805	248,465	271,134	300,553	418,088	355,045	547,800

 $<sup>^{\</sup>rm 1}$  Sum of all FTEs for firm will not add up to individual averages by position.

<sup>&</sup>lt;sup>2</sup> Participants were allowed to enter minimum values in fields for revenue and compensation. These averages do not reflect the minimum default values.

# **SUCCESSION PLANS**

Over the years, the percentage of multi-owner firms that have a written, approved succession plan in place has been increasing but this year's survey results show a slight decline. Continuing the trend from previous surveys, more firms continue to operate with a succession plan than without one.

# We currently have a written, approved succession plan in place:

	2016	2012	2008	2004
Yes	44%	46%	35%	25%
No	56%	54%	65%	75%

#### Generally, the smaller the firm, the less likely it is to have a written and approved succession plan:

	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
Yes	23%	29%	46%	61%	65%	76%	100%
No	77%	71%	54%	39%	35%	24%	0%

Smaller firms may be less likely to have a succession plan since they may be at a point in their life cycle where they are operating under a silo business model. Under this type of model, each owner can decide when he or she is going to retire, and under what conditions and terms each will retire. However, it's preferable that every firm should have arrangements in place to deal with succession prior to a crisis and to ensure staff know the firm has a plan for the future.

#### The following best describes our progress with our current succession plan:

	2016	2012
We have a plan in place, but relatively little progress has been made towards implementing it.	14%	19%
We have a plan in place, and significant progress has been made in its implementation.	30%	30%
We have a plan in place, it has been implemented and is periodically updated to address issues as they arise.	56%	51%



#### As to the status of our succession plan:

	2016	2012
We do not feel the need to have a plan, written or otherwise.	5%	7%
We know we have a succession problem, but we don't really know how to get started putting together a plan.	16%	15%
We will start the succession planning process in about 10 years.	2%	3%
We will start the succession planning process in about 5 years.	6%	11%
We will start the succession planning process in the next year or two.	26%	22%
We have started the succession plan and will soon complete it.	34%	30%
We have a succession plan drafted, but it has not been formally approved.	11%	12%

# Do you expect succession planning to be a significant issue for your firm in the next 10 years?

	2016	2012
Yes	84%	79%
No	16%	21%

It is interesting to note that, although 84% of firms believe succession will be a big issue for them in the next decade, only 44% of the firms have a plan in place.

#### Timing of our succession planning challenges:

	2016	2012
We have current succession planning challenges.	26%	32%
We will have succession planning challenges in the next 1 to 2 years.	14%	28%
We will have succession planning challenges in 3 to 5 years.	34%	22%
We will have succession planning challenges in 6 to 8 years.	18%	12%
Our succession planning challenges are 9 to 10 years away.	8%	6%

One potential reason as to why the horizon of 3 to 5 years is showing as the highest time frame for potential succession challenges is that a great number of partners are unwilling to give a final indication as to when they plan on retiring or if they plan to partially retire or fully retire. Firms may want to institute notice requirements so formal transition guidelines can be implemented.

# **EQUITY OWNERSHIP**

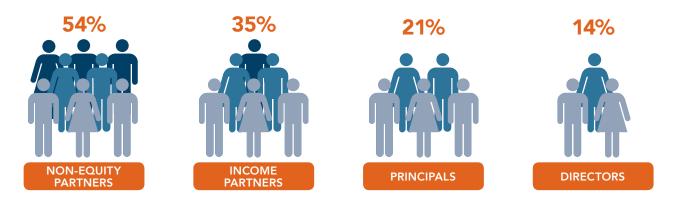
How many equity partners/owners are planning to retire in the next five years?



In addition to the retirees indicated above, other the next five years, 35% of ownership is expected to transfer. This ownership transition means that the voting in firms can significantly change as new partners are added to leadership or existing partners obtain greater voting rights. A succession plan will be critical in enabling a smooth transition for new internal leadership, sustaining the firm's profitability and unity, and paying retirement benefits to retiring owners.

# **LEADERSHIP**

Besides equity partners, which leadership positions does your firm recognize as a partner equivalent?



There are a number of firms where the title of principal, and increasingly the title of director, do not differentiate as to whether the partner owns equity or not.

# Which best describes your firm's status with respect to your total number of partners?

	2016
We have the right number of partners for our size at this time.	68%
We have too many partners for our size at this time.	19%
We have too few partners for our size at this time.	13%

The good news is that most firms have the right number of partners now. Keeping focused on increasing capacity, delegation and leverage within the firm will put them in a great position to retire partners, not have to add any new ones, and still have the right number of partners. Keep in mind, the firm initiative to create capacity and push work down usually takes 3 to 5 years to implement, so it is not something you can put in place the last minute before a partner retires.

# Based on your projected growth over the next five years, which best describes your firm's status with respect to your total number of partners?

	2016
We expect to add more partners than we have now by the end of five years.	51%
We expect to have the same number of partners we have now by the end of five years.	35%
We expect to have fewer partners than we have now by the end of five years.	14%

Although a number of firms are expecting to add partners over the next five years, in evaluating a succession plan, this may not be the answer depending on the firm's expected growth. Firms should consider increasing staffing, building greater competencies at every level in the firm, and leveraging staff wherever possible. This approach in a growing firm allows partners to retire while making it easier for the remaining partners to pay them.

# FIRM INFRASTRUCTURE — POLICIES AND PROCEDURES

Do you have a partner agreement executed by all of the existing partners which include common policies like agreed upon retirement benefits, partner admission terms, partner termination, etc.?

	2016
Yes, we have a partner agreement executed by all of the existing partners.	63%
No, we do not have an executed partner agreement but are in the process of drafting one and executing it in the near future.	18%
No, we do not have an executed partner agreement and currently do not have a plan to create one.	19%

The smaller the firm, the less likely they will have a partner agreement. And although smaller firms may operate more informally, it is critical that they institute more formality by way of agreements, policies and procedures to allow the firm to grow and prosper while avoiding misunderstandings and conflict.

# Which standard operating policies/procedures has your firm formally developed and documented with powers, roles, responsibilities and limitations?

