Succession Planning: It's Not a Spectator Sport

by James C. Metzler, CPA.CITP, CGMA

Many practitioners insist they don't have time to create and maintain a succession plan or claim that it's something they'll take care of closer to retirement. According to the 2012 PCPS Succession Planning Survey, only 6% of sole practitioners have practice continuation agreements, which often serve as the succession plan for these firms. And that was down from 9% in 2008, when the survey was last taken. In multi-owner firms, only 14% of those with one to two full-time equivalents (FTEs) have a written and approved succession plan, along with only 25% of firms with three to seven FTEs. Among all firms that have a plan, 19% admit they've made little progress in implementing it. These statistics are particularly alarming when you see that 79% of firms believe succession planning will be a significant issue for them in the next 10 years. If your firm is stuck in neutral when it comes to succession planning, there are steps you can take now to get on the road to a smooth transition in the future.

Wind down. Not ready to immediately stop work completely? It's not surprising that many practitioners are reluctant to give up their career as a CPA and lose the relevance and income that go with it. If you love being in the game, there's no reason you can't stay involved as you begin to wind down. One way to start is to sell parts of your practice to another firm when you're ready to slow down. It's a great deal: Keep your favorite clients and those who pay you the most and receive payment for those you no longer want to work with. You can continue selling pieces of your practice until you're a happy pensioner working with five great clients.

Embrace change. If you're planning to sell or merge your practice but just haven't had the time to research potential options and to create a formalized plan, the best way to stamp out procrastination is by identifying the advantages that change can offer. Keep in mind that if you are nearing retirement, your reward for getting in gear will be receiving payment for your firm. And if you are farther away from slowing down, you could receive equity interest in a larger and dynamic practice that would make a good merger partner. In either case, they are goals worth actively pursuing.

Prepare future leaders. If you are hoping that one or more promising younger staff people will buy you out, it's not too early to begin moving them into a leadership role. Among other things, bring them along on client visits and involve them in networking and other community activities so that they can learn the ropes and build relationships. Doing so also helps build a firm brand that encompasses more than one or two current partners, which will enhance the firm's chances to survive and thrive after you've retired. It may also allow your firm to stand out in the recruiting market. When the PCPS Succession Planning Survey asked what firms were doing to develop future leaders, 26% said they were doing nothing at this time, which means that many are missing good opportunities to build their succession plans directly from within—and inspire greater loyalty among their top staff.

Don't drop the ball. While you should definitely do something in regards to succession, there are certainly consequences of doing nothing. Practitioners who don't look ahead to their firm's future may be slowly winding down without even realizing it. They may take on fewer new clients, pass up the chance to offer added services to an existing client or fail to upgrade their technology. In the meantime, their existing clients are quietly aging with them. Unlike the happy pensioner, you could end up with a practice that has dwindled down to a few of your least appealing clients. Even worse, when it comes time to sell, the value of your firm will be greatly diminished because it won't offer very exciting revenue opportunities for a buyer.

Get up to speed. On October 31, the AICPA will present the AICPA Succession Planning Summit for sole owners and firms with up to three partners in New York and Durham, North Carolina (there are similar events scheduled for medium and large firms). This series of interactive sessions with the profession's leading experts will guide you through the process of crafting, altering, communicating and implementing your succession plan. It's a must-attend if you need to kick your plan into gear. And PCPS members can take advantage of the member discount! In addition to the Summit, you can also get up to speed by using the tools available in the PCPS Succession Planning Resource Center.

Succession planning is not a spectator sport. It requires your active engagement. There are many rewards for taking the plunge, so why not get started today? The future of your firm and your clients depends on it!

James C. Metzler, CPA.CITP, CGMA, is AICPA vice president, small firm interests. Have questions for Jim? Contact him at jmetzler@aicpa.org or 212/596-6039.