Succession Planning for Practitioners

Colm Divilly, Professional Education Seminars, outlines good practice for succession planning.

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In May 2014, the Global Accounting Alliance conducted an online global survey on the current state of succession planning among accounting firms. Of the 4,547 respondents, all worked in Public Practice and classified themselves as either a sole practitioner, managing partner/owner, partner, employee or consultant. The survey identified a failure of many Accountants in practice to have a written or formal business succession plan at their firm. This is surprising as in the majority of accounting firms the value of the firm is the most valuable asset that the sole practitioner / partners own. As business advisors, Accountants should take their own advice and properly plan how the value of the practice will be realised on retirement. In drafting a succession plan for your firm the following pointers may be of assistance.

1. Taking the long view

If you plan to retire within the next ten years you need to start planning for your succession now. Finding a suitable successor can take time and a seamless handing over of the business to that successor will also take time and therefore a ten-year planning timeframe is not unreasonable.

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"Retirement, a time to do what you want to do, when you want to do it, where you want to do it, and, how you want to do it."
Catherine Pulsifer

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2. Finding a suitable successor

Identifying a successor requires an honest assessment of the talents of the available candidates to determine if they are the right person to take over the business. The skills required to manage a client portfolio as an employee in a firm are not necessarily the same skill set required to manage and grow a business.

3. Clear communication with potential successors

In my work with firms, I have experienced situations where the practitioner assumed (wrongly) that a long-standing employee would be interested in acquiring the practice on his/her retirement. I have also seen long standing employees establish their own practice due to a failure by the employer (practitioner) to provide clear commitments to the employee on succession and the time frame involved in succession. The development of a written succession plan will focus both the practitioner and the potential successor on the steps involved in achieving a successful succession and should eliminate uncertainty from the succession process.

4. Incorporation of the practice

The incorporation of the practice can offer new and innovate methods of financing the acquisition of the practice by the successor. A corporate structure creates division between ownership of the business (shareholders) and management of the business (directors), creating the possibility that the retiring practitioner can retain an ownership stake in the practice post retirement if that was desired. The low corporate tax rate can also be of benefit in retaining a greater share of the profits within the business which in turn can be used in financing the acquisition of the practice. The use of different class of shares can allow various type of equity ownership by senior employees in the new structure. Incorporation of a practice is likely to become the structure of choice for accounting businesses in the future.

5. Helping clients come to terms with the succession

Making sure that clients are retained during the succession phase is critical. Clients may have a great loyalty to the retiring practitioner and during the succession phase this loyalty must be transferred to the successor. In many client situations, the practitioner will only meet the client once every year and therefore the opportunity to get the client familiar with the successor is limited. Therefore, if the practitioner is five years from retiring, the practitioner may only meet the client on five occasions before transfer to the successor. This illustrates the necessity to plan the succession over an extended period. During this time period the practitioner should gradually reduce his/her interactions with the client with a corresponding increased involvement by the successor in managing the client relationship.

6. Accepting change

The successor will have plans and business objectives which the retiring practitioner may find difficult to accept. It is important that the retiring practitioner accepts that during the succession phase his/her business will gradually become the new owners' business to run and manage as they see fit. If the retiring practitioner receives the consideration and conditions set out in the succession plan, he/she should refrain from undue interference in the practice. The retiring practitioner may find this difficult to accept but legal disputes are not a good idea when you are facing into retirement.

7. Put your plan in writing

Commit your succession plan to writing. Having to commit it to writing will force you to perform a reality check on your plan and face some realities that can be ignored when a practitioner develops a vague unwritten succession plan. While it may seem obvious, remember to fully involve the chosen successor in drafting the succession plan.

8. Put a value on your firm

In any valuation of your firm you need to be realistic and try to assess what a willing buyer would be prepared to pay you for your firm. If there is a lack of willing buyers this is telling you something about valuation. Many practitioners have unrealistic expectations about what their firms are worth and postpone retirement in the hope that they can one day achieve their valuation expectations. Remember you only have one life and postponing retirement in hope of achieving an unrealistic value for your practice in the future is a high price to pay.

9. Tax and legal issues

Any significant transaction raises tax and legal issues that must be addressed in advance of entering into the transaction. Suitable tax and legal advice should be obtained. As an Accountant, you must guard against being your own adviser.

10. Family member as a successor

A family member may be viewed as a successor by the retiring partner. Such a plan can be fraught with problems. Some questions to consider are:

- Does the family member want to take on the successor role?
- How will the introduction of the family member to the practice impact the career plans of other senior employees in the organisation? Will they view the move as a signal that they should move on to another employer?
- How will your fellow partners (in the case of a partnership) react to this decision?
- Does the family member have the requisite skills to take on the role as your successor?

11. Consider a plan B

If your original succession plan does not work for some reason, have a fall back plan that can be implemented quickly to preserve the value in your practice and allow you to retire as planned.

12. Take advice

Be prepared to take advice from a colleague, consultant or mentor when devising your succession plan. Discussing your options with a person who is not involved in the daily grind of running the practice will bring fresh thinking to the table and will contribute to the development of a practical succession plan that can be implemented.

13. Implementation

A plan has no value unless implemented. Consider developing a detailed list of action points that are required to be implemented to achieve it. Use this list as a "to do list" to actually go about implementing your plan. Stay focused on taking actions to implement your plan and you will move closer to achieving your objective on a daily basis.

14. Conclusion

Remember many practitioners end up working into their late sixties/early seventies as they cannot exit their practice as easily and lucratively as they had envisaged. Is this what you want at the end of your career? If not, you should develop a clear action plan ten years in advance of your planned retirement date to allow you retire at a date of your choosing.