	2016	2012
In the event of death, agreed upon value of ownership and benefits required to buy out a partner and pay his or her estate	63%	77%
In the event of total disability, agreed upon terms, conditions, value of ownership and benefits required to early retire that partner and buy out his or her ownership interest	56%	71%
Agreed upon valuation method for partner ownership interest upon retirement	53%	66%
Partner roles and responsibilities	51%	58%
Partner voting rights (what policies are voted by ownership and if any, what policies are voted one person one vote)	49%	67%
New client acceptance process and oversight	48%	67%
Billing and collection policies and oversight	46%	65%
Agreed upon terms, conditions, benefits and damages for partners leaving the firm who take clients or employees	44%	52%
Key person insurance to cover outstanding and potential retirement obligations	41%	63%
Requirements for termination of a partner	41%	55%
Managing partner roles and responsibilities	41%	57%
Identified acts that can trigger termination or forced retirement of an owner (illegal activities, loss of CPA license, etc.)	41%	64%
Agreed upon terms, conditions, benefits and damages for partners leaving the firm who do not take clients or employees	41%	62%
Admission of partners (buy-in and ownership)	40%	39%
In the event of partial disability, agreed upon terms, conditions, value of ownership and benefits required to early retire that partner and buy out his or her ownership interest	38%	52%
Manager and staff roles and responsibilities	38%	56%
Vesting schedule and terms (age and years of service) needed to qualify a partner selling his or her ownership interest to earn retirement benefits	34%	63%
Managers and staff are held to identified goals each year	32%	45%
Mandatory retirement age requiring partners to sell their ownership interest	32%	47%

# Which standard operating policies/procedures has your firm formally developed and documented with powers, roles, responsibilities, and limitations? (continued)

	2016	2012
Identified acts that can trigger termination or forced retirement of an owner (misconduct like sexual harassment, public embarrassment of the firm, etc.)	32%	55%
Existing client new project acceptance process and oversight	31%	42%
Maximum payout of retirement payments for partners that have retired or sold their interest in the firm (this is a financial cap on total payouts to all partners receiving benefits in any given year)	31%	36%
Capital requirements for a partner	31%	39%
Voting thresholds and requirements that must be met to approve the sale/upstream merger of the entire firm	29%	33%
Expense management policy and oversight	29%	N/A
Terms and conditions (how you will pay them and what they are allowed to do) under which retired owners can continue working for the firm	24%	64%
While we have informal expectations, we do not have formal documented policies/procedures in the areas described above	23%	N/A
Executive committee roles and responsibilities	21%	25%
Partner goals established each year for each partner, held accountable by the managing partner	21%	29%
Partner compensation plan tied to strategic plan (incentive pay for partners based on individual goals tied to the strategic plan)	20%	N/A
Client transition requirements for retiring partners with accountability and damages identified in the event of improper client transition	18%	22%
Nepotism policy	14%	N/A
Retired partner roles and responsibilities	13%	17%
Specific recourse or cures should a retired owner not be paid in full	11%	24%
Ability for existing partners to reduce the retirement benefit of retiring partners due to improper client transition	9%	20%
Ability of retired owners to block an upstream merger (total sale of the business) unless their retirement benefits are paid in full prior to transaction	4%	11%
Ability of retired owners to block the sale of a line of business unless retirement benefits are paid in full prior to transaction	4%	7%

This list represents our suggestions for items to be addressed, at a minimum, in partner agreements and formal policies and procedures. We strongly encourage firms to implement partner agreements and to make sure that the agreements address many of the critical issues that can cause problems in CPA firms.

# MANDATORY RETIREMENT OR SALE OF INTEREST

# Which is true regarding your firm about mandatory age?

	2016	2012
We have NO mandatory age for the sale of ownership or retirement for owners.	65%	53%
We have agreed to a mandatory age for the sale of ownership or retirement for owners.	35%	47%

# What is the mandatory age for partners to sell his or her ownership interest?

	2016	2012
Prior to 60 years old	1%	0%
60 years old	2%	3%
61–64 years old	6%	8%
65 years old	45%	54%
66-69 years old	21%	15%
70 years old	17%	14%
71–74 years old	1%	1%
75 years old	0%	1%
More than 75 years old	0%	0%
Mandatory Retirement is fixed at each owner's full benefits Social Security age	7%	4%



# FUNDING THE RETIREMENT BENEFIT

#### Which of the following is true regarding your firm's liability for retirement benefit?

	2016
Our firm is liable, NOT individual partners, for all obligations owed to retired owners.	77%
Our partners are individually personally liable for all obligations owed to retired owners.	23%

# Has your firm funded any part of the total equity buyout — retirement benefit, not a 401(k) of your retiring partners?

	2016
No, the buyout for a retiring partner's value of the firm has not been either partially or fully funded.	88%
Yes, the buyout for a retiring partner's value of the firm has been at least partially funded.	12%

Our experience is that the smaller the firm, the less likely there is prefunding.

# To what extent has your firm funded any part of the total equity buyout — retirement benefit, not 401(k) — of your retiring partners?

	2016
No pre-funding has been done for buy out of retiring partners.	6%
1% to 25% prefunded	27%
26% to 50% prefunded	36%
51% to 75% prefunded	10%
76% to 99% prefunded	4%
100% prefunded	17%

Prefunding can have an unexpected benefit to the firm. As owners get closer to retirement, they may be less likely to want to support big investments in infrastructure so what is due to be paid to them is available in the bank. Prefunding can provide stability to a partner's retirement, leaving them more secure in making the best decisions for the firm.

# DEATH AND DISABILITY INSURANCE

# Which of the following is true regarding your firm's death (life) insurance?

	2016
Our firm does NOT carry insurance policies to cover the likely buyout due for ownership in case of a partner's death.	34%
Our firm carries, in the case of death, insurance policies for all partners that can reasonably be covered, for a partial amount likely due a partner to buy out his or her ownership.	31%
Our firm carries, in the case of death, insurance policies for all partners that can reasonably be covered, for the full amount likely due a partner to buy out his or her ownership.	35%

Given that 63% of firms have partner agreements (see section Firm Infrastructure — Policies and Procedures), it is not that surprising that 66% of firms have some insurance to back up the buyout commitments made in those agreements.

#### Which of the following is true regarding your firm's disability insurance?

	2016
Our firm DOES NOT carry disability insurance for our partners.	52%
Our firm carries, in the case of disability, insurance policies for all partners that can reasonably be covered.	48%

Disability insurance coverage typically lags behind life insurance coverage, but this gap is less than we've seen previously. Based on these results, the least likely firms to procure this benefit are the smallest and the largest sized firms.

# POLICIES AND ACCOUNTABILITY FOR RETIRED PARTNERS

# Do you have a policy outlining expectations, privileges, and accountability for retired partners actively working in the firm?

	2016
We don't have a policy for retired partners actively working in the firm and currently don't have any retired partners actively working in the firm.	60%
We have a policy for retired partners actively working in the firm and have retired partners working in the firm.	17%
We don't have a policy for retired partners actively working in the firm even though we do have retired partners actively working in the firm.	16%
We have a policy for retired partners actively working in the firm but we currently don't have any retired partners actively working in the firm.	7%

Many firms are still in their first generation of owners and no one has retired yet, which may contribute to the results. The best time to put policies in place clarifying acceptable roles and pay for retired partners is when no one is on the verge of retirement to avoid any personal involvement swaying opinions.

The most serious issue noted is when a firm has retired partners working in the firm and no policy as to how those relationships and expectations will be handled. Firms should consider establishing in advance the rules outlining the privileges and limitations for retired partners continuing to work to avoid conflict and misunderstandings. Many retired partners can provide great value to the firm after a sale of ownership, within clearly defined parameters.

