

Succession Planning: A Case Study

by Denis Ryan

While this article is based on an actual recent practice succession and the exit of the sole practitioner and thus has many aspects specific to this practice, nevertheless it is hoped that it will provide some general points of interest to others considering such a transition.

I will treat the process under 5 main headings: background, plan, timelines, implementation and outcome but it is likely that these issues will encroach on each other's territory.

Background

I set up the practice 32 years ago, in 1986, and developed it over the years into a general accountancy, taxation and audit practice with clients across many business sectors. Over 95% of clients were acquired through referrals. Having clients in a broad range of sectors meant that we were not as susceptible to economic vagaries. All the clients were small to medium sized and most were owner-managed. The practice also deliberately remained small, never exceeding 6 staff members, including the principal.

Quite a number of the clients were with us for decades and while we ensured that longevity did not inhibit our integrity and independence, this long association with clients was an important factor in how we approached succession; I personally felt that it was crucial that all clients would continue to receive the same level of service during and following my exit.

Plan

During the time, about four years earlier, when I seriously considered retirement and its inevitable corollary

succession, I concluded, and this cannot be overstated, that there were three main interested parties (rather than one): the successors, the clients and myself and I genuinely gave equal weight to all three.

I discussed the matter very openly, no prevarication on my part, with my two qualified accountants, both of whom were in the practice for a good number of years. I informed them of my intention to retire in a few years and I made it abundantly clear to them that my wish was for them to take over as I had complete confidence in their ability to so do. In order for me to have such a direct discussion with them, I had already cleared my mind so that I had absolute personal clarity about retiring and disengaging.

I consider this to be a vital matter, no doubts, equivocation, or misgivings on my part. I realise that this will be different and possibly difficult for some sole practitioners, depending on age, personal and financial circumstances: nevertheless, clarity is really important in such a situation.

Timelines

Following a number of meetings, we agreed on the principle of our new respective futures; at that stage we deferred setting a completion date as we all had work to do on the transition, along with the main practice work, and we did not wish

to be disheartened if a date did not materialise. I should add that the four-year time-scale suited our situation admirably, rather than a more extended period: I am aware that some advisors on succession recommend a ten-year plan, and this indeed may suit some succession situations. It is my view that the longer period would undermine the certainty for successors.

Implementation

About one year after that, it was agreed that I would take one day off per week; this was followed up within 12 months by my taking Monday and Friday off, and, for the final year I worked 2 days a week. For the most part we were able to adhere to this schedule and clients became accustomed to and were accepting of, the arrangement: they were happy that they could still contact me by email and mobile telephone. Looking back on it, I can clearly see that those calls gradually reduced as our clients became comfortable with and confident in my planned successors. The other main advantages of this arrangement were:

- a. The successors could get used to the idea of my absence.
- b. They could have a full appreciation, prior to formally taking over, of what managing a practice was all about.
- c. It would allow them to consider



whether they could operate as a partnership.

- d. It would give them the opportunity to meet face-to-face with all clients, including those who had previously dealt primarily with me.
- e. It would build their confidence in their ability to take over fully.

Six months prior to my exit, I set out a schedule or flow chart of the essential steps to be considered and implemented. This entailed listing the various elements, the implications of each, the timelines, the cost and naming the person responsible for implementing each action. It is not the purpose of this article to detail what was involved in these steps as they will vary from practice to practice but they included: the name, legal format, partnership agreement, indemnity insurance, Institute registration. In our case we identified approximately 25 to 30 steps. We also discussed and refined our buy-sell agreement and we identified and quantified the relevant taxes applying to both parties. The issue of whether or not to obtain legal advice is a matter of personal choice. Around this time, I also took the opportunity to meet the clients face-to-face; the general reaction to my exit and to the succession was very positive, with continuity and trust being among the most important assurances given to clients.

We had earlier made our agreement in principle, we now had to get down to the serious business of agreeing a valuation, a timescale for payment and critically for my successors, a definitive date for my exit. We augmented the details on our client list by further analysing

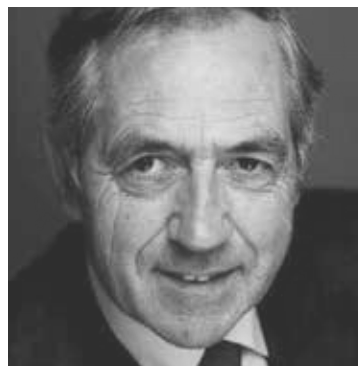
our database into revenue headings, bookkeeping, taxes, secretarial, audit and consultancy. In addition, we sub-divided the client list into three sections, corporate, non-corporate and personal; this assisted greatly with the valuation process. This review proved to be very revealing as we had not carried out such an exercise for a few years and it gave rise to questions such as: might it be more economical to sub-contract out the bookkeeping (as some practices have done), are there any clients that the successors consider they may have difficulty dealing with, has the practise any clients that may have governance issues in the future, e.g. those in receipt of public funds? Account also had to be taken of a small number of clients who intended to retire or dispose of their business in the next year or two. The foregoing matters were, inter alia, crucial in arriving at a mutually satisfactory valuation. It might seem obvious or even trite to say it, but the final valuation must be one where the seller is completely satisfied with the consideration and the buyers do not now, or later, believe that they have overpaid.

Outcome

During the course of the succession process, my successors also considered what legislative or other changes are on the way, and what threats and opportunities any such changes might present. As Eamonn Siggins, chairman of the Edinburgh SPM group, said recently "SMPs are operating in a volatile and uncertain environment". Awareness of the foregoing is crucial to a satisfactory transition. The retirement of the sole practitioner, on the date agreed in the

plan, may not prove to be easy for some practitioners but I believe that it is essential to allow the successors to take full control as quickly as possible, without any intervention from the departing practitioner. In some instances that I am aware of, the departing practitioner is retained, say for 12 months, as a consultant to a small number of clients, dealing only with strategic issues, with the knowledge of the practice, and where any outcomes must come back to the practice for implementation: this can prove to be a benefit to all parties.

In any business transaction, and particularly in the case of succession planning, it is not possible to provide for all eventualities. In our case, and with the benefit of some months' hindsight, both my successors and I are satisfied that we planned professionally and, equally importantly, that we adhered to our plan, and that my disengagement materialised on the date agreed. As I said already, the disengagement of the sole practitioner may in some cases be one of the most challenging aspects of the entire process for the departing owner but it is my view that a clear and unambiguous exit is crucial to the success of the transaction.



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