#### Which of the following best describes the involvement of retired owners in the firm?

	2016	2012
Retired owners have no involvement and no influence in firm operations.	51%	42%
Retired owners continue to manage client relationships.	45%	19%
Retired owners are still active in the community and have a formal role of being an ambassador for our firm.	44%	20%
Retired owners actively do business development for the firm and bring in new clients.	41%	N/A
Retired owners are still active in the community and represent the firm by serving on various boards.	40%	N/A
Retired owners are on an annual contract with the firm that has to be renewed each year with specific allowable activities they can perform.	40%	17%
Retired owners still work on some of their old clients, but in a manager role because another partner handles the relationship.	34%	17%
Retired owners do what they have always done, but work fewer hours.	34%	17%
Retired owners do not operate under a special agreement and are allowed to continue working for the firm until they are asked to leave.	19%	6%
The firm, as a sign of respect, allows retired owners to continue working even to the point of their skills diminishing, but we closely monitor their work.	15%	8%
Retired owners are invited to board/management meetings, but don't have a vote.	15%	6%
Retired owners are invited to board/management meetings and while they don't have a vote, they are still very influential.	9%	5%
Retired owners still do pretty much what they did before they retired.	5%	4%
Retired owners are commonly invited to board/management meetings and still vote.	5%	1%

Replace the roles and actions above that support retired owners to remain active within the firm with opportunities for younger owners. For example, by removing retired partners from the management of the firm, younger leadership are in a better position to influence the future direction of the firm. By providing clear guidance to retired owners as to what activities they should focus on post-retirement, which would not include responsibilities typically assigned to active owners, the firm's succession efforts can move forward smoothly.

Firms facing a talent shortage may be inclined to keep retired partners working in the firm, even on a part-time basis. We suggest firms enter into these arrangements with clear expectations, oversight and accountability.

Which describes your current compensation plan for retired owners or owners that have sold their interest in the firm? Our firm's compensation plan:

	2016	2012
Has been/is made available to retired partners only if both the retired partner still wants to work and the firm wishes to retain them in some capacity.	54%	41%
Will pay retired owners a percentage of their billings or collections for client work.	41%	32%
Will pay retired owners to bring in new business.	39%	30%
Will pay retired partners an hourly rate for work performed, but only if it is billable to a client.	36%	N/A
Will pay retired owners a salary to continue working for the firm.	25%	N/A
Has been/is made available to every retired partner if they wish to continue working in some capacity within the firm.	24%	35%
Will pay retired owners to remain active in the community as ambassadors for the firm; serve on boards of directors; be involved in charity events, etc.	18%	N/A
Retired owners do not operate under a special agreement and are allowed to continue working for the firm until they are asked to leave.	13%	12%
Is the same for retired partners as it is for active partners.	3%	5%
Will pay retired owners for the book of business they continue to manage after retirement.	3%	N/A
Does not allow retired owners to continue to work for the firm in any capacity.	1%	N/A

The items above do not necessarily represent best practices. For example, when paying retired partners to serve in non-billable roles (such as training, sitting on boards, or doing special projects for the firm) consider specifically identifying non-billable projects, creating a budget for those functions, and pay an hourly rate.

# **CALCULATION OF RETIREMENT BENEFITS**

	2016
We have agreed to pay BOTH a retirement benefit and return of capital to a retiring partner.	43%
We have no agreement at this time to pay any retirement benefit to a retiring partner.	38%
We have agreed to pay JUST the return of capital to a retiring partner.	10%
We have agreed to pay JUST the retirement benefit to a retiring partner.	9%

We recommend that firms have an agreement in place prior to retirements to help avoid negotiations that can lead to some level of acrimony among the parties and potential financial harm to the firm.

# Which general methods has your firm agreed to use to determine the amount owed to retiring partners?

	2016	2012
We have agreed to pay the retiring partners based on the total net revenues of the firm times their ownership percentage in the firm	28%	37%
We have agreed-to pay the retiring partners based on a multiple of their salary	25%	22%
We have agreed-to pay the retiring partners based on the gross revenues of the client book of business they leave the firm	16%	16%
None of the above generally describes what we have agreed-to pay our retiring partners / "Other"	9%	25%
We have agreed-to pay the retiring partners using a hybrid method created to establish a basis for the distribution of a part of the earnings of the firm called AIV (Average Intangible Capital)	9%	N/A
We have determined a fixed sum that we have agreed-to pay to our retiring partners	7%	N/A
We don't pay anything to our partners when they retire other than their capital accounts (including billable work-in-process and accounts receivables collections)	6%	N/A

Consistent with prior years, the larger the firm, the more likely they use a multiple of salary (or sometimes translated into a formula based on units, etc.) to determine the amount owed to retiring partners. The use of client book to determine value declines as the size of the firm grows. The use of ownership interest times net revenues grows as firms get larger and then drops as the firms start shifting to a multiple of salary approach. This usually occurs when ownership is sufficiently diffused and salary becomes a more meaningful indication of a partner's value.

# Which best approximates how you calculate the retirement benefit?

	Client Book		Ownership Interest in the Firm	
	2016	2012	2016	2012
50 cents or fewer on the \$1	4%	4%	2%	6%
55–70 cents on the \$1	9%	14%	4%	8%
75 cents on the \$1	4%	4%	16%	10%
80 cents on the \$1	N/A	N/A	14%	13%
80–95 cents on the \$1	9%	10%	18%	9%
\$1 on the \$1	70%	63%	38%	43%
More than \$1 on the \$1	0%	5%	4%	8%
Not applicable	4%	0%	4%	3%

# Which best approximates the magnitude of the multiplier you use pertaining to average salary to calculate the retirement benefit?

	2016	2012
Less than one year's salary	3%	7%
One year's salary	8%	10%
One year's salary times 1.5	8%	6%
One year's salary times 2.0	13%	11%
One year's salary times 2.5	24%	18%
One year's salary times 3.0	32%	35%
One year's salary times 3.5	6%	6%
One year's salary times 4	1%	6%
More than 4 times one year's salary	3%	N/A
Not Applicable	2%	1%

Movement toward lower ranges of value appear reasonable when considering the growing concern about potentially large financial burdens the firm will be taking on with upcoming partner retirements.

# Have any partners received retirement payout above or below the agreed upon benefit calculation?

	2016
No	85%
Yes	15%



# Why has your firm paid a retiring partner above or below the originally agreed upon calculation?

	2016	2012
Partner did not adequately transition client relationships.	24%	27%
Partner did not work long enough to meet vesting requirement.	21%	17%
Client base was of marginal interest to the firm so we cut a special deal.	15%	3%
Partner's exceptional performance warranted the adjustment.	12%	13%
Partner left without adequate notice.	12%	13%
Partner's unethical behavior warranted the adjustment.	12%	10%
Partner's lack of performance warranted the adjustment.	9%	N/A
Partner left to compete with the firm.	6%	10%
Partner was an original founder of the firm and wanted special compensation for that role.	6%	N/A
Partner's egregious acts warranted the adjustment.	6%	N/A
Partner services a unique specialty niche that is of marginal value to the firm.	3%	3%
Partner wouldn't agree to transfer his/her client book without the additional incentive.	3%	N/A
Partner was offered this amount in lieu of termination.	0%	10%
Partner wouldn't agree to retire without the additional incentive.	0%	30%
Other	39%	40%

Mandatory sale of ownership, stricter/tighter vesting requirements, penalties for taking clients and staff, and partner accountability tied to compensation are all examples of how to minimize the number of partners well positioned to hold the firm hostage in demanding additional benefits. Without specific agreements in advance defining what is "fair," including consequences and accountability outlining how variances from "fair" will be remedied, succession challenges almost always occur.

# Occurrences Changing Retirement Amount or Duration

Which of the following occurrences will force a change in the payment duration, monthly payment amount, and/or total payout amount of agreed upon retirement benefit?

	2016	2012
Competing with the firm after retirement	57%	74%
Taking staff	39%	43%
Cap on total annual retirement payments	39%	N/A
Early retirement	38%	42%
Egregious misconduct or unethical behavior in the community	26%	26%
Lack of proper notice — 2 years or fewer	18%	N/A
Lack of proper notice — 1 year or fewer	16%	N/A
Firm profitability	15%	N/A
Not applicable as nothing will force a change in the payment duration, monthly payment amount, and/or total payout amount of the agreed upon retirement benefit.	15%	N/A
Uncollectible Accounts Receivables or Work-In-Progress	12%	21%
Sale of the business	12%	14%
Loss of retiring owner's clients at any time during the payout period	11%	13%
Lack of proper notice — 6 months or fewer	10%	N/A
The death of retired partner	10%	N/A
Loss of retiring owner's clients only within the first two years	9%	9%
Merger	9%	10%
Loss of retiring owner's clients only within the first year	6%	7%
Liabilities incurred after retirement based on retiring owner's clients or work	5%	9%
Other	3%	10%
Sale of a line of business	2%	1%

There are several requirements firms can put in place to protect the firm's succession process and long-term sustainability. Develop a system that motivates partners to fulfill their obligations, such as requiring proper notice, to strengthen the firm's succession pipeline and assist in a smooth transition of client relationships.

#### Under what conditions is a partner entitled to receive retirement benefits (payments)?

	2016	2012
At any time a partner meets BOTH a minimum number of years of service as a partner AND a minimum age (you need to meet both criteria individually — in other words you have to meet a specific number of years of service AND a specific age)	25%	N/A
At any time after becoming a partner	20%	24%
At any time after a partner meets a minimum number of years of service working as a partner ONLY (only years working as a partner count towards attaining this minimum number of years)	19%	N/A
Other	17%	N/A
At any time after the partner reaches a minimum age requirement ONLY	9%	N/A
At any time after a partner meets a minimum number of years of service working for the firm (including time as staff and partner) ONLY	6%	N/A
At any time a partner meets a COMBINATION of years of service as a partner and a minimum age (like the rule of 80, where a partner needs to reach 80 by combining number of years of service working with age to add up to at least 80)	3%	N/A

Generally, the smaller the firm, the more likely people become fully vested the day they become a partner. Conversely, the larger the firm, the more likely that partners need to meet some combination of age and service requirements. This could present a learning opportunity for smaller firms who have set their sights on growth. Without setting clear vesting requirements, including age and years of service, a firm can end up with a revolving door for partners. Couple that with the absence of penalties for competing upon leaving the firm mentioned elsewhere in this report, and a firm will increase its financial exposure.

# What is the minimum number of years of service required for partners to receive FULL (100%) retirement benefits?

	2016	2012
5 or fewer years	34%	16%
6 years	2%	14%
7–9 years	3%	3%
10 years	23%	28%
11–14 years	0%	2%
15 years	9%	13%
16–19 years	0%	1%
20 years or more	29%	23%

# What is the minimum age allowable for owners to retire and receive full (100%) or partial retirement benefits?

	Full (100%) Retirement Benefits		Partial Retirement Benefits	
	2016	2012	2016	2012
Immediately upon becoming a partner	17%	N/A	28%	N/A
Prior to 55 years old	7%	8%	17%	41%
55 years old	16%	26%	24%	30%
56–59 years old	3%	3%	4%	2%
60 years old	16%	23%	13%	8%
61–64 years old	11%	12%	5%	10%
65 years old	17%	23%	4%	6%
66–69 years old	9%	3%	3%	1%
70 years and older	4%	2%	2%	2%

These types of early vesting and partial benefits policies will make it difficult for small firms to maintain the critical mass of intellectual capital needed to compete effectively. Larger firms may be more able to adapt their business models to allow early retirement options for a few reasons. However, unless a firm is very large (i.e. top 100 firms), they might want to reconsider partial vesting earlier than 55 years old in order to maintain their intellectual base and well-developed connections with clients.



# **PENALTIES**

# When partners leave, can they take clients, staff, receivables or work-in-progress without penalty?

	2016
A partner can leave at any time and take his or her clients at no cost/penalty.	31%
A partner can leave at any time and take staff at no cost/penalty.	23%
A partner can leave at any time and take his or her accounts receivable at no cost/penalty.	12%
A partner can leave at any time and take his or her work in progress at no cost/penalty.	12%

Survey results showed that 64% of the respondents have some form of penalties in place; however, we believe this number should be closer to 100%, especially as it relates to taking clients and staff. Extracting penalties for taking clients and staff helps avoid that and in turn creates a greater degree of partner unity and a more sustainable succession plan.

# Who is required to sign a non-solicitation, non-compete or employment agreement?

	2016
Everyone is required to sign a non-solicitation, non-compete or employment agreement	44%
Partners	39%
No one is required to sign a non-solicitation, non-compete or employment agreement	25%
Senior managers and managers	23%
Principals and directors	21%
Supervisors	15%

# Which groups are charged a penalty for taking clients as part of their non-solicitation, non-compete or employment agreement?

	2016
Everyone is charged a penalty for taking clients as part of their non-solicitation, non-compete or employment agreement	57%
Partners	50%
Senior Managers and Managers	24%
Principals and Directors	23%
Supervisors	16%

# Which best describes your non-solicitation, non-compete or employment agreement regarding time frame?

	2016
Our people will pay a penalty for any clients that leave the firm to follow them within six months of their departure from our firm.	1%
Our people will pay a penalty for any clients that leave the firm to follow them within one year of their departure from our firm.	20%
Our people will pay a penalty for any clients that leave the firm to follow them within two years of their departure from our firm.	46%
Our people will pay a penalty for any clients that leave the firm to follow them beyond two years of their departure from our firm.	13%
Our people are prohibited from taking clients but we do not currently have an identified penalty for taking clients.	14%
Our people are NOT prohibited from taking clients.	6%

The most common answer to the time frame penalties will be assessed is two years (at 46%), which is our minimum recommended time frame. However, that number grows to 59% when you add it to those firms requiring more than two years. A time frame of less than two years may not provide enough time for the partner or other firm personnel working with a transitioned client to build a strong long term relationship.

When an employee or partner leaves the firm and takes any of his or her clients, which best describes what the employee/partner will be charged for each dollar of annualized revenue taken?

	2016	2012
No charge	13%	22%
75 cents or fewer per \$1 of revenue taken	8%	5%
\$1 per \$1 of revenue taken	47%	45%
\$1.25–\$2 per \$1 of revenue taken	28%	24%
\$2.25–\$3 on the dollar for each dollar of revenue taken	2%	3%
More than \$3 on the dollar for each dollar of revenue taken	2%	1%

The responses were consistent with the previous survey, other than a 9% drop in firms that do not charge for taking clients (from 22% to 13%). We encourage firms to add this protection as a step forward in succession management. When a partner or other employee leaves the firm and takes staff, which best describes what the multiple of compensation (salary plus bonuses) the employee/partner will be charged for the staff taken?

	2016
We do not charge people for taking staff with them when they leave	72%
Up to 99% of salary	11%
100% of salary	10%
101%–300% of salary	6%
More than 300% of salary	1%

In light of the substantial costs firms incur when staff leave (recruiting, training, etc.), a charge of 200% may be needed for a firm to cover those costs. Firms may decide to assess a higher premium when factoring in that the staff recruited to leave by departing partners or other staff will generally be the best talent they can persuade to join them.

# TRANSITIONING CLIENT RELATIONSHIPS

The relationships built with clients are imperative to the success of the firm. Maintaining these relationships through times of changing leaderships are imperative to the continued success of firms into the future.

When owners are two or three years out from retirement, which of the following describes your firm's practices?

	2016	2012
Client transition is not something we have addressed as a firm.	44%	30%
Are required to start transferring their clients to owners or managers specifically selected by the firm.	30%	32%
Are required to start transferring their referral sources to owners or managers.	27%	N/A
Are required to start transferring their clients to owners or managers selected by the retiring partner.	21%	18%
Are not required to do anything relative to transition at any time prior to retirement.	15%	N/A
Are required to start transferring their clients to owners or managers using a formal system that outlines the transition activities necessary for each client to be classified as properly transitioned.	11%	N/A
Are removed from the firm-wide partner compensation plan and a special compensation plan is set up to motivate them to focus on client transition and other non-client facing activities.	11%	5%
Are penalized financially during this transition period for falling short or non-compliance with specific client transition activities and goals.	9%	4%
Are penalized after retirement for improperly transitioned clients that leave the firm.	9%	N/A
Are not required to do anything relative to transition until they are one year away from retirement.	8%	25%
Are rewarded financially during this transition period for achieving specific client transition activities and goals.	7%	N/A
Are required to start transferring their referral sources to owners or managers using a formal system that outlines the transition activities necessary for each referral source to be classified as properly transitioned.	7%	N/A

It is interesting that 74% of multi-owner firms expect succession planning challenges within the next five years, yet only 44% have addressed client transitioning at this time. Discussing client transition policies at a time when no one is close to retirement typically generates the more productive conversations. If policies aren't ironed out in advance, a partner getting close to retirement could perceive the conversations as an attempt to reduce his/her compensation, affecting retirement payouts.

As an incentive for partners to assist in transitions client, partners can be are removed from the standard compensation system and rewarded financially for transitioning client relationships. If firms don't carve out special compensation plans for retiring owners to motivate them during the transition period immediately prior to retirement, firms can expect those owners to continue to develop their relationships with clients. This often results in poorly transitioned clients, and most damaging, retired partners who still maintain key client relationships in the firm.

Firms should ask the retiring partner for his or her suggestions as to who might be best suited to take over specific client relationships and be the most seamless fit. In the end, however, the firm is responsible for determining how their partners need to be used.

The retiring owner needs to be held to a specific transition plan. If the partner follows the identified plan for each client, then whether the client leaves the firm or not there should be no penalty to the retiring owner. On the other hand, if the retiring partner does not execute on the transition plan per the instructions articulated for each client, then the retiring partner should be held responsible for any of these improperly transitioned clients that subsequently leave. This balanced approach is equitable — the retiring owner is protected if he/she does the right things, and the firm is protected if it does the right things.

# **SUCCESSION STRATEGIES**

#### Which describes the transition of your firm when the current senior owner(s) retire?

	2016
The firm and the clients of the senior owners will be transitioned to the remaining owners or incoming owners per everyone's expectation.	75%
We have no idea because we have not discussed, addressed or resolved this issue at this time.	11%
The firm will most likely look for a merger candidate due to partner confidence in the firm's continuation as an independent firm (perceived lack of strong future leadership and/or the ability of the future leadership to buy out the retiring partners).	10%
Because no one else in the firm is either interested in, has capacity for, or has the capability to do the work of the retiring partners, those retiring senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will continue working in the firm just as they always have.	2%
The owners all plan to retire at the same time and shut down the firm on their final day of work. If there is a ready market to buy the clients of the firm, then we will sell off our clients. If not, we will be ready to walk away and turn off the lights on our way out the door on our last day of work.	1%
Because no one else in the firm is either interested in, has capacity for, or has the capability to do the work of the retiring partners, those senior owners will likely sell off their part of the practice to some other firm and the rest of the partners will likely split up into multiple firms.	1%

In previous surveys it was fairly apparent that while the vast majority of firms planned to sell internally, they also had a "wait-and-see" approach as options for sale and merger were also of high interest. In the current survey, the question was modified to provide additional insights into succession strategies. The results continue to indicate that regardless of the primary option, all options are on the table. Seventy-six percent of the 392 firms plan to sell the firm internally to the remaining owners, with 11% having no idea (a new option this year), and 10% more planning on merger. This is a strong showing for remaining independent given the high volume of mergers and acquisitions in the marketplace over the past decade.

When analyzed by firm size (see full results at aicpa.org/pcps/succession), the larger the firm, the higher the expectation that ownership will be transitioned internally. Smaller firms, while apparently desiring to see the transition occur internally as expected, are still contemplating merger. And the smaller the firm, the more likely that the partners have NOT addressed this issue yet.

# **MERGERS AND ACQUISITIONS**

Have you been in active merger or acquisition discussions with a firm (or firms) in the past 24 months, or are you planning on looking into merger or acquisitions in the next 24 months?

	2016
No	51%
Yes	49%

Which best describes your role in the merger and acquisition discussions you have been having?

	2016	2012
We are the "mergor" (the acquiring firm).	62%	64%
We are the "mergee" (the firm being acquired).	20%	15%
Both of the above: We have had discussions with firms when our firm was one to be acquired as well as when our firm was to be the acquirer of another firm.	18%	21%

Consistent with the previous survey results, nearly two-thirds are doing so as an acquirer with roughly one out of five looking at both sides of the merger transaction — both as an acquirer and as a potential target for acquisition. Therefore, 80% of the respondents are looking to acquire other firms.

Have you been in active merger or acquisition discussions with a firm (or firms) in the past 24 months, or are you planning on looking into merger or acquisitions in the next 24 months?

	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
Yes	33%	37%	48%	51%	73%	88%	85%
No	67%	63%	52%	49%	27%	12%	15%

The larger the firm, the more likely it has been considering a merger or sale/acquisition, with 73% or more of firms who have 51 FTEs or more indicating that they have been in active discussions or are planning to engage in such discussions. If you assume that 51 FTEs would correlate on a low end to about \$5 million in revenue (51 FTEs times \$100,000 per FTE at a low end), that means that 3 out of 4 firms over \$5 million in revenues have (in the last 24 months) or will have (plan to have in the coming 24 months) active discussions about merger/acquisition regarding their firms.

# Which best describes your role in the merger and acquisition discussions you have been having?

	\$1-\$500,000	\$500,001- \$750,000	\$750,001- \$1,000,000	\$1,000,001– \$2,000,000	\$2,000,001– \$3,500,000	\$3,500,001- \$5,000,000	\$5,000,001- \$8,000,000	\$8,000,0001- \$15,000,000	\$15,000,001– \$25,000,000	\$25,000,001- \$60,000,000	\$60,000,001– \$160,000,000
We are the "mergor"	50%	14%	64%	64%	38%	52%	67%	69%	82%	100%	100%
We are the "mergee"	50%	72%	27%	23%	34%	19%	19%	0%	0%	0%	0%
Both of the above:	0%	14%	9%	13%	28%	29%	14%	31%	18%	0%	0%



# What is the targeted size (in annual revenues) of firms you are looking to acquire? Indicate all that apply.

	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
About 10% of our annual revenues	15%	15%	50%	38%	59%	47%	70%
About 20% of our annual revenues	15%	23%	40%	58%	63%	67%	70%
About 30% of our annual revenues	31%	35%	30%	35%	26%	33%	50%
About 40% of our annual revenues	15%	19%	15%	23%	11%	40%	20%
About 50% of our annual revenues	46%	27%	30%	23%	7%	27%	20%
About 75% of our annual revenues	8%	8%	10%	4%	0%	7%	10%
About the same size annual revenues	8%	15%	25%	8%	0%	7%	0%
About 125% of our annual revenues	0%	4%	0%	0%	0%	0%	0%
About 150% of our annual revenues	0%	4%	0%	0%	0%	0%	0%
More than 150% of our annual revenues	0%	0%	0%	4%	0%	0%	0%

For firms of all categories, merger targets of 10% to 30% of the acquiring firm's annual revenues are fairly common. In the smallest size category, the greatest apparent interest lies in mergers with firms equal to about half of the acquirer's revenue. As we expected, there are very few firms looking at trying to acquire and merge firms larger than theirs.

# What is the optimum size of the acquisition targeted (in annual revenues) for firms you are looking to acquire?

	2016
\$1–\$300,000	9%
\$300,001–\$750,000	26%
\$750,001–\$1,500,000	26%
\$1,500,001–\$3,500,000	19%
\$3,500,001–\$5,000,000	5%
\$5,000,001–\$8,000,000	7%
\$8,000,001-\$15,000,000	7%
over \$15,000,000	1%

Firms with volumes between \$300,000 and \$1.5 million have the most interest overall in the merger/acquisition marketplace with the average for this question falling between \$750,001 and \$1,500,000.

But a different story is told when you look at this next table, which breaks this question down by firm size.

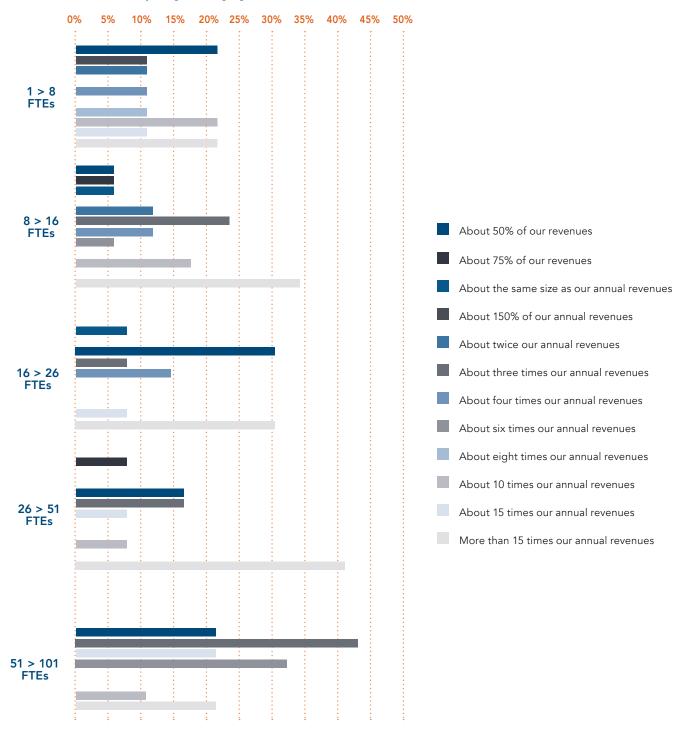
	1 > 8 FTEs	8 > 16 FTEs	16 > 26 FTEs	26 > 51 FTEs	51 > 101 FTEs	101 > 201 FTEs	201+ FTEs
\$1-\$300,000	36%	18%	17%	4%	0%	0%	0%
\$300,001–\$750,000	64%	59%	33%	22%	0%	13%	0%
\$750,001- \$1,500,000	0%	9%	38%	44%	40%	0%	0%
\$1,500,001-\$3,500,000	0%	14%	0%	26%	44%	27%	0%
\$3,500,001-\$5,000,000	0%	0%	6%	4%	4%	13%	10%
\$5,000,001–\$8,000,000	0%	0%	6%	0%	12%	13%	30%
\$8,000,001-\$15,000,000	0%	0%	0%	0%	0%	27%	50%
\$15,000,001–\$25,000,000	0%	0%	0%	0%	0%	7%	10%
\$25,000,001–\$70,000,000	0%	0%	0%	0%	0%	0%	0%
\$70,000,001–\$120,000,000	0%	0%	0%	0%	0%	0%	0%
More than \$120,000,000	0%	0%	0%	0%	0%	0%	0%

While the overall average firm of interest for merger or acquisition is in the size range of \$750,000 to \$1.5 million, this is due to the greater volume of firms in our profession being smaller firms. But as firms grow larger, the optimum merger/acquisition target grows right along with them.



#### What is the size (in annual revenues) of firms that have been looking at acquiring you?

Of the firms responding that they were in merger discussions as the mergee, the proportional size of the mergor firm (the firm interested in acquiring or merging their firm) to their firm was as follows.



As noted earlier, firms with 101 FTEs or more were not engaging in these discussions as the mergee, and that is reflected above. But firms of almost every size were interested in merging/acquiring firms with less than eight FTEs. The data also shows that 22% of firms with fewer than eight FTEs indicated firms more than 15 times their size were in merger discussions with them.

# Which are you doing to make your firm more profitable, increase its value, or make it more attractive to either an internal or external buyer?

	2016
Leveraging technology whenever possible	66%
Streamlining workflow and processes	65%
Increasing fees/billing rates	65%
Delegating — hand off lower level work	62%
Spending more time training your people	49%
Improving client base by: (1) firing low-quality clients (2) converting lower-quality clients to higher-quality clients (those that use more of your firm's services, more profitable to the firm, promote your firm, and value your involvement), and (3) by going after more higher-quality clients	46%
Supporting an intern program to build a pipeline of people to hire as well as get additional help during peak periods	42%
Recording all of your time to better understand the actual cost of servicing a client	38%
Using more than one billing rate to recover for the inefficiencies that are present in various lines of service	37%
Growing the overall bottom line through better expense management	37%
Hiring people constantly so that you are not always being held hostage by marginal employees because you don't have the capacity to let them go	33%
Growing organically the overall top line by implementing a formal business development and marketing program	32%
Running off marginal clients	29%
Stopping giving away work in the slow periods to keep busy	21%
Updating your compensation system to better focus people on the activities you want them to focus upon	19%
Growing the overall bottom line by implementing performance pay throughout the organization	18%
Embracing and implementing the Trusted Business Advisor or the Business General Contractor role within your firm where you proactively get out in front of your top clients three to four times a year to see personally what is going on in their operations and gain an understanding of the non-tax, non-financial, general management challenges and opportunities they are facing and what they are attempting to do about them.	18%
Growing the overall top line through a strong acquisition/merger initiative	15%
We are happy where we are, we are not worried about making changes and we are doing what we have always done as that is working for us	7%
Other	2%

Many of the profitability improvement tactics listed in this question are being used more by the larger firms than the smaller firms. For example, firms in the largest size category are almost twice as likely to be leveraging technology than those in the smallest category. However, technology can be an even more powerful lever for the smaller firms who have limited personnel resources. Firms should evaluate their current position and make choices that will be most beneficial to their current market position and desired future growth.

# BARRIERS TO SUCCESSION MANAGEMENT

What challenges are you trying to address that represent barriers to your firm's effective succession management?

	2016	2012
Senior partners feel that the younger members of the firm are not ready to step into leadership positions.	33%	42%
There is no penalty that can be assessed against retiring partners for improperly transitioning their clients.	23%	25%
The firm has multiple owners with conflicting personal goals so there is no agreed upon shared vision or future strategy for the firm at this time.	16%	26%
The firm does not have a written and approved owner agreement.	14%	28%
Retirement age partners are unwilling to retire.	12%	11%
Retiring partners are unwilling to transition clients.	12%	16%
The firm does not have a mandatory retirement age, so partners retire in place (working less, but drawing large compensation).	12%	19%
None of the above — we have no challenges at this time, our plan is working well.	23%	N/A
None of the above — we have no succession plan.	10%	N/A
None of the above — we have no internal successors within the firm. The owners are all likely to retire at the same time and we do not have any partners candidates identified in the near horizon.	8%	N/A
Retirement payout is based on book size or hours billed so retiring partners do a poor job of transition because they are motivated to maximize their income instead.	7%	9%
Partners have retired, but still maintain a significant number of client relationships and therefore can constantly make demands of the partner group if we want to keep those clients.	2%	6%
Other	7%	12%

Two issues clearly can be viewed in terms of trends: lack of penalties for improperly transitioning clients (23%), and concern about the next generation's readiness to take over (33%). But the real trend here is that firms are getting better at managing succession issues, with or without a plan, as overall the numbers in each question are either about the same or trending in a more positive direction.

Although opinions about the lack of readiness among the next generation of partners could be valid, there are often diamonds-in-the-rough that just need some polishing to prepare them for leadership. In these and other cases, it is not uncommon that the reason senior owners don't have people on board with whom they're comfortable is because the senior partners have not taken the time to develop the people below them. Or just as common, the current leaders don't see the emerging leaders stepping up because the current leaders won't get out of the way. Firms that have at least a three-year window to conduct the necessary deferred maintenance in leadership development can make substantial progress in removing this perceived barrier to success.

The majority of firms have no mandatory retirement age, which can point to future problems for them in succession management. Without a clear structure and timeline for leadership transition, promising succession candidates may look for other opportunities with more certainty as to their role in leadership. The good news is that this statistic is trending in the right direction.

Another positive in the survey results is that 23% of the firms indicate that their succession plan is in place and working well. However, the majority of firms need to do anywhere from a little to a lot of work in succession management.

#### **FUTURE LEADERS**

#### What are your firm's identified and formalized requirements for new owners?

	2016	2012
We do not have formal written requirements, but rather informal ones that are different among different owners.	37%	71%
We have not identified any requirements, neither formal nor informal, as we have not considered adding new partners at this time.	32%	N/A
We have identified and documented minimum subjective qualities and characteristics that must be met in order to be considered for ownership.	24%	29%
We have created a non-equity/income partner track to make sure new partners fit culturally with the firm before becoming equity owners.	22%	27%
We have a competency model in place that documents both objective and subjective qualities that must be met in order to be considered for ownership.	17%	15%
We have an identified and documented minimum "client book" size for potential owners to meet in order to be considered for ownership.	12%	13%
We have identified and formalized the requirements to move from non-equity/income partner to equity partner.	11%	12%
We have identified and formalized the requirements to move from manager or director to non-equity partner.	10%	N/A
We have identified a net revenue per partner requirement for the firm, so partner slots only open up as the firm reaches revenue thresholds.	8%	12%
We have an identified and documented minimum "new business development" amount for potential owners to meet in order to be considered for ownership.	7%	9%

Consistent with the prior survey, about 70% of all firms do not have either formal or informal requirements for admission to partnership, partly because they are not currently considering adding any new partners at this time (32%), and partly because they use informal guidelines that vary among partners (37%). About one-fourth of the firms indicate that they've documented some minimum subjective requirements for admission to partnership.

Generally speaking, few firms (17%) are using formalized, objective competency frameworks to set out expectations for admission as partners. Creating a clear path to partnership helps identify competency gaps that need to be closed and allows those gaps to be closed through coaching and development opportunities. The effectiveness of developmental efforts can be improved dramatically with higher ROIs on such efforts.

Creating a non-equity/income partner track can help firms and potential partners with the transition to ownership. By providing non-equity partners an opportunity to participate in partner-level discussions, equity owners can assess their capacity to contribute at the ownership level appropriately.

What initiatives/processes are you implementing or have implemented to create an operating environment that will facilitate the seamless transition in governance with minimal disruption of profitability, culture, services, etc. between the retiring owners and the remaining owners?

	2016	2012
Moving away from the "silo" model of operations to more of a "one firm" model	44%	37%
Making it a priority for everyone to push work down at every level	42%	49%
Implementing training throughout the firm on soft skills topics such as management, delegation, communication, conflict, change, etc.	34%	N/A
Changing the way you operate so that the firm is not built around the expectation that everyone, including partners, should work excessively long hours	32%	38%
Creating clear roles, responsibilities, powers and limitations of your leadership team including the board, executive committee (if you have one) and managing partner roles	32%	39%
Creating clear roles, responsibilities, powers and limitations for partners, including line partners, service line owners, department heads, etc.	30%	N/A
Recently updated, or are updating, your partner/retirement agreements to reflect current needs	30%	25%
Moving from an upside-down pyramid (or hour-glass shape) from a capacity standpoint to a right-side up pyramid so that the lowest level of employee is always busy (because of more delegation and employee development) freeing up people at the higher-level positions in the firm to do the jobs only they can do (like client-relationship development, implement firm strategy, etc.)	29%	N/A
Implementing training to close technical competency gaps at every level throughout the firm	28%	N/A
Requiring the partners to spend more time managing client relationships and less time processing the work in the office	26%	41%
Holding partners accountable to operating policies, procedures and individual goals using compensation to reward or punish compliance	24%	27%
We are doing none of the above to set up a seamless transition from our current generation of owners to the next generation of owners	22%	N/A
Requiring partners to manage bigger books of business by pushing more work down to create more leverage	20%	46%
Updating your partner compensation system so that the managing partner can hold partners accountable to achieving annual specific goals	20%	20%
Implementing "lean" methodology or other process improvement approaches to streamline firm operations	18%	N/A
Creating more focus and oversight on how partners are using their non-chargeable time to implement and support firm priorities	18%	N/A
Implementing a formal partner-in-training program	13%	20%
Setting policy that any new managing partner should be able fill that position, assuming they are doing a good job, for approximately ten years or more to create stability and continuity rather than electing the next most senior partner to that position	9%	N/A
Creating an organizational structure where each person has only one person who is responsible for orchestrating that person's necessary coaching, development, and evaluation, and is accountable for that person's performance	7%	N/A

It is natural for small firms to start off using the silo business model. But as the firm grows and become more successful, the benefits that the model provides quickly become overshadowed by the problems that the model creates. Therefore, growth necessitates moving from a business model that was foundational to a firm's success to one that is unknown and foreign to them. In addition to this, many larger firms retain some elements of the silo model, so we see them moving toward a more complete one-firm business model. This is evidenced by the results of the other issues listed in this question (these other questions outside of the business model are predominantly a list of tactics firms implement as they move from a silo model of operations to the one-firm business model). Generally, the smaller the firm, the less likely it would be embracing the tactics to move away from a silo business model, which still might be working for them. The full survey results (aicpa.org/pcps/succession), which include detailed breakdown by firm size, provide an opportunity for further analysis.

Workload compression continues to be an issue. There are a variety of firm practices regarding the number of hours' people are expected to work. For example, some firms continue to acquire more work than can be comfortably done with existing staff capacity, with the intention of adding more people that never seem to get hired. In contrast, some firms actively discourage partners, directors and managers from working excessively long hours because of the implicit negative message it sends to up-and-coming staff that might be candidates for leadership in the future.



# Which of the following are you doing right now to develop the future leaders of your firm?

	2016	2012
Identification of, and training for, specific competencies (preferably based on a competency model)	53%	60%
Formal training or education in soft skills like management, assertiveness, handling conflict, communication, change, etc.	36%	30%
Formal training or education in management and delegation	34%	31%
Formal in-firm mentoring program	26%	22%
Nothing is being done at this time	21%	26%
Formal in-firm staff training programs	18%	N/A
Experiential assignments chosen to develop competencies	18%	24%
Formal in-firm coaching program	15%	N/A
State Society formal staff training programs	15%	N/A
CPA Firm Association formal leadership (partner or manager) development programs	13%	16%
CPA Consultant offered formal leadership (partner and manager) development programs	13%	N/A
Formal in-firm partner or manager development programs	12%	12%
AICPA formal staff training programs	11%	N/A
State Society formal leadership (partner or manager) development programs	11%	6%
No employees or partners to develop at this time	10%	N/A
CPA Firm Association formal staff training programs	10%	N/A
AICPA formal leadership (partner or manager) development programs	8%	5%
Formal CPA Consultant led coaching program	5%	N/A

Generally, the larger the firm, the more likely it is employing some to many of the techniques listed above. We encourage firms of all sizes to develop future firm leaders using tactics from this table that are appropriate for the firm size.

# **BEST PRACTICES**

Planning for succession can be a convoluted process marked with the uncertainty of the future. To best prepare your firm, consider the following best practices:

- Regardless of firm size, protect the future of the firm by developing and implementing a formal succession plan.
- Leverage staff effectively, allowing owners to focus on other important aspects of the firm's business. The firm initiative to create capacity and push work down usually takes 3 to 5 years to implement.
- Ensure critical items are addressed in partner agreements and formal policies and procedures.
- Consider the potential consequences of prefunding any portion of the retirement obligation. Generally, the best approach, if the firm is going to prefund any portion of the retirement obligation, is to keep the prefunded portion at the level of 20% or less.
- The best time to put policies in place clarifying acceptable roles and pay for retired partners is when no one is on the verge of retirement to avoid any personal involvement swaying opinions.
- Setting up policies that clearly articulate what retired owners can and can't do, and the exact roles they can fill post-retirement is a critical area for firms to address now to avoid conflict later.
- Protect the firm's assets consider implementing penalties for outgoing partners who take staff or clients. Ensure the time frame provides enough time to reasonably protect the firm.
- Get the most from the firm's investment in partners. Ensure retiring ages are reasonable for the partners, but also allow firms to capitalize on their level of knowledge and relationships they've built.
- **Keep the clients happy.** Ensure a smooth transition from one relationship manager to the next as partners retire.
- Explore more details about the survey at aicpa.org/pcps/succession.

The PCPS Succession Planning Resource Center provides invaluable guidance, resources and templates to walk you through the process and the options available. Visit aicpa.org/pcps/succession or email pcps@aicpa.org for more information.

We suggest that firm owners quickly begin working on or fine-tuning their succession planning. Firms can begin now to focus on improving their organizations to make them more attractive in the purchase or merger market, especially given the number of firms predicted to be in transition in the near future. The changes in practice to make a firm more attractive in the marketplace could take a few years to fully implement, so there's no time like the present to get started